



SUKUK , an Emerging Asset Class

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DEFINITION

- **AAOIFI Standard 17:** *"investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or in the ownership of the assets of particular projects or special investment activity[...]"*;
- The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) define 14 types of Sukuk, the main ones are:
 - ◆ Ijara Sukuk (leasing) ,
 - ◆ Certificates of ownership of usufructs (e.g. Sukuk Manfa'at Al-Ijara);
 - ◆ Salam Sukuk (deferred commodity delivery);
 - ◆ Istisna'a Sukuk (manufacturing or project finance);
 - ◆ Mudarabah Sukuk (partnership/finance trusteeship);
 - ◆ Murabaha Sukuk (purchase order);
 - ◆ Musharaka certificates (Joint Venture);

Other Variations/Hybrids of SUKUK

- Certificates of ownership of usufructs
 - Existing assets
 - Future assets Services of a specified supplier (present and future)

- General Participation
 - Mushraka
 - Mudaraba
 - Muzara's (Sharecropping)
 - Musa qa (Irrigation)
 - Mugarasa (Agricultural)
 - Concession (see earlier comments on infrastructure/project financings)
 - Salam (commodity)

Unique attributes of SUKUK

- Marketable:
 - Liquid;
 - Easily transferred;
 - Tradable;

- Rateable;

- Can easily be credit enhanced;

- Versatility:
 - Different legal and fiscal domains;
 - Fixed or variable income;
 - Compatibility with Reg S.;
 - Out of the box thinking allowed!!!

SUKUK Compared to Bonds

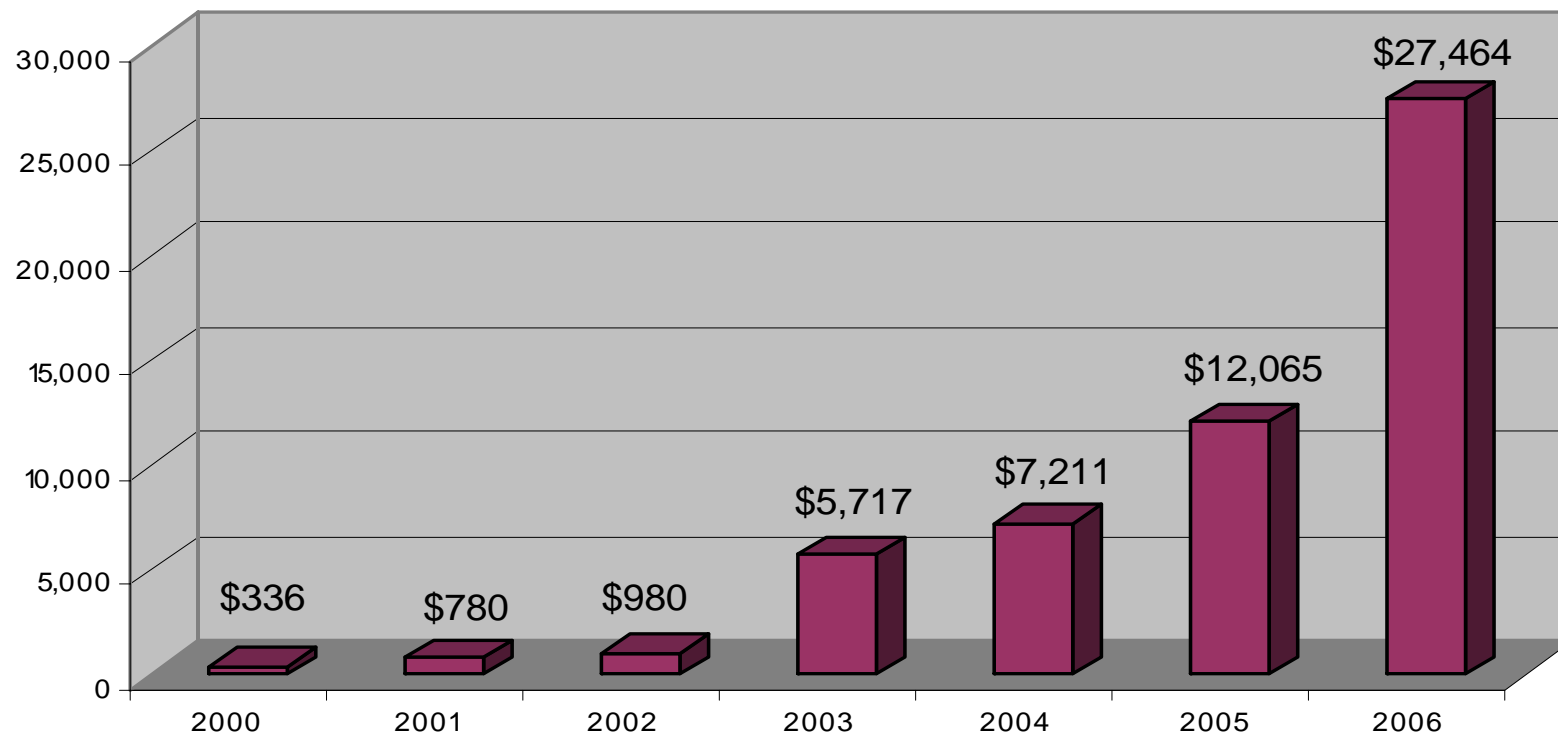
Sukuk	Bonds
Sukuk represent ownership stakes in existing and/or well defined assets;	Bonds represent pure debt obligations due from the issuer;
The underlying contract for a sukuk issuance is a permissible contract such as a lease or any of the other 14 categories defined by AAOIFI;	In a bond, the core relationship is a loan of money, which implies a contract whose subject is purely earning money on money (<i>Riba</i>);
The underlying assets monetised in a sukuk issuance must be Islamically permissible in both their nature and use e.g. a truck would always be an eligible asset but not its lease to a distillery;	Bonds, can be issued to finance almost any purpose which is legal in its jurisdiction;

