



Luxembourg - A European hub for Islamic finance

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Luxembourg has established itself as a pioneering European hub for Islamic Finance.

Notably, the first Islamic financial institution in Western countries was founded in Luxembourg in 1978 and Luxembourg also authorised the first Islamic insurance company in Europe in 1983. Luxembourg's regulatory landscape is structured to address the specific needs of Islamic finance products and transactions, including Sukuk, Murabaha, and other Sharia-compliant financial instruments.

Why Luxembourg for Islamic finance?

By providing a flexible and supportive environment, Luxembourg attracts Islamic finance entities (often investment funds and special purpose vehicles (SPVs)), encouraging them to establish and expand their operations. This not only highlights Luxembourg's adaptability and openness to diverse financial techniques but also positions it as a key player in the global Islamic finance market.

The predictability and stability of Luxembourg's economic and political landscape also offers incentives for investors and financial institutions, enhancing the country's reputation as a secure destination for investments.

This combination of stability and an inclusive regulatory approach makes Luxembourg a strategic jurisdiction for Islamic finance.

Islamic finance instruments from a tax perspective

Luxembourg has issued several key administrative tax circulars which provide clarity and guidance on the tax treatment of Islamic finance instruments, particularly the following:

- **Sukuk**, which should be treated similarly to debt instruments for Luxembourg tax purposes. The

returns paid to investors are thus considered as equivalent to interests from a tax perspective.

- **Murabaha**, which allows the client to acquire an asset without having to subscribe a traditional interest-bearing loan. The Luxembourg tax authorities have provided specific guidance to ensure the profit of the Islamic product could be fiscally assimilated to interest.

Ogier's landmark Islamic finance transactions in Luxembourg

Ogier in Luxembourg provided guidance on the migration of a SPV, financed through a Murabaha agreement, from the British Virgin Islands (BVI) to Luxembourg. The transaction was sponsored by a Bahraini-based asset manager.

Ogier acted as Luxembourg counsel on the migration of the SPV from BVI to Luxembourg. The objective of the SPV was to invest in a UK real estate asset via a Luxembourg SPV. Ogier provided advice on both the tax structuring of the financing of the SPV and legal dimensions of the transaction, with a particular focus on reviewing the Murabaha financing documentation to ensure compliance within Luxembourg's regulatory framework.

Ogier's Luxembourg Banking and Finance team regularly acts on Islamic finance transactions and the Luxembourg investment funds team has acted for several financial sponsors assisting on the set up of Sharia compliant Luxembourg investment funds.

The Luxembourg team has also played a pivotal role advising on the establishment of eight Luxembourg legal entities, facilitating a joint venture, and supporting the acquisition of real estate portfolios.

A group of Luxembourg companies, sitting under a Cayman charitable trust, were set-up by Ogier in connection with:

- the implementation of the terms of Murabaha arrangements compliant with the principles of Islamic Sharia for the raise of capital from time to time
- acquire, invest, manage, operate and let and dispose of a portfolio of real estate properties via Luxembourg subsidiaries

Ogier's involvement extends to advising on debt and equity financing for these acquisitions, showcasing their expertise in Luxembourg regulatory matters, AIFMD analysis, and Islamic finance principles. Their cross-jurisdictional capability, spanning Cayman and Luxembourg, and cross-practice service in funds, regulatory, corporate, banking, and finance underscore their comprehensive approach to project management, negotiations, and local service coordination. This approach ensures the structuring of efficient, Sharia-compliant contractual arrangements and the successful execution of the joint venture. Additionally, Ogier is innovating in structuring

sponsor promote through the use of Luxembourg securities, further highlighting their strategic and flexible legal expertise.

The project undertaken by Ogier, involving the establishment of legal entities, a joint venture, and real estate acquisitions, was both cross-practice and cross-jurisdictional in nature. The project required expertise from multiple legal practices and jurisdictions to be successfully executed.

Ogier's Islamic finance expertise in Luxembourg

Ogier in Luxembourg can assist with Islamic finance in the following key areas:

1. **Structuring Sharia compliant transactions:**Ogier in Luxembourg has the capability to structure transactions in accordance with Islamic Sharia principles. This includes the careful design of financial arrangements, ensuring that they comply with the Luxembourg tax framework at the same time.
2. **Targeted clients:**Ogier in Luxembourg offers tailored tax structuring advice on Islamic finance instruments not only for ultra-high-net-worth (**UHNW**) individuals and families but also for corporations and investment funds. Our expertise particularly supports clients from the Middle East seeking to optimise their financial structures.
3. **Multidisciplinary services:**Ogier in Luxembourg offers cross-practice advice, incorporating expertise from funds, regulatory, corporate, banking, tax, and finance sectors. This multidisciplinary approach ensures that all aspects of our client's transactions are handled with a comprehensive understanding of both Islamic finance and the relevant legal jurisdictions.

How Ogier can help

Our tax experts have extensive experience and offer tailor-made tax and legal solutions to help our clients achieve their objectives. If you want to know more about the tax implications of Islamic finance instruments, contact our Luxembourg team.

About Ogier

Ogier is a professional services firm with the knowledge and expertise to handle the most demanding and complex transactions and provide expert, efficient and cost-effective services to all our clients. We regularly win awards for the quality of our client service, our work and our people.

Disclaimer

This client briefing has been prepared for clients and professional associates of Ogier. The information and expressions of opinion which it contains are not intended to be a comprehensive

study or to provide legal advice and should not be treated as a substitute for specific advice concerning individual situations.

Regulatory information can be found under [Legal Notice](#)

Key Contacts



Aurélie Clementz

Partner

Luxembourg - Legal Services

E: aurelie.clementz@ogier.com

T: [+352 2712 2024](tel:+35227122024)



Hadrien Brémon

Counsel

Luxembourg - Legal Services

E: hadrien.bremon@ogier.com

T: [+352 27 12 20 71](tel:+35227122071)



Muriel Jarosz

Associate

Luxembourg - Legal Services

E: muriel.jarosz@ogier.com

T: 352 27 12 20 54

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