

Islamic Finance in Labuan IBFC and QFC:

Mutual Cooperation towards Global Connectivity

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Introduction

Labuan International Business and Financial Centre (Labuan IBFC) and Qatar Financial Centre (QFC) stand as important financial centres in the global financial landscape, each offering unique advantages for businesses, investors and financial services providers, including those engaged in Islamic finance activities. Labuan IBFC, as the name suggests, is in the island of Labuan off the Borneo coast. It has emerged as a leading international Islamic finance hub, offering a conducive regulatory environment and a range of Islamic financial products and services. Meanwhile, QFC is in the heart of the Middle East and serves as a vibrant platform for Islamic finance activities, leveraging on Qatar's strategic position in the region.

Overview of Labuan IBFC and Qatar Financial Centre

Labuan IBFC is Malaysia's international business and finance centre. It was established in 1990 and was initially marketed as an offshore financial centre, being in a unique position to tap into investment opportunities in Asia and beyond through robust financial and legal infrastructures as well as a competitive tax framework. Labuan IBFC shares a common time zone with many large Asian cities and its location between China and India as well as its proximity to several other financial centres have been used to promote Labuan IBFC as a convenient location for business dealings.

In relation to Islamic finance, Labuan IBFC provides a comprehensive financial ecosystem that encompasses banking, takaful (Islamic insurance), and the capital markets. It is regulated by Labuan Financial Services Authority (Labuan FSA), with effective regulatory standards and the provisioning of a facilitative business environment. Labuan FSA has its standalone Shariah Supervisory Council (SSC), which ensures compliance with Shariah principles while promoting innovation and growth in the Islamic finance sector.

Labuan FSA is a member of the Islamic Financial Services Board, a global standard-setting body comprising regulatory and supervisory agencies to ensure the stability and soundness of the Islamic financial services industry. It is also a member of the International Islamic Financial Market, a global marketplace aimed at promoting Islamic products that are Shariah-compliant. Both these memberships serve to further burnish Labuan IBFC's credentials as a proper member of the global Islamic industry.

On the other hand, QFC which was established in 2005, aims at reducing Qatar's reliance on the petroleum industry by promoting growth in financial services and other business sectors, such as digital & media, sports and other service industries. QFC is an onshore financial centre that facilitates the establishment of international and domestic companies in Qatar, attracting investment by offering a robust and business friendly legal, regulatory, tax and business environment. QFC advances the Qatari government's economic policy and contributes to the country's economic diversification and development plans.

QFC offers a competitive advantage, underpinned by modern infrastructure and a dynamic regulatory regime. It facilitates the establishment of Islamic financial institutions, including banks, asset management firms, and investment funds, catering to the growing demand for Shariah-compliant financial solutions in the Middle East and beyond.

QFC offers an enabling and competitive environment for Islamic finance products. The Qatar Financial Centre Regulatory Authority (QFCRA), the independent regulator of QFC, introduced a dedicated set of Islamic finance regulations in 2005, with continuous progress from Islamic Finance Rules which set guidance for Islamic banks, to the issuance of the Islamic Banking Business Prudential Rules in 2015 covering operational, risk management and Shariah compliance aspects. QFC also offers a licensing regime for the establishment of Special Purpose Companies (SPCs) that cover any type of securitisation or capital market transactions, a tax system which allows exemption for qualifying SPCs established for the purposes of supporting or facilitating Islamic finance transactions, and a world-class legal regime with access to an independent court system, a tribunal and resolution centres.

Mutual Collaboration in Islamic Finance

“Coming together is a beginning. Keeping together is progress. Working together is success.”

- Henry Ford -

To foster mutual collaboration, a common goal needs to be identified and subsequently one must leverage on each other's competitive advantage to achieve it. Indeed, in pushing for the globalisation of Islamic finance, both Labuan IBFC and QFC can forge strategic partnerships that will be able to enhance the global Islamic finance ecosystem. This collaboration can be steered through knowledge sharing, capacity building, and joint initiatives aimed at promoting Islamic finance awareness and innovation at the global level.

