

The Global Sukuk Market: Developments and Prospects

DIFC Forum

Dubai – 14th of May - 2007

Armen V. Papazian, PhD

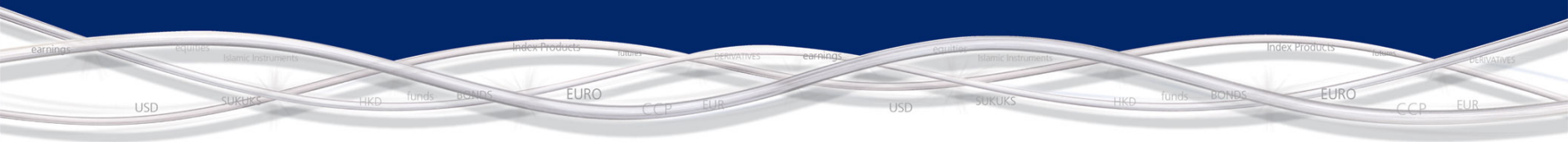
**Senior Vice President
Innovation and Development**



DIFX | Dubai International Financial Exchange

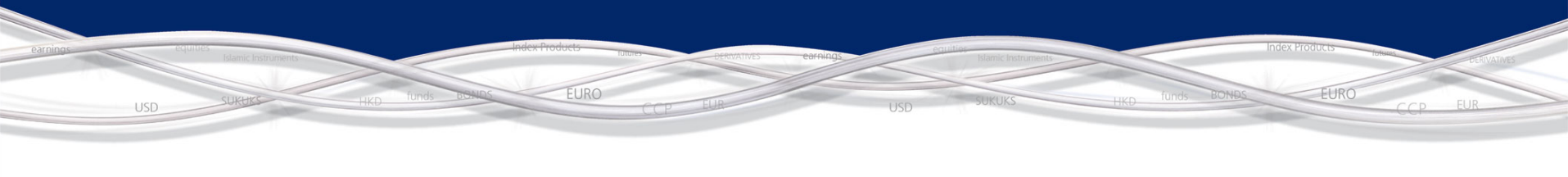
OUTLINE

- **The Global Sukuk Market**
- **Shariah Compliant Valuation?**
- **A Shariah Compliant Discount Rate?**
 - **A Sukuk Yield Curve?**
- **A Framework for the Future**



THE GLOBAL SUKUK MARKET

Data



The numbers and values reported here have been collected from well known Services such as ZAWYA and IFIS, and complemented with other direct sources: Stock Exchanges, Investment Banks, Primary Issuers, Securities Commissions...

Most importantly, we have individually verified and checked our data entries. When necessary, through direct communication with the relevant entities involved in the issue.

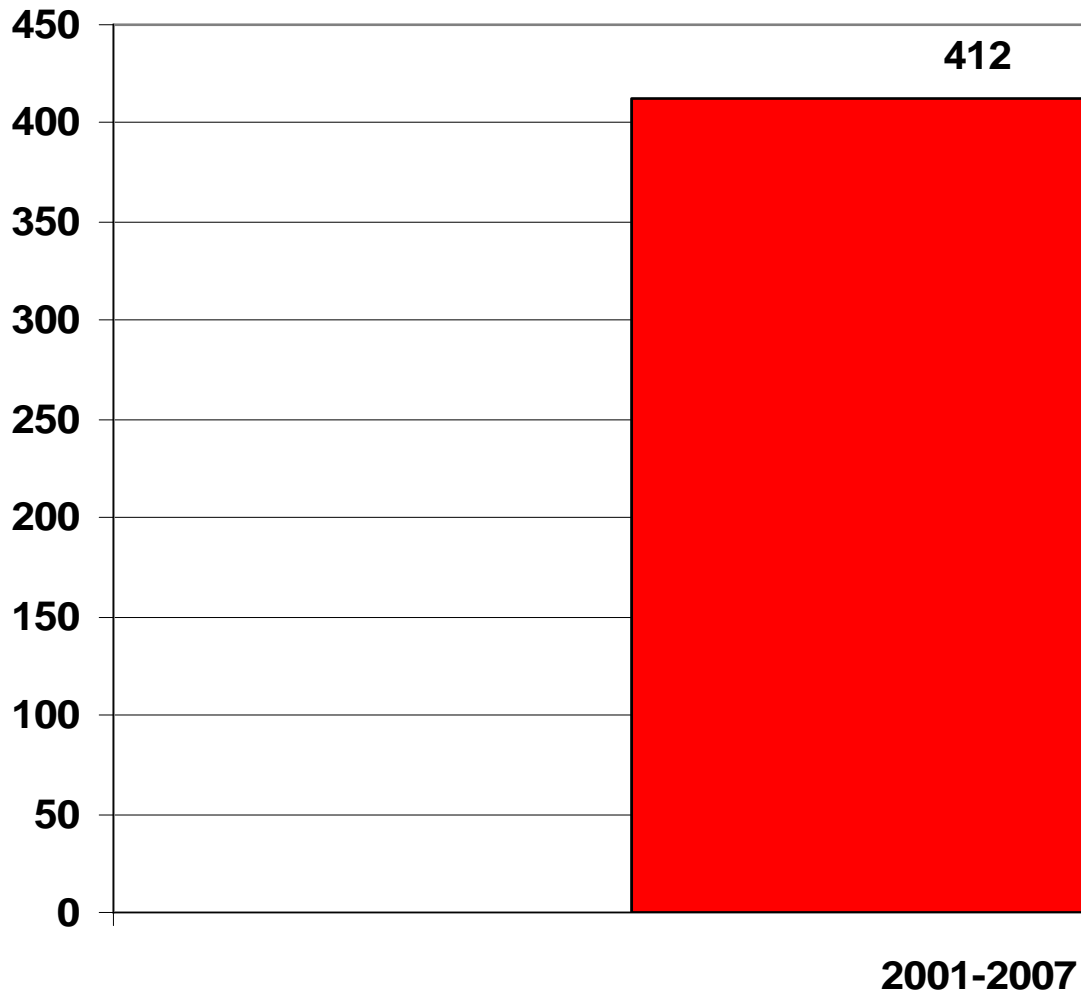
The Data has been collected and put together by DIFX researchers on behalf of The Department of Innovation and Development.

