



السوق المالية
الإسلامية الدولية
International Islamic
Financial Market



SUKUK REPORT | 1st Edition

A COMPREHENSIVE STUDY OF THE
INTERNATIONAL SUKUK MARKET

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From the Holy Qur'an

(O you who believe! Be afraid of Allâh (God Almighty) and give up what remains (due to you) from Ribâ (usury) (from now onward), if you are (really) believers * And if you do not do it, then take a notice of war from Allâh and His Messenger but if you repent, you shall have your capital sums Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums) * And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know * And be afraid of the Day when you shall be brought back to Allâh. Then every person shall be paid what he earned, and they shall not be dealt with unjustly).

(Al-Baqarah, Chapter2, Verses 278 – 281)

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ABSTRACT

There is growing demand for Shari'ah compliant instruments in the Islamic countries as well as the rest of the world as an alternative to conventional instruments. In the conventional financial system, the fixed income securities play a major role in raising capital and have a significant role in the world economy. Post crisis fund raising activities through bond offerings have again proven the important role played by this segment of the financial system.

In Islamic Capital & Money Market, Sukuk is anticipated to play a similar role as it gives the industry the option to issue an instrument with a fixed rate of return profile; while at the same time Sukuk structuring also takes into account the removal of non-Shari'ah compliant features such as Gharar (uncertainty), Riba (interest/usury) and Maisir (Gambling).

The IIFM Sukuk report starts with the overview and emergence of the Sukuk market, covering international Sukuk issuances in greater depth as compared to the domestic issuances. It also aims to track the growth and development of different Sukuk structures in various jurisdictions active in issuing Sukuk. Selected case studies from the international Sukuk market based on widely used structures have been undertaken to achieve a deeper understanding of the mechanics of this unique financial instrument. The report also covers past trends and recent developments with respect to the international Sukuk market.



FOREWORD FROM THE CHIEF EXECUTIVE OFFICER INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

In the Name of Allah, the Most Gracious, the Most Merciful

All the praises and thanks be to Allah, the Lord of the mankind, and all that exists. May peace and blessings of Allah Almighty be upon His Messenger Prophet Muhammad the son of 'Abdullah, his family and all his companions. Also peace and blessings of Almighty Allah be upon the rest of His Messengers and Prophets

Promotion and development of the Islamic Capital and Money Market segment of the IFSI falls under the mandate of IIFM. Sukuk is an integral part of the Islamic Capital Markets and therefore IIFM could play a greater role in the study and promotion of Sukuk and possibly in the future move towards standardization in Sukuk.

This report is an attempt by a dedicated team of IIFM to provide its members in particular and the industry in general, the study on the evolution of Sukuk market and analyse the most commonly and widely used structures by international Sukuk issuers.

After several months of data compilation and hard work by the IIFM team, it is indeed pleasing to note that IIFM is able to complete the 1st Edition of the report. I am confident that in the near future the team will be able to produce the 2nd Edition which should cover Sukuk challenges, rate of return analysis, and developments in short-term Sukuk, advantages and disadvantages of various structures along with additional case studies.

I am thankful to Ghazal Zahid Khan for her major contribution to the report, particularly studying and writing Sukuk case studies and other analysis. Thanks must also go to Usman Mohammad Naseer , Babar Naseer, Mohammad Saqib Khan and Mr. Sayyed Zarrar for collecting and maintaining the data mainly from primary market sources. Finally, I am thankful to Dr. Ahmad Rufai for his review and valuable contribution in the finalization of the report.

Moreover, I am personally thankful to IIFM Board of Directors and members for their support and trust. Special mention goes to Central Bank of Bahrain, Central Bank of Sudan, State Bank of Pakistan, Labuan Offshore Financial Services Authority (LOFSA), European Islamic Investment Bank, Credit Agricole Corporate and Investment Bank and Bank Islam Malaysia Berhad for their input. I hope that you will find this report to be useful reading.

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CHAPTER ONE

INTRODUCTION

1.1 Preface

In the Islamic Capital & Money Market Sukuk has emerged as a very important instrument, over the past decade, not only in the Muslim world but also in the global markets due to its characteristics. The introduction of Sukuk in 2001 has increased the variety of instruments that can be used to create an efficient Islamic portfolio. Moreover, Sukuk provides liquidity to these reasoning alone it is expected that the growth together with enhancement will continue in Sukuk. Management options both to the long end as well as to short end of the market. Thus due to these reasoning alone it is expected that the growth together with enhancement will continue in Sukuk.

This report is an attempt to study the mix between the Islamic principles on which the issued Sukuk were based such as Musharakah, Murabaha, Mudarabah, Wakala/ Investment, Ijarah or Istisna'a. Our initial research shows that there was a significant decline in the issuance of profit sharing Mudarabah and Musharakah based Sukuk since AAOIFI Shari'ah Board ruling on Sukuk in 2008.

The study looks at the mix between issuers of International Sukuk i.e. sovereign, quasi-sovereign and corporate. The share of corporate issuers was down from over 90% in 2005 to over 70% in 2007. The shift towards sovereign and quasi-sovereign Sukuk continued in mid-2008 to 2009. We foresee the trend to continue as due to the global credit crunch funds will fly towards safe heavens.

The report also focuses on the analysis on International Sukuk having tenor of medium to long term. The Short Term Sukuk shall be covered in the next Edition. For the purpose of this report, International Sukuk are defined as being issued in hard currencies such as US Dollar, Euro, etc., while Domestic Sukuk are defined as being issued in local currencies such as the Government of Bahrain's Sukuk Al Salam.

The time period covered in the report is from January 2001 to June 2009, but in the case studies section of the report, major Sukuk issuances in latter part of the 2009 (very few International issuances) are also covered i.e. Islamic Development Bank (IDB) US\$ 850million Investment Sukuk. The International Finance Corporation (IFC) US\$ 100million Investment Sukuk, however, has not been included in the study as its structure is similar to IDB's.

Growth trends data has been extrapolated for latter part of 2009 and year 2010. The extrapolation has been done on a crude basis using the first half of 2009 as a benchmark. It is only meant to give an indication of how the market will behave if it continues to grow at the pace of 1st half of 2009, though the development during latter part of 2009 has impacted this trend analysis. The extrapolated data however, should not be taken as IIFM forecast for the growth of the Sukuk market in future.

Besides studying the structure of the Sukuk market in general, the report has covered specific structures of Sukuk since the Gulf Cooperation Council (GCC) and International Sukuk market became active. The research has covered most of the major Sukuk issuances (with size over USD\$ 400million) in the last 10 years (exclusive of Malaysian domestic market). These high-value Sukuk alone comprise in excess of 70% of the total value of the International Sukuk market.

Along with focusing on high value Sukuk the study endeavors to cover the structure of a few smaller Sukuk that were ground breaking in nature and used an innovative structures which complied with Shari'ah principles.

1.2 Scope of the Study

This study focuses mainly on the structure of the Sukuk market over the January 2001 – June 2009 time period, and also analyzes the transition and practices that have taken place during this period.

1.3 Objectives of the Study

This research study is trying to achieve the following objectives:

To provide to the reader basic information with regard to the emergence of Sukuk, and also a broad view and understanding with regards to the development of Sukuk worldwide

To provide various and useful feedback to those who have interest in the Sukuk market

To provide a study that could be used as a framework for further research and assessment in the area of Sukuk

1.4 Significance of the Study

The research could be useful for Islamic financial institutions, investors and governments. It could also be helpful in decision making and policy formulation; and for those who need to gain some basic knowledge and background on the level of research in the Sukuk field.

1.5 Methodology

The nature of this study involves analysis of issues, examining materials and data collection. Both quantitative and qualitative methods have been used in writing this report.

Quantitative research methodology: This mainly involves Data collection on various Sukuk issuances from 2001 to June 2009. The main focus in this methodology is to collate data from writing materials relating to the topic of the research. This includes prospectuses, publications, articles, magazines, online research, and information service providers. Data so collected was then filtered with respect to different criteria such as chronology, geographic distribution, issuer status, country of origin, etc and depicted in the form of tables and/or charts for better understanding.

Qualitative research methodology: The main focus in this

methodology is to collect and analyze materials or data in respect to Sukuk issuance acceptability. This includes the types of structures used, legal and Shari'ah issues.

1.6 Outline of the Chapters

The work is arranged and divided into six chapters:

The first Chapter (chapter one) consists of scope, objectives, methodology and outline of the chapters. The second Chapter (chapter two) includes the definition of Sukuk, types of Sukuk, history of Sukuk markets, brief on global & domestic Sukuk markets, Sukuk practices in Malaysia and Sudan. In this chapter overview of entire Global Sukuk market is given (domestic & international) from January 2001 to June 2009. The third Chapter (chapter three) explains the trends in the international markets, its growth, value and volume leaders in the international markets, structural break-up of international issues, distribution of international issues by issuers' status i.e. sovereign, quasi-sovereign and corporate, and maturity profiling of international Sukuk. It has also discussed the implication of AAOIFI Shari'ah Board ruling of 2008 and new structures that comply with the AAOIFI Shari'ah Board ruling. The fourth Chapter (chapter four) highlights the various Sukuk market structures in the international market such as Ijarah Sukuk, Mudarabah Sukuk, Musharakah Sukuk, Murabaha Sukuk, Convertible or Exchangeable Sukuk, and Hybrid or other Sukuk. It also highlights all the Sukuk issued internationally by sovereign, quasi-sovereign, and corporate issuers using the structures mentioned above and their respective volumes. The fifth Chapter (chapter five) discusses selected case studies of the major Sukuk issuances classified according to issuer status, that is, sovereign, quasi-sovereign and corporate. Under the sovereign issuance category, this chapter highlights case studies for the first three sovereign issuances from Bahrain, Malaysia & Qatar, to come to the market as well as the Government of Pakistan issue in order to cover most of the important regions while remaining region such as Government of Indonesia Sukuk issuance will be covered in the next Edition. The sixth Chapter (chapter six) consists of conclusion, appendices and bibliography.

CHAPTER TWO

OVERVIEW OF THE SUKUK MARKET

2.1 Sukuk Definition

Sukuk is a plural of Sakk. Which means “legal document, deed or cheque”. It is an Arabic name for financial certificate but it can be seen as an Islamic equivalent of the conventional bonds. AAOIFI defined Sukuk as:

“Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity”. (Page 298 of AAOIFI’s Shari’ah Standards for Financial Institutions 2004-5).

Based on the above mentioned definition, Sukuk can be further defined as a commercial paper that provides an investor with ownership in an underlying asset. It is asset-backed trust certificate evidencing ownership of an asset or its usufruct (earnings or fruits). It has a stable income and complies with the principle of Shari’ah. Unlike conventional bonds, Sukuk need to have an underlying tangible asset transaction either in ownership or in a master lease agreement.

2.2 Types of Sukuk

The primary condition for the issuance of Sukuk is the existence of assets on the balance sheet of the issuing entity that wants to mobilize its financial resources. Therefore, identification of suitable asset is the first important step in the process of issuing Sukuk certificates. AAOIFI has issued Shari’ah standards for different types of Sukuk, where some of these Sukuk are classified as tradable and others are classified as non-tradable based on the type and characteristics of the issued Sukuk. The common types of investment Sukuk in regard to the issuances and trading are as follows:

2.2.1 Al-Salam Certificates (Sukuk)

Are certificates of equal value issued for the purpose of mobilizing funds. The main concept of Sukuk Al-Salam

refers to a sale, whereby the seller undertakes to supply a specific commodity to the buyer at a future date in return for an advanced price paid in full on the spot. The price is in cash but the supply of the purchased good is deferred. As a form of financing, the purchaser is able to acquire the assets by advance payment at a discounted price and subsequently sells the assets upon delivery. Sukuk Al-Salam represents a type of a forward contract which is forbidden under Shari’ah law unless there are strict conditions attached that aim to eliminate uncertainty. The Salam Sukuk differs from Istisna’a Sukuk in that, the purchase price for the assets under Salam Sukuk must be paid in full and the date of delivery must be fixed.