Sukuk	Bonds
Asset-related expenses may attach to Sukuk Holders;	Bond holders are not concerned with asset-related expenses;
Notwithstanding an obligor's creditworthiness, sukuk prices depend on the market value of the underlying asset;	Bonds depend solely on the creditworthiness of the issuer. (In case of an Issuer's failure, unsecured bondholders join the pool pf of general creditors seeking the assets of a bankrupt company);
The sale of a sukuk represents a sale of a share of an asset;	The sale of a bond is basically the sale of a debt;

	Sukuk	Bonds	Shares
Nature	Not a debt but undivided ownership share in specific assets/projects/services	Debt of Issuer	Ownership share in a corporation
Asset Backed	A minimum of 51% tangible assets (or their contracts are required to back issuance of <i>Sukuk al Ijara</i>)	Generally not required	Not required
Claims	Ownership claims on the specific underlying assets/project/service...	Creditors claims on the borrowing entity, and in some cases liens on assets	Ownership claims on the company
Security	Secured by ownership rights in the underlying assets or projects in addition to any additional collateral enhancements structured	Generally unsecured debentures except in cases such as first mortgage bonds, equipment trust certificates and so on	Unsecured
Principal and Return	Not guaranteed by Issuer	Guaranteed by issuer	Not guaranteed by company
Purpose	Must be issued only for islamically permissible purposes	Can be issued for any purpose	Can be offered for any purpose
Responsibility of holders	Responsibility for defined duties relating to the underlying assets/projects limited to the extent of participation in the issue	Bondholders have no responsibility for the circumstances of the issuer	Responsibility for the affairs of the company limited to the extent of holding in the company