Let's have a closer look at the respective jurisdiction's competitive advantage. Labuan IBFC, first and foremost benefits from Malaysia's leadership in global Islamic finance. This positioning is set to continue with the current administration's Ekonomi Madani framework which outlines Malaysia's aim to solidify its position as a leader in driving innovations for the global Islamic economy. Over the course of four decades, Malaysia's advancement in Islamic finance in terms of its mature Islamic finance ecosystem and comprehensive environment has resulted in a significant improvement in the governance and talent pool and this has had spillover impact on Labuan IBFC.

An appropriate governance standard is critical to long-term financial stability and to exemplify prudence in governance, Labuan IBFC undertook a rebranding exercise in 2013. In this exercise, Labuan IBFC repositioned itself, deviating from the typical “offshore” classification, which is sometimes associated with malpractices including money laundering and tax evasion, with a strong regulatory framework that complies with international standards while complementing the competitive tax environment offered. To date, a dedicated act that regulates the conduct of Islamic financial services in Labuan IBFC was enacted and numerous guidelines and resolutions, including Shariah pronouncements were issued to provide guidance and facilitate business activities.

Other than an enhanced governance standard, there is also a consistent supply of talent pool in Islamic finance at the country level with the establishment of institutions such as the International Centre for Education in Islamic Finance, Islamic Banking and Finance Institute Malaysia and Chartered Institute of Islamic Finance Professionals. These institutions offer a conducive environment for enhancement of knowledge, research and talent and intellectual discourse in Islamic finance via different platforms, including tertiary educations, training institutions and professional bodies. This pool of talent is ready to meet the higher local as well as global demand for skilled Islamic finance professionals.

Complementing Labuan IBFC's well-developed regulatory infrastructure and massive talent pool is Qatar's ability in attracting large investments which is a result of two main factors. First, Qatar's successful organization of the 2022 FIFA World Cup. Dubbed as one of the best World Cups of all time, the success of the event was anchored by state-of-the-art sporting facilities, an efficient transportation system as well as world-class hospitality and leisure infrastructure. Since then, Qatar has hosted MENA's first-of-its-kind International Horticultural Exposition, Expo 23, the World Aquatics Championships and the 2024 AFC Under-23 Asian Cup. Looking ahead, the 2025-2029 editions of the FIFA Under-17 World Cup will also be hosted by Qatar. This has brought, and will continue to bring an influx of investment and growth for generations to come.

Secondly, the country is making sustainable development a key priority. Despite oil reserves remaining as the main revenue generator in the short and medium term, Qatar is actively taking steps to reduce its reliance on hydrocarbons and embrace a more sustainable future. Al Kharsaah Solar Plant can be cited as a perfect example. It is now one of the largest solar plants in the world, capable of producing ten percent of the country's peak electricity demand¹. This is aligned to global sustainability efforts and will further spur demand and attract investors into the country.

¹ Based on information provided from TotalEnergies website - <https://totalenergies.com/projects/solar/al-kharsaah-pioneering-solar-power-plant-qatar>

Connecting the Region – How Both Jurisdictions Can Collaborate and Complement to Facilitate Business

1) Case Study 1: Sukuk Issuance in Qatar and Listing in Labuan IBFC

With the success of the 2022 World Cup, and Qatar’s emphasis on a sustainable economy, the outlook for more sukuk issuance in the country is encouraging. QFC in that aspect offers a conducive platform for sukuk issuance, attracting both local and global issuers. While there is already an established procedure for sukuk issuance, including the recently announced QFC Sustainable Sukuk and Bond Framework, an interesting proposition that can be further considered by issuers in Qatar is to list their sukuk in Labuan IBFC, via the Labuan International Financial Exchange (LFX). The LFX was established in 2000 and complements various business financial services currently available in Labuan IBFC. Figure 1 shows the sukuk listing process in LFX.

