

# Developments in the Global Sukuk Market

**IIFM Awareness Seminar on Islamic Finance Hosted by Bank Indonesia**

**Tuesday, 12 November 2019**

**Multi Function Room, 3<sup>rd</sup> Floor, Building B, Bank Indonesia, Jakarta**

**Ijlal Ahmed Alvi**

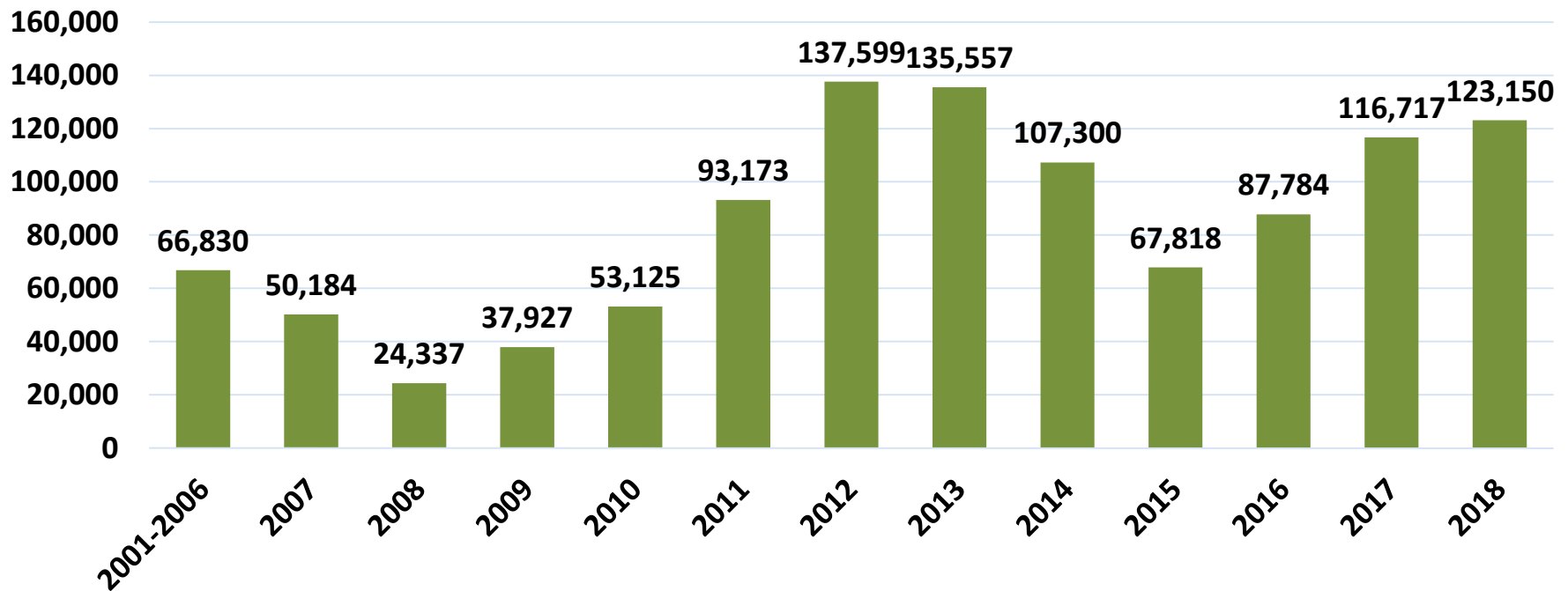
**Chief Executive Officer**

**IIFM**

## Total *Sukuk* Issuances



## Total **GLOBAL** Sukuk Issuances (Jan 2001 - Dec 2018) - All Tenors, All Currencies (in USD Millions)

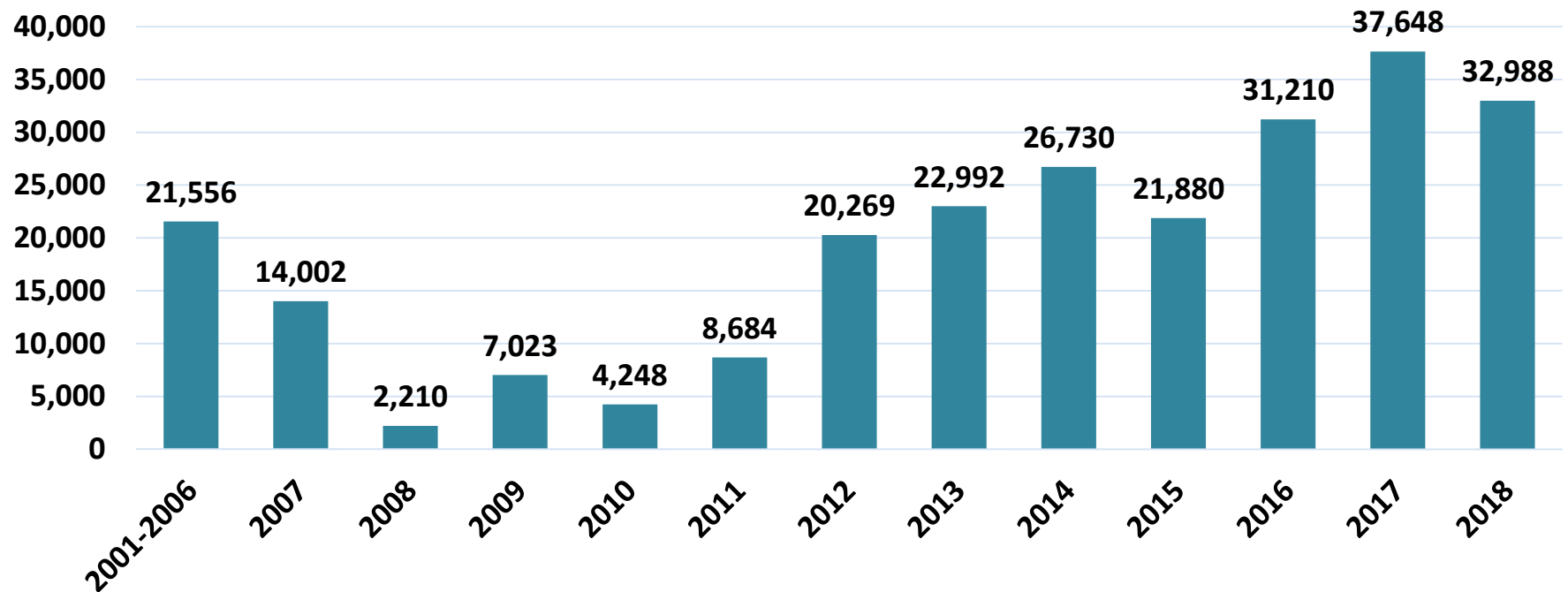


➤ Total Global Sukuk Issuance USD 1,101,502 Million

Source: IIFM Sukuk Database