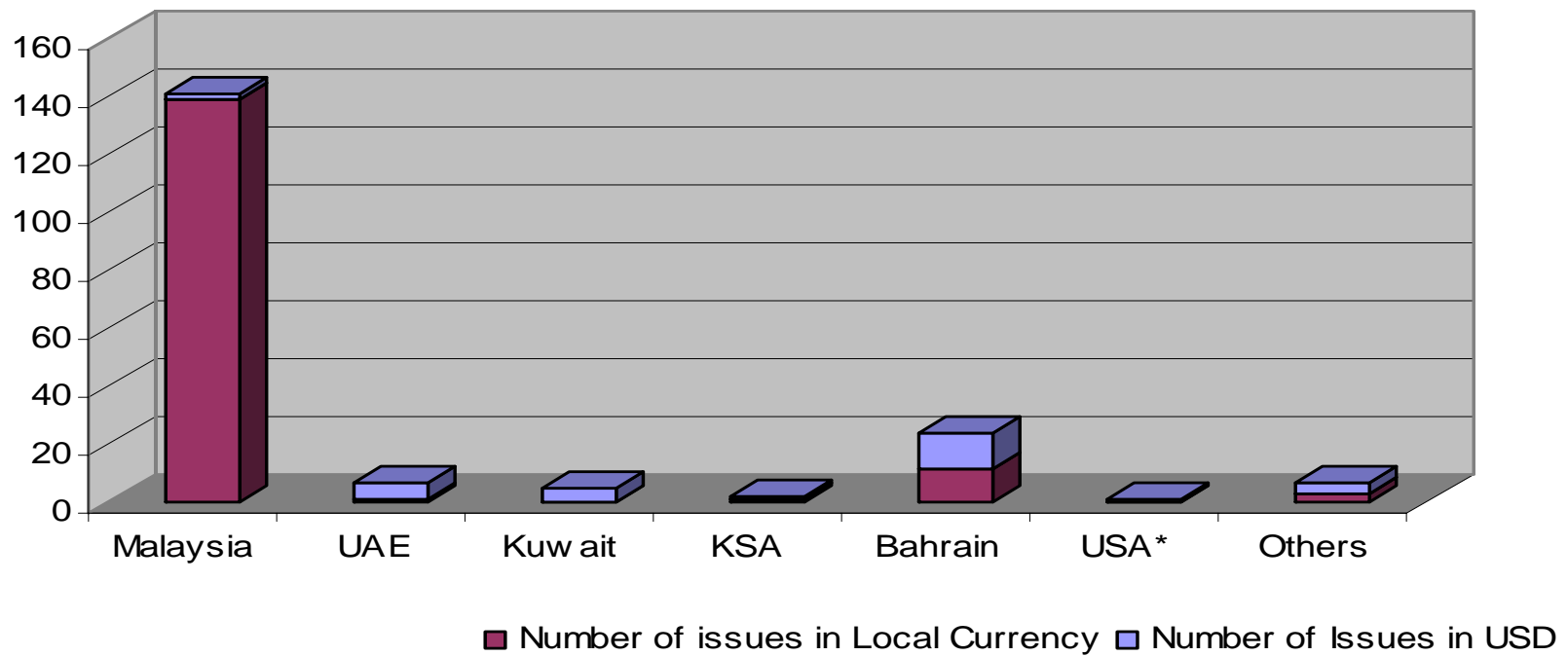
Sukuk Market Overview

Sukuk Market Growth (in USD Million)