2.2.2 Istisna’a Certificates (Sukuk)

Are certificates of equal value issued with the aim of mobilizing funds. This type of Sukuk has been used for the advance funding of real estate development, major industrial projects or large items of equipment such as turbines, power plants, ships or aircraft (mostly pertaining to the construction and manufacturing industries). The Islamic financial institution funds the manufacturer or the contractor during the construction of the asset, acquires title to that asset and upon completion either immediately passes title to the developer on agreed deferred payment terms or, possibly, leases the asset to the developer under an Ijarah Sukuk arrangement.¹

2.2.3 Murabaha Certificates (Sukuk)

Are certificates of equal value issued for the purpose of financing the purchase of commodities. The Murabaha technique (cost-plus financing) is one of the most widely used instruments for Islamic short-term financing. It is based on the traditional notion of purchase finance. Its structure is relatively straightforward and is based on declared mark-up integrated into the selling price with a deferred payment. The Islamic financial institution

¹ It should be noted that, if the Sukuk are listed during the Istisna’a period, the Sukuk should be traded only at par as the underlying assets do not exist yet.

purchases and takes title of the necessary equipment or goods from a third party, and sells the equipment or goods to its customer at cost plus a reasonable profit.

2.2.4 Musharakah Certificates (Sukuk)

Are certificates of equal value issued with the purpose of using the mobilized funds for establishing a new project. This is very similar to the Mudarabah contract and is widely used in equity financing. The structure of Musharakah requires both parties to provide financing to the projects, share profits in a pre-determined ratio, and bear the losses in proportion to the size of their respective investments.

2.2.5 Mudarabah Certificates (Sukuk)

Are certificates that represent projects or activities managed on the basis of Mudarabah. Mudarabah is an agreement made between a party who provides the capital and another party (an entrepreneur), to enable the entrepreneur to carry out business projects, which will be on a profit sharing basis, according to pre-determined ratios agreed on earlier (participation or trust financing). In the case of losses, the losses are borne by the provider of the funds only.

2.2.6 Ijarah Certificates (Sukuk)

This is one of the most common Sukuk issuance types, especially for project finance. Ijarah Sukuk is a leasing structure coupled with a right available to the lessee to purchase the asset at the end of the lease period (finance lease). The certificates are issued on stand-alone assets identified on the balance sheet. The rental rates of return on those Sukuk can be fixed or floating depending on the agreement. The cash flow from the lease including rental payments and principal repayments are passed through to investors in the form of coupon and principal repayments. The Ijarah Sukuk provides an efficient medium to long-term mode of financing.

2.3 History of the Sukuk Market

The Fiqh Academy of the OIC in February, 1988, legitimized the concept of a Sukuk, by ruling that subject to proper legal documentation:

‘.. any collection of assets can be represented in a written note or bond; and

that this bond or note can be sold at a market price provided

that the composition of the group of assets, represented by the security, consists of a majority of physical assets and financial rights, with only a minority being cash and interpersonal debts.’²

Soon after, in 1990 to be precise, the world saw its first Sukuk. Quite strangely, it originated from a non-Islamic company, Shell MDS, although in the largely Muslim dominated country of Malaysia. It was a Ringgit denominated issue with a modest size of RM 125 million (equivalent to approximately US\$30 million) and based on the principle of Bai’ Bithaman Ajil (deferred payment sale).

Sukuk were few and far between thereafter until the market went international with the issuance of first international sovereign Sukuk by the Government of Bahrain in September 2001. It was a US\$ 100 million Ijarah Sukuk with a fixed rate of 5.25% and 5 years maturity. This was closely followed by the first quasi-sovereign global Sukuk by Kumpulan Guthrie, a corporation in Malaysia. It was an Ijarah based US\$ 150 million serial Sukuk with 5 years maturity having rate of return of 6 months LIBOR + 1.5%. The international issue of the Government of Bahrain marked the advent of the GCC based Islamic capital market followed by Qatar, Saudi Arabia and UAE. Therefore, between July 2003 and March 2004, we saw the IDB Sukuk arising from Saudi Arabia, the Qatari Government’s Sovereign Sukuk and the Tabreed Sukuk arising from the UAE, in that order. UAE picked up pace quickly and has now emerged as the leader in international Sukuk issuance by volume as of 30th June 2009, comprising of 55% of the total issued value and also owing to its credit eight out of ten of the largest Sukuk issues in the history of the market.

2.4 The Domestic Sukuk Market

As far as the domestic market is concerned, Malaysia is clearly the leader in terms of volume as well as value. It is also the world’s largest Sukuk market. The Malaysian domestic market is US\$ 68 billion in size, a whopping 67% of the total global domestic Sukuk market and in excess of 50% of the entire global Sukuk market. As against this, the GCC domestic Sukuk market is only US\$ 16 billion, miniscule compared to Malaysia and half of

² Quoted from ‘Overview of the Sukuk Market’ by Professor Rodney Wilson in the book ‘Islamic bonds: Your Guide to Issuing, Structuring and Investing in Sukuk’

its own international counterpart, which is about US\$ 29 billion in size as of 30th June 2009.

Bahrain has been the most active market within the GCC region, and also the first government in the GCC to use Sukuk as one of its primary tools for raising finance. Despite having 77 issues to its credit between 2002 and 2009 though, the size of the recurrent Bahraini market as of 30th June 2009 is only US\$ 1.5 billion as the average size of most Sukuk has been small. A little over US\$ 1 billion out of this has been raised in the form of nine 3 – 5 year Sukuk and one 10 year Sukuk, while the rest of the US\$ 1.2 billion has been raised through short-term Ijarah and Salam Sukuk with an average size of US\$ 17 million and maturities ranging from three months to fifteen months. All domestic Sukuk from Bahrain have been sovereign.

Outside of Bahrain even though the rest of the countries in the GCC have been relatively less active in the local currency based domestic market, there have been some large sized issues from Saudi Arabia and UAE and the two of them claim over 85% of the GCC domestic issuance, even though the number of their issues by volume fall way short of Bahrain and even most of their Asian counterparts. Saudi Arabia and UAE have had a mix of sovereign, quasi-sovereign and corporate Sukuk while the only domestic Sukuk from Qatar has been issued by a corporate.

In Asia, Indonesia, Singapore and Pakistan have been early entrants. Indonesia tapped the domestic Sukuk market in November 2002 and until August 2008; all the issues were corporate or quasi-sovereign, having a small average size. In August 2008, however, the Government of Indonesia entered the market with long-term Sukuk Al Ijarah issuances worth equivalent US\$ 295.4 million

and US\$ 216.0 million respectively. Until June 2009, Indonesia has already issued domestic retail sovereign Sukuk worth RP 5.56 trillion (US\$ 467 million equivalent) as well as an international sovereign Sukuk of US\$ 650 million, signaling that the Sukuk market is going to see another major player in the years to come.

The first domestic Sukuk from Singapore, a quasi-sovereign Sukuk, dates back to June 2001. Although the second one did not come until the recent January 2009 MAS issue of SG\$ 200 million (US\$ 134 million equivalent) reverse enquiry based system of issuances. Pakistan has also been active, starting as early as June 2002 with a mix of about 30 sovereign and corporate Sukuk so far.

The sovereign Sukuk issued by the German Federal State of Saxony-Anhalt in July 2004 deserves a special mention. This Euro 100 million (US\$ 123 million equivalent) Ijarah based issue was the first Sukuk to be issued by a non-Islamic sovereign. The German State tapped the Islamic finance industry by successfully raising funds out of its real estate portfolio. The Sukuk, which matured in July 2009, had a tenor of 5 years with the rate of return linked to the 6 month Euribor and paying a margin of 100 basis points over the benchmark. Among the subscribers were investors from US, UK, Saudi Arabia, Bahrain, Malaysia, Japan, Hong Kong and Germany – perhaps the most diversified investor base for any Sukuk to date.

It is interesting to note that some players in the domestic Sukuk market have never entered the international Sukuk market, namely, Brunei Darussalam, Gambia, US, Germany and Singapore. See Table 1 below for more detail on region-wise volume and value of domestic issues.

Table 1: Regional break-up of the Domestic Sukuk Market

Country	Volume (US\$ millions)	No. of Issues	% of Total Value
<u>Asia</u>			
Malaysia	67,872	792	66.8%
Indonesia	1,923	48	1.9%
Pakistan	1,657	31	1.6%
Brunei	740	13	0.7%
Singapore	99	2	0.1%
<u>GCC</u>			
Saudi Arabia	7,665	10	7.5%
UAE	7,151	10	7.0%
Bahrain	1,508	77	1.5%
Qatar	137	1	0.1%
<u>US, Europe and Africa</u>			
US	167	1	0.2%
Germany	123	1	0.1%
Gambia	0.388	1	0.0%
Sudan	12,614	20	12.4%
Total	101,656	1,007	100.0%

Source: In-house IIFM Sukuk issuance database

Malaysia, being the most prolific of all domestic issuers has issued three of the largest Sukuk in the domestic market so far, with amounts ranging from US\$ 2.9 to US\$ 5.8 billion each. In fact, six of the largest ten issues come from Malaysia, five from Malaysian Corporates and one from the Government. From the GCC, Saudi Arabia and UAE feature among the ten largest domestic issuers, their notable high-value Sukuk being as follows:

Table 2: Value Leaders in the Domestic GCC Market

Issue Date	Issuer	Country	Issuer Status	Value (US\$ millions)	Tenor (Years)
06-Aug-07	Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	Corporate	2,100	20
20-Nov-07	Jebel Ali Free Zone FZE (JAFZ)	UAE	Corporate	2,042	5
26-May-08	Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	Corporate	1,333	20
18-Jul-07	Saudi Electricity Company	Saudi Arabia	Quasi sovereign	1,333	20
28-Jun-09	Saudi Electricity Company	Saudi Arabia	Quasi sovereign	1,333	20
08-Jun-08	Aldar Properties PJSC	UAE	Corporate	1,021	5
13-May-08	The Nakheel Group	UAE	Quasi sovereign	981	5
29-May-08	Dubai Electricity & Water Authority (DEWA)	UAE	Quasi sovereign	871	5
11-Jul-06	Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	Corporate	800	20
28-Aug-08	Sorouh Real Estate Company	UAE	Corporate	751	4
19-May-08	The National Central Cooling Company (Tabreed)	UAE	Corporate	408	3
16-Jul-08	Tamweel PJSC	UAE	Corporate	299	5
28-Aug-08	Sorouh Real Estate Company	UAE	Corporate	273	4

Source: In-house IIFM Sukuk issuance database

Among the more recent issues outside of Malaysia are the US\$ 1.3 billion quasi-sovereign Sukuk by Saudi Electricity issued in June 2009, the US\$ 200 million corporate Sukuk by Dar Al Arkan in Saudi Arabia issued in May 2009, the US\$ 192 million equivalent in March 2009 by the Government of Pakistan three year Ijarah Sukuk (GIS Series), a number of short-term Sukuk Al Salam and Sukuk Al Ijarah issued by the Government of Bahrain and Government of Brunei short-terms Sukuk Series.