## Total **INTERNATIONAL Sukuk** Issuances (Jan 2001 - Dec 2018) - All Tenors, All Currencies (in USD Millions)

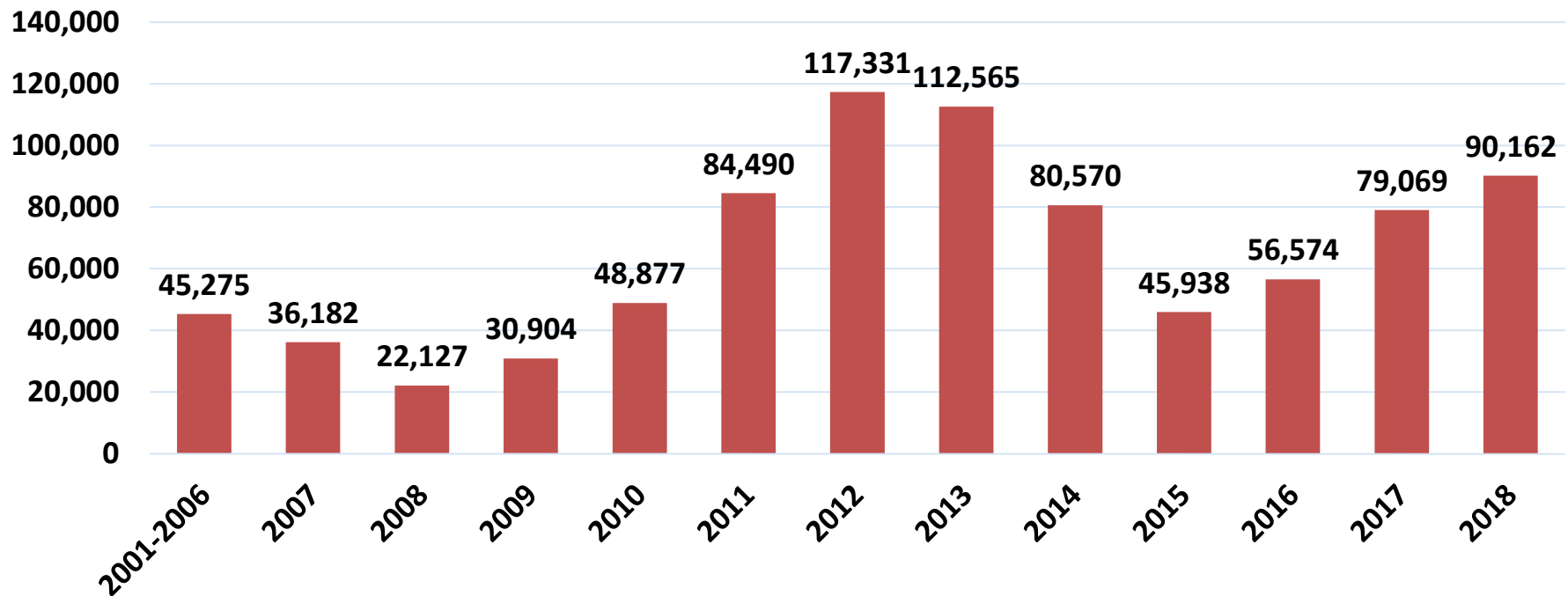


➤ Total International Sukuk Issuance USD 251,440 Million

Source: IIFM Sukuk Database



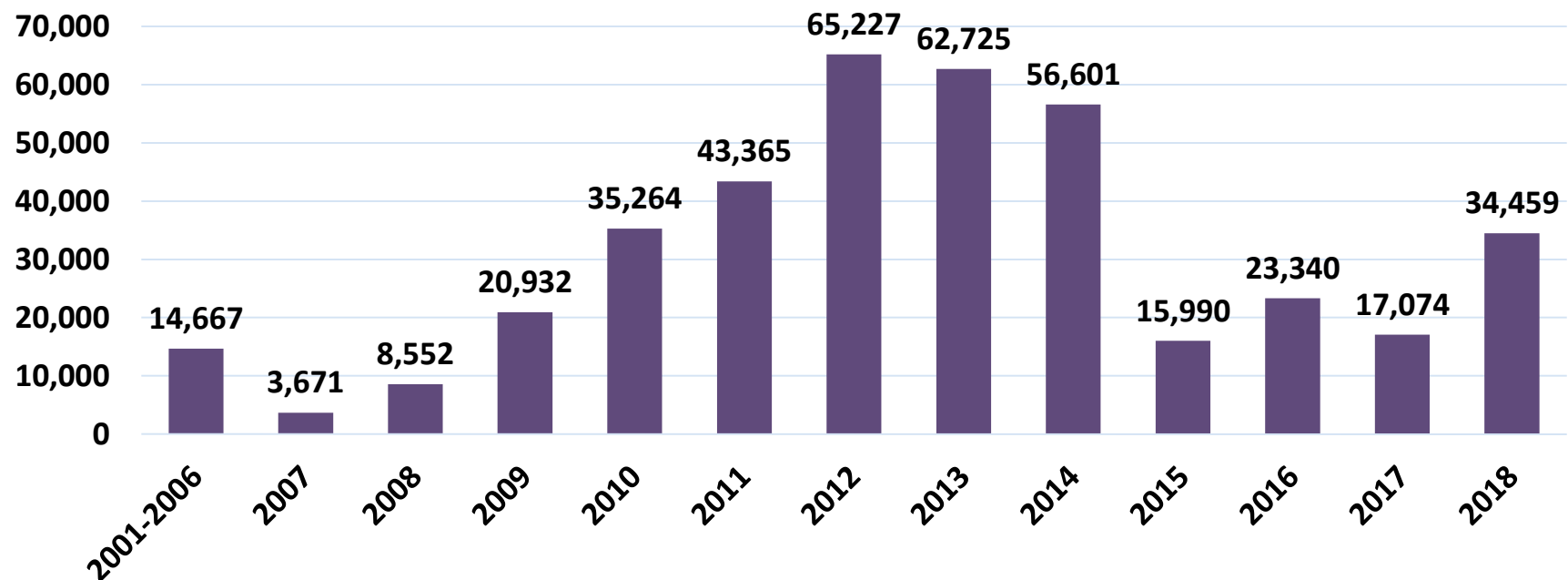
## Total **DOMESTIC** Sukuk Issuances (Jan 2001 - Dec 2018) - All Tenors, All Currencies (in USD Millions)



➤ Total Domestic Sukuk Issuance USD 850,062 Million

Source: IIFM Sukuk Database

## Total SHORT-TERM (GLOBAL) *Sukuk* Issuances (Jan 2001 - Dec 2018) - All Currencies, Tenor 12 Months or Less, in USD Millions