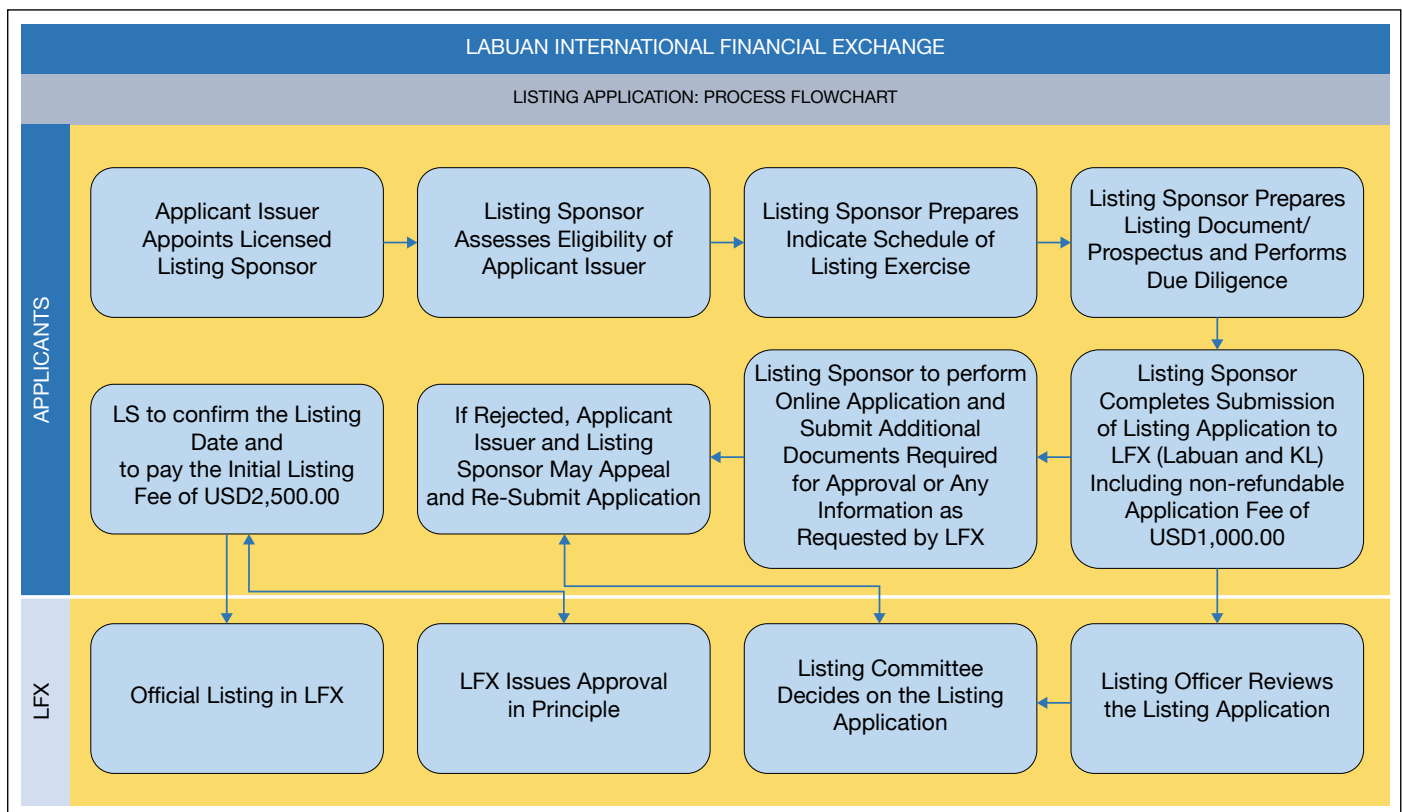


Figure 1: Sukuk Listing Process in LFX

The LFX offers the following benefits for listing purposes:

- A one-stop financial exchange offering full services from the submission of application to approval and listing of the instruments;
- A customer focused and oriented environment without compromising on the key aspects of quality, security, due diligence and corporate governance;
- Liberal rules to cater for listing of a multitude of multi-currency financial instruments without compromising market integrity and investors’ protection;
- Timely approval for licensing and listing applications, subject to conditions being met as decisions are able to be undertaken at LFX;
- An efficient, cost-effective access to the capital markets and practical alternative to existing domestic exchanges; and
- Wide investor base and liquidity, in particular for issuers looking to widen their reach in Asia Pacific.