2.5 The Global Sukuk Market as of June 30th 2009

Total global Sukuk issuance increased from a size of just over US\$ 1 billion towards the end of 2001 to US\$ 136 billion as of 30th June 2009, a compounded annual average growth rate or CAGR of 88%. The GCC has been more inclined towards international issues while Malaysia has been more active in its domestic market. As can be seen from data in Table 3 below, domestic issues form a much higher percentage of the total global Sukuk market (74%) than international issues (26%) as of 30th June 2009 with a broad regional break-up as follows:

Table 3: Regional Break-up of Global Sukuk Issues (all figures in US\$ billion)

	GCC	Malaysia	Others	Total
Value of Domestic Sukuk	\$16	\$67	\$18	\$101
Share of Domestic Sukuk Market	16%	66%	18%	100%
Value of International Sukuk	\$29	\$3	\$3	\$35
Share of International Sukuk Market	83%	9%	9%	100%
Value of total Global Sukuk	\$45	\$70	\$21	\$136
Share of total Global Sukuk Market	32%	53%	15%	100%

Source: In-house IIFM Sukuk issuance database

While the domestic Sukuk market forms a very important (and much larger) part of the global Sukuk market, it is fully dominated by Malaysia and hence mostly Ringgit-denominated. All domestic issues, by definition, are denominated in local currencies. For the purpose of this report, we have chosen to focus on issues denominated in internationally accepted hard currencies because they are of interest to investors at large from all around the world who have US dollars or other hard currency based operations. Therefore, after the following section on Malaysia and Sudan, the rest of the report will focus exclusively on the international Sukuk market.

2.6 Sukuk Practices in Malaysia

Malaysia is undoubtedly the pioneer of the Islamic capital markets. The maturity and depth of its market has ensured a thriving local secondary market as well - a goal that still eludes the international issues. The Shari'ah Advisory Council of the Securities Commission of Malaysia governs the principles on which Sukuk should be issued. It recognizes Bai Dayn or debt trading as one of the acceptable principles for Sukuk issuances whereby Shari'ah compliant cash receivables arising from contracts such as Murabaha, Bai Bithaman Ajil (BBA), Ijarah or Istisna'a are converted into tradable debt instruments. Until 2003, Sukuk issuances in Malaysia had been confined to instruments based on the securitization of debt arising from the contracts of Murabaha, Bai Bithaman Ajil and Ijarah. The former two do not have demand outside Malaysia especially GCC, Pakistan etc., as they are backed by debts or receivables rather than based on tangible assets. From 2004, Malaysian Sukuk issuers started using the participatory contracts of Musharakah and Mudarabah and witnessed such tremendous growth that by first half of 2008, Sukuk Al Musharakah formed about 84% of the total market issuance.

Besides being the leader in the overall global Sukuk market in terms of both volume and value, with 792 issues to its credit worth approximately US\$ 68 billion, Malaysia has also pioneered a whole lot of innovations in the domestic as well as international market. Some of the hallmark issues arising from Malaysia are given below in Table 4.

Table 4: Hallmark Sukuk Issues from Malaysia

Issuer	Amount	Year	Transaction Highlights	Tenor (Years)
Shell MDS	RM125 million (US\$33 million)	1990	World's first ringgit Sukuk issue by foreign-owned, non-Islamic company	-
Kumpulan Guthrie Bhd	US\$150 million	2001	World's first global corporate Sukuk	8
Government of Malaysia	US\$ 600 million	2002	World's first global sovereign Sukuk	5
International Finance Corporation (World Bank)	RM500 million (US\$132 million)	2004	First ringgit Sukuk issue by supranational agency	3
Cagamas MBS Bhd	RM2.05 billion (US\$540 million)	2005	World's first Islamic residential mortgage-backed securities	13
Khazanah Nasional (Rafflesia Capital Ltd)	US\$750 million	2006	World's first exchangeable Sukuk	5
Khazanah Nasional (Rafflesia Capital Ltd)	US\$750 million	2006	World's first exchangeable Sukuk	5
Nucleus Avenue (Malakoff Corporation)	RM8 billion (US\$2.5 billion)	2007	First Hybrid Sukuk in the world	50
Maybank Berhad	US\$300 million	2007	World's first international subordinated Sukuk	10
Binariang GSM	RM15.35 billion (US\$4.8 billion)	2007	Largest-ever Sukuk issue in the world	20

Source: <http://www.mifc.com> (Official website of the Malaysian International Financial Centre (MIFC))

2.7 Sukuk Practices in Sudan

Sudan entered the Sukuk market with its Government Musharakah certificates (GMC's) in 2000. From a modest size of SDG 77 million in 2000, now total GMC issuance stands at SDG 26 billion. The Government has also been issuing Government Investment Certificates since 2003 and Ijarah Certificates or Shihab since 2005. The market currently seems to be dominated by local currency, sovereign, short-term money market like instruments. The Government Musharakah Certificates seem groundbreaking in that the minimum denomination is only SDG 500, well within the reach of the retail investors, unlike most Sukuk issued in other countries that are designed only for institutions or high net worth individuals. The certificates are tradable on the Khartoum Stock Exchange as well, providing easy entry and exit for all types of investors.

Definition of Government Musharakah Certificates (GMC's)

GMC's consist of securities pinned down to the Islamic Shari'ah fundamentals. They are issued by the Ministry of Finance and National Economy on behalf of the Government of Sudan. Their marketing is carried out by Sudan Financial Services Company (Ltd.) and the authorized agency companies.

Objectives

The Government Musharakah Certificates achieves the following objectives:

- 1) Managing liquidity at the macro economy level by using contractionary or expansionary open market operations to control liquidity within the ambit of Islamic Shari'ah
- 2) Covering part of the deficit in the General Budget which was usually covered by borrowing from the Central Bank

- 3) Collecting national savings and encouraging investment by spreading savings awareness which in turn conduce more investment
- 4) Introducing Islamic financial papers to become as a nucleus for assisting in the development of capital markets and a stock exchange as one of the instruments of monetary policy so as to enable the Central Bank to formulate and implement an effective monetary policy within the framework of an integrated financial and monetary program

Merits of the Certificate

- 1) The Certificate is legal and it fulfills all the requirements of legal contracts. The Higher Shari'ah Supervisory Board for the Banking System and Financial Institutions has given a Fatwa (Ruling) underlining the legality of this Certificate
- 2) Has a low investment risk, as it is being backed up by assets in various economic units such as (Sudatel, the Sudanese Company for Petroleum Pipelines, Hilton Hotel, Ariab for Mining, Giad for Motorcar etc.)
- 3) Has high profitability compared with other available investment opportunities
- 4) Can be presented as a first class guarantee for obtaining financing from the banking system
- 5) It can be feasibly liquidated as it can be sold at any time and easily in Khartoum Stock Exchange through the agency companies operating in the market. In the future, it can be cross listed and traded in the Arab financial markets according to the arrangements with the concerned bodies

Maturity of the Certificate

The Government GMCs are issued with a maturity of one year.

(a) Denominations of Certificates

The Certificates are issued in a denomination of SDG 500. The investor can purchase any number of certificates of such denomination.

(b) Method of Payment for Certificate "Shahama"

Payment is made in cash, by a certified cheque or by a transfer from an authorized bank in Sudan.

- In case of payment in cash, payment shall be made to the vault of the Central Bank of Sudan on the basis of a payment letter from Sudan Financial Services Company (Ltd.) for payment of the cited amount
- In case of payment by a certified cheque, the cheque shall be issued in the name of Messers/ Sudan Financial Services Company Ltd. The officer in charge has to deliver a receipt to the investor confirming receipt of the cheque

Delivery of the Document Certificate

- Documents are issued about one month after the end of subscription. The Certificate is handed over to its owner personally after presentation of his identification document
- Upon receipt of the document, the payment receipt plus valid identification documents (identification card, passport) must be presented

In case the Certificate is to be received by another person, a letter of attorney certified by a notary public or a power of attorney from a Shari'ah court must be presented.

Liquidation of Certificate at Maturity Date

- The due date for liquidating Shahama Certificate is calculated from the date of subscription
- The investor submits the original of the document to the officer in charge indicating his wish in relation to the following options:
 - 1) Total liquidation of value of the document
 - 2) Withdrawal of profits and renewal of the original

DURATION OF SUKUK

The dates and periods of Sukuk are divided in accordance with the issue prospectus and range between 24-72 months.

DENOMINATIONS

The Sukuk is issued with denomination of (SDG 100) as a minimum Sukuk value. Investors can purchase any number of Sukuk or their multiple.

HOW TO ACQUIRE SUKUK?

- The SFSC usually prepares an application form and issue details and make it available to the public through SFSC or its agents.
- The application form is handed out during the specified period for subscription in accordance with what is specified in the prospectus.
- Applications can be submitted by the applicant directly or through normal post.
- The SFSC can discard incomplete applications or unsigned or not accompanied by payment authorization etc.
- In case of applying for Sukuk on behalf of those underage or companies it must be made clear in the application form and the necessary identification for that should be presented.
- Presenting joint application for more than one person is not allowed.
- Sukuk is issued on the basis of full registration in the name of the owner in the SFSC records and the ownership of these Sukuk are subject to trading and complete or partial transfer in Khartoum Stock Exchange (KSE) through accredited Brokerage companies in KSE.

METHOD OF PAYING SUKUK VALUE

- The investor has to attach the value of Sukuk with the subscription application
- Payment of Sukuk value could be made through cheques or attested cheques or transfer by deducting the value from accounts in banks
- For subscription in convertible currencies, the value of Sukuk could be transferred to currencies which are used by the commercial banks operating in the country and specified by the SFSC- these transfers are calculated at the current exchange rate, on condition that the applicant has to bear the cost of the banking services related to the transfer

HANDING OVER OF SUKUK

The SFSC prepares the Sukuk certificates and are handed to the investors either through registered post or by hand according to the wish of the subscriber.

WHO ARE THE INVESTORS IN SUKUK?

Sukuk are available to all interested investors whether they are residents or non-residents.