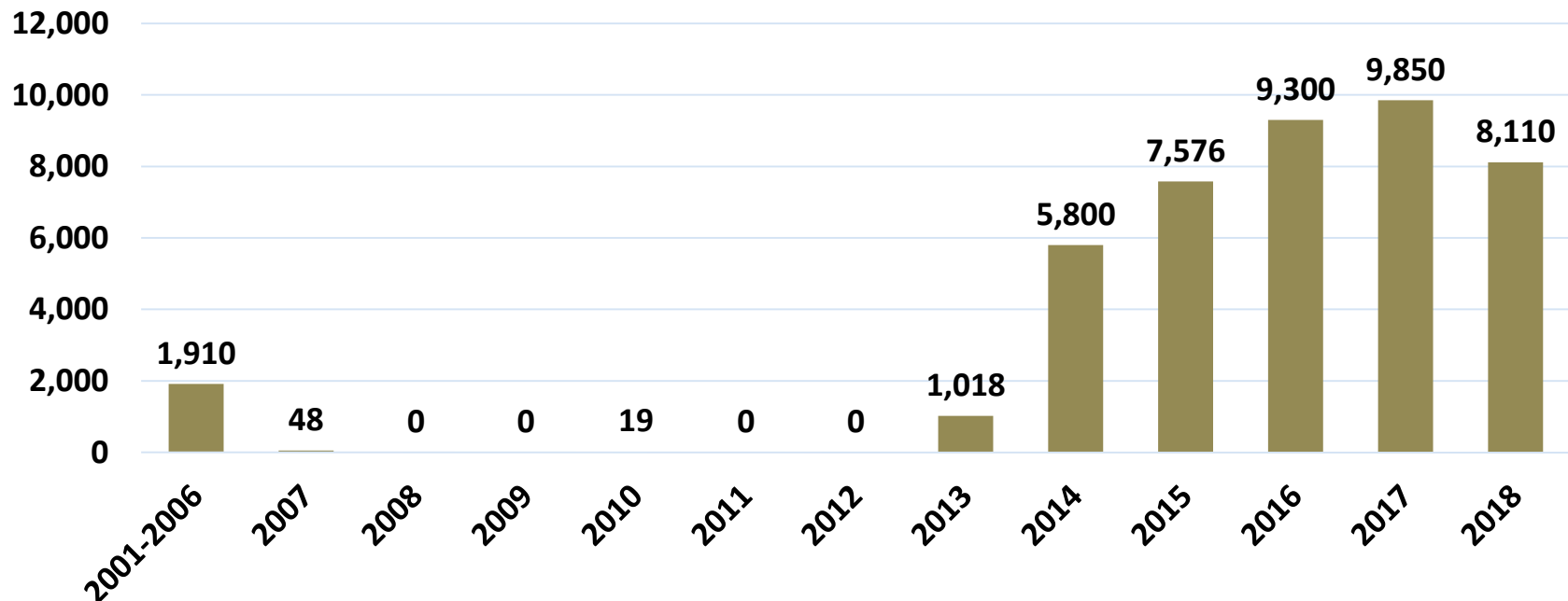


➤ Total Global Short Term *Sukuk* Issuance 401,869 Millions

Source: IIFM *Sukuk* Database



**Total SHORT-TERM (INTERNATIONAL ) Sukuk Issuances (Jan 2001 – Dec 2018)**  
**- All Currencies, Tenor 12 Months or Less, in USD Millions**

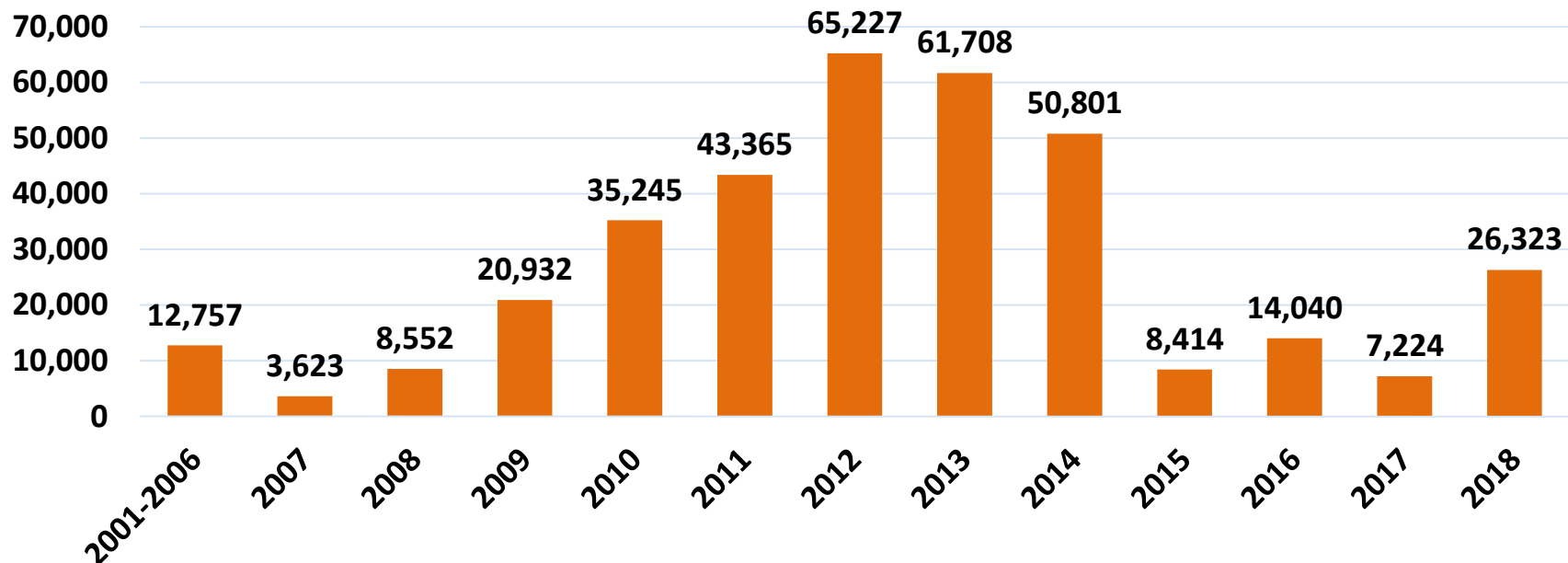


➤ **Total International Short Term Sukuk Issuance 43,631Millions**

Source: IIFM Sukuk Database



**Total SHORT-TERM (DOMESTIC) *Sukuk* Issuances (Jan 2001 – Dec 2018)**  
**- All Currencies, Tenor 12 Months or Less, in USD Millions**



➤ **Total Domestic Short Term *Sukuk* Issuance 358,211Millions**

Source: IIFM *Sukuk* Database



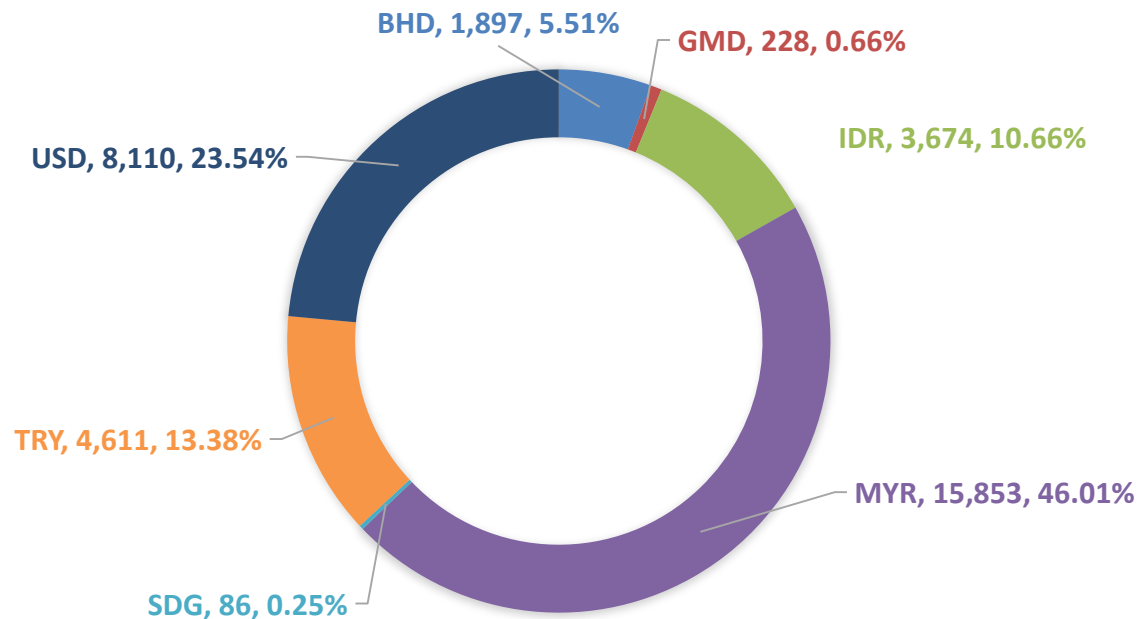


**Total SHORT-TERM (GLOBAL) Sukuk Issuances (Jan 2001 – Dec 2018)**  
– All Currencies, Tenor 12 Months or Less, in USD Millions

