



Hong Kong - an Islamic finance gateway to the PRC?

Insights - 11/11/2024

Hong Kong has taken steps in recent times to boost its Islamic finance credentials, keen to participate in a market which now has an asset pool of close to US\$5 trillion, according to figures from Standard Chartered.

Our experts in offshore Islamic finance in Hong Kong, along with our team in Dubai, are seeing this play out, with an increase in fund flow between Hong Kong / PRC and the Middle East.

"The opening of Ogier's Dubai office has come at a good time. We have definitely seen more fund flow between the regions in the past two or three years. This has translated into traditional Islamic finance work largely based out of Dubai, with some of the products being sold into Asia," said Anthony Oakes, head of Ogier's Finance practice (both conventional and Islamic) in Hong Kong.

"For this work, we offer the full package of establishing and providing directors to the Cayman orphan SPV, as well as the related legal work. We have also helped set up offshore structures for Middle East clients with a view to investing into north Asia."

Ogier's finance experts are also seeing fund flows in the other direction, with an active interest in the PRC in outbound investment to both Southeast Asia and the Middle East.

"While the flow may not be as large as the flow from the Middle East to the PRC, there certainly seems to be potential there, especially given the continuing Belt and Road Initiative," said Anthony.

Developing the relationship

Hong Kong has, of course, long been a gateway to China. Some would point to Hong Kong looking to the Middle East for investors as a matter of necessity, with US investors shying away from investing in the PRC.

"It is certainly true that Hong Kong has looked to diversify financial products and services in recent

times, including to boost the number of listings on its stock exchange," said Anthony. "Having said that, Hong Kong was actually an early mover in Islamic finance. As early as 2013, Hong Kong amended regulations for a conducive tax structure for sukuk issuance, and later included them under the Government Bond Programme."

In 2014, 2015 and 2017, three sukuk of different structures (an Ijarah facility followed by two Wakalah facilities) totalling US\$3 billion were issued in the city - all were oversubscribed.

According to the Hong Kong Monetary Authority, the three sukuk issuances successfully demonstrated the viability of the Hong Kong platform. Though the market has seen few Islamic finance products since then, financial relations with the Middle East continue to develop.

Notably, merchandise trade between Hong Kong and Gulf Cooperation Council (GCC) countries has shown significant growth since 2020. The council is a regional union including six members: Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates. GCC is one of the most developed Islamic finance markets.

In November 2023, the first Saudi Arabian exchange-traded fund in Asia was listed on the Hong Kong Exchanges and Clearing, which was recognised as a milestone of financial collaboration between Hong Kong and Saudi Arabia.

This was followed, in July 2024, by the Hong Kong Stock Exchange adding the Abu Dhabi Securities Exchange and the Dubai Financial Market as recognised stock exchanges. This allowed public joint stock companies with a primary listing on the main market of these two exchanges to apply for a secondary listing in Hong Kong.

Attracting Islamic investors to Hong Kong

It is a professed aim of the Hong Kong government to court Islamic sponsors and investors looking to increase their exposure to HK / PRC investments. One noted academic said: "In general, we are trying to attract Islamic investors like family offices who could be interested in both Islamic and conventional financial products, and familiarity with their culture is a must no matter which investment direction they choose."

Hong Kong remains a strong option for such Islamic sponsors and investors. The reasons include:

- Hong Kong's financial infrastructure - notably a business friendly environment and low and simple taxation system. Underlying that is a substantial financial services ecosystem, including accounting, ESG reporting, fund administration, standard-setting, custody, valuation, order execution, credit risk, foreign exchange, investor reporting, compliance services and trust services within a strong regulatory environment.
- Hong Kong has an established and regulated banking and insurance industry. Almost all of the

major international banks have branches in Hong Kong and are licensed either as fully licensed banks, restricted license banks or deposit-taking companies. These banks have the opportunity to open an Islamic banking window or offer financial products and services, subject to the approval of the Hong Kong Monetary Authority. Insurance companies can also leverage the industry strengths to offer Takaful and re-Takaful.

- Hong Kong also has a well-established system for the growth of family offices and this can be leveraged to provide the development of the full range of private client services for high-net-worth individuals wishing to set up investments and trusts which are Shariah compliant.

Hong Kong sukus

This has been borne out by the success of the previous sukus, each being US\$1 billion in size, and oversubscribed, attractive to both conventional and Islamic investors, with the majority being distributed to, amongst others, fund managers, private banks, and sovereign wealth funds in Southeast Asia and the Middle East.

All three sukus were listed on the Hong Kong Stock Exchange (as mentioned above, a focus of the Hong Kong authorities is to drive up local listings) as well as Bursa Malaysia (Exempt Regime) and Nasdaq Dubai.

Building on Hong Kong's progress

Some commentators have said that more needs to be done by Hong Kong to attract Islamic investors, interestingly on a cultural level. In an interview with the South China Morning Post, Malaysian Consul General Muzambli Markam said that Hong Kong has a "lot of potential" to turn itself into an Islamic friendly market but more effort was needed to accommodate Middle Eastern consumer behaviours - including improving Halal foods certification.

Markam asked for "more direction" from the Hong Kong government and believed that further sukuk offerings would help increase confidence.

Moving forward

Earlier this year, the Secretary for Financial Services and the Treasury, Mr Christopher Hui undertook to improve Hong Kong's commitment to Islamic finance, citing it as an important part of the Belt and Road Initiative.

"As well as pointing to inter-governmental activities, Mr Hui also referred to more grass root approaches - including improving the level of Arabic language skills and Halal certification," said Anthony.

"We look forward to Hong Kong's next steps towards building an Islamic finance gateway, including strengthening business relationships with the Middle East and Southeast Asia."

How can Ogier help?

Ogier's Islamic Finance team includes experts who are experienced in traditional forms of finance as well as the Shariah principles governing Islamic finance and financing techniques.

We have experienced finance lawyers based in Hong Kong, London and the Cayman Islands as well as on-the-ground legal, corporate and Cayman fiduciary and regulatory professionals in Dubai. Contact one of the team for more information.

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