

## Iranian treasury bills to be traded only in the capital market



IRAN

By Majid Pireh

**On the 30<sup>th</sup> September 2015, the first Islamic treasury bills (ITBs) in the Iranian capital market were issued. The face value of the initial ITBs was IRR1 million (US\$30.16) carrying a tenor of 5.5 months. Soon after that, the ITB market developed and the Iranian government used them as a Shariah compliant financing method.**

As is common for treasury bills in the conventional financial markets, there are no coupon payments for these instruments and investors may gain from the different prices on what they pay and what they receive when they want to sell.

The structure of ITBs is on the basis of a discounting structure announced by the Shariah Board of the Securities and Exchange Organization (SEO) in its resolution permitting ITB issuance as a Shariah compliant financing method.

However, as the ITB market developed, there were some deliberations among

capital market practitioners on how the ITB market may affect the equity market. They focused on this issue and as a prudential policy, the SEO as the regulatory and supervisory body of the Iranian capital market announced that the issuance and trading of new ITBs in the capital market would be banned for a specific period of time.

As a result of the aforementioned policy, the government of Iran started its negotiations with the Iranian banking system for the latter to act as an alternative to the capital market. This policy change resulted in ITBs trading in Bank Melli Iran and following its own trading mechanism.

These new situation led to a lack of liquidity in the ITB market and as a result, those who owned them faced undesirable selling prices. The ITBs which were traded via the Iranian banking system were called 'Sakhab'. In a controversial move, the government issued IRR120 trillion (US\$3.62 billion)-worth of Sakhab bills in late March and handed over the secondary trading to the banks. The opaque condition

of secondary trading prompted the unexpected growth of a black market and eventually gave rise to a more severe condition. According to a report published by the Ministry of Economic Affairs and Finance, the returns on one-year notes were about 27-29%.

However, the new Iranian minister of economic affairs and finance, Masoud Karbasian, emphasized that treasury-based instruments should be traded only in the capital market. He aims to reduce damaging situations for contractors who are the government's creditors.

The new policy seems to be a result of undesirable discount rates which owners of the notes witnessed during trading in the banking system. Contractors hope that the new policy announced by Masoud will bring desirable discount rates for their ITBs.☺

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## Healthcare and education sectors to open to foreigners in Saudi Arabia



SAUDI ARABIA

By Nabil A Issa

**Two of the private equity sectors that have been of interest to foreign Shariah compliant investors have been healthcare and education. These two sectors are generally not available to non-GCC foreign investors.**

It is now reported that the Saudi Arabian General Investment Authority (SAGIA) may be relaxing certain restrictions on foreigners investing in the healthcare and education sectors in Saudi Arabia. Both sectors have experienced substantial focus and growth in recent years, with both a government and private sector concentration in the increase in investments. It is expected that the government will begin to privatize a number of government-owned healthcare facilities. Saudi Arabian Airlines is currently undergoing bids

for a partial sale of its medical division in Saudi Arabia that serves patients in Jeddah. Tatweer has announced that it is working on a significant public-private partnership in relation to the construction and management of school buildings.

Further liberalization and the opening of these sectors are certainly exciting prospects, as industry players from various jurisdictions throughout the world will be more enticed to bring expertise and investments to the respective fields in the Kingdom. However, we have yet to see official changes to the legislative frameworks which govern the healthcare and education sectors. Both the Ministry of Health and the Ministry of Education in the Kingdom have stopped short of formally announcing upcoming changes in foreign ownership or foreign investment restrictions relating to the two fields. For example, the Saudi Arabian Private Healthcare Regulations currently

provide that all areas of healthcare are reserved for Saudi Arabian nationals other than the hospital sector. We have not seen official government circulars unveiled by the SAGIA, Ministry of Health or Ministry of Education to implement the announcement from the SAGIA. Legislative changes in Saudi Arabia can sometimes take a very long time to come into effect, with accompanying implementation guidelines and regulations taking even longer.

Potential investors are currently monitoring the progress of these reports, and will be eager to see any substantive changes to the legal frameworks in both sectors.☺

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