Table 5A: Annual Issuances of Government Musharakah Certificates (GMC's)

Year	Versions	Maturity (Years)	Profit Distribution (Months)	Total Certificates Issued	Total Amount (SDG millions)	ARR
2000	3	1	12	15,353	76.8	26.9%
2001	4	1	12	88,661	443.3	30.1%
2002	4	1	12	2,448	12.2	29.1%
2003	4	1	12	20,3243	10,16.2	20.1%
2004	4	1	12	33,6221	1,681.1	19.1%
2005	4	1	12	45,62379	2,281.2	20.3%
2006	4	1	12	72,88217	3,644.1	15.6%
2007	4	1	12	84,46201	4,223.1	15.9%
2008	4	1	12	110,22653	5,511.33	15.8%
2009	4	1	12	147,65179	7,432	15.8%
Total				467,30555	26,321.33	

Source: Central Bank of Sudan

Table 6B: Annual Issuances of Government Investment Certificates

Year	Versions	Maturity (Years)	Profit Distribution (Months)	Total Certificates Issued	Total Amount (SDG millions)	ARR
2003	1	2	6	60,0000	60	20%
2004	2	3-6	3-6	12,80000	228	18%
2005	3	5-6	3	61,94908	619.5	16%
2006	3	6	3-6	51,31675	513	16%
2007	5	2-6	6	42,50102	425	16%
2008	3	3	6	19,69143	197	16%
2009	1	3	6	300,0000	300	16%
Total				22,425,828	2,342.5	

Source: Central Bank of Sudan

Table 7C: Central Bank of Sudan Ijarah Certificates (Shihab)

Year	Total Certificates held with CBoS & Banks	Certificates Sold	Certificates Purchased	Net Balance of Certificates with Banks
2005	21,9800	17,7400	42,400	13,5000
2006	24,3871	33,6500	33,3000	13,8500
2007	24,3871	86,7000	68,2600	18,4400
2008	24,3871	52,1365	31,4740	20,6625

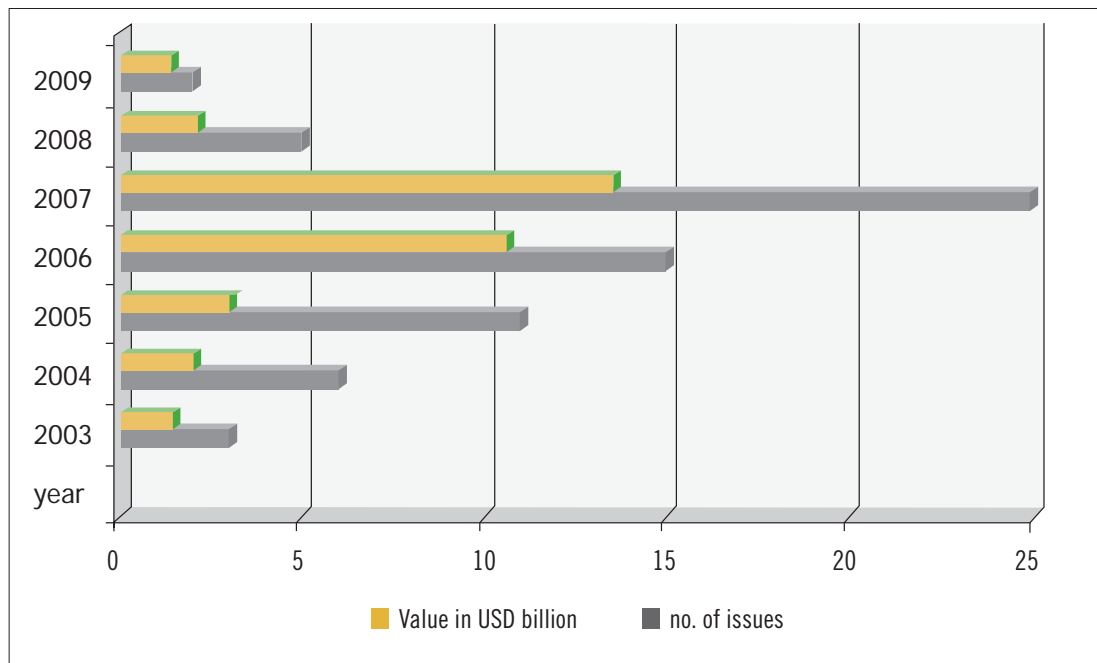
Source: Central Bank of Sudan

CHAPTER THREE THE INTERNATIONAL SUKUK MARKET

3.1 Trends in the International Sukuk Market

As seen in the section on history of the Sukuk market, until 30th June 2009, the total issued Sukuk amount has surged to US\$ 136 billion, a sizeable hundred-fold increase in comparison to its modest beginnings in 1990 (or really 2001). Unfortunately, soon after the market picked up pace in 2006, the world saw the beginning of one of its worst financial crises since the Great Depression. The Sukuk market could not be immune from the effects of a worldwide contagion. With stalwarts in the global financial system going bankrupt, the confidence of the investing public was shaken and new debt issuance, whether conventional or Islamic, waned as investors scamped to get their dues back from the existing issues. The international Sukuk market, which had seen twenty six issues in 2007 worth a total of US\$ 13.81 billion, could only turn out five issues in 2008 worth US\$ 2.1 billion and only two between January and June in 2009 totaling US\$ 1.4 billion. The majority of these latest issues were sovereign or quasi-sovereign - in line with the interest of the investing community, which had been looking for a flight to safe havens. The chart below shows the number and value of international issues between 2003 and June 2009.

Chart 1: International Sukuk Issuance 2003 – June 2009



Source: in-house IIFM Sukuk issuance database

3.1.1 Growth Trends

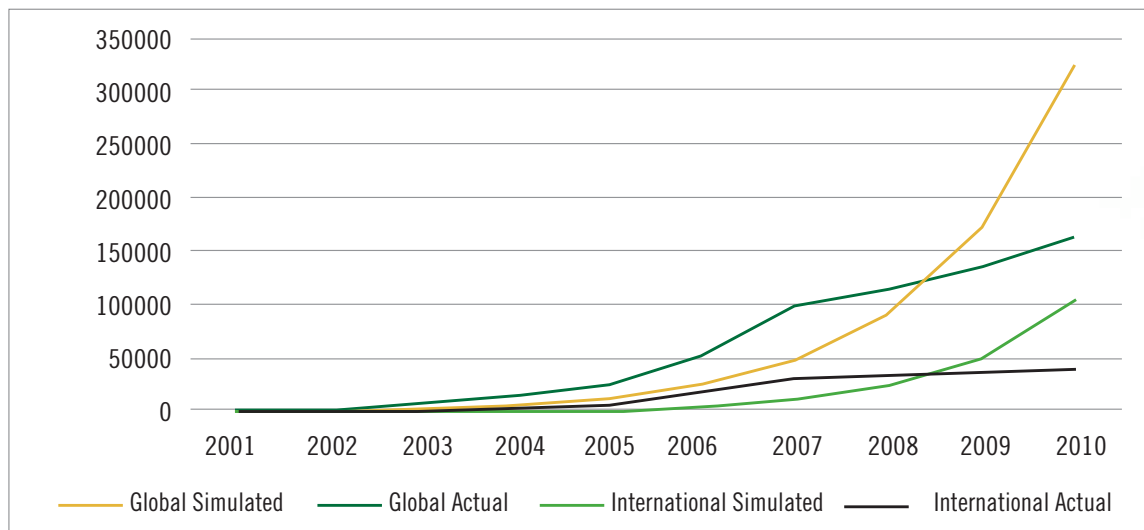
While the global Sukuk market has grown with a CAGR of 88% between 2001 and June 2009, the international Sukuk market has grown faster, at a CAGR of 106.8%. The growth rates seem extraordinary at first glance, however, it is interesting to note that they would have been higher had the Sukuk market not slowed down in 2008 and 2009 and maintained its pace of earlier years. The chart below shows an interesting comparison of simulated and actual growth rates for the global as well as international

Sukuk markets. The 'simulated' lines are drawn assuming that the global and international markets grew at the CAGR each year between 2001 and 2010. The 'actual' lines depict true growth rates until 30th June 2009 while growth rates for the latter half of 2009 and full year 2010 have been extrapolated assuming the market maintains its pace of the first half of 2009. What really happened in latter half of 2009, however, was that the market once again became inactive in terms

of primary market issuances mainly due to the overall credit crunch as well as factors related to some troubled Sukuk such as Golden Belt Sukuk, Investment Dar Sukuk, Maple Leaf Sukuk and East Cameron Sukuk. Moreover, the market had been uncertain about Nakheel Sukuk's repayment of US\$ 3.52 billion as initially announced on 25th November 2009. The repayment eventually came on time, proving to be a positive

event. The troubled Investment Dar Sukuk as we understand is currently being restructured and this could prove to be the first instance of successful restructuring of Sukuk. Considering market requirements, recovering world economies and appetite for quality credit, the primary market is anticipated to pick up as indicated in the chart but there could be a longer time lag now and it may happen after 2010.

Chart 2: Simulated vs. Actual Growth of the Global and International Sukuk Markets



Source: In-house IIFM Sukuk issuance database

Table 8: Year on Year Growth Rates of the Sukuk Market

For the Year	International Market	Global Market
2004	91.0%	86.1%
2005	71.6%	69.8%
2006	147.1%	104.4%
2007	76.1%	89.2%
2008	6.8%	15.9%
2009*	8.5%	19.4%
CAGR	106.8%	88.3%

Source: In-house IIFM Sukuk issuance Database

*Annualized

Table 8 shows how the biggest surge in the international market came in 2006. There were even bigger surges in the earlier years of 2002 and 2003; however, they were mainly due to a low-base effect, while in 2006 it was on the back of 16 new issues worth over US\$ 10 billion. 2007 has been the most productive year in the history of the international market though, towering over 2006 with 26 new issues worth US\$ 13.81 billion.

It is interesting to note from the Chart that the 'actual' lines manage to lie above the 'simulated' lines for most of the life of the market even until end 2008, even though the actual growth rates were lower than the CAGR for the majority of the years. The reason is that the Sukuk market exhibited extraordinary growth rates in the inception years registering growth rates of 400% and 193% in 2002 and 2003 respectively, giving it an exceptionally good start. Hence the actual total size of the market as of 2008 was still larger than the simulated size, that is, larger than it would have been if the market had grown at the CAGR of 106.8% for every

year until 2008. However, as mentioned earlier, it is unlikely that the Sukuk market will recover quickly - though indication till H1 2009 were that the simulated lines will outstrip actual lines for the first time – as credit & restructuring issues keep on surfacing in financial institutions couple with, so far, sluggish economic growth in some part of the world. The upturn in International Sukuk market during initial quarters of 2010 seems to be limited though in medium term Sukuk market has good potential and it is expected that present problems and issues in some Sukuk will weed out the uncertainties which is likely to provide further stimulus for strong growth.

Between years 2004 and 2006, the growth of the international market outstripped the growth of the larger Sukuk market. However, starting from 2007, the trend reversed, signaling that the domestic Sukuk market grew faster than the international Sukuk market. This observation is in line with what we can term as the currency effect, a direct offshoot of the global economic crisis

that started in the US and hence weakened the dollar. Since 2007, there has been a shift away from dollar-denominated issues and towards local currency based issues arising from the GCC, the major player of the international market and other jurisdictions like Indonesia & Pakistan. The ratio of value of domestic Sukuk issued to the value of international Sukuk issued has increased from about 1.5 xs in 2006 to 6.5 xs in H1 2009. The Sukuk market grew at a higher annualized rate in the first half of 2009 as compared to 2008. During 2009 there were a number of Sovereign, Quasi-sovereign (carrying implicit or explicit guarantees) and multilateral agencies Sukuk issuances such as Government of Bahrain US\$ 750 million, Government of Indonesia US\$ 650 million, US\$ 400 million Sukuk by Ras Al Khaimah Government generating interest from Middle East (47%), Asia (34%) as well as Europe (19%), US\$ 850 million Sukuk by the Islamic Development Bank, and US\$ 100 million Sukuk by the International Finance Corporation etc.

3.1.2 Value and Volume Leaders in the International Market

As already mentioned earlier in the report, the GCC is the dominant player in the international market, accounting for almost 80% of the market, way ahead of Asia which forms about 15% of the market as of 30th June 2009. The GCC has enjoyed this position since the time it opened itself to the Sukuk market in 2001, as its redoubtable competitor Malaysia has focused more towards local currency issues. Table 9 gives details of the geographical distribution of the international Sukuk market as of H1 2009. UAE is clearly the leader in terms of volume (23 issues) as well as value (almost US\$ 20 billion), even though it is one of the last two GCC countries to enter the market, in March 2004 (the other being Kuwait which did not tap the Sukuk market until December 2006).