2) Case Study 2: Integration of Sustainable Development Framework and Digitalisation

With the majority of the Qatari population living in urban areas along the coast, the nation is particularly vulnerable to rising sea levels, while its dry, subtropical desert climate also places it at risk of extreme heat and drought. Transitioning to a more sustainable development is therefore not just a moral imperative, but key to the country's long-term survival.

To this effect, steps have been undertaken to transform the country and the most important step arguably is the creation of the Qatar National Vision 2030, which aims to transform the country into a knowledge-based economy with a focus on sustainable development. It will be carried out through the four following interconnected pillars as shown in Figure 2.

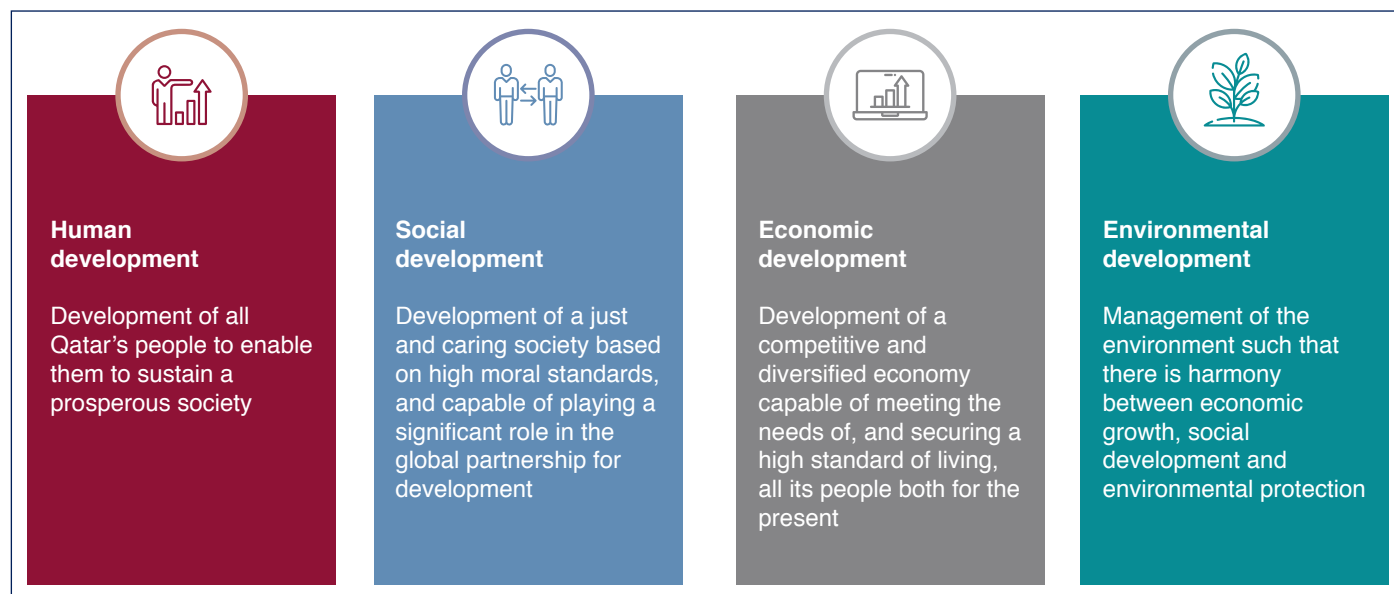


Figure 2: Pillars for Qatar's National Vision 2030

Looking at the efforts by Qatar, one can recognise that the country has been making impressive strides towards promoting sustainable development. The country combines different components in its national vision, making it more comprehensive, and thus desirable. In 2022, QFC issued The QFC Sustainable Sukuk and Bond Framework, which is aligned to international best practices for processes and procedures to offer, issue and manage sustainable sukuk and bonds. The presence of this unified framework is expected to improve transparency and eventually promote sound environmental and social practices for Environmental, Social, and Governance (ESG) related sukuk and bond issuances in Qatar.