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Brunei Darussalam	136	8,571	2.13%
Bangladesh	4	37	0.01%
Indonesia	77	7,759	1.93%
Malaysia	2,864	342,384	85.20%
Pakistan	8	141	0.04%
Singapore	3	221	0.05%
<b>Total</b>	<b>3,092</b>	<b>359,113</b>	<b>89.4%</b>
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	340	15,995	3.98%
Oman	1	130	0.03%
Saudi Arabia	6	1,301	0.32%
United Arab Emirates	1	100	0.02%
Yemen	1	234	0.06%
<b>Total</b>	<b>349</b>	<b>17,760</b>	<b>4.4%</b>
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	252	365	0.09%
Sudan	21	16,520	4.11%
<b>Total</b>	<b>273</b>	<b>16,885</b>	<b>4.2%</b>
Europe & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	265	8,112	2.02%
<b>Total</b>	<b>265</b>	<b>8,112</b>	<b>2.02%</b>
<b>Grand Total</b>	<b>3,979</b>	<b>401,869</b>	<b>100%</b>



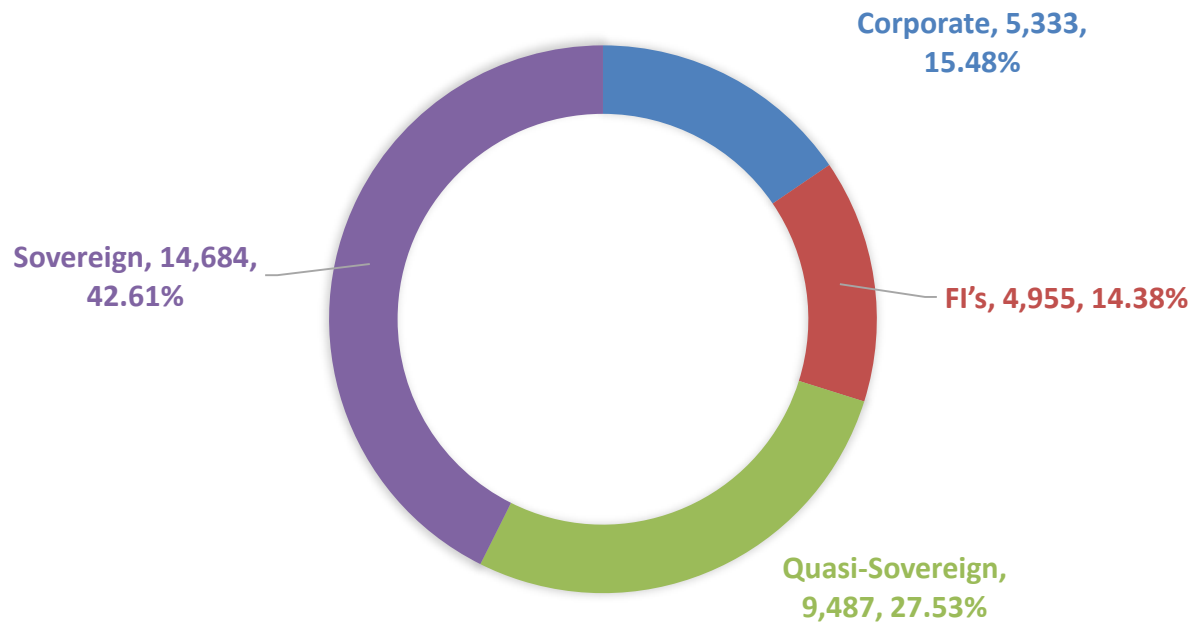
**Total SHORT-TERM (GLOBAL) *Sukuk* Issuances (Jan 2018- Dec 2018)**  
**– All Currencies, Tenor 12 Months or Less, Amount In USD Millions)**  
**Currency Breakdown**



Source: IIFM *Sukuk* Database



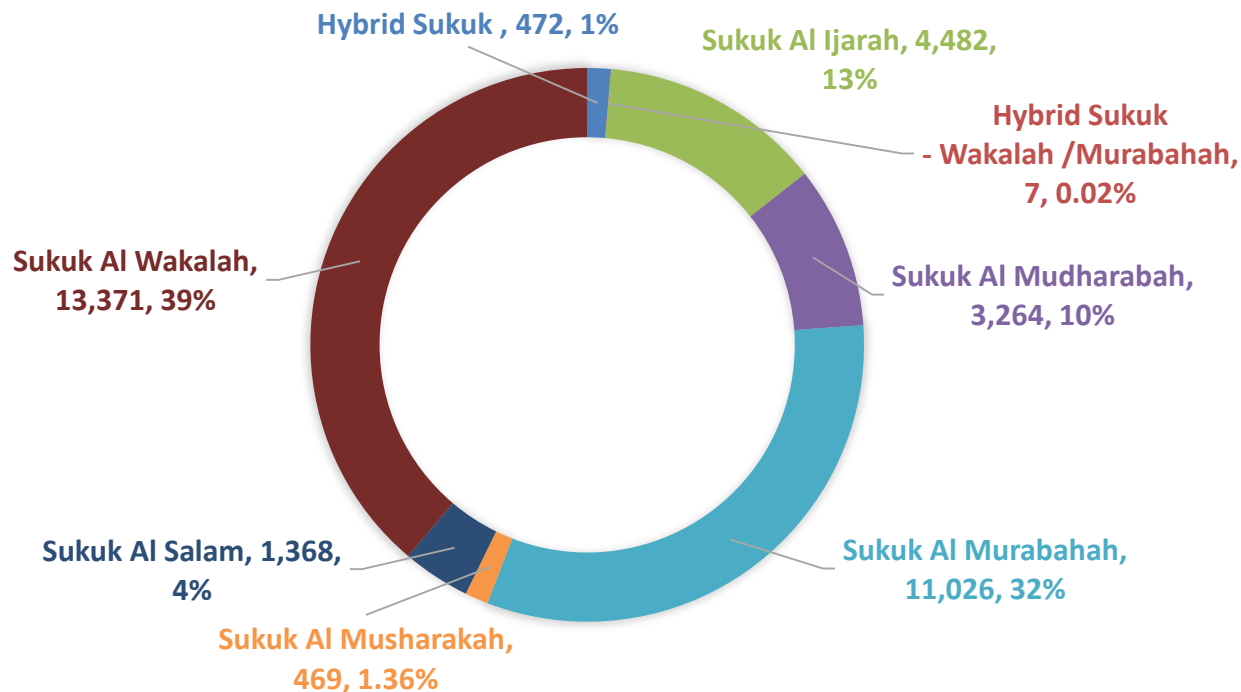
**Total SHORT-TERM (GLOBAL) *Sukuk* Issuances (Jan 2018- Dec 2018)**  
**– All Currencies, Tenor 12 Months or Less, Amount In USD Millions)**  
**Breakdown by Issuer Type**