Table 9: Regional Break-up of the International Sukuk Market (30th June 2009)

Country	No. of International Issues	Value of Issues (US\$ million)	Percentage of Total Value
GCC			
UAE	23	19,785	55.1%
Saudi Arabia	6	3,640	10.1%
Bahrain	23	3,946	11.0%
Qatar	3	1,270	3.5%
Kuwait	2	400	1.1%
Asia			
Malaysia	9	3,680	10.2%
Indonesia	1	650	1.8%
Pakistan	1	600	1.7%
Brunei	2	200	0.6%
Others			
GB	1	261	0.7%
Cayman	6	1,345	3.7%
Sudan	1	130	0.4%
Total	78	35,907	100.0%

The UAE has also issued some of the largest Sukuk in the market; the average issue size for UAE, US\$ 949 million, is larger than any other country and the top five largest issues are all UAE based. Table 10 shows the ten largest international Sukuk issues and eight of them are UAE based.

Table 10: Value Leaders in the International Sukuk Market

Issue Date	Issuer	Country	Issuer Status	Value (US\$ million)	Tenor (Years)
14-Dec-06	The Nakheel Group	UAE	Quasi-Sovereign	3,520	3
04-Jan-06	Dubai Ports Authority and DPI Terminals	UAE	Corporate	3,500	12
11-Feb-07	Aldar Properties PJSC	UAE	Corporate	2,530	5
02-Jul-07	DP World	UAE	Sovereign	1,500	10
29-Jun-07	Dubai International Financial Center (DIFC), Dubai Sukuk Centre Ltd	UAE	Sovereign	1,250	5
07-Oct-07	Dana Gas	UAE	Corporate	1,000	5
17-Jul-07	Dar Al Arkan Real Estate Development Company (Dar AlArkan)	Saudi Arabia	Corporate	1,000	5
14-Nov-04	Department of Civil Aviation (DCA)	UAE	Sovereign	1,000	5
27-Jun-07	Khazanah Nasional Bhd	Malaysia	Quasi-Sovereign	850	5
07-Dec-06	Abu Dhabi Islamic Bank	UAE	Corporate	800	5

Source: In-house IIFM Sukuk issuance database

During recent development especially in case of Nakheel Sukuk, it is becoming quite clear that unless the Sukuk carries implicit sovereign guarantee it could be classified as corporate Sukuk. However, in this report, as the classification issue is still under consideration, we have accounted Sukuk as quasi-sovereign as long as it has sovereign ownership irrespective whether it carries implicit or explicit government guarantee.

3.1.3 Structural Break-up of International Issues

Ijarah is clearly the structure of choice in the Islamic Sukuk market. The first few Sukuk issued in the international market had all been Ijarah-based and it was the dominant structure until 2005 when the first Musharakah based Sukuk, the DMCC Gold Sukuk, was issued. After that, participatory structures such as Musharakah, Mudarabah and Exchangeable trusts picked up pace quickly and even outstripped Ijarah for the years 2006 and 2007. Ijarah came back in favor since issuance of the fatwa from the AAOIFI in February 2008 (see next section), declaring unacceptable the purchase undertaking that was being employed in all participatory structures to sort of guarantee the principal value at redemption. The structural break-up of the international Sukuk issued since 2001 until June 2009 has been as follows:

Table 11: Structural break-up of international issues

Types of Sukuk	No. of Issues	Value (US\$ million)	% of Total Value
Ijarah	39	15,964	44%
Musharakah	18	7,726	22%
Mudarabah	6	4,725	13%
Islamic Exchangeable Bond	9	6,340	18%
Hybrid	3	487	1%
Murabaha	2	340	1%
Wakala or Investment	1	325	1%
Total	78	35,907	100%

Source: In-house IIFM Sukuk issuance database

3.1.4 Distribution of International Issues by Issuer Status

So far, the bulk of the issues in the international Sukuk market have been from corporate issuers. As can be seen from Table 12 below, 56% of the issues until June 30th 2009 had been from corporate issuers. In 2008 and the half year 2009 however, the trend seems to have reversed itself although one cannot be too sure because a total of seven issues only came to the market during that period. Only two of the seven issues were from corporate, three from governments and two from quasi-sovereign entities. Due to the

credit crunch, corporate entities were understandably wary of raising money through the Sukuk market and investors also had appetite only for safer bets such as sovereign and high quality issues.

Among the sovereign issues during the life of the market, the highest number of issues, five come from the UAE, three from Bahrain, and one each from Qatar, Malaysia, Pakistan and Indonesia.

Table 12: Issuer Status of International issues

	No. of Issues	Value (US\$ million)	% of Total Value
Sovereign	22	9,477	26%
Quasi-Sovereign	5	6,420	18%
Corporate	51	20,010	56%
Total	78	35,907	100%

Source: In-house IIFM Sukuk issuance database

3.1.5 Maturity Profiling of International Sukuk

The tenors of the Sukuk issued in the international market between September 2001 and June 2009 have been concentrated in the 5 – year bracket. A look at charts 3 and 4 below shows that 55 out of the total 78 issues had a maturity of 5 years at the time of issue. It follows that Sukuk market so far has been used by institutions raising money largely for the short to medium term. The market therefore only caters to investors willing to deploy their funds in the Islamic capital market with a short to medium term horizon. Conventional wisdom dictates that institutions with longer term liabilities such as investment banks, insurance companies, pension and endowment funds need longer term investments in order to implement best practices in the asset-liability management area. To meet this

goal, on the conventional side, we find that the yield curve has instruments with a whole spectrum of maturities ranging from as short as 3 months (government T-bills) to as long as over 30 years (most mortgage backed securities). Islamic Takaful and Retakaful companies or pension funds on the other hand are at a disadvantage compared to their conventional counterparts as they do not have longer term Islamic instruments with which to match duration of their assets and liabilities. The only two relatively longer terms Sukuk that we have seen with maturities of greater than 10 years are the Tamweel Sukuk, a UAE based USD 220 million issue with a 30 year tenor, and the Saudi based Munshaat Real Estate Sukuk, a USD 390 million issue with roughly 20 years to maturity.

Chart 3: Number of International Issues by Maturity

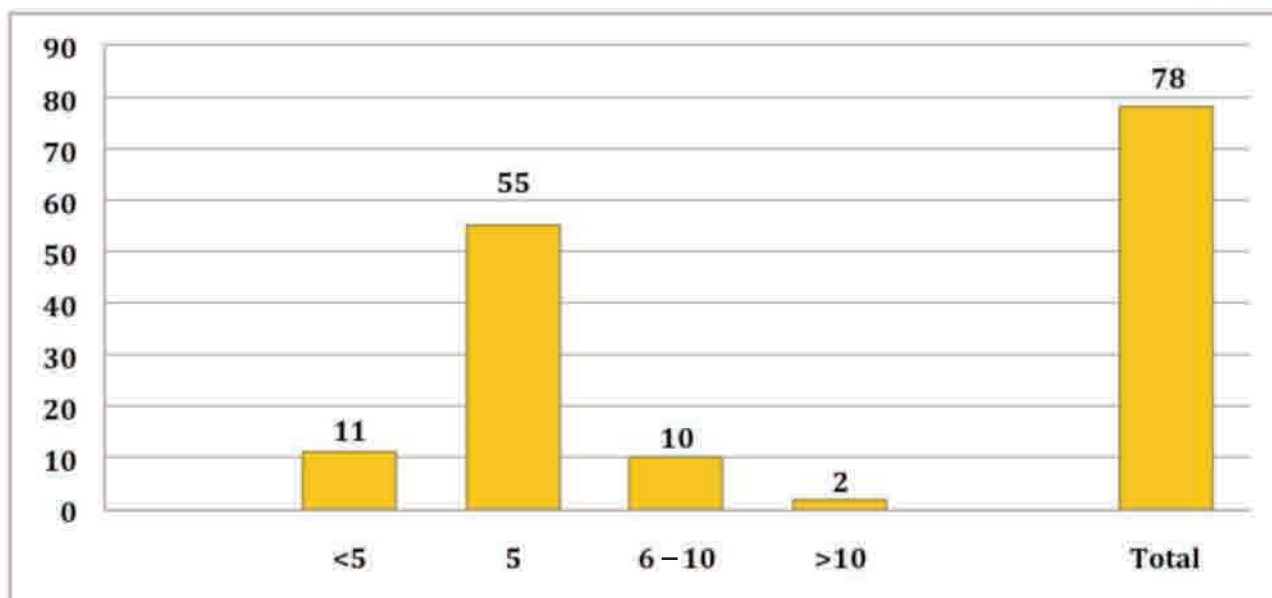
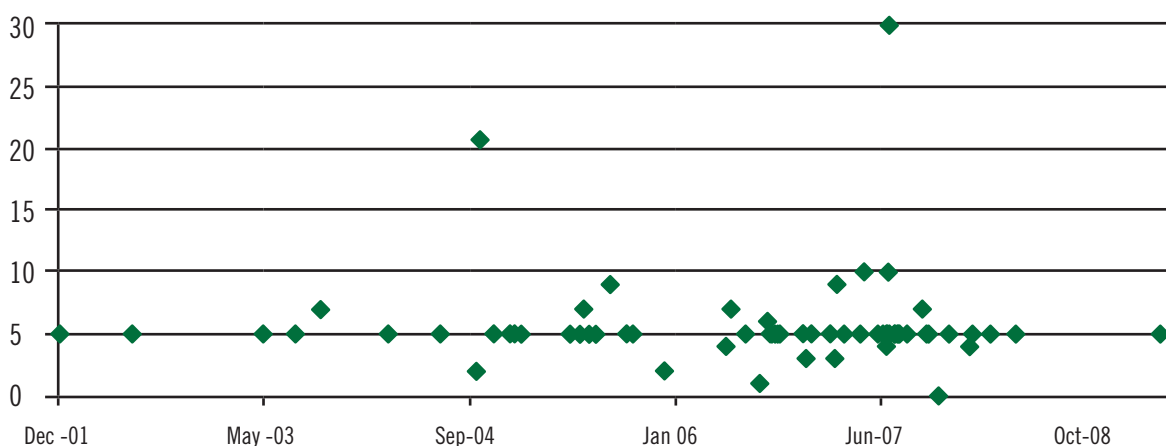


Chart 4: Scatter Plot of International Sukuk Issues by Tenor



Source: In-house IIFM Sukuk issuance database

3.2 Implications of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) Shari'ah Board Ruling of February 14, 2008

The AAOIFI Board met in early 2008 in order to deliberate upon certain aspects of the Sukuk structures which had gained popularity in the Sukuk market. The Board came up with a few milestone decisions which required major changes in the way standard forms of contracts were being drawn. The AAOIFI observed certain flawed practices which rendered most partnership or profit and loss sharing based Sukuk non-Shari'ah compliant although the Board decided to enforce its ruling for new Sukuk issues only. While this section may not present an exhaustive analysis of all the implications of the Board's ruling, the following aspects have affected Sukuk issuers the most:

- I. Some Sukuk are asset backed while most of the Sukuk are based on asset-based structures, our finding is that generally transfer of assets such as pieces of land, property or shares etc. from the entity raising funds to the Trustee or SPV is on a beneficial basis. The AAOIFI Board observed that in most of the Sukuk structures currently in place, only the beneficial title to the property or assets, and not the actual proprietorship, passes on to the SPV. Such transfer of beneficial ownership is not acknowledged as a true transfer of ownership or proprietary rights under English law that governs the majority of Sukuk. The AAOIFI through its fatwa ruled out this discrepancy between Shari'ah and governing law by requiring that assets must be 'legally' transferred to the Sukuk holders and must be taken off the balance sheet of the original seller under the Purchase Agreement so that the Sukuk holders have binding legal rights on the Trust assets.
- II. The Purchase undertaking features in the structure of almost every Sukuk that has been issued between 2001 and 2009. The undertaking is an irrevocable promise by the obligor to purchase the Trust assets from the SPV at the time of redemption of certificates (whether at maturity or prior to maturity). The undertaking pre-specifies the price at which assets would be bought, which is ordinarily set equal to the face value of the certificates, in effect guaranteeing the return of principal as under a conventional bond. The AAOIFI ruled that while the undertaking to purchase at a pre-determined fixed price is acceptable for Ijarah based

structures, it is totally unacceptable for profit sharing based structures such as Mudarabah and Musharakah. The purchase undertakings, as per the new ruling, can only require the obligor to purchase assets at the going market value or net asset value or at a purchase price to be mutually determined at the time of the purchase and not beforehand. Technically, such going market value or purchase price can therefore be less than the principal value of the Sukuk if the project to which the Sukuk proceeds were applied has not been profitable.

