



HM TREASURY

Dan Levy/Peter Symons
Debt and Reserves Management Team
HM Treasury
1 Horse Guards Road London
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08 May 2007

As per email address

Dear *Members of the HM Treasury Islamic Financial
Experts Group*

Feasibility of Government becoming an issuer of wholesale sterling Islamic financial instruments

On 16 April you attended a meeting at No 11 on Islamic Finance chaired by the Economic Secretary to the Treasury Ed Balls MP. It was a very successful meeting and we are grateful for the many insightful and constructive contributions, that were made. As you are aware the Economic Secretary announced that he was establishing a new consultative forum, the Islamic Finance Experts Group – IFEG, which would meet on a quarterly basis to continue the dialogue with HM Treasury and the Financial Services Authority (FSA) on issues relating to Islamic finance. We are looking forward to your continued contribution to these meetings.

In his speech to the FSA on 23 April, the Economic Secretary announced that he has asked 'the Debt Management Office and HM Treasury to carry out a feasibility study into opportunities for the Government issuing Islamic financial instruments in the wholesale sterling market, consulting with our new Islamic Financial Experts Group and reporting at the time of the Pre-Budget Report.' The terms of reference are attached.

As part of our feasibility study, we will be considering:

1. The size and pace of development of the wholesale Islamic Finance (including sukuk) market worldwide, as well as in the UK;
2. The nature of demand for wholesale Islamic Finance instruments, both as regards the type of investors, the type of structures or instruments, the currency denomination and the determinants that affect demand for Islamic Finance instruments;



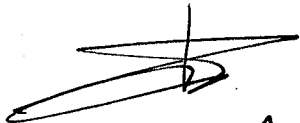
3. The type of issuers active in the market (especially sovereign) and the motivation for accessing this market;
4. Price comparisons between Islamic Finance and more conventional instruments; relative return for investors and cost for issuers;
5. The factors that influence market participants when deciding in which market and jurisdiction to conduct issuance and transactions in Islamic Finance instruments;
6. The extent and means whereby Government issuance of an Islamic Finance instrument would promote the development of the market for Islamic financial instruments in London;
7. The structure of a potential UK Government sukuk

We would be grateful for the information, analysis or advice you may send to us on the issues listed above, if possible **Thursday 31 May**. The list is naturally not exhaustive, and we are looking forward to a constructive dialogue with you on any issue that you deem relevant. This feasibility study will be on the agenda of the next IFEG meeting.

Please contact Dan Levy and Peter Symons at HM Treasury (dan.levy@hm-treasury.gov.uk and peter.symons@hm-treasury.gov.uk) or Arnaud Marès at the Debt Management Office (arnaud.mares@dmo.gsi.gov.uk) if you have any further question about the consultation.

Our colleagues in the Financial Services Strategy team will be in touch about the next meeting of the IFEG which will take place by the summer.

Best Regards



Peter Symons

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TERMS OF REFERENCE FOR THE FEASIBILITY STUDY

The feasibility study will examine the benefits and costs of the case for the Government to become a sovereign issuer of wholesale sterling Islamic financial instruments and the practical and legal implications of doing so. The feasibility study should take account of:

- the Government's debt management policy of minimising long-term costs of debt issuance while taking into account risk;
- the size and nature of potential demand for UK Government wholesale sterling Islamic financial instruments;
- the potential cost and risk characteristics of wholesale sovereign Islamic financial instruments including in relation to the cost and risk characteristics of the Government's debt portfolio;
- any implications for the Government's established financing strategy;
- the experience of other sovereign issuers of wholesale Islamic financial instruments; and
- the impact on the markets, including the development of London as an international centre for wholesale sterling Islamic financial instruments.

There should be consultation with the HM Treasury's 'Islamic Finance Experts Group' and other experts as necessary.

The results of the feasibility study will be reported in the 2007 Pre-Budget Report.