

# Interview: Martin Creek, partner, Zamakhchary & Co

In December 2016 Saudi Arabia saw its first ever management buyout in the legal sector, with Gasim Zamakhchary restructuring under the name Zamakhchary & Co to allow three senior lawyers entry to the partnership. The new firm has a close relationship with Linklaters and a leading position in the Saudi market focusing on transactions, risk management, advisory and commercial litigation lines. This month we speak to partner Martin Creek, the head of the transactions and advisory practice, on his outlook for the Saudi Islamic finance in 2017.

## How has the Saudi market performed over the past month?

Market sentiment is positive and there has been a significant amount of activity focused on projects and transactions seeking to deliver the National Transformation Plan 2020 and Vision 2030. We expect the Saudi market to continue to be resilient for the remainder of the year, mainly focused on project financings (of which most include a significant Islamic element), rescheduling of corporate debts and putting in place the appropriate structures for privatisations.

## What are the biggest challenges in the Islamic finance sector in Saudi Arabia?

In terms of challenges, standardization of the positions taken by the Shariah Boards at the various financial institutions in the Kingdom would be a welcome development. Whilst the Hanbali school of thought is generally applied in Saudi Arabia there are majority and minority views on various issues, either of which may be applied in any particular case. Consequently there is continuing uncertainty as to the exact position that may be adopted by a Shariah board in any particular case.

## What regulatory changes need to be made in Saudi Arabia to encourage Islamic finance?

Saudi regulators have generally played a very positive role in promoting Islamic finance in Saudi Arabia. Very recently, the Saudi CMA became an institutional member of AAOIFI. We hope that more steps will be taken in particular to standardize the rules and processes at play in the Islamic finance industry. For example, the universal and formal adoption of AAOIFI guidelines would be a very encouraging step.

## What is the most interesting transaction or deal you have worked on in the last month?

The firm has been working on the conversion of a SAR1 billion (US\$266.7

million) conventional financing to a Shariah compliant facility. This was particularly interesting and challenging as it arose as part of a wide corporate restructuring for the client and thus notwithstanding the complex issues raised a speedy transfer was required to ensure no disruption to the continuing business.

## What is your pipeline looking like – what deals do you have coming up and why are they interesting for the Islamic market?

We expect a number of refinancings to occur over the coming months (a number of which are solely Islamic or Islamic/conventional hybrids). Although not particularly interesting on their face, these are important as they show the appetite for corporate risk from the banks and give us a steer as to where we think the market is moving in terms of pricing/maturity etc.

## What trends do you see in the Saudi market in terms of corporate activity?

There is no doubt that the last couple of years have been tough for corporates and as a result we see a number focused on rescheduling of debts or raising capital to supplement reserves rather than a focus on growth. The wide variety of initiatives established as part of the National Transformation Plan 2020 and Vision 2030 will undoubtedly provide more capacity for corporates to expand and grow (in particular when looking at the extensive privatization program planned) but we expect them to be more cautious than they have been in the past.

## What types of structure are most popular in Saudi Arabia for Islamic financing?

The commodity Murabahah is still a very prominent (if also unpopular) for most mainstream Islamic financings (including to underlying Sukuk). You do constantly hear about the market trying to move towards more Shariah compliant structures (e.g. Ijarah) but while the commodity Murabahah remains flexible and easy

to put in place it is difficult to see a significant move away from the product.

The vast majority of Islamic financings we are seeing at the moment are in the project financing space with the Istisnah and Ijarah structure still being the most popular structures used.

## Saudi Arabia seems to have a preference for Islamic 'tranches' accompanying conventional issuances, rather than for pure Islamic structures. Will we ever see a more pure form of Islamic financing?

In our experience the size of transactions in the Saudi market is often very large and therefore requires the involvement of a number of banks. It is a function of this type of structure that there are often both Islamic tranches and conventional issuances as a reflection of the requirements and locations of the banks involved as well as borrowers. That said pure Islamic forms of financing have historically played a prominent role in Saudi financing transactions and that is likely to continue to be the case given that a number of major Saudi financial institutions have very robust Shariah compliance requirements. We anticipate that wholly Islamic financing transactions will become more common.

## What is your outlook for 2017 for Saudi Arabia?

Following the recent major Sukuk issuance no governmental issuances are anticipated before Q4 at the earliest. We would hope that any new sovereign Sukuk issuance adopts a more creative and acceptable structure as opposed to commodity Murabahah.

We would also look to see a material increase in companies managing their business and funding requirements in a Shariah compliant fashion. Given the focus of infrastructure for achieving the National Transformation Plan 2020, we are seeing and expect to see even more Shariah compliant project financing transactions. ☺