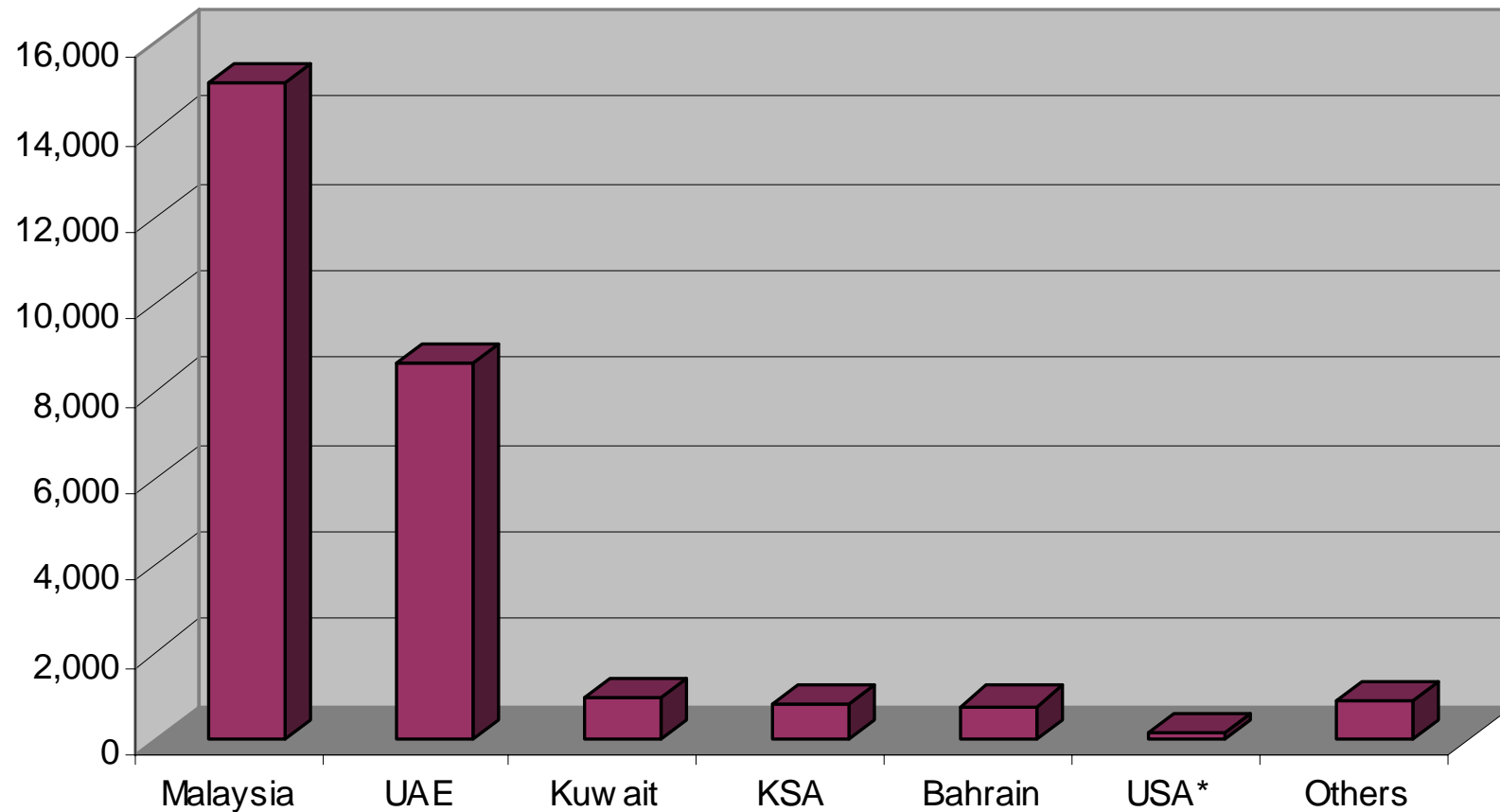
Sukuk Issuances by Country (2006)

(in number of issuances)