- III. The Musharakah and Mudarabah Sukuk issued so far have been guaranteeing the so-called indicative periodic payments by making provisions for Shari'ah compliant funding to be used to cover any shortfalls. To preserve the profit and loss sharing nature of the Mudarabah and Musharakah contracts though, the AAOIFI has ruled that any shortfall in the profit in any particular year should not be made good by the obligor through soft loans or by arranging liquidity financing. It is permissible however to have a reserve account to which some profit is directed in surplus years and the loss in any particular year can be made good using the money from the reserve account. Also, it is permissible for the obligor to sell part of the Mudarabah assets at the market price to a third party in order to raise funds to make good any shortfall in periodic return, failing which, it can itself purchase a part of assets for its own account at the market price.

3.3 Recent Development in the Sukuk Market

The Sukuk market is just a decade old at present and most of the innovations in terms of new structures or combination of structures have taken place in the last eight years. The most recent developments that have come to the surface over the last year; unfortunately due to the credit crunch facing the global as well as Islamic financial system since mid 2008, some of these recent developments in the Sukuk market are not so pleasant, foremost among them being the recent Sukuk defaults. The year 2009 has seen default likely-hood in at least three Sukuk so far, namely, the Saad Group Golden Belt Sukuk – the only Manfa'a based Sukuk in the international market, the East Cameron Gas Company Sukuk, and the Kuwaiti Investment Dar Sukuk. The three defaults have brought to light once again the problem pointed out first by the AAOIFI

Board in Feb 2008, namely, the discrepancy between Shari'ah contracts and the governing law of the Sukuk in executing and interpreting the transfer of assets to the Sukuk holders. At the time of default, the investors of the defaulted Sukuk found themselves without recourse to the so-called Trust assets under the governing law and therefore are being treated just like most sub-ordinated creditors, even though under Shari'ah guidelines, they must have had full recourse to the Trust assets and should have had the right to liquidate the same in order to recover their investments. As of recent, the Saad Group, one of the defaulted Sukuk issuers, has asked its Sukuk holders to vote on dissolving the Sukuk, hence triggering a dissolution event, which could be the first step in Sukuk holders claiming their money back from the Group.

The credit crunch and the tightening of the liquidity position of most issuers led to two other new developments. There was an instance when an issuer, Dubai Islamic Bank exercised its call option and called back a portion of its Sukuk through a USD 200 million cash tender offer at 88% of its face value. The offer was not well received though and only USD 83 million was

actually bought back. Similarly, Dubai's Nakheel Properties initially indicated the revision of payment terms but then eventually Sukuk got redeemed on due date hence market is yet to see how revision of Sukuk payment term will actually take place.

3.4 New Structures that comply with the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) Shari'ah Board Ruling

As discussed in detail in section 3.2, the AAOIFI declared some aspects of the partnership based structures that were being used in the market until early 2008, unacceptable, especially as far as the pricing under the 'Purchase Undertaking' is concerned. While the number of issues declined drastically thereafter, most likely due to the credit crunch, there was one Musharakah based Sukuk that was issued by Gulf Holding Company based in Bahrain. The issue seems to comply with the new injunctions provided by the AAOIFI Board and is therefore totally new to the market.

CHAPTER FOUR

SUKUK MARKET STRUCTURES IN THE INTERNATIONAL MARKET



4.1 Ijarah Sukuk

Ijarah forms the most common and simplest form of Shari'ah compliant Sukuk. The first few Sukuk issued in the international market were all based on this particular structure, as it lends itself easily to Shari'ah compatibility. Until June 30th 2009, 52% of the total Sukuk issued in the international market has been Ijarah-based. The Ijarah Sukuk have all been issued more or less using the same four Shari'ah compliant contracts, namely, the Purchase Agreement, the Master Ijarah Agreement, the Purchase Undertaking and the Sale Undertaking. Through the Purchase Agreement, the title or beneficial rights to a certain tangible asset (mostly a parcel of land) is transferred to the special purpose vehicle created specifically for the issuance of the Sukuk. The SPV is appointed a Trustee of the Sukuk holders and holds the beneficial interest or title to the assets on behalf of the Sukuk holders. The SPV then leases the assets, that is the parcel of land so transferred to it, back to the seller (or in some cases a third party which has use for the land or is bound to pay the periodic profit). The lessee will pay a rental on a periodic basis to the SPV, which will be passed on to the Sukuk holders. The rental payments can be fixed under Shari'ah, in fact it is impermissible to leave the rental payments undetermined, therefore the Ijarah Sukuk may carry a fixed rate of return from inception. Having said that, most Sukuk, in order to be compatible with their conventional counterparts try to offer a LIBOR-related floating rate of return. That is achieved by executing a Master Ijarah agreement that is for the entire life of the Sukuk but which calls for individual six-monthly or quarterly renewable lease agreements. At the beginning of each new lease, the rate is then fixed for that half-

year or quarter by taking into account the going LIBOR rate and the fixed margin.

The Ijarah Sukuk is governed by two more Shari'ah compliant contracts that in a way guarantee the payment of face value at the end of the term of the Sukuk, or in case of a default or any other such contingency. There is the Purchase Undertaking which binds the lessee in an irrevocable obligation to purchase the Sukuk assets from the SPV at a pre-determined fixed price either at maturity or on the materialization of some pre-specified events such as default, dissolution of trust, change in taxation or a change in control of the lessee. A similar contract by the name of the Sales Undertaking gives the SPV the right to require the lessee to purchase the trust assets at a pre-determined price. Together the two undertakings, especially where the seller/lessee/obligor under the Ijarah agreement happens to be a sovereign entity, serve to guarantee the payments to the Sukuk holder and the arrangement has mostly been looked at as a conventional guarantee even by rating agencies. Hence we find Ijarah based sovereign Sukuk bearing the same credit rating as that of the issuing country or Ijarah based corporate Sukuk being rated in line with the debt rating of the entity providing the purchase undertaking. Ijarah Sukuk are either backed by tangible assets or based on tangible assets and therefore are tradable and negotiable. The following is a list of all the Ijarah Sukuk that have been issued in the international arena from the inception of the Sukuk market until June 30th 2009. The list is in chronological order with the most recent International Sukuk issue first:

Table 13: International Ijarah Sukuk

Date	Obligor	Domicile	Issue Type	Amount US\$ mio	Tenor Years
09-Jun-09	Government of Bahrain	Bahrain	Sovereign	750	5
23-Apr-09	Government of Indonesia	Indonesia	Sovereign	650	5
06-Mar-08	Government of Bahrain	Bahrain	Sovereign	350	5
01-Nov-07	Kuwait Resorts Company (K.S.C.C.)	Bahrain	Corporate	50	0
26-Jul-07	Injazat Real Estate Development	Cayman Islands	Corporate	60	5
23-Jul-07	Gulf Finance House	Bahrain	Corporate	200	5
18-Jul-07	Tijarah Real Estate Investment Company	Bahrain	Corporate	60	5
17-Jul-07	Dar Al Arkan Real Estate Development Company (Dar Al Arkan)	Saudi Arabia	Corporate	1000	5
02-Jul-07	Tamweel PJSC	UAE	Corporate	220	30
03-May-07	Malayan Banking Berhad, Malaysia (Maybank)	Malaysia	Corporate	300	10
26-Feb-07	Sharjah Electricity and Water Authority (Sewa)	UAE	Sovereign	350	9
21-Feb-07	Dar Al Arkan Real Estate Development Company (Dar Al Arkan)	Saudi Arabia	Corporate	600	3
14-Dec-06	The Nakheel Group	UAE	Q. sovereign	3520	3
11-Sep-06	Bank Islam Brunei Darussalam	Brunei Darussalam	Corporate	100	6
23-Aug-06	Brunei Liquefied Natural Gas	Brunei Darussalam	Corporate	100	1
04-Jul-05	Amlak Finance	UAE	Corporate	200	5
21-Jun-05	Emirates Airlines	UAE	Corporate	550	7
11-Jun-05	Islamic Development Bank	Saudi Arabia	Corporate	500	5
20-May-05	Commercial Real Estate Company	Bahrain	Corporate	100	5
20-Jan-05	Government of Pakistan	Pakistan	Sovereign	600	5
24-Dec-04	Sarawak Corporate Sukuk Inc	Malaysia	Corporate	350	5
14-Nov-04	Department of Civil Aviation (DCA)	UAE	Sovereign	1000	5
06-Jul-04	Emaar Properties	UAE	Corporate	65	5
02-Mar-04	The National Central Cooling Company ('Tabreed')	UAE	Corporate	100	5
20-Sep-03	Government of Qatar	Qatar	Sovereign	700	7
11-Jun-05	Islamic Development Bank	Saudi Arabia	Corporate	500	5
27-May-03	Government of Bahrain	Bahrain	Sovereign	250	5
18-Jun-02	Malaysia Global Sukuk Inc	Malaysia	Sovereign	600	5
24-Dec-01	First Global Sukuk Inc (Kumpulan Guthrie Bhd)	Malaysia	Quasi Sovereign	50	5
24-Dec-01	First Global Sukuk Inc (Kumpulan Guthrie Bhd)	Malaysia	Quasi Sovereign	100	5
20-Sep-01	Government Of Bahrain	Bahrain	Sovereign	100	5

Source: In house IIFM Sukuk issuance database

4.2 Mudarabah Sukuk

Mudarabah is an investment partnership between two entities whereby one entity is mainly a provider of capital and the other is mainly the manager. A Mudarabah Sukuk is therefore an investment Sukuk (as against a financing or a sales contract based Sukuk) and the essence of a Mudarabah Sukuk is in its passing on its profits and losses to the Sukuk holders.

The Mudarabah Sukuk is governed by a Mudarabah agreement between the company raising capital and a special purpose vehicle created specifically for issuance of the Sukuk. Pursuant to the Mudarabah agreement, the issuing company is appointed a Mudarib or an investment manager while the SPV acts as the financier or *rab-al-maal*. The proceeds of the issue collected by the SPV from the Sukuk investors are applied as the capital of the Mudarabah which the Mudarib will manage for a fee and a share in the profits, the profit sharing ratio being specified at the outset. While there should not be a pre-determined rate of return in a Mudarabah contract, the Sukuk issued until early 2008 have been designed in a way to ensure that Sukuk holders receive the so-called indicative rate of return announced at the inception of the issue. They achieved this by including clauses in the Mudarabah agreement that specified a 'maximum' rate of return. Any profit to be generated above that rate of return would be directed to a reserve account, which could be used to cover any shortfall in future years. In case of insufficient profits as well as insufficient funds in the reserve account, the issuing company (also called the obligor in an investment based Sukuk) would be required to provide Shari'ah-compliant funding to meet the shortfall and make it up to the indicative rate of return, in effect guaranteeing the rate of return independent of the actual profit generated. As discussed earlier in this report, the AAOIFI Board has ruled against this practice of guaranteeing the indicative rate of return.