Meanwhile in Labuan IBFC, digitalisation is prioritised to harness innovations and address ESG considerations. Core to the idea of digitalisation in Labuan IBFC is the introduction of the Islamic Digital Asset Centre (IDAC). IDAC is a digital gateway that incorporates Shariah-compliant fund raising and investment activities in the global digital space via securities token offerings (known as RAMZ in Arabic), underpinned by blockchain technology and smart contracts. Essentially, this creates a niche offering, allowing issuers to raise funds at optimal cost and providing investors with exposure to a new Shariah-compliant asset class. Figure 3 outlines the IDAC ecosystem.

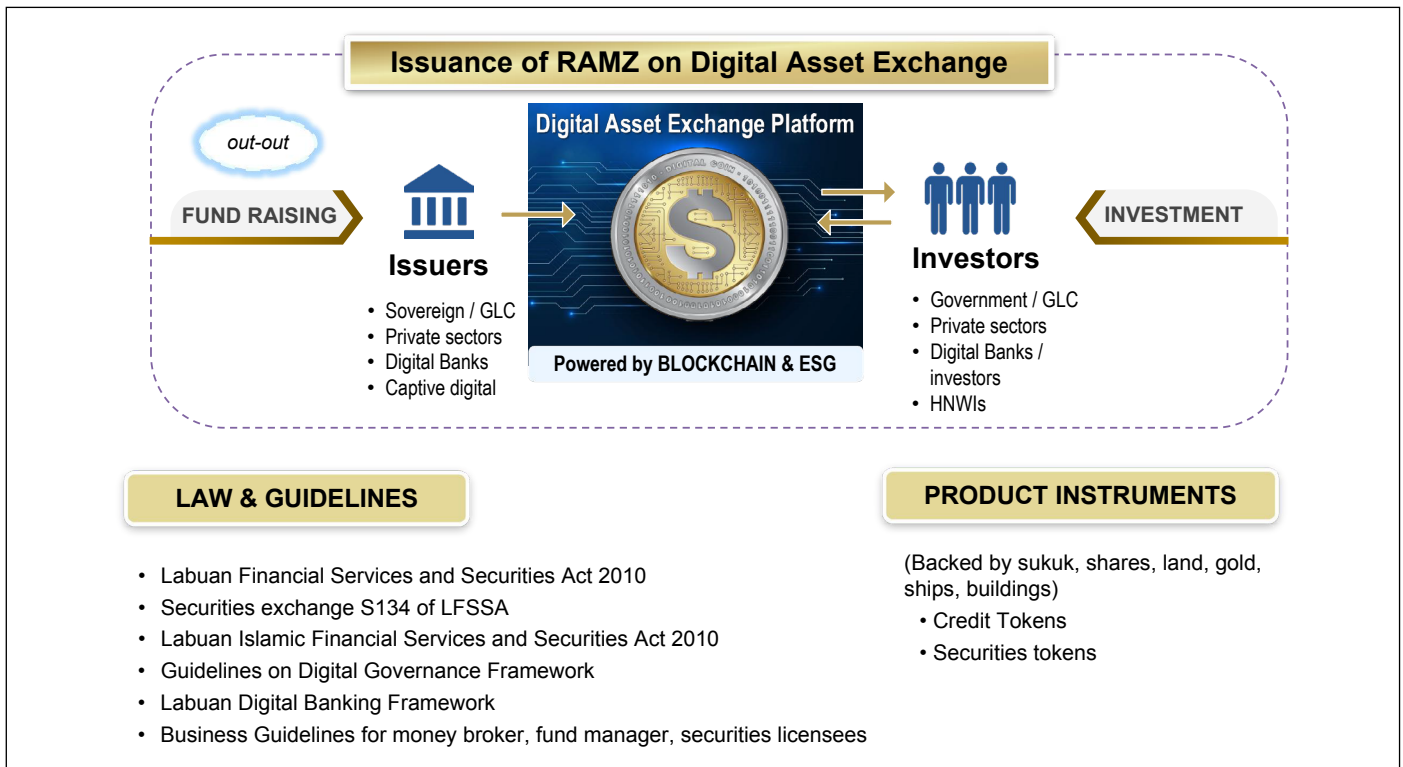


Figure 3: The IDAC Ecosystem

To complement the offering of digital services, the Guideliness on Digital Governance Framework was introduced, outlining regulatory requirements in managing cyber risks emanating from expanding digital and virtual transactions. As both financial centres gear up towards a more sustainable development approach which is very much aligned to Islamic principles, the convergence with digitalisation increases the potential to redefine roles and enhance cooperation between Labuan IBFC and QFC, creating the required links for more collaborative actions. Perhaps the new concept of Environmental, Social, Governance and Digitalisation or ESGD can be promoted by both centres to further accelerate the acceptance of sustainable development and allow for the seamless integration of sustainable concepts at the global level.

Key Success Factors in Achieving Meaningful Cooperation

- **Government-to-government drives** – a lot of success in an industry, even for a mature business is usually associated with governmental push. This could be reflected in regulatory incentives, preferential tax treatment and other types of support. For a developing industry such as Islamic finance, government backing is even more crucial and could significantly boost the growth of the industry at both local and global levels.
- **“Anti-convention” mentality** – innovation cannot take place in an environment where the status quo is preferred. To drive innovation and ultimately growth, the Islamic finance industry must be ready for a completely new way of doing things. The industry needs to come up with new ideas, rather than settle for marginally better ideas.