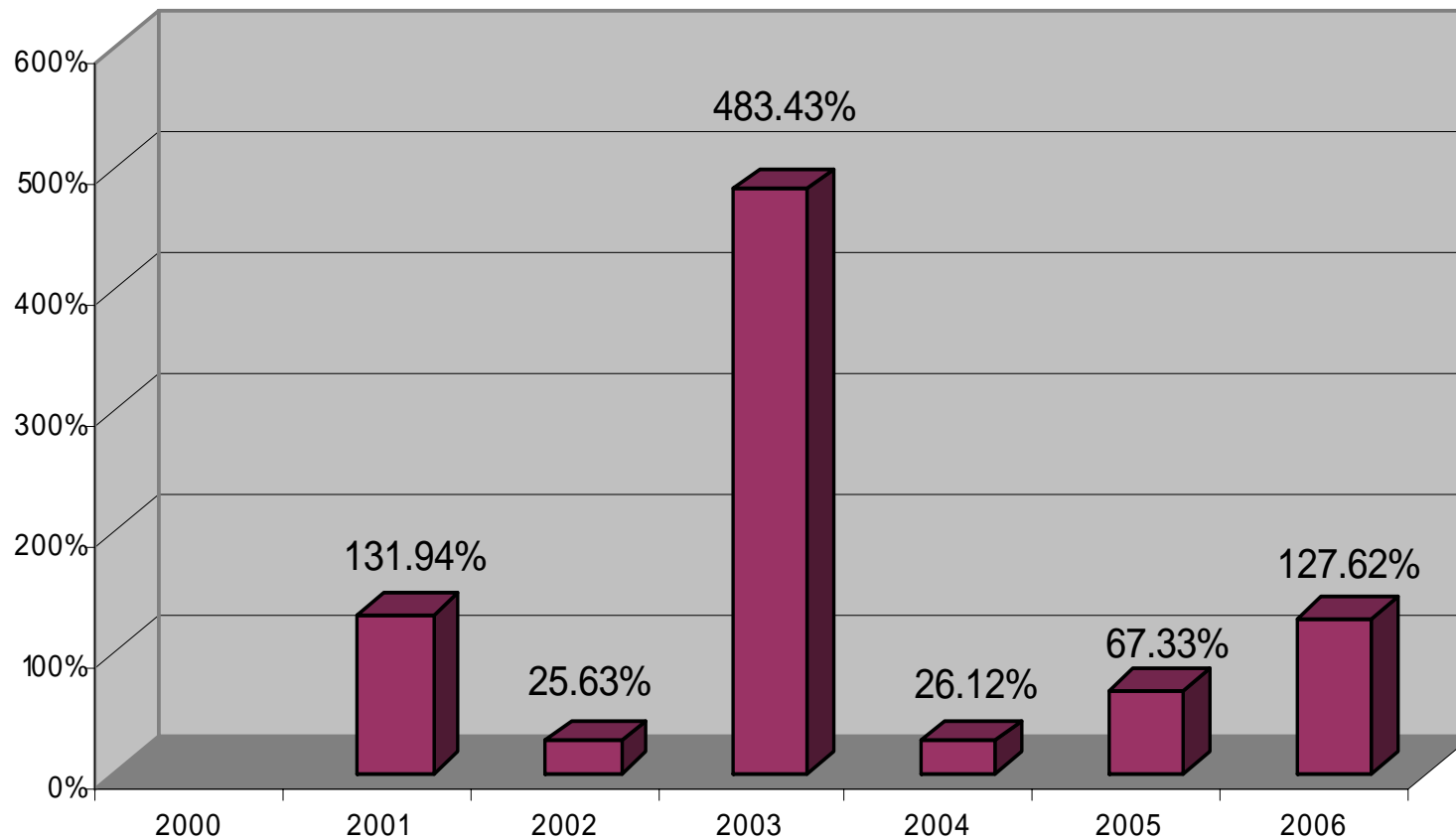
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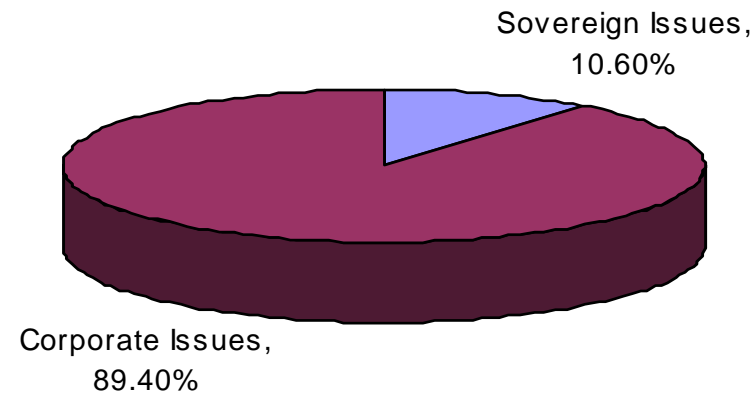
Sukuk Market Growth