Mudarabah Sukuk feature an unconditional Purchase Undertaking from the issuing company, acting as an obligor under the undertaking, which provides that at maturity or in the event of insolvency of the SPV or inability to fulfill a payment, the obligor

will promptly pay all amounts due under the Sukuk. This purchase undertaking serves as the functional equivalent of a guarantee by the obligor although for Shari'ah compliance reasons, no such guarantee can be specified in the prospectus or any other document. An added feature of the Mudarabah Sukuk is that they provide for redemption before maturity, at the option of Sukuk holders, and also at the option of the SPV, which is acting as a Trustee on behalf of the Sukuk holders, as long as certain conditions are met. The purchase undertaking governs not only the amount payable at maturity of the Sukuk but also the amount payable in the event of early redemption for whatever reasons. In any case, the purchase undertaking, along with its counterpart, the Sales undertaking signed by the SPV pursuant to which it can require the obligor to pay up, ensures repayment of principal amounts and all due periodic payments to the Sukuk holders. Once again, as discussed earlier in the report, the fixing of price before hand in the purchase undertaking has been declared unacceptable by the AAOIFI Shari'ah Board. Some Sukuk feature a 'promise' by a third party to honor all payments due to the Sukuk holders in the case of a default. It's not a guarantee, but a promise and has been accepted by Shari'ah scholars as permissible as long as it is independent of the Mudarabah contract.

Mudarabah Sukuk are tradable and negotiable if the Mudarabah assets do not comprise entirely of the Sukuk proceeds (in which case it will be all liquid assets and cannot be traded). In most Sukuk, there is a combination of tangible assets and Sukuk proceeds, plus the Mudarib is allowed to mingle its own assets with those of the Mudarabah, hence mostly meeting the Shari'ah compliance requirement of having more than 51% of the assets in tangible form for tradability and negotiability.

The following are the International Mudarabah Sukuk that have been issued in the international arena from the inception of the Sukuk market until June 30th 2009:

Table 14: International Mudarabah Sukuk.

Date	Obligor	Domicile	Issue Type	Amount (US\$mio)	Tenor (Years)
07-Oct-07	Dana Gas	UAE	Corporate	1000	5
16-Aug-07	National Industries Group Holding Company SAK	Cayman Islands	Corporate	475	5
29-Jul-07	Qatar Real Estate Investment Company (QREIC)	Qatar	Corporate	300	5
02-Jul-07	DP World	UAE	Sovereign	1500	10
29-Jun-07	Dubai International Financial Center (DIFC), Dubai Sukuk Centre Ltd	UAE	Sovereign	1250	5
06-Jun-07	International Investment Group (IIG)	Kuwait	Corporate	200	5
11-Feb-07	Aldar Properties PJSC	UAE	Corporate	2530	5

Source: In house IIFM Sukuk issuance database.

4.3 Convertible or Exchangeable Sukuk

Convertible or exchangeable Sukuk certificates are convertible into the issuer's shares or exchangeable into a third party's shares at an exchange ratio which is determinable at the time of exercise with respect to the going market price and a pre-specified formula. The convertible or exchangeable feature can be exercised anytime before maturity and works in the same way as for any conventional convertible or exchangeable issue. It is permissible under Shari'ah as long as the conversion price or the exchange price fluctuates with the market price of the shares. An issue would arise where such price is required to be a minimum amount equivalent to the face value of the Sukuk, however, that is unlikely as it defeats the very purpose of issuing a convertible security. Some Sukuk combine exchangeability with another Shari'ah compliant structure such as Mudarabah or Musharakah. For instance the Dana Gas Sukuk issued in October 2007 is an exchangeable Mudarabah. Khazanah national's three issues are only exchangeable issues, not mingling it with Mudarabah or any other form of Shari'ah based financing. The following are the Sukuk so far issued in the international market that offers an exchangeability or convertibility feature:

Table 15: International Convertible or Exchangeable Sukuk

Date	Obligor	Domicile	Issue Type	Amount (US\$mio)	Tenor (Years)
05 - Mar -08	Khazanah Nasional Bhd	Malaysia	Quasi sovereign	550	5
23 - Jan - 08	Tamweel PJSC	UAE	Corporate	300	5
15 - Jan - 08	The Nakheel Group	UAE	Quasi sovereign	750	4
07 - Oct - 07	Dana Gas	UAE	Corporate	1000	5
27 - Jun - 07	Khazanah Nasional Bhd	Malaysia	Quasi sovereign	850	5
11 - Feb - 07	Aldar Properties PJSC	UAE	Corporate	2530	5
29 - Sept -06	Khazanah Nasional Bhd	Malaysia	Quasi sovereign	750	5
2 - Jun - 06	Aabar Petroleum Investment Company PJSC	Cayman Islands	Corporate	460	4

Source: In house IIFM Sukuk issuance database.

4.4 Musharakah Sukuk

Musharakah Sukuk is an investment partnership between two or more entities which together provide the capital of the Musharakah and share in its profits and losses in pre-agreed ratios. The Musharakah Sukuk has been next only to Ijarah in terms of its popularity so far. The Sukuk that had been issued until the AAOIFI ruling of February 2008 were very similar to the Mudarabah Sukuk structures except that in place of a Rab-al-Maal – Mudarib relationship between the Sukuk holders and the Obligor, there is a Musharik or partnership between the Sukuk holders and the Obligor. The SPV appointed as Trustee of the Sukukholders would use the proceeds of the Sukuk to buy a substantial interest in the Trust assets (also called the Co-owned assets) from the original issuer or seller (also called the Obligor). Or sometimes the partnership is made by the SPV contributing the cash (proceeds from the Sukuk issue) while the Obligor contributing in kind in the form of other tangible or intangible assets. Pursuant to the Musharakah agreement, the SPV and the Issuer would be declared Musharik in the Sukuk with pre-agreed ownership ratios and pursuant to a separate management or agency agreement, the Obligor will also be appointed manager of the co-owned assets. As in a Mudarabah arrangement, the Sukuk issued until early 2008 had been designed in a way to ensure that Sukuk holders receive the so-called indicative rate of return announced at the inception of the issue. They achieved this by specifying in the Musharakah agreement that any shortfall in the profit on any periodic distribution date will be met by the Obligor through Shari'ah-compliant funding. Similarly, an unconditional Purchase Undertaking by the Obligor used to provide that at maturity or in the event of insolvency of the SPV or inability to fulfill a payment, the Obligor will promptly pay all amounts due under the Sukuk by purchasing the share of the SPV in the co-owned assets at

a pre-agreed price, in effect guaranteeing profit as well as redemption amount. The ruling of the AAOIFI Board in Feb 2008 declared both practices unacceptable and although Musharakah had been quite popular as a structure of issue until then, it quickly lost ground. Since Feb 2008, there has been only one Musharka issue. It has been issued by the Gulf Holding Company in Bahrain, by the name of Villamar Sukuk Company. The new Musharakah structure is different from the older one in vogue until Feb 2008 in at least two major ways. First, the prospectus does not specify a purchase price for the co-owned assets at the time of redemption or dissolution. Secondly, the structure links periodic profit payments to whether or not the project is profitable and does not provide for the Obligor to resort to Shari'ah compliant funding to make up for a shortfall in any year, although the structure does include creation of a Reserve account to which profits from surplus years are directed and which can be used to cover up shortfalls in following years. The prospectus includes a clear statement to this effect wherever periodic distributions are mentioned: "Certificate holders should note that the ability of the Issuer to pay any amounts (including Periodic Distribution Amounts) under the Sukuk Certificates will ultimately be dependent on the success of the Project." The Sukuk does use an innovative 'Security package' for the comfort of the investors though, making use of a standby letter of credit from an Islamic bank that among other things comes into effect in case the Obligor fails to meet its obligation regarding a profit payment or redemption amount. It would be interesting to see how much interest the Sukuk generated among the non-Islamic investors. The following is a chronological list of all the Musharakah Sukuk in the international market:

Table 16: Musharakah Sukuk in the International Market

Date	Obligor	Domicile	Issue Type	Amount (US\$mio)	Tenor (Years)
07-May-08	Gulf Holding Company	Bahrain	Corporate	190	5
03-Oct-07	Thani Investment Group	UAE	Corporate	100	5
22-Sep-07	Berber Cement Co, Sudan	Sudan	Corporate	130	7
04-Jul-07	United Real Estate Company	Cayman Islands	Corporate	100	5
27-Jun-07	Diyaar Al Muharraq W.L.L. (Diyaar Sukuk Company)	Bahrain	Corporate	200	4
25-Apr-07	Emirates Islamic Bank	UAE	Corporate	350	5
15-Mar-07	Dubai Islamic Bank	UAE	Corporate	750	5
27-Dec-06	Al Ahlia Gulf Holding (Lagoon City Sukuk)	Kuwait	Corporate	200	0
07-Dec-06	Abu Dhabi Islamic Bank	UAE	Corporate	800	5
09-Oct-06	National Industries Company for Building Material (NICBM)	Cayman Islands	Corporate	100	5
06-Oct-06	Sharjah Islamic Bank (SIB)	UAE	Corporate	225	5
20-Sep-06	A'Ayan Leasing & Investment Co.	Bahrain	Corporate	100	5
18-Sep-06	Qatar Real Estate Investment Company (QREIC)	Qatar	Corporate	270	5
17-Sep-06	Investment Dar	Cayman Islands	Corporate	150	5
04-Jan-06	Dubai Ports Authority and DPI Terminals	UAE	Corporate	3500	2
03-Oct-05	The Investment Dar Company K.S.C	Bahrain	Corporate	100	5
24-Aug-05	Sanctuary Building Sukuk	GB	Corporate	261	9
19-May-05	Gold Sukuk (Dubai Metals & Commodities Centre)	UAE	Corporate	200	5

Source: In house IIFM Sukuk issuance database

4.5 Murabaha Sukuk

Murabaha is probably the least used form for Sukuk issuance so far in a number of jurisdictions (although the short term Islamic money market thrives solely on commodity Murabaha in a number of jurisdictions). They are based on the cost plus profit mechanism and are a pure sales contract based Sukuk. Only three such Sukuk have been issued on the basis of Murabaha in the international market. They are:

Table 17: International Murabaha Sukuk

Date	Obligor	Domicile	Issue Type	Amount (US\$mio)	Tenor (Years)
14-Jun-06	FEC Cables (M) Sdn Bhd	Malaysia	Corporate	130	7
19-Oct-05	Arcapita Bank	Bahrain	Corporate	210	5
03-Oct-04	Arcapita Bank	Bahrain	Corporate	98	2

Source: In house IIFM Sukuk issuance database.

4.6 Hybrid and other Sukuk

Hybrid Sukuk combine two or more forms of Islamic financing in their structure such as Istisna'a and Ijarah, Murabaha and Ijarah, etc. In that way there is unlimited scope for innovation in hybrid Sukuk. The following is a list of Sukuk which have not been classified under any of the above structures.

Table 18: International Hybrid and Other Sukuk.

Date	Obligor	Domicile	Issue Type	Amount (US\$mio)	Tenor (Years)
26-Nov-07	Ras Al Khaimah Investment Authority	UAE	Sovereign	325	5
18-Jun-07	Saad Group (Golden Belt)	Saudi Arabia	Corporate	650	5
20-Jul-06	The National Central Cooling Company ('Tabreed')	UAE	Corporate	200	5
20-Jul-05	Bahrain Financial Harbor	Bahrain	Corporate	134	5
03-Jan-05	Durrat Sukuk Company BSC	Bahrain	Corporate	152.5	5
12-Oct-04	Munshaat Real Estate Company	Saudi Arabia	Corporate	390	21

Source: In house IIFM Sukuk issuance database

CHAPTER FIVE

CASE STUDIES OF SELECTED INTERNATIONAL SUKUK ISSUES

Disclaimer: The case studies presented below are based on the author's impression of the structure of the mentioned Sukuk on the basis of information derived from the prospectuses, term sheets and news briefs on the Sukuk. No guarantee can be made as to accuracy and/or completion of the structures presented.