Our Confidence Level: 95%

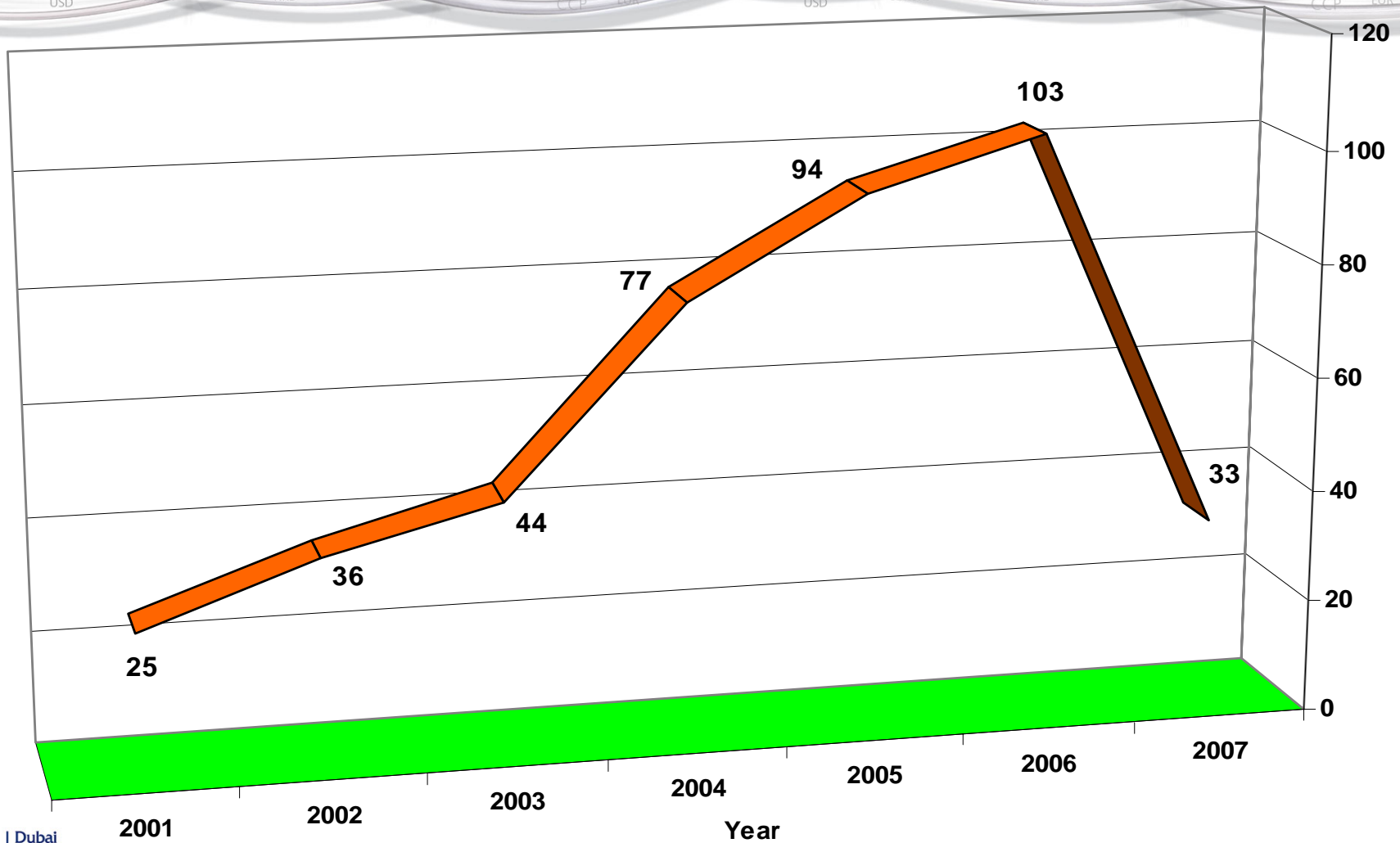
Methodology

- **All issues reported here are issued Sukuks. We do not take into account announced or rumored Sukuks.**
- **The list includes Sukuks that have already matured.**
- **The year 2007 includes the months of January to April.**
- **If part of the same offering circular or principal term sheet, the tranches are clubbed together as one issue even if with different maturities and yields.**
- **The US \$ values of Sukuks denominated in a local currency were found by using the average monthly exchange rate of the month during which the Sukuk was issued.**