- **Fostering the right set of talent** – to really drive growth in a faith based-industry such as Islamic finance, a talent must not only be smart but must also be passionate. Passion could be derived from different angles but for Muslims in particular, looking at work as a form of “ibadah” could provide additional motivation and boost.

The Way Forward in Islamic Finance

Globalisation has arguably changed the perspective of the world at large. Adopting Mazrui's (2000) definition², globalisation creates a global village, reducing distance, homogenising culture, enhancing mobility and shrinking the distance of geopolitical borders. Eventually, globalisation also leads to global interdependence and interconnectedness. The Almighty God mentioned in the Holy Quran, Surah Al-Hujurat verse 13:

يَا أَيُّهَا النَّاسُ إِنَّا خَلَقْنَاكُمْ مِنْ ذَكَرٍ وَأُنْثَىٰ وَجَعَلْنَاكُمْ شُعُوبًا وَقَبَائِلَ لِتَعَارَفُوا إِنَّ أَكْرَمَكُمْ عِنْدَ اللَّهِ أَتَقْوَاهُ إِنَّ اللَّهَ عَلِيمٌ خَبِيرٌ

(49:13) O mankind, indeed We have created you from male and female and made you peoples and tribes that you may know one another. Indeed, the most noble of you in the sight of Allah is the most righteous of you. Indeed, Allah is Knowing and Acquainted.

One of the main essences of this verse is the need to know and foster cooperation between different communities³. In the context of Islamic finance, a similar observation applies. A lot of achievements within the industry have now been associated with the success and development within a particular jurisdiction and there has been emphasis on country and location-based ranking to measure success. However, it is timely to go beyond such measurement to further spur the growth of Islamic finance. In this case, both Labuan IBFC and QFC have crucial roles to play in pushing the globalisation agenda of Islamic finance and as pointed out earlier, this can be done by leveraging on each other's competitive advantage. The prospect of cooperation between both Labuan IBFC and QFC would create significant positive impact to the industry.

Conclusion

In conclusion, Labuan IBFC and QFC play pivotal roles in promoting Islamic finance, offering a conducive environment for a full spectrum of Islamic finance instruments, including sukuk issuance and listing. Through mutual collaboration and innovation, both jurisdictions can further enhance their respective Islamic finance ecosystems, driving sustainable growth and contributing to the development of the global Islamic finance industry.

The prerequisite for this is to establish a common goal, and both Labuan IBFC and QFC need to work hand in hand by leveraging on each other's competitive advantage. The other important aspect that can further support the global Islamic finance agenda is a commitment by both centres to drive industry growth beyond their typical country borders. As pioneers in Islamic finance, Labuan IBFC and QFC are well-positioned to capitalise on opportunities and address challenges, ensuring continued progress and prosperity in the years to come.

² Mazrui, A. A. (2000). 'Globalisation from the Islamic perspective'. Speech delivered at Forum on Islam and Globalisation, Westminster University, London

³ Based on Tafheem Al Quran (The Meaning of Al Quran) by Sayyid Abul Ala Maududi

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Dr. Muhammad Md Husin, Corporate Treasurer at Bank Islam Malaysia Berhad (BIMB), has nearly two decades of experience in Islamic banking, treasury, as well as asset and liability management. At BIMB, he optimises capital, liquidity, funding, and asset & liability profiles. He is also an Adjunct Professor at INCEIF. Previously, he served as Country Treasurer at Deutsche Bank Malaysia Berhad. Dr Muhammad also served at Bank Negara Malaysia, where he managed open-market operations and liquidity management while during his time at the Central Bank of UAE, he supervised monetary operations and foreign exchange swaps. He is a member of CIMA, MIA, AICB, as well as CIIF where he serves as a Grand Councilor. Dr. Muhammad holds a doctorate from the International Islamic University Malaysia and an MBA from Imperial College Business School, London.



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Bank Islam is the first Islamic bank publicly listed on the Main Market of Bursa Malaysia. Established in July 1983, the bank has 135 branches and over 900 self-service terminals across Malaysia. As a pure-play Islamic bank, Bank Islam provides retail banking and corporate financial solutions that strictly adhere to Shariah rules and principles. The bank is committed to sustainable prosperity and ESG values and is an official participant of the UN Global Compact Malaysia and Brunei. Bank Islam's core subsidiaries, BIMB Investment and BIMB Securities offer various Islamic financial services, including investment and stockbroking.

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Labuan IBFC boasts a wide range of business and investment structures facilitating cross-border transactions, business dealings, and wealth management needs. These unique qualities offer sound options for regional businesses going global or global businesses looking at penetrating Asia's burgeoning markets. Strategically located in the heart of Asia Pacific, Labuan IBFC is well positioned to tap into one of the fastest-growing regions in the world, presenting the perfect opportunity for businesses seeking to connect with Asia's economies and beyond. To keep up with everything about Labuan IBFC, follow @LabuanIBFC on LinkedIn and Facebook.

Alternatively, visit www.labuanibfc.com



مركز قطر للمال
Qatar Financial Centre

Qatar Financial Centre

The Qatar Financial Centre (QFC) is an onshore business and financial centre located in Doha, established by Law No. 7 of 2005 of the State of Qatar. A world-class platform for companies, QFC offers its own legal, regulatory, tax and business environment, contributing to the decisive economic development and diversification prescribed by Qatar National Vision 2030.

Supported by QFC's broad range of legal and regulatory services, regulated and non-regulated, that align with international best practice, domestic and international companies can set up or expand their business in Qatar. QFC allows up to 100% foreign ownership, 100% repatriation of profits, and charges a competitive rate of 10% corporate tax on locally-sourced profits, all while integrating businesses into Qatar's swift expansion into a major trade and investment centre.

QFC is governed by the following four independent bodies. Its business-friendly ecosystem operates in line with international best practice to ensure clients receive optimal operational, regulatory, and judicial support.

For more information, visit www.qfc.qa/en