5.1 Sovereign Sukuk Case Studies

5.1.1 Malaysia Global Sukuk (2002)

5.1.1 (a) Basic Information

The Malaysia Global Sukuk was issued by the Government of Malaysia in June 2002. It is arguably the first, or at any rate one of the first two, international sovereign Sukuk to be issued. The Sukuk was issued through a Special Purpose Vehicle (SPV) named the Malaysia Global Sukuk Inc in order to finance the development of land parcels in or around the Malaysian city of Kuala Lumpur for two government owned hospitals, the government living headquarters and a government office complex. The 5 year issue which matured in June 2007 was dollar-denominated, USD 600 million in size and offered a semi-annual floating rate of return equal to six month LIBOR plus 95 basis points.

5.1.1 (b) Structure of the Issue

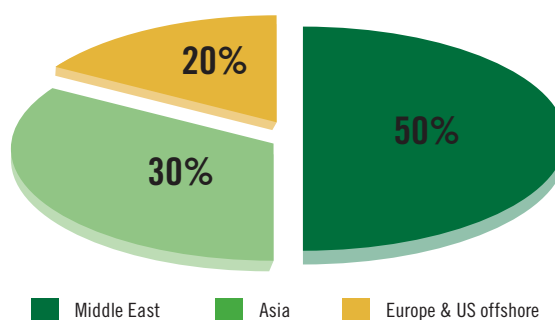
The Malaysia Global Sukuk is structured around the Islamic principle of Ijarah. Being one of the first few international sovereign issues, it made use of the most basic and direct route to Shari'ah compliant fundraising and revolved around four major Shari'ah compliant contracts, namely, the Purchase Agreement, the Master Ijarah Agreement, the Purchase Undertaking and the Sale Undertaking. Through the Purchase Agreement the Federal Lands commission (FLC), a government body that owned the parcels of land that form the subject matter of the Sukuk, transfers its 'beneficial title' to the SPV. FLC remained the registered proprietor; however it signed a declaration of trust that signified that it holds the registered proprietorship to the land as trustee for and on behalf of the SPV. The structure is characterized therefore by two declarations of trust, one appointing FLC as a trustee of the proprietorship of the land on behalf of the SPV and another one appointing the

SPV as trustee (and Ernst & Young Malaysia as co-trustee) of the beneficial title to the land on behalf of the Sukuk holders. The SPV leases the beneficial title of the land to the Govt. of Malaysia under a Master Ijarah agreement for 5 years (in the form of renewable 6 monthly leases which is the norm in all Ijarah based Sukuk) in return for semi-annual rental payments.

The principal repayment equal to the face value of the Sukuk is affirmed beforehand through the SPV executing a Sales Undertaking Deed and the Government of Malaysia executing a Purchase Undertaking Deed under which the former is obliged to sell and the latter is obliged to buy the beneficial title to the land at the fixed price of USD 600 million at the end of the 5-year period. The Deeds could come into effect even before maturity in case of a default on any of the payments. Because of the irrevocable undertaking by the Government of Malaysia to purchase the Trust assets at the pre-determined fixed price, the Sukuk is deemed to have the sovereign guarantee of the government and accordingly given the same rating as long term foreign currency debt of the government of Malaysia i.e. BBB+ by Standard and Poor's (S&P). The Malaysia Global Sukuk is tradable because the Sukuk represent ownership of the beneficial title to a tangible asset.

5.1.1 (c) Geographic Distribution of the Sukuk investors

The Malaysia Global Sukuk had most of its investors arising from the Middle East.



5.1.2 Qatar Global Sukuk (2003)

5.1.2 (a) Basic Information

The Qatar Global Sukuk was issued by the Government of Qatar in October 2003 through a SPV of the same name in order to finance the proposed development of Hamad Medical City in Doha, Qatar. The issue is dollar-denominated, USD 700 million in size, offering a semi-annual floating rate of return equal to six month LIBOR plus 40 basis points and having a tenor of 7 years, maturing in October 2010.

5.1.2 (b) Structure of the Issue

The Qatar Global Sukuk, like its two predecessors, the Malaysian Global Sukuk and the Bahrain Government Sukuk, makes use of the simple structure of Ijarah. This Sukuk also made use of the four Shari'ah compliant contracts, namely, the Purchase Agreement, the Master Ijarah Agreement, the Purchase Undertaking and the Sale Undertaking. The funding is executed by first transferring the ownership of the designated parcel of land to the SPV through the Purchase Agreement. Note that unlike the Malaysian Global Sukuk, the actual ownership and not just the beneficial title passes to the SPV. The SPV holds the land as Trustee and Agent of the Sukuk holders. The SPV leases the land back to the Govt. of Qatar for 7 years in return for semi-annual rental payments. The periodic payments for the first two years comprise only of the rental (i.e. LIBOR + 40 bps on the issue price of USD 700 million), however, the payments for the last five years also include amortization of the principal (one-tenth of USD 700 million for each periodic payment). In this regard, in the last five years the Qatar Sukuk acts more like an amortizing conventional bond.

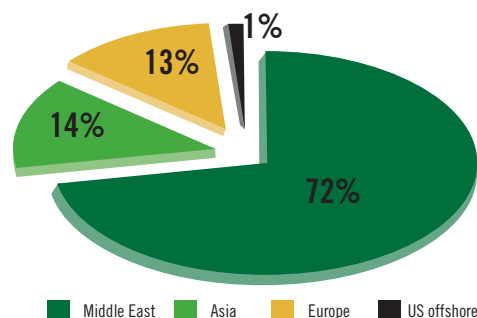
The final principal payment is governed by the Purchase Undertaking and the Sales Undertaking, which are irrevocable undertakings by the Government of Qatar to buy and the SPV to sell, respectively, the same parcel of land for a fixed price of USD 700 million (less all the accumulated amortized payments that have already been made towards the principal starting from the third year). The Purchase Undertaking provides the SPV the right to require the Government of Qatar to purchase the parcel of land back and forward the proceeds to the SPV for distribution to the Sukuk holders at any point

during the life of the Sukuk. It can therefore come into effect even before the maturity of the Sukuk, let's say in the event of a default on any of the payments, and provides a comfort to the Sukuk holders. While the structure does not spell out the term 'guarantee' for the payments due to Sukuk holders for Shari'ah reasons, these irrevocable undertakings that specify the price at which the government will be obliged to purchase back the land at any point in time, provides the much needed security for the investors and can be construed equivalent to an unwritten sovereign guarantee (just as in the case of the Malaysian Global Sukuk). It was viewed as such by the conventional investors and rating agencies too and accordingly the Sukuk was awarded the same debt rating as the long term rating of the state of Qatar itself, A+ by S&P.

The Qatar Global Sukuk provides for tradability (just as most other Ijarah Sukuk). This is because each Sukuk represents undivided prorated ownership of a tangible asset, the parcel of land, and is therefore permissible for trade at par, premium or discount.

5.1.2 (c) Geographic Distribution of the Sukuk investors

The Qatar Global Sukuk had most of its investors arising from the Middle East.



1.3 Government of Bahrain Sukuk (2004)

5.1.3 (a) Basic Information

Although the first sovereign international Sukuk from the Govt. of Bahrain was issued by the Central Bank of Bahrain (formerly Bahrain Monetary Agency) on behalf of the Government in September 2001. However, for this case study we have taken the June 2004 Sukuk issuance as it is closer to our intended Sukuk issuance selection criteria for case studies. The issue which matured in June 2009 was dollar-denominated and USD 250 million in size. It offered a

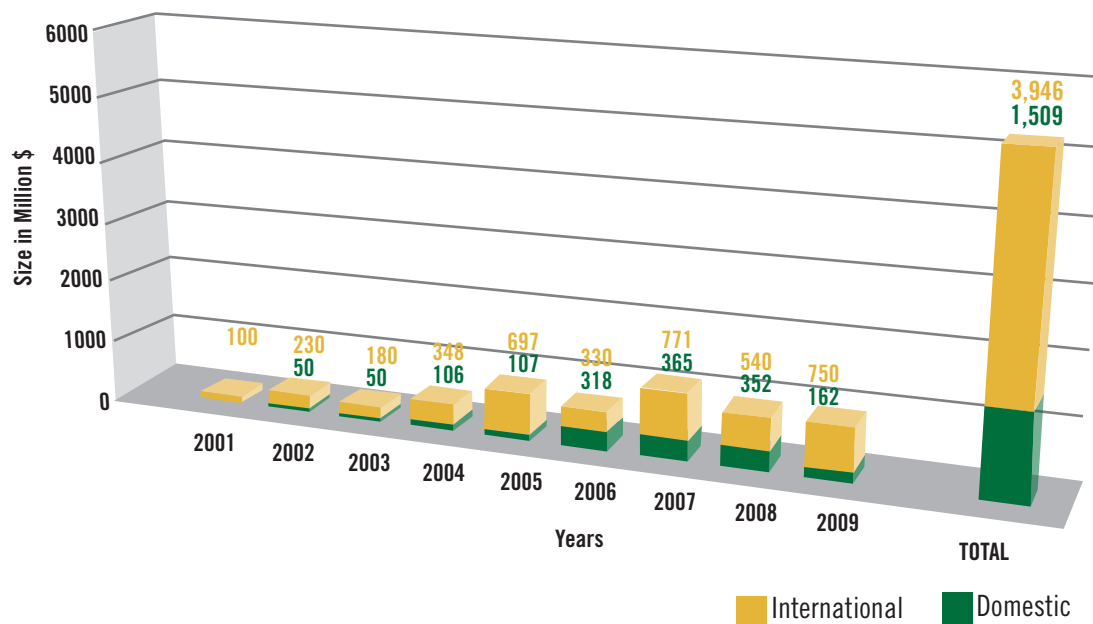
semi-annual floating rate of return equal to six month LIBOR plus 40 basis points

5.1.3 (b) Structure of the Issue

The Sukuk is based on Ijarah and is based on real estate assets owned by the Government of Bahrain, namely Salmaniya Hospital Complex. The structure is similar to its predecessor sovereign Sukuk issued by the governments of Malaysia and Qatar in close succession. The SPV created for the issuance of the Sukuk purchases the assets from the Government of Bahrain through the proceeds collected from certificate holders and holds those assets as trustee on behalf of the certificate holders. The assets are leased back to the Govt. of Bahrain for a period of

5 years during which the government will pay a six-monthly rate of return of LIBOR plus 40 basis points. The government makes a binding promise of purchasing the assets back at the nominal value of USD 250 million at redemption, thereby guaranteeing the redemption price. The government also makes a binding promise to pay the rent on the assets until the end of the rental period according to the terms and conditions of the Ijarah Agreement. The issue was rated A- by S&P in line with the debt rating of the Govt. of Bahrain. The Sukuk provides for tradability (just as most other Ijarah Sukuk). This is because each Sukuk represents undivided prorated ownership of a tangible asset, the parcel of land, and is therefore permissible for trade at par, premium or discount.

Chart 5: Bahrain Sukuk Issuance (Domestic + International)



Source: In house IIFM Sukuk issuance database

5.1.4 Pakistan International Sukuk (2005)

5.1.4 (a) Basic Information

The Pakistan