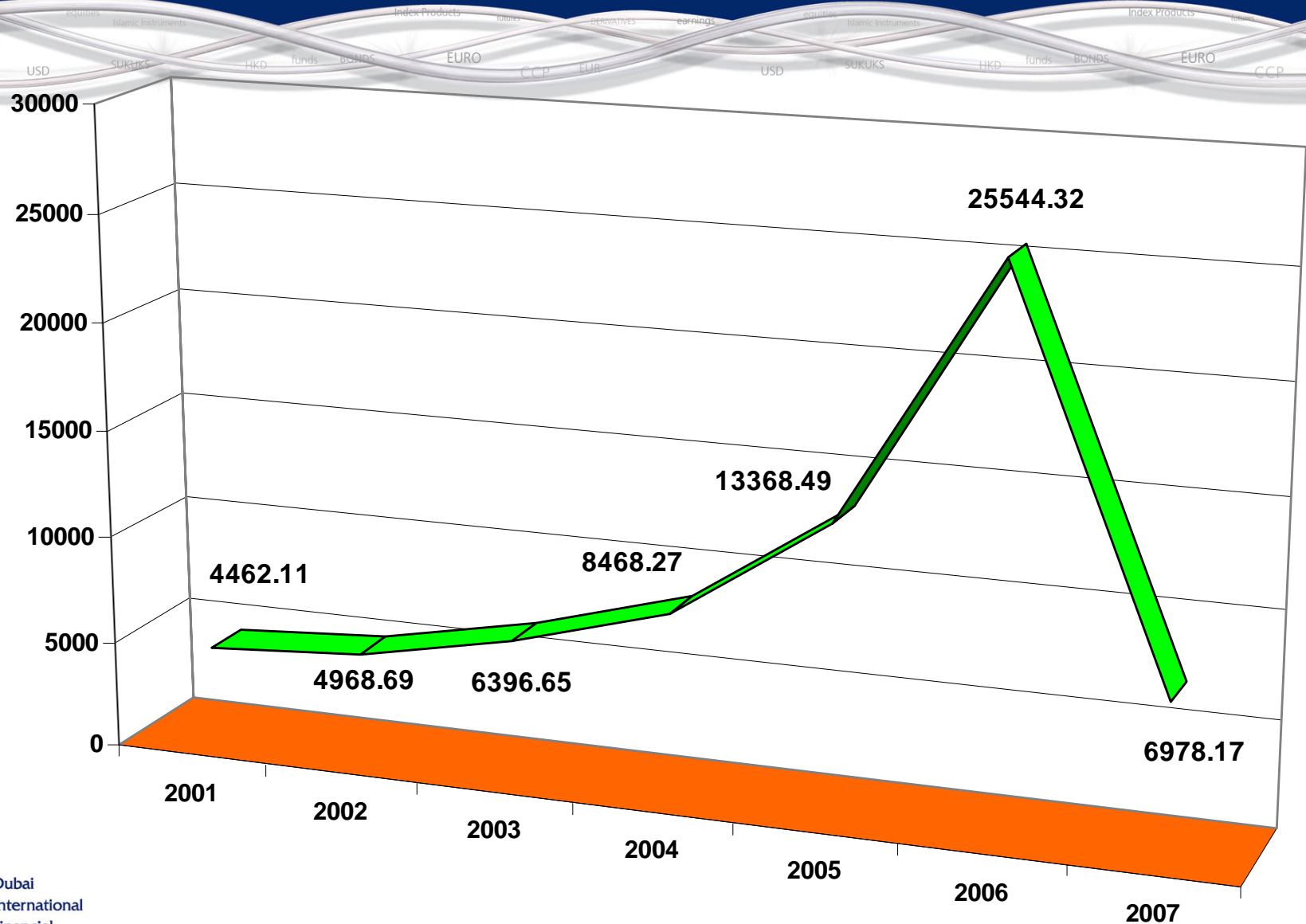
Number of Sukuks – Worldwide – (2001- 2007)



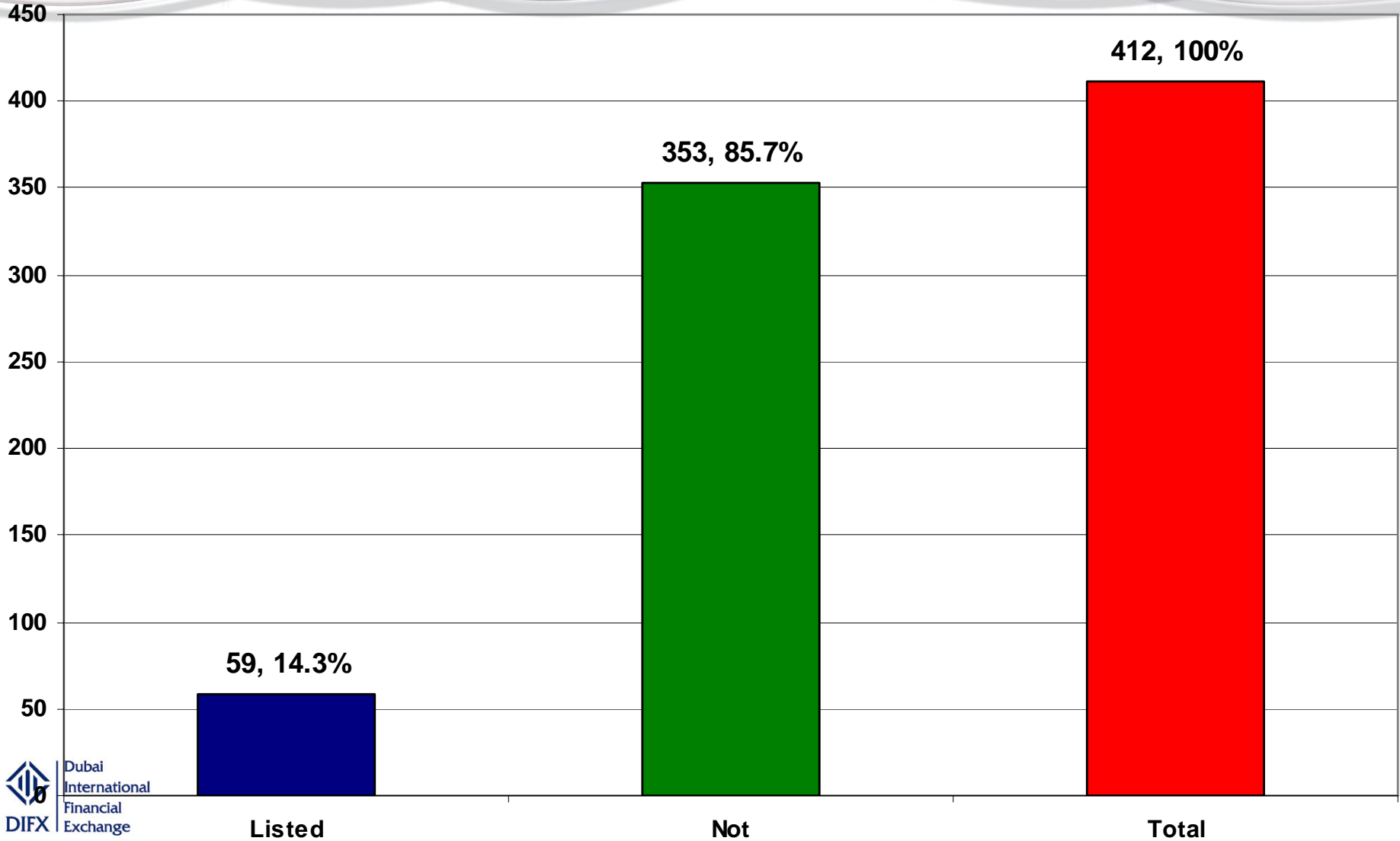
Total Number of Sukuks – Per Year - Worldwide