(from previous year)



Sovereign Sukuk vs. Corporate Sukuk (2006)

(in USD equivalent)



Benefits of Sukuk Investments

The key benefits of investing in Sukuk instruments:

- ◆ Sukuk are priced competitively in line with conventional bond Issues.
- ◆ Sukuk generally have better risk profile
- ◆ Sukuk are tradable and fill the existing need for Shariah compatible tradable instruments
- ◆ Short Term Islamic Financial Market can benefit from Sukuk

Last years' challenges?

- ◆ Limited number of issuance that constrains active trading of these instruments in the secondary market.
- ◆ Buy and Hold Strategy by major investors of Sukuks due to lack of alternative instruments in this asset class
- ◆ Lack of harmonization in existing Islamic securitization products and difference of opinions among various Shariah scholars
Regulatory, Legal, Shariah & Other Issues
- ◆ Lack of regulatory support from key jurisdictions
- ◆ Substantially more documentation and legal due diligence requirement for an Islamic issue
- ◆ Limited number of qualified personnel well versed in capital market issues both from Shariah and commercial perspective

The East Cameron Experience

- Why did a US issuer consider a \$170M Sukuk financing?
- What were the alternatives?
- What were the challenges?
- Who were the investors and why?
- What does it all mean?

Are Sukuks Global yet?

- Sukuks are *the* Shariah security that can be understood by the capital markets.
- Sukuks are *the* Shariah fixed income solution
- Sukuks spread have reacted to the sub prime credit crunch
- Sukuks are *the* catalyst that has put Shariah finance on the global capital markets map

The Future

- All challenges will be overcome by the realities of demand and supply as bankers like me and you go out and find new ways to get it done
- Banks and investors will use Sukuk instruments to manage liquidity
- Tenors will get shorter and longer
- Sovereigns (UK) will initiate in jurisdictions that are new to Sukuk
- Corporate issuers including project financing will form the bulk of issuers in the market
- Sukuks will expand the limited horizon of Shariah investment products and asset classes.
- The solution is here! DIFC is where this asset class should thrive and evolve globally



Ibrahim Mardam- Bey

- ◆ Ibrahim Mardam-Bey is the co-founder and Chief Executive Officer at Siraj Capital Ltd and a Senior Strategic Advisor and a Member of the Board of Directors of BSEC Bemo Securitisation SAL. Mr. Mardam-Bey possesses a broad range of skill sets, competencies and experiences unique in the international finance, investment banking and Islamic Finance world. As an executive he has held numerous senior positions, as an entrepreneur he has been a principal in several successful ventures. In addition to his operating duties at Siraj Capital; Ltd. Mr. Mardam-Bey also maintains an active role in corporate governance and public speaking.
- ◆ Mr. Mardam-Bey has written and contributed on topics of international finance, Islamic Banking and Sukuk, and has been featured in the following publications: Euromoney, Banker Middle East, Sukuk Insider and others. He has recently authored a chapter in Euromoney's published book entitled "Islamic Retail Banking and Finance: Global Challenges and Opportunities. Mr. Mardam-Bey is a member of, the Arab Bankers Association of North America, the London based Arab Bankers Association, and Young Arab Leaders. Mr. Mardam-Bey has received numerous business and professional recognitions and awards for his pioneering work on several international Sukuk transactions.
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