Source: IIFM *Sukuk* Database



**Total SHORT-TERM (GLOBAL) Sukuk Issuances (Jan 2018- Dec 2018)**  
**– All Currencies, Tenor 12 Months or Less, Amount In USD Millions)**  
**Structure Breakdown**



Source: IIFM Sukuk Database

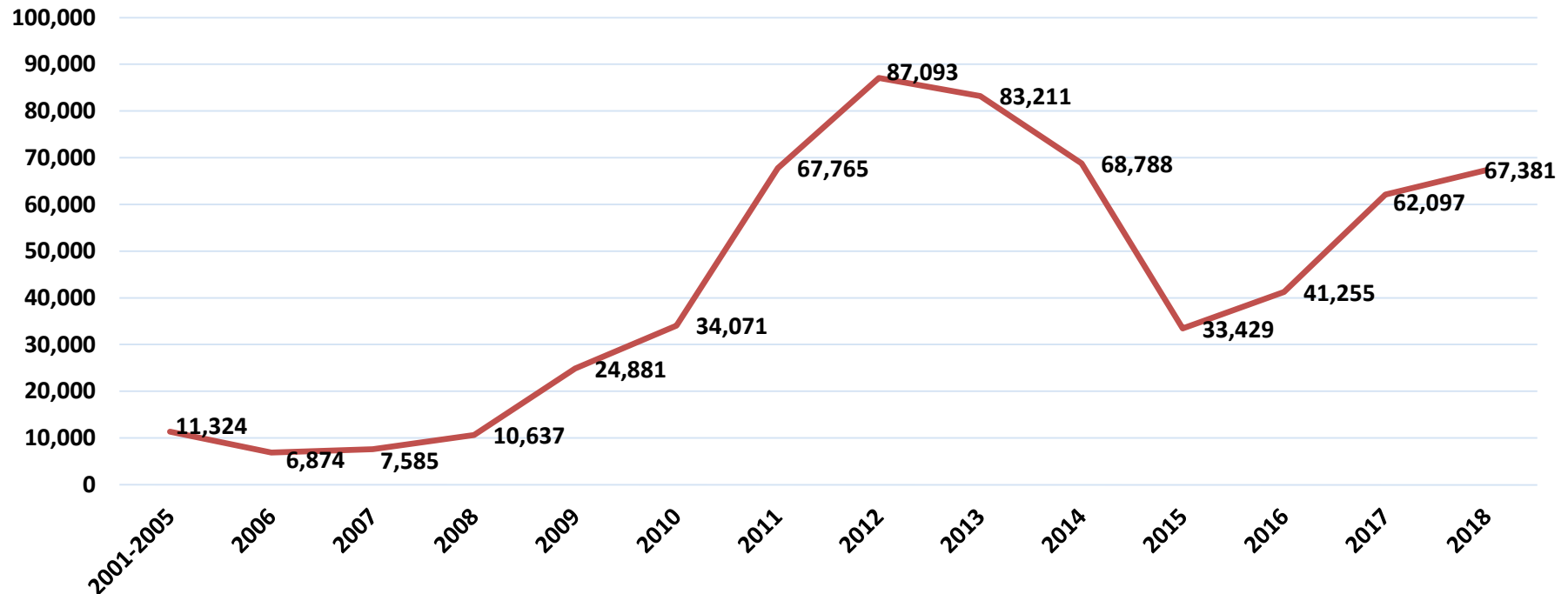


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# Sukuk Issuances Breakup by Issuer Status