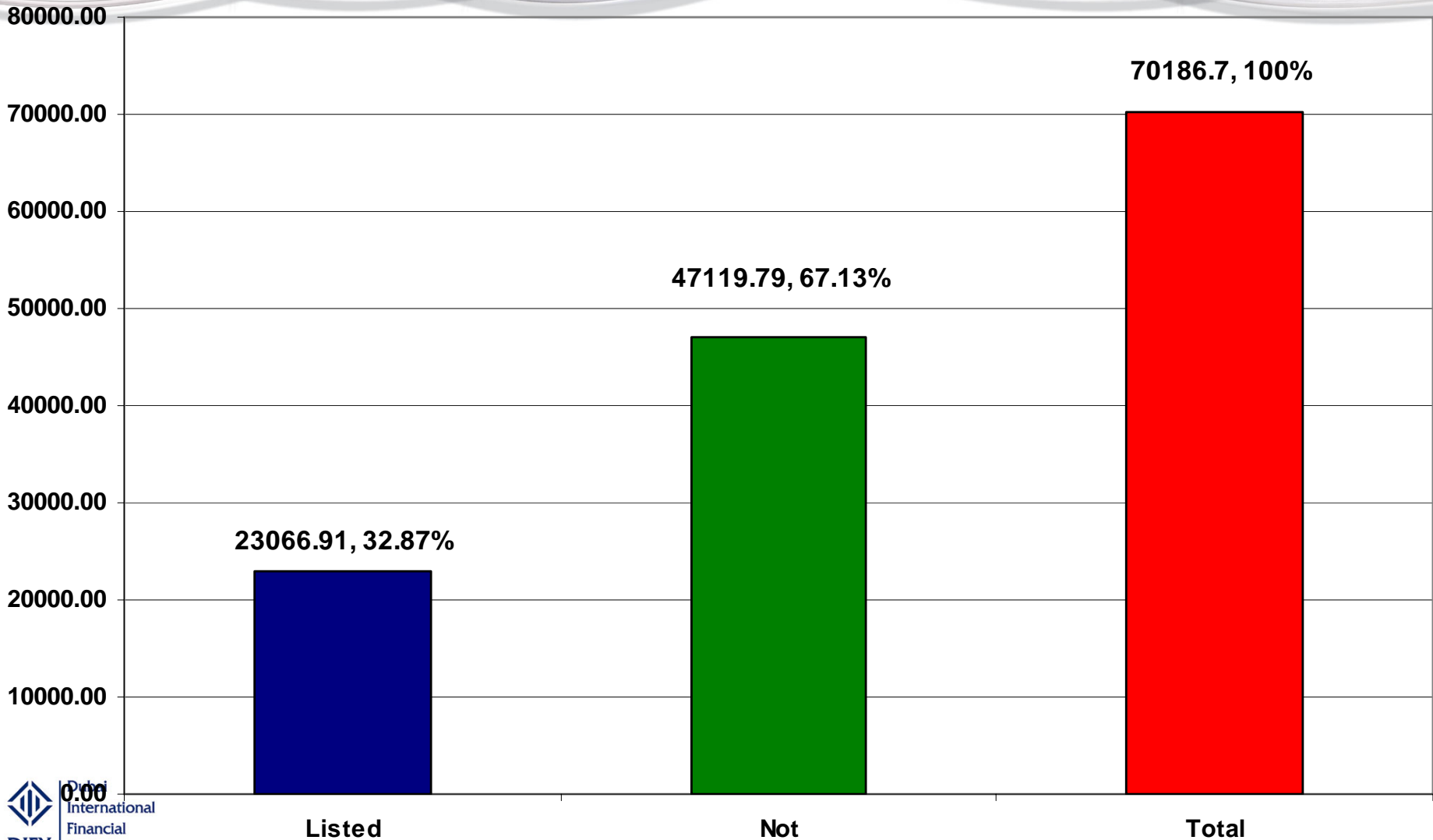
Total Sukuk Values (USD millions) - Per Year - Worldwide



