

Regulation changes in the united kingdom finance essay

[Finance](#)



Chapter 5:

This chapter is designed to explain the role of the United Kingdom national regulator the Financial Service Authority has played in the development of the Islamic banking sector. Every bank in the UK is required to meet a minimum requirements set by the Bank of England and the Financial Service Authority (FSA). These requirements are updated accordingly based on the dynamic changes and trends the economy makes. The FSA tries to achieve economic stability by protecting the financial sector. It also encourages economic growth and investments by supporting investments. It has updated its legislation in recent years to accommodate the growth of Islamic banking. Before the establishment of the Financial Services Authority in 2007 the UK regulatory system was made up of several bodies e. g. the Bank of England was responsible for the supervision of the banking sector and other self regulatory bodies. This was a major problem for Islamic banks as they were faced by several bottlenecks in the system. Since the early part of this decade the government through the FSA , Has set up a range of tax and legislative amendments purposely structured to eliminate the legal and bureaucratic difficulties faced by the Islamic banking institutions in the UK. The first major breakthrough came in 2001 when group chaired by the then governor of the central bank Lord Edward George with representatives from the London financial sector, the FSA and the Muslim community. Met to discuss and identify the major regulatory problems faced Islamic financial industry in the UK and what measures the regulators need to take to tackle them. They identified that the biggest regulatory issue facing these institutions is that Islamic mortgages were subjected to double tax duties.

Because of the nature of the Islamic banking practice the bank was taxed when it buys the property. Another tax is also levied on the mortgage holder when the ownership of the property is fully transferred to them. In 2003 this double tax regime on Islamic mortgages was abolished by the government. This major change was innovated by Sir Howard Davies chairman of the FSA in 2003. He promised as long as the UK as an economic interest in Islamic banking the FSA will provide an environment that will make the sector competitive to the conventional banks and flourish. The FSA is also a member of the HM Treasury Islamic Finance Experts Group. This is the body that is responsible for the authorisation of completely Islamic firms in the UK. Because of the FSA operates under a non-discriminatory regime. Any financial institution it authorises is put on a level playing field regardless of its origin and religious philosophy. The Islamic Bank of BritainThe Islamic bank of Britain in August 2004 became the first Islamic bank in the world to operate in a country with a Muslim minority. This was after it was granted its operating license by the FSA after years of negotiation and consideration by the FSA. The major problem for its operation was the case of deposits. Under the current financial act financial institutions were expected to payback deposits from customers upon demand or at the time agreed by both parties when the deposit was made. Because Islamic banks are governed by Shariah rule which indicates deposits are subjected to the profit/loss sharing philosophy. Islamic banks would not be able to guarantee customers that their deposit is safe and they can withdraw it at anytime. This was a major issue with the FSA as it was the regulator of deposit takers and under the FSMA act deposit makers are guaranteed their money back as long as the

bank they deposit with is solvent. This unusual dilemma between the FSA and the then proposed Islamic Bank of Britain lead to the agreement that it the bank will guarantee all deposits and in turn offer the customers who want to follow a Strict Shariah banking system a profit/loss sharing account. The final hurdle for FSA in authorising the bank was the role of a Shariah board as discussed in the chapter 2. The FSA had no previous experience of such a board. It seemed the bank subjected to a secondary regulator which could cause problems for all parties but most importantly the bank was dealing directly with the public. Eventually the FSA decided it is mainly concerned with the operational and financial perspective of the bank which the Shariah Supervisory Board doesn't deal with. As a result this issue was solved and the bank was officially offered a banking license. These innovations and solutions reached in this case where later carried forward by the FSA and used in the authorisation of other Islamic banks in the UK.

5. 2: THE US PATRIOT ACT of 2001

The patriot Act of 2001 is American judicial law passed by the United States senate in late 2001 after the horrific terrorist acts of September 11. The Act created a greater and more detailed Authority to Regulators and government agents to track down personal information and financial transactions in the United States. This was to prevent future terrorist attacks on US soil (Egan 2004). The Act provided the US Treasury with greater powers to combat corruption and money laundering by creating new crimes and penalties in the financial sector. This was aimed to disrupt the financing of terrorism both in the United States and beyond its borders. The new legal red tape affected foreign investors and savers from coming to the US. Especially Islamic

<https://assignbuster.com/regulation-changes-in-the-united-kingdom-finance-essay/>

Banking investors as they are faced by extra scrutiny by US officials on their transactions. While the US was busy trying to find links between Islamic Bank accounts and terrorists, Muslim investors pulled out and looked for similar markets to invest in (Bi 2009). As a result the UK welcomed this Muslim investors to boost the Islamic banking sector. Since late 2001 the number of all Islamic banks has increase largely, as discussed earlier with the 28 banks either operating on shariah rules or conventional banks offering an Islamic banking window. There is no question that The Patriot Act drove away large amounts of money from the US market to around the world. Therefore UK was a very good alternative as it has a tradition and rich history in the industry dating back to the 1980s when the London Steel Market was used for Islamic Banking.