## Total GLOBAL SOVEREIGN Sukuk Issuances (Jan2001-Dec2018) - All Tenors, All Currencies (in USD Millions)

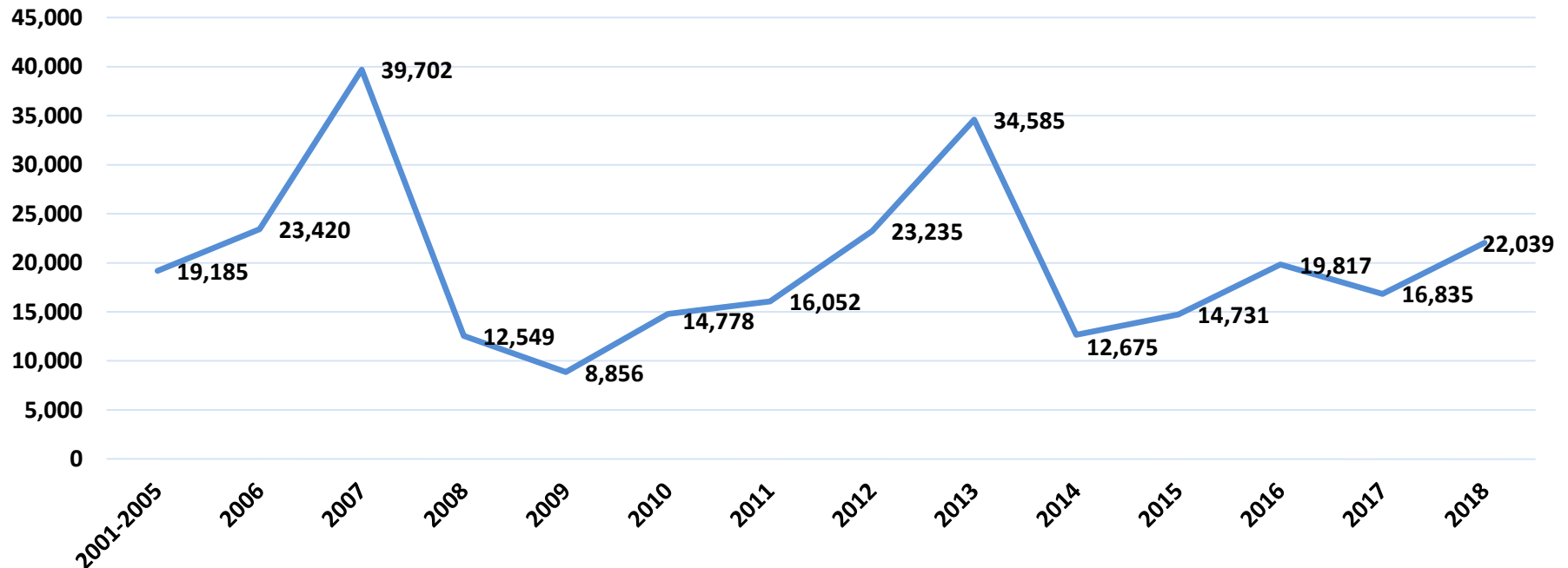


➤ Total Sovereign Sukuk Issuance USD 606,391 Million

Source: IIFM Sukuk Database



## Total GLOBAL CORPORATE *Sukuk* Issuances (Jan2001-Dec2018) - All Tenors, All Currencies (in USD Millions)

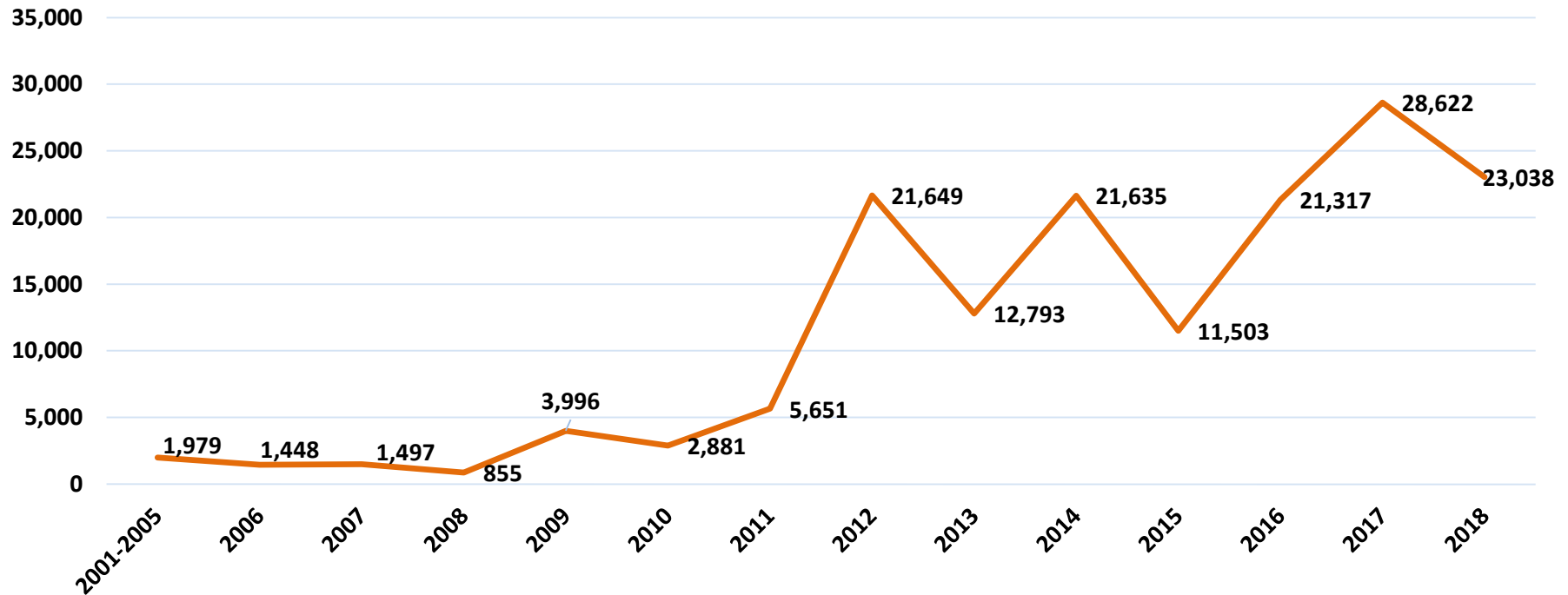


➤ Total Corporate Sukuk Issuance USD 278,459 Million

Source: IIFM Sukuk Database



## Total GLOBAL QUASI-SOVEREIGN *Sukuk* Issuances (Jan2001-Dec2018) - All Tenors, All Currencies (in USD Millions)



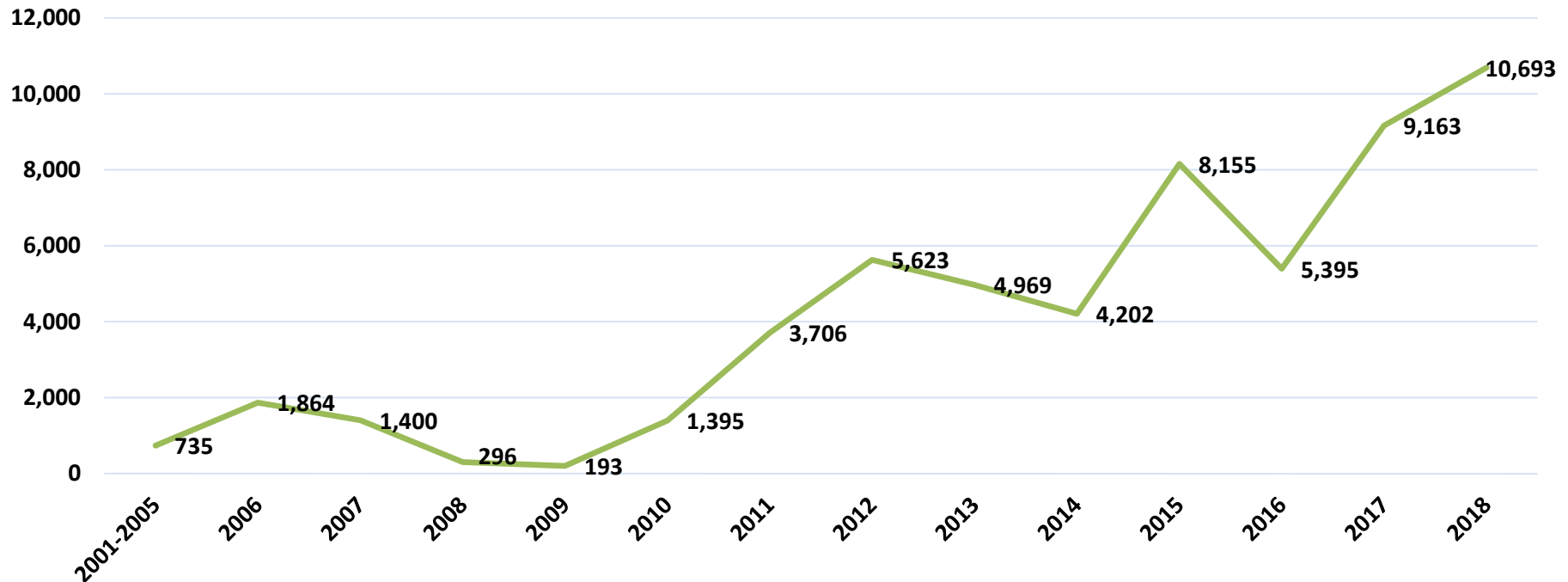
➤ Total Global Quasi-Sovereign Sukuk Issuance USD 158,864 Million