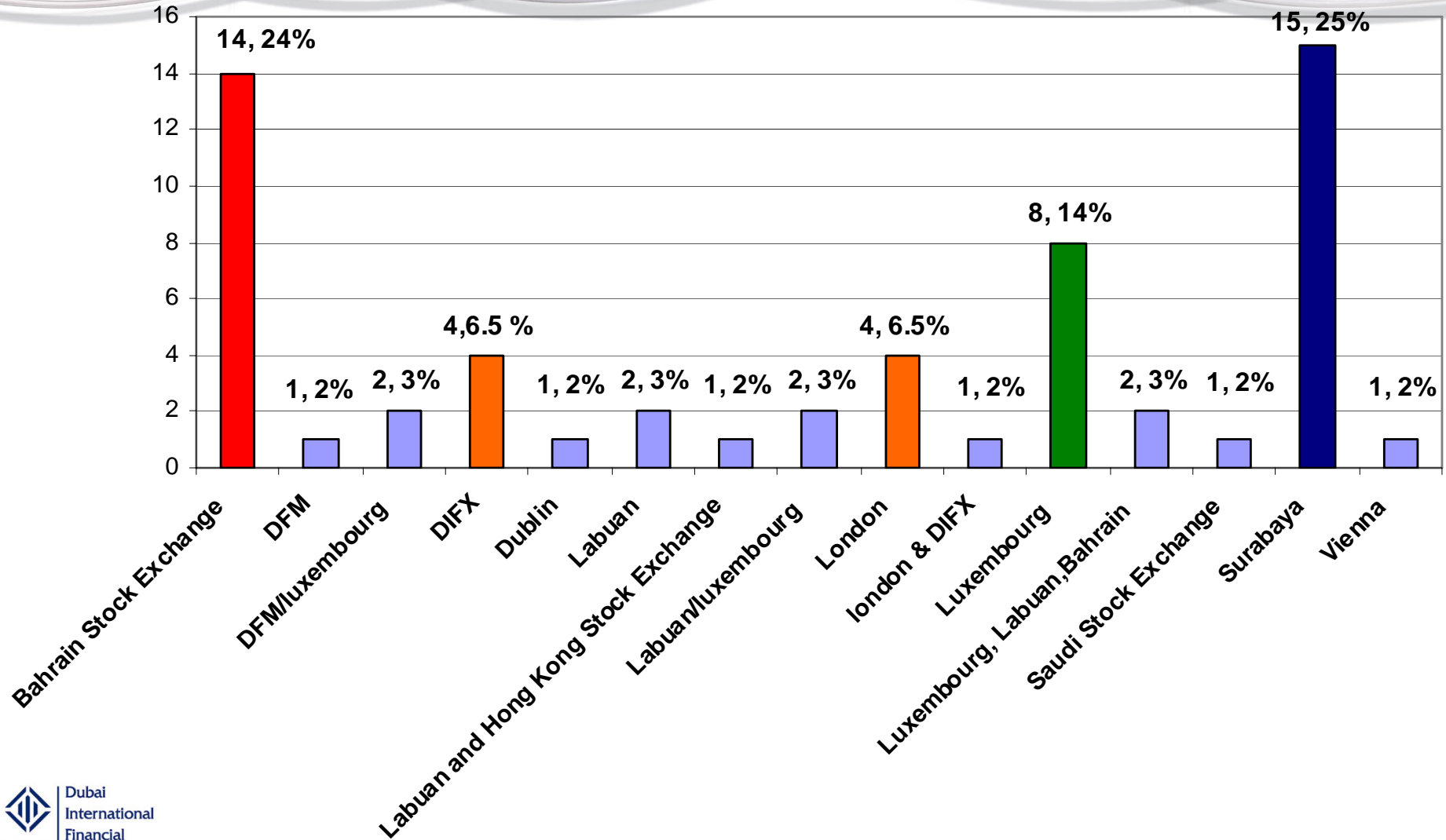
Listed – Not Listed – Total: Numbers



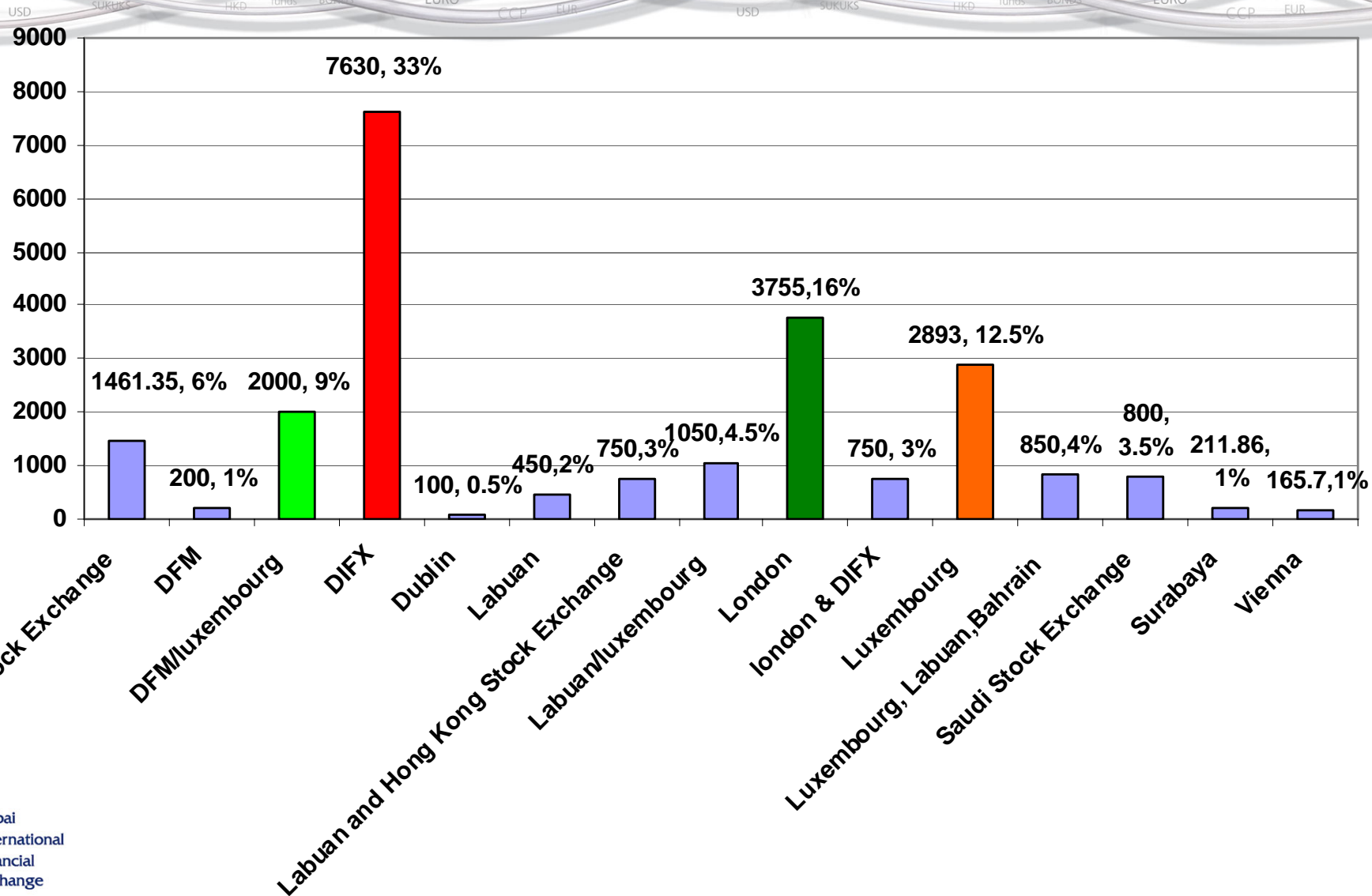
Listed – Not Listed – Total: VALUES (USD Millions)



