

Sukuk Issuance

Shari'a Perspective

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Presentation Outline

- Shari'a Perspective on Bonds
- Ijarah Sukuk
- Musharaka Sukuk
- Murabaha Sukuk
- Salam Sukuk

Conventional Bond



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- Securities representing a loan or debt (such as bonds) cannot be sold or purchased.

كل قرض جرم منفعة فهو ربا

“Every Loan that draws benefit is Riba”

- If they are sold at a price higher or lower than their face value, it is considered as “**Riba**”
- If they are purchased/sold, it is termed as Bai al Dayn (Sale of Debt), which is prohibited.

Shari'a Compliant Alternate



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- **Sukuk** (plural of *Sak*) is an Arabic word which means ‘**certificates**’.
- Sukuk represents undivided shares in the ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity.
- Sukuk represent a common share in the ownership of the assets made available for investment and do not represent a debt owed to the issuer by the certificate holder.

Distinguishing Feature



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- Conventional bonds is a contractual obligation whereby the issuer is obliged to pay to bond holders, on certain specified dates, interest and principal.
- In comparison, under a Sukuk structure the Sukuk holders each hold an undivided beneficial ownership in the underlying assets. Consequently, Sukuk holders are entitled to share in the revenues generated by the Sukuk assets.
- The sale of Sukuk will be tantamount to the sale of holder's proportionate share in the assets.



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Ijarah Sukuk

Ijarah Sukuk



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A. Sukuk of ownership in leased assets

Issued with the aim of selling the asset so that holders of Sukuk become owners of the assets.

The Sukuk holders jointly own the assets through an undivided ownership sharing profits & losses

- ✓ Purchase of a new asset
- ✓ Sale & leaseback – limitation of one year

Ijarah Sukuk



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- The holder will assume the rights and obligations of the owner/lessor to the extent of his ownership.
- The holder will have the right to enjoy a part of the rent according to his proportion of ownership in the asset.
- In the case of total destruction of the asset, the Sukuk holder will suffer the loss to the extent of his ownership.

Ijarah Sukuk



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- These Sukuk can be negotiated at the market price or at a rate agreed upon and traded freely in the market.

- **Essential Condition**

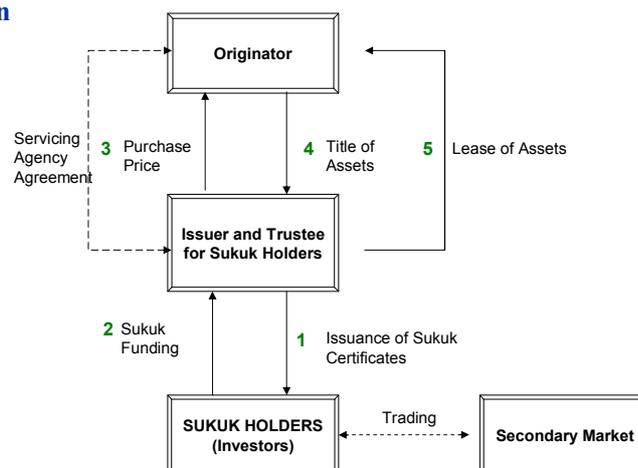
“It’s essential that the Ijarah Sukuk are designed to represent real ownership of the leased assets, and not only a right to receive rent (**true sale**).”

SLB Structure



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At Inception

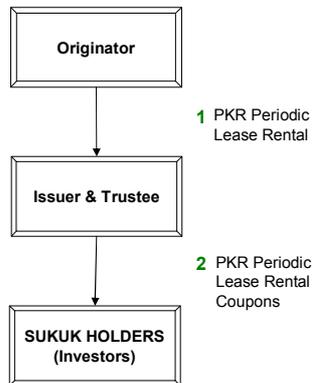


SLB Structure

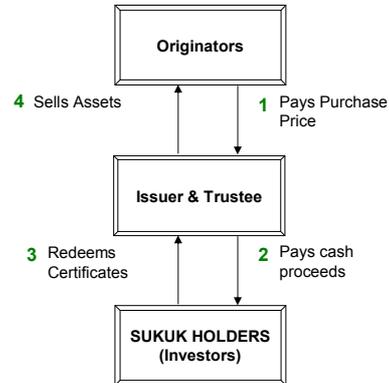


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Periodic Distribution



At Maturity



Ijarah Sukuk



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B. Sukuk of ownership of usufructs of assets

Issued with the aim of leasing the asset so that holders of Sukuk become owners of the usufruct of the assets.

The Sukuk holders become joint owners of the usufruct sharing its benefits & risks

- ✓ owner of asset leasing the asset
- ✓ owner of usufruct subleasing the asset

Ijarah Sukuk



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C. Sukuk of ownership of services

Issued for the purpose of providing services through a specified provider so that Sukuk holders become owners of these services.

It is permissible to trade in such securities prior to subleasing such services.



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Musharaka Sukuk

Musharaka Sukuk



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Issued with the aim of using the mobilized funds for establishing a new project, developing an existing project or financing a business activity on the basis of any of partnership contracts.

- **Participation certificates** – represent projects or activities managed on the basis of Musharaka.
- **Mudaraba Sukuk** – represent projects or activities managed on the basis of Mudaraba.
- **Investment Agency Sukuk** – represent projects or activities managed on the basis of an investment agency by appointing an agent to manage the operation.

Musharaka Sukuk



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- Every subscriber can be given a Musharakah certificate, which represents his proportionate ownership in the assets of the Musharakah.
- Certificates can be bought and sold in the secondary market.
- **Profit** earned by the Musharakah is shared according to an agreed ratio whereas **Loss** is shared on pro rata basis.
- A Takaful Reserve (profit equalization reserve) can be created during the tenor to mitigate the risk of loss for the Sukuk holders.

Musharaka Sukuk



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Musharaka based on Shirkat ul Milk

- ✓ It involves taking share in the ownership of a specific asset and then gradually transferring complete ownership to the other partner.
- ✓ Investors' share can be securitized for the issuance of Sukuk

Three components

- Joint ownership of the Investors and the Issuer
- Issuer as a lessee uses the share of the Investor
- Redemption of the share of the Investor by the Issuer



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Murabaha Sukuk

Murabaha Sukuk



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- 'Murabaha' is a specific kind of sale where the commodities are sold on a cost-plus basis.
- Murabaha Sukuk are issued for the purpose of financing the purchase of goods through Murabaha so that the certificate holders become the owners of the Murabaha commodity.
- Murabaha is a transaction, which **cannot** be used for creating a negotiable instrument to be sold and purchased in secondary market.

Murabaha Sukuk



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- The reason is that Murabaha Sukuk(after sale of goods) only represents a monetary debt receivable from the client in the form of Murabaha price
- A mixed portfolio consisting of a number of transactions including Murabaha, may issue negotiable certificates subject to certain conditions.



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Salam Sukuk

Salam Sukuk



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- Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. Here the price is cash, but the supply of the purchased goods is deferred.
- The holders of salam Sukuk are the owners of the salam goods and are entitled to the sale price of the certificates or the sale price of the salam goods sold, if any.
- It is not permissible to trade in Salam Sukuk during the term of the Sukuk since the underlying asset is a debt created through advance payment of the sale price.



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THANK YOU