Source: IIFM Sukuk Database





## Total GLOBAL FI's Sukuk Issuances (Jan2001-Dec2018) – All Tenors, All Currencies (in USD Millions)



➤ Total FI's Sukuk Issuance USD 57,789 Million

Source: IIFM Sukuk Database

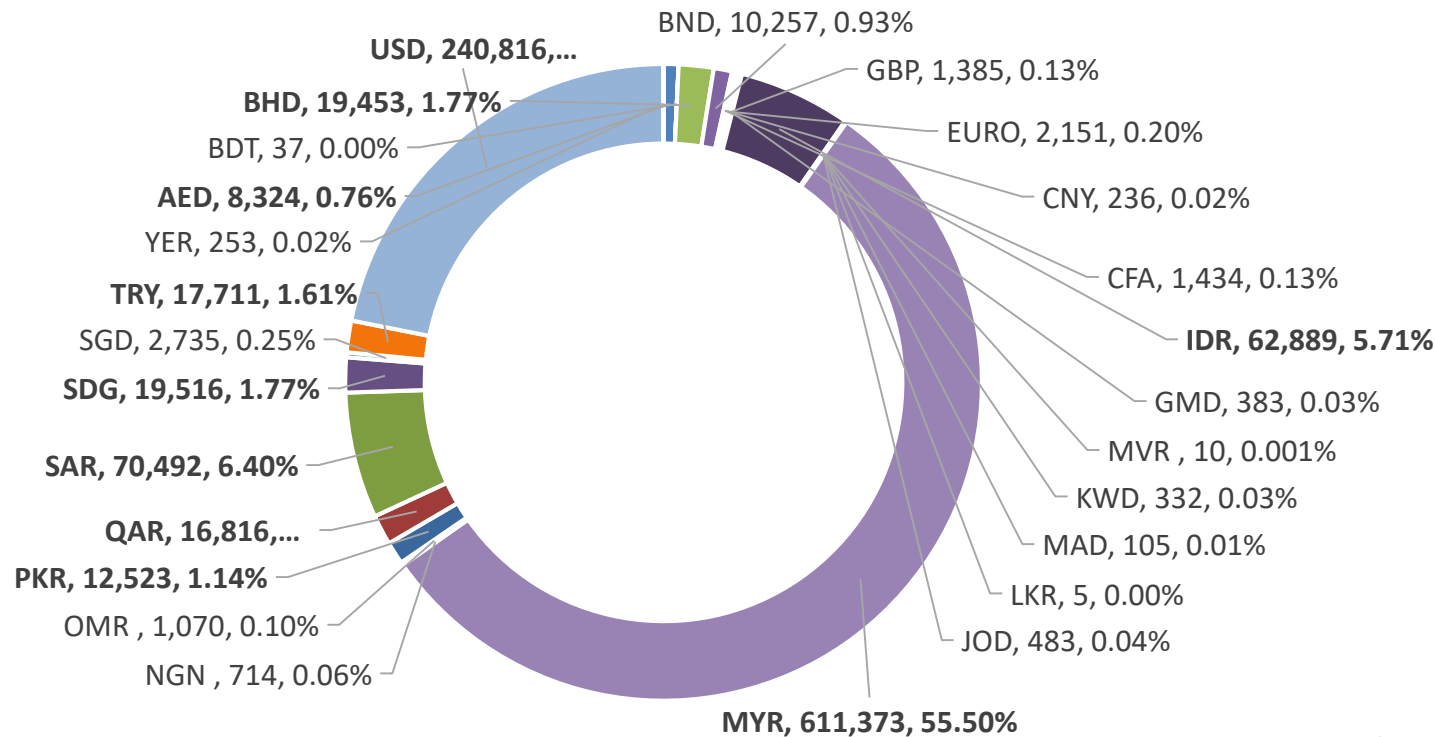


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# Global Sukuk Issuances By Currency Breakdown



**GLOBAL Sukuk Issuances (Jan 2001-Dec2018)**  
**- All Tenors (in USD Millions)**  
**by Currency Breakdown**



Source: IIFM Sukuk Database

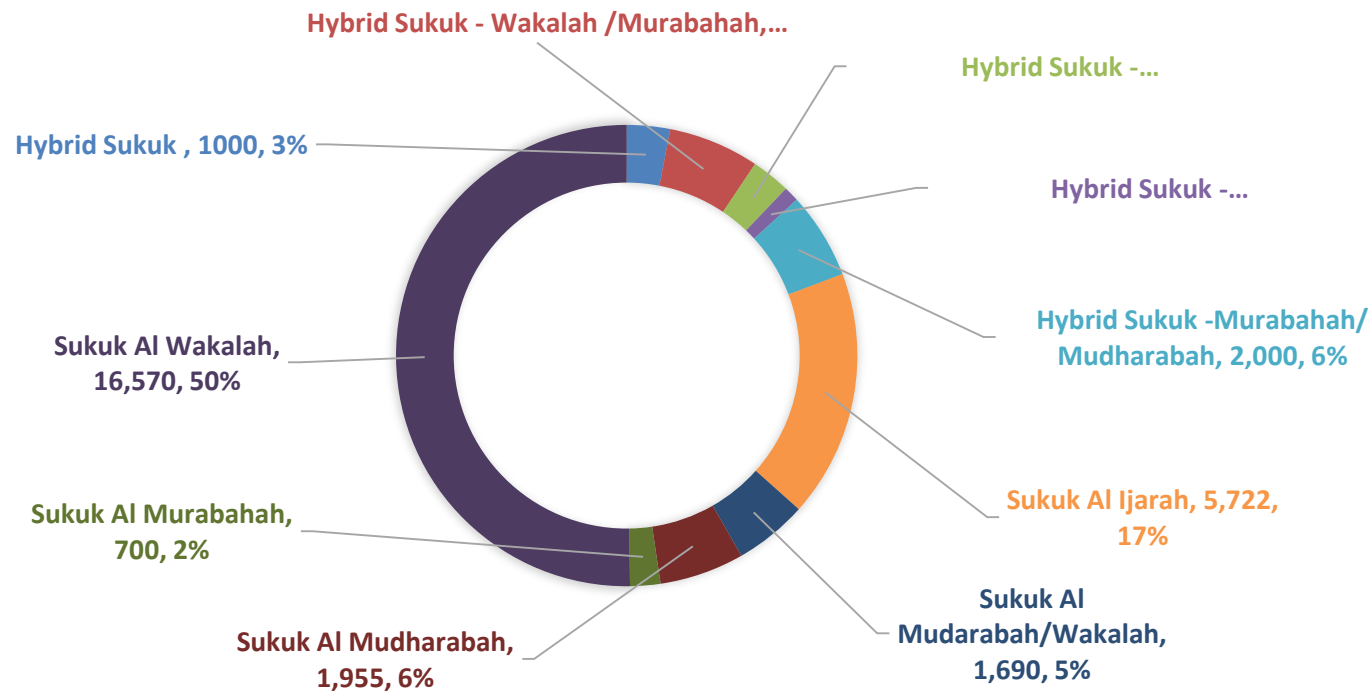


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# Global Sukuk Issuance Breakup by Sukuk Structure