Listed Sukuks: Numbers per Market

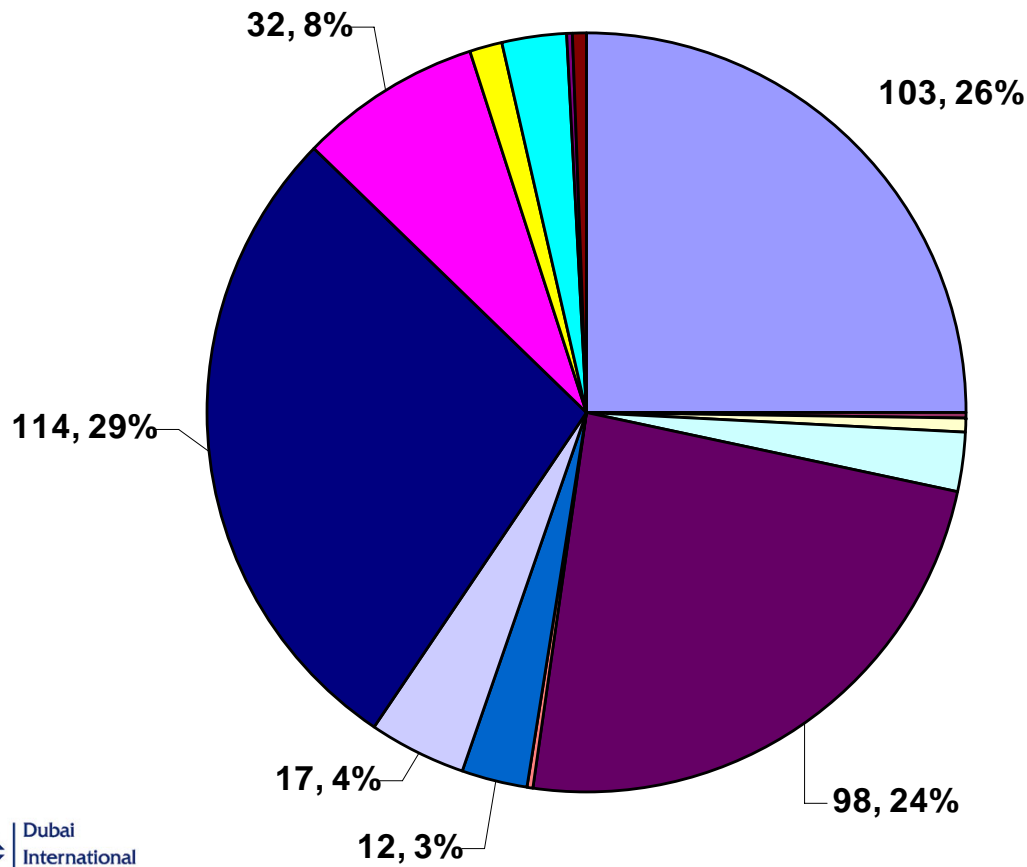


Listed Sukuks by Market: VALUES (USD Millions)



Major Sukuk Types (2001-2007)

