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Country Presentation: JAPAN

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Look at non-Muslim East Asia

■ IFSB Seminars

January 2007: Tokyo

January 2008: Hong Kong

January 2009: Seoul

May 2009: IFSB Summit in Singapore

--- First IFSB Summit held in Asia

■ The Guideline in Singapore

– To harmonize with the existing regulations

Japan: Interest highest among non-Islamic

■ No. of IFSB members: Breakdown by country

	Total	Full	Associate	Observer		Total	Full	Associate	Observer
Malaysia	27	2	3	22	Hong Kong	2		1	1
UAE	24	1	3	20	Lebanon	2		1	1
Sudan	16	1	1	14	Palestine	2		1	1
Bahrain	16	1		15	South Africa	2			2
Kuwait	14	1		13	USA	2			2
Saudi Arabia	10	2	1	7	UK	2			2
Qatar	9	1	1	7	Djibouti	1	1		
Japan	7			7	Indonesia	1	1		
Int'l Org.	5	1	4		Syria	1	1		
Pakistan	4	1	1	2	China	1		1	
Jordan	4	1		3	Mauritius	1		1	
Brunei	3	1		2	Philippines	1		1	
Egypt	3	1		2	Canada	1			1
Iran	3	1		2	Germany	1			1
Singapore	3	1		2	Korea	1			1
Turkey	3			3	Morocco	1			1
Maldives	2	1	1		Senegal	1			1
Bangladesh	2	1		1	TOTAL	178	21	21	136

(Source) IFSB *As of Nov. 2008

**Shaded countries are non-members of the Organization for the Islamic Conference.

The Islamic environment in Japan

■ Not a large Muslim population:

- Less than 10 thousand (UK: 2 million)

■ No Strong ties of banks with the Middle East

- No Branch of the Middle Eastern banks
- Only One Representative office of a Qatari bank
- A Malaysian bank recently closed Tokyo office
- "Oil only" relations

■ No major internationally competitive banks

- No HSBC, No Standard Chartered, No Barclays ...
- Japanese banks mainly targeting overseas Japanese companies

Islamic Finance is difficult for Japanese

■ **Isolated from the international communities**

- Language and Cultural barriers (unique business conducts)

■ **Tend to think Islamic Finance is mysterious**

- Something only for the Muslims
- Interest-free banking is not profitable for banks
- Shariah scholars live in mosques

■ **Tend to be conservative: seeking for “perfect” understanding**

- Different interpretation of Shariah: not acceptable
- Different name and spelling of modes of financing: need standardization

History of deals by Japanese institutions

■ In the earlier days, some transactions were seen in the Middle East and London:-

- Japanese banks and trading companies raised funds in an Islamic manner out of London
- Asset Managers sold Islamic Funds in late 90's to Middle Eastern investors (**Nomura** and **DIAM**)

■ Japanese Forerunner: **Tokio Marine** (Takaful)

- 2001 Saudi Arabia
- 2004 Singapore (Retakaful) and Indonesia
- 2006 Malaysia (Hong Leong Tokio Marine Takaful)
- 2008 Egypt (License was given)

The recent change in the regulation

■ Financial Services Agency (of Japan) amended the banking regulation in December 2008:

- To admit **bank's subsidiaries** to get engaged in Islamic financial transactions
- Murabahah / Ijarah-type of financing that involves asset trading is **not permissible for Japanese banks** under the current Banking Act.
- The new regulation explicitly admits Islamic financial transactions by **subsidiaries of Japanese banks** under the following conditions:-
 - The financial transaction must be regarded as equal to financing, although it is not financing itself (because interests should not be charged due to the religious constraint).
 - The financial transaction must be **Shariah compliant with approval by a Shariah board**.

Scope of the legal amendment

- **Japanese banks' subsidiaries can provide Islamic financing**
 - SMBC Europe (London) and Bank of Tokyo-Mitsubishi UFJ (Malaysia) have set up a team solely for Islamic deals.

- **Japanese Banks can get involved in certain types of Islamic deals (regardless of this amendment)**

- **Japanese Securities Firms can get involved in Islamic financial transactions (regardless of this amendment)**
 - Nomura Islamic Asset Management (Malaysia)

- **Sukuk : still not clarified under the Japanese law**
 - Bonds or trust beneficiary rights?

Japanese Sukuk Issuers

■ **Successful issuers**

- Aeon Credit Service (Malaysia)
- Toyota Capital Malaysia
- Orix Leasing (Pakistan)

■ **There should have been some more if not the financial crisis (and sub-prime shocks)**

- Many queries on practical issues
- Many audience attending seminars
- Procedures of transferring assets: main questions
- Cost competitiveness (to conventional equivalent) required

Singapore: a model case

■ **Monetary Authority of Singapore launched a Sukuk programme**

- Ijarah-backed
- Singapore-dollar denominated
- Originally and mainly for the liquidity management of the Islamic Bank of Asia

■ **Reasons for the Success**

- Small nation and Small government
- Strong leadership by the Government
- Clear policy purpose