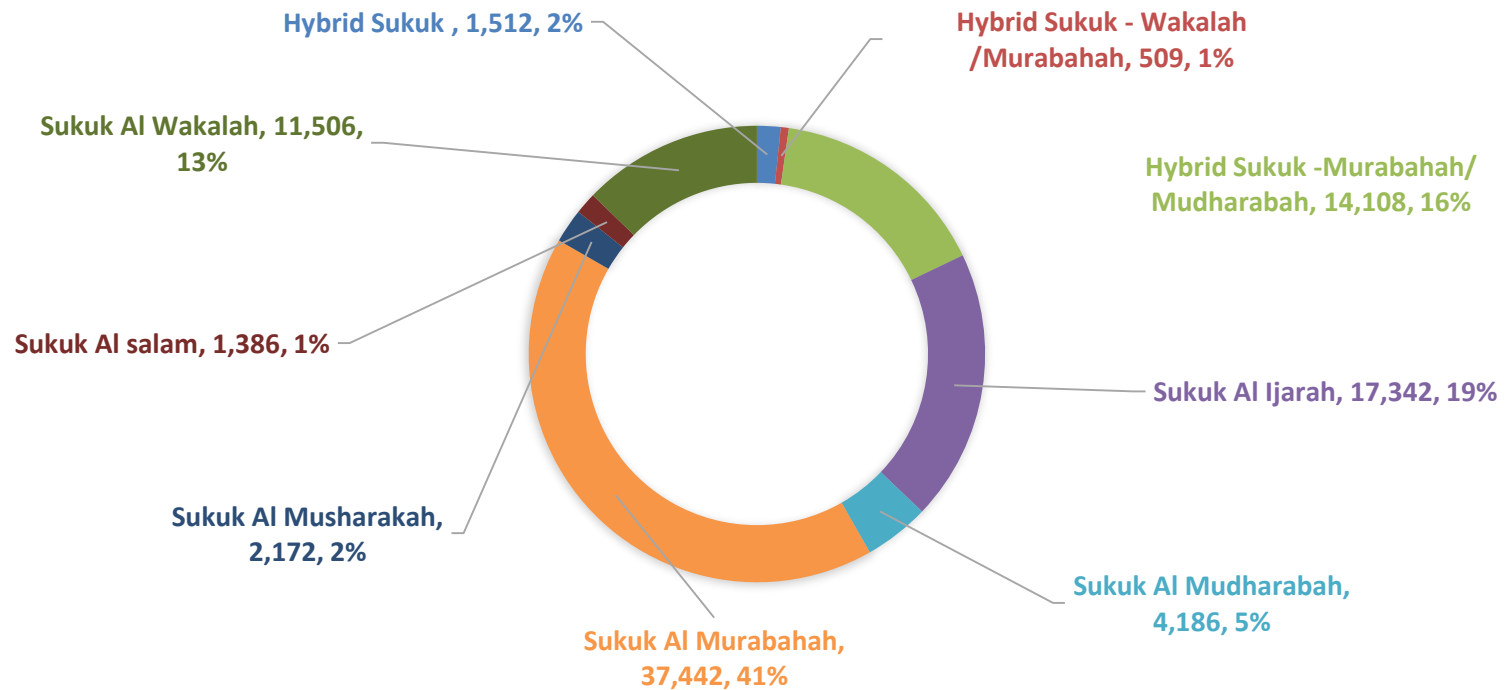
## INTERNATIONAL *Sukuk* Issuances (Jan2018-Dec2018) - All Tenors (in USD Millions) by Structure Breakdown



Source: IIFM *Sukuk* Database



## DOMESTIC *Sukuk* Issuances (Jan2018-Dec2018) - All Tenors (in USD Millions) by Structure Breakdown



Source: IIFM *Sukuk* Database

# Challenges In *Sukuk* Market

## Challenges in *Sukuk* Market

- 1) Limited availability of tangible assets leads to over reliance on certain *Sukuk* structures
- 2) Asset title transfer law particularly for sovereign assets
- 3) Investor's preference and risk appetite tilted towards balance-sheet risk rather than direct risk on a tangible asset
- 4) Utilization of *Sukuk* in liquidity management & product range
- 5) Absence of insolvency & close-out netting law in most of OIC Countries leads to structuring challenges (title transfer versus security interest)



## Challenges in *Sukuk* Market (Continued)

- 6) Legal Framework & Enhancement of *Shari'ah* monitoring (Dana Gas Sukuk legal case)
- 7) Corporate *Sukuk* issuances below par contribution
- 8) Equity linked *Sukuk* issuances to be encouraged i.e Exchangeable *Sukuk*
- 9) Tax Neutrality
- 10) Quasi Sovereign *Sukuk* Implicit and Explicit Government Guarantee

## Solutions to Challenges

- 1) Use of *Sukuk*/Islamic Securities as Collateral
  - IIFM Collateralized Murabahah Standard
  
- 2) Currency and Rate of Return Risk Mitigation
  - IIFM Hedging Standards
  
- 3) Established conventional bond issuance process vs *Sukuk* issuance process (structuring, documentation, market guidelines)
  - IIFM Sukuk Standards and Guidelines Under Development

# **Update on IIFM Standardized Sukuk Documentation Initiative**

## Key Considerations

- Objective: create non-jurisdictional specific, English law benchmark suite of Islamic finance documents for Sukuk Al-Ijarah and Sukuk Al-Mudarabah (both senior unsecured and also a subordinated, Tier 1 issuance)
- Market preference is asset based Sukuk not asset backed
- Defaults and recourse to underlying assets
- Asset backed Sukuk documentation may be considered at a later stage
- Structuring Tier 1 transactions (Mudarabah transactions)
- Governing law
- Shari'ah representation

# Market Update - Shari'ah Representation



Inclusion of standard Shari'ah representation in Sukuk documentation due to market developments:

## Shari'ah Compliance

- Each of the [Company] and the [Trustee] agree that it has accepted the Shari'ah compliant nature of this Agreement; and:
  - a) it shall not claim that any of its obligations under this Agreement (or any provision thereof) is ultra vires or not compliant with the principles of Shari'ah;
  - b) it shall not take any steps or bring any proceedings in any forum to challenge the Shari'ah compliance of this Agreement; and
  - c) to the extent permitted by law, none of its obligations under this Agreement shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that this Agreement is not compliant with the principles of Shari'ah.

# Sukuk Standards

## Sukuk Al-Ijarah (senior unsecured):

- Sale and Purchase Agreement
- Ijarah Agreement
- Service Agency Agreement
- Purchase Undertaking
- Sale and Substitution Undertaking
- Skeleton Prospectus – summary of principal transaction documents and structure diagram and principal cashflows.
- Declaration of Trust

Note: capital market documents (subscription agreement, agency agreement) are **not** part of the current standardisation project; the key is to have a template suite of Islamic finance documentation.

# Sukuk Standards

## **Sukuk Al-Mudarabah (senior unsecured):**

- Mudarabah Agreement
- Skeleton Prospectus – summary of principal transaction documents and structure diagram and principal cashflows
- Declaration of Trust

Note: No purchase undertaking. Take full risk on the performance of the Mudaraba.

## **Sukuk Al-Mudaraba h(Tier 1, subordinated issuance):**

- Mudarabah Agreement
- Skeleton Prospectus – summary of principal transaction documents and structure diagram and principal cashflows
- Declaration of Trust

However, Tier 1 regime is entirely linked to the regulatory regime in the applicable jurisdiction and must tie into Shari'ah requirements of the relevant organisation / jurisdiction.

## Process and Timeline

Clifford Chance appointed to prepare suite of standardised Sukuk documentation.

Working group consisting of financial, legal and Shari'ah institutions to review documents.

### Sukuk Al-Ijarah

- Initial drafts circulated in February 2018 to working group.
- Responses from working group received from April to June 2019.
- Second drafts circulated in October 2018.
- Responses from working group received in January 2019.
- Third drafts circulated in February 2019.
- Working party call on 14 March 2019.
- Responses on third drafts received in March 2019.
- Revised drafts circulated in April 2019 for IIFM Shari'ah guidance process.
- First Shari'ah guidance meeting in July 2019.
- Revised drafts incorporating Shari'ah guidance recommendations circulated in September 2019.
- Shari'ah guidance process to continue in December 2019.



## Process and Timeline

### Sukuk Al-Mudarabah

- Initial drafts were circulated in November 2019.
- Working group comments received March 2019.
- Second drafts circulated in April 2019.
- Working group comments received in July 2019.
- Revised drafts to be circulated in November 2019.
- Working party call and Shari'ah guidance process to follow thereafter with expected completion date of Q1 2020.

### Sukuk market guidelines

- Currently under assessment



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