Sample: 410



■ Bai' Bithaman Ajjil

■ Ijara

■ Istisna

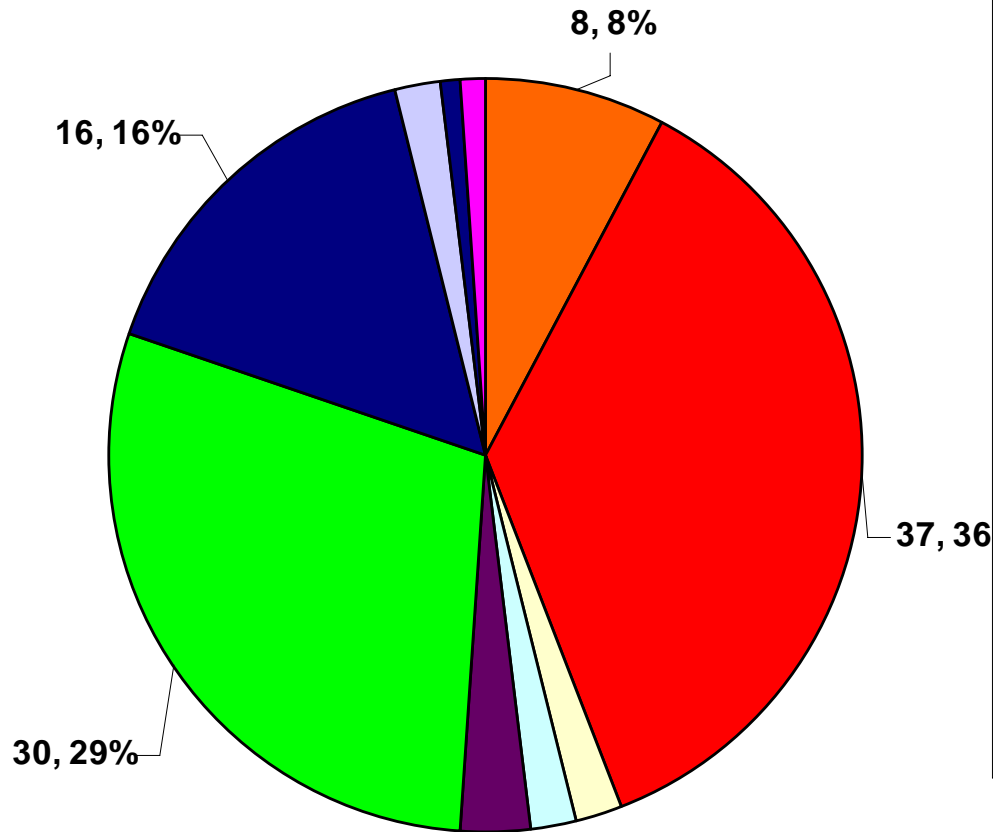
■ Mudharabah

■ MURABAHA ISSUES

■ MUSHARAKA

Major Sukuk Types in 2006

Sample: 103



■ Bai'Bithaman AjiI(BBA)

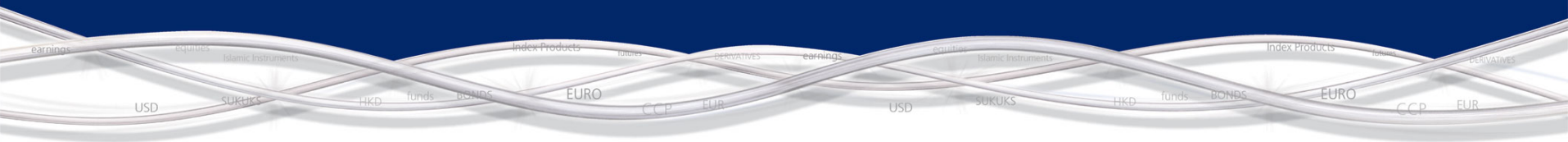
■ Ijara

■ Mudharabah

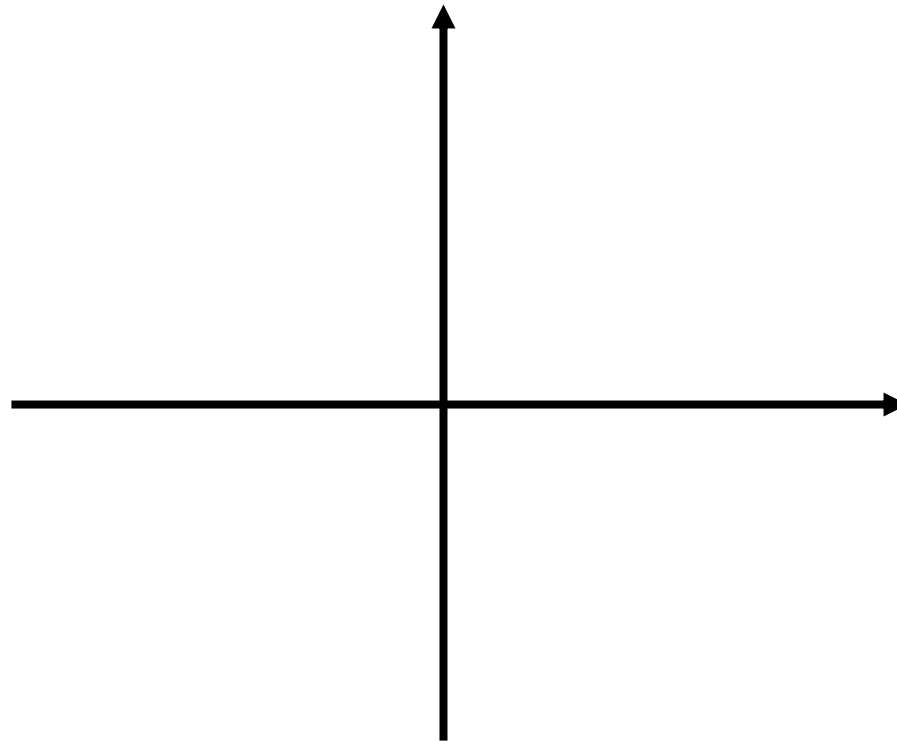
■ MURABAHA ISSUES

■ MUSHARAKA

Shariah Complaint Valuation?



Time Value of Money



Risk and Return

A Shariah Complaint Discount Rate?

The Principle of Risk and Return applies to all instruments.

The Discount Factor of TVM still Applies $DF = 1 / (1 + i)$

This is so because it is a tool that allows us to take into account the Opportunity cost (Discount Rate) over time.

***However:* the nature of the Discount Rate used to discount future cash flows needs to be different.**

0.08

8%

Interest

?

0.08

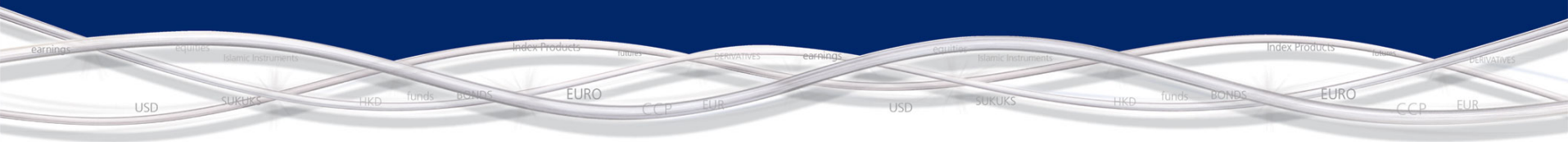
8%

Return

Capital + Time

Productive Activity

(Capital + Other Resources)



**An Islamic or Shariah Compliant Discount Rate is a % REAL RETURN
That is gained on an alternative investment with the same level of Risk.**

A Real Return is a return that is earned on an investment that involves more than just Capital + Time.

