

**OPENING ADDRESS TO THE LA TROBE UNIVERSITY,
NATIONAL AUSTRALIA BANK AND
MUSLIM COMMUNITY CORPORATION OF AUSTRALIA
SYMPOSIUM ON ISLAMIC BANKING AND FINANCE**

MELBOURNE

6 JULY 2009

Good Morning.

Thank you for that kind introduction.

Acknowledge – His Excellency Mr Hassan Talat Nazer (Saudi Ambassador), Dr John Hewson (former parliamentary colleague and Leader of the Liberal Party).

Islamic finance is playing an increasingly important role in world markets and I am delighted to have been invited to open the Islamic Banking and Finance Symposium.

This joint effort by industry and academia, at such a critical time not only in the development of Islamic finance, but also in the financial sector in general, is to be commended.

It is fantastic to see so many delegates from such a wide cross section of the sectors involved - finance, insurance, legal, accounting and differing fields of academia, including a large a number of PhD students.

These are indeed exciting times for this area of finance, with growing demand for expertise in this field evident by Latrobe University's launch of its Masters of Islamic Banking and Finance course. These are important steps in the development of the Islamic finance industry in Australia.

It has been widely observed that while the mainstream global financial system has been confronting some of its greatest challenges in 75 years, Islamic finance has fared comparatively well among this market turmoil. The Financial Times recently noted that:

"While the conventional financial system is buckling under a mountain of debt and financial wizardry gone awry, Islamic finance has appeared relatively robust."

Of course, like Australia, Islamic finance is not completely immune from the global economic crisis.

Islamic investments could potentially be impacted by falls in real estate and other assets, and, as was also observed in the Times, if you lose your

job, you can't make your payments, whether your loan is conventional or Islamic.

Nevertheless, the conventional financial system would do well to learn what it can from Islamic finance's avoidance of exposure to the US sub-prime market and associated complex financial instruments, and our minds should be open to the potential for Islamic finance to operate in Australia alongside what we have come to regard as more conventional financial products.

Opportunity

While this conference is evidence of the growing interest in Islamic finance in this country, globally, the market for Islamic finance products has grown phenomenally over the last ten years, being estimated to have been worth in excess of US\$700 billion in 2007. Unsurprisingly, that growth has slowed considerably and retreated in some subsectors recently, probably due to the crisis. I note, for example, that last year saw a considerable fall in global sukuk issuance. However, the sukuk market will be encouraged by the Indonesian Government's recent successful sukuk issue of US\$650 million, which was oversubscribed. The market for sukuk appears to provide a promising wholesale opportunity for innovative Australian financial sector companies.

There are also opportunities to be considered at the retail level. With over 340,000 Muslims in Australia, as well as presenting a new commercial opportunity, the offering of retail Islamic finance products contributes to fostering social inclusion, by enabling Australian Muslims to access products that may be more consistent with their principles and beliefs as well as widening the choice of products for non-Muslims.

The Australian Government is committed to an open and competitive financial system and a socially inclusive environment for all Australians. The development of an Islamic finance industry in this country has the potential to make a very positive contribution to achieving both of these principles.

Of course the opportunity is not limited to the domestic Australian market; in fact with around 1.5 billion Muslims world wide, 25% of the world's population, from some of the most growth hungry countries – the opportunities are world wide.

Islamic finance cannot be ignored in our efforts to promote Australia as a regional financial services hub.

While Australia may not have a large Islamic population, our geographical position presents us with an important window into the Islamic finance sector. Our closest neighbour, Indonesia, is the most populous Muslim

majority nation over 207 million Muslims, with a further 40 million in the broader south East Asia region.

Last year, the Government established the Australian Financial Centre Forum as the vehicle to promote the Australian financial services sector internationally. Islamic finance has been raised in the Forum as being an area of potential opportunity for the financial services sector.

This potential has been recognised in other jurisdictions that have, like Australia, traditionally been focussed on more conventional finance products. Notably the United Kingdom has actively pursued the development of Islamic finance, with the result that the UK now has five licensed Islamic banks - the only such institutions in the European Union. France is another jurisdiction taking measures to facilitate Islamic finance. I understand that the first French Islamic bank is expected to be licensed in the near future. In our region, a few countries are taking measures dedicated to securing significant shares of the Islamic finance market, this presents us with strong opportunities. Malaysia has recently made moves to establish itself in this space with its international Islamic Financial Centre, and is actively encouraging foreign firms.

The Government continues to work toward enhancing access to foreign markets for all Australian businesses, and businesses offering Islamic finance products should benefit from any successes we achieve in that sphere.

Possible Barriers

Islamic banking and finance products have different structures from conventional products, which may cause some regulatory and taxation questions. For example, existing approaches to regulating credit do not translate easily, such as disclosing the cost of credit to potential borrowers may not be as straightforward for Islamic finance products. The risks for consumers are therefore inherently different, and need to be addressed taking into account these variations.

I know that this conference will look at some of these issues. The Government is committed to open and competitive financial markets and is working to ensure that our regulatory framework is flexible enough to facilitate Islamic finance banking and other products and services, while still providing an appropriate level of protection to consumers.

Islamic banking has its own set of regulatory issues relating to capital adequacy and accounting requirements. It may be that our existing framework can adequately adapt to make provision for Islamic banking, or it may be that some changes are required. We will be looking at the experience of other jurisdictions in this area to guide us.

Islamic Finance and Taxation

In March, the Australian Financial Centre Forum, together with Treasury, conducted a roundtable on Islamic finance and taxation issues, which I know some present here would have attended. Many issues were raised there. We know that there is a concern about State stamp duty on real estate transactions and how that might affect some Islamic finance transactions. Of course, Islamic finance practitioners are not the only ones who have been expressing concern about State stamp duties in recent months. We know this has been raised in public forums held by the Australia's Future Tax System (Henry) Review. In addition, I note that some jurisdictions, such as Victoria, have already taken steps to address this issue.

While there may be potential taxation issues at the Commonwealth level, it is not clear to what extent Australian tax laws may be hindering the development of Islamic finance in Australia. To date, no comprehensive set of proposals for change has been presented to the Government or regulators, although there is dialogue between officials and industry representatives on particular aspects relating to Islamic finance. A key question here is whether existing principles or rules (perhaps appropriately refined) can address these issues without the need for specific rules for Islamic finance.

If this conference can make progress toward clearly identifying the set of regulatory issues that need to be addressed by Government or regulators, it would be making a considerable contribution to the development of Islamic finance in this country. Treasury and the Australian Financial Centre Forum would welcome submissions on any regulatory matters arising out of the deliberations of the Symposium.

Conclusion

I congratulate the organisers who have brought together this very impressive group of people for this event as well as a very interesting program. I hope you all enjoy the symposium and I look forward to following up on the outcomes.

Thank you.