**ALTERNATIVELY, an Islamic or Shariah Compliant Discount Rate is the
RETURN earned on an alternative Shariah Compliant Instrument with the
same level of Risk.**

A Sukuk Yield Curve?

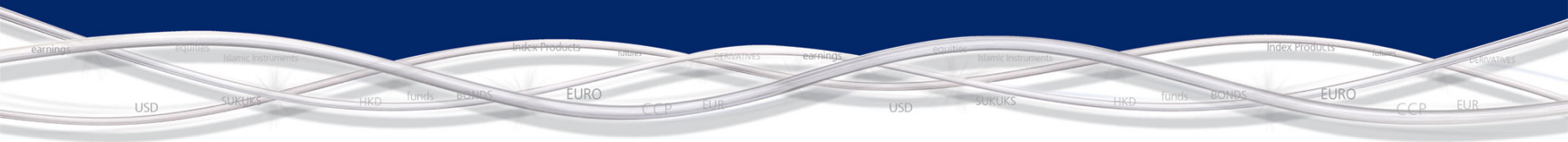
As an important indicator of short and long term interest rates, a Sukuk Yield Curve could be a useful tool, and the building of a Sukuk Yield Curve might be a worthwhile exercise?

Questions:

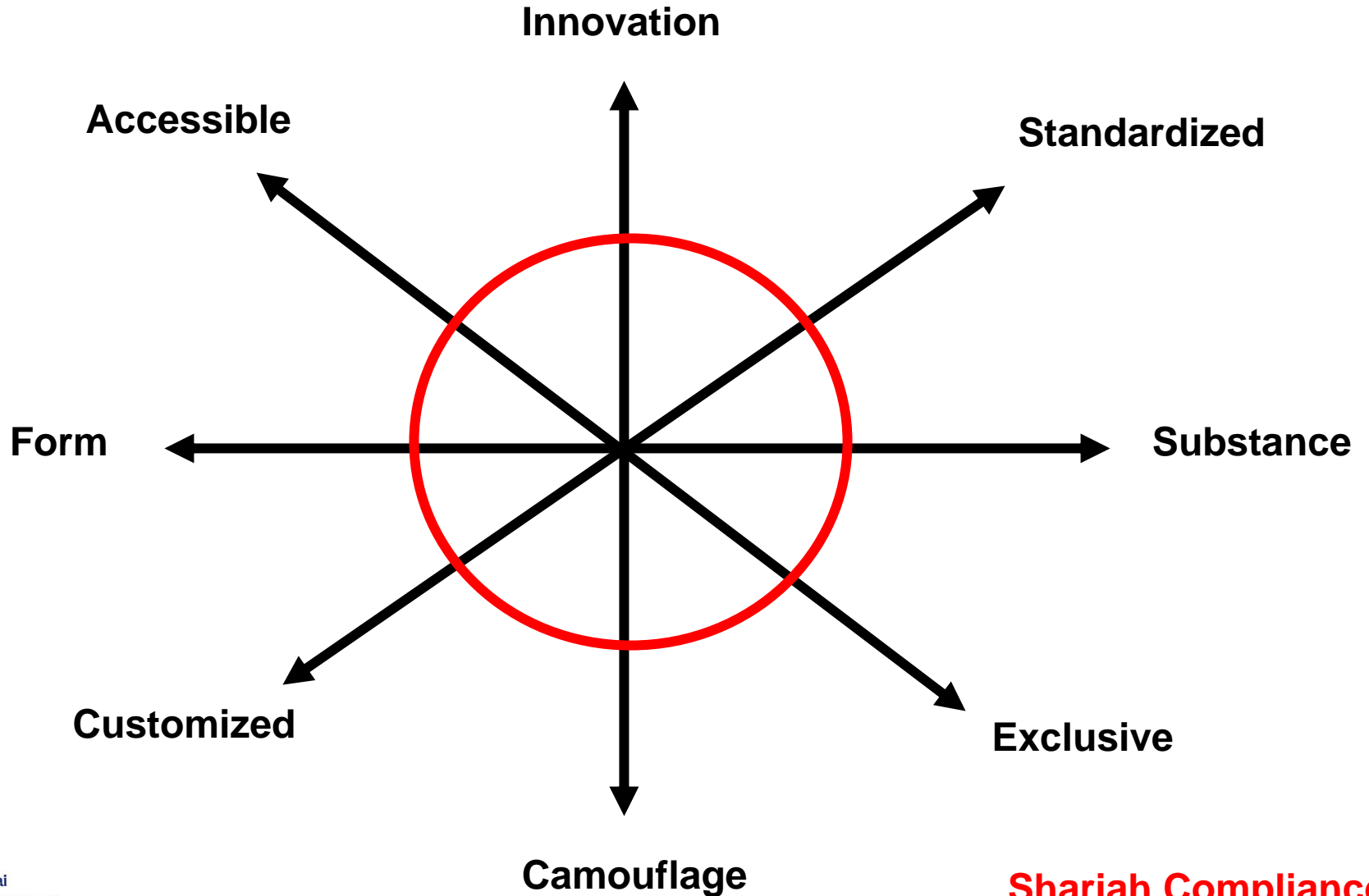
Do we need a Sovereign Entity to issue 3m, 6m, 1y, 2y, etc.... Sukuks?

Which Sovereign?

Which Type of Sukuk?



Framework for the **FUTURE**



Shariah Compliance



The Sukuk Market is beyond any doubt an exciting Market to be in.

The prospects and limits lie in our own imagination.

As for Islamic Finance as a whole,

The resources we dedicate and the objectives we seek will determine

Whether we will end up with a Market Segment or an Alternative System.

Thank You!



DIFX | Dubai International Financial Exchange

www.difx.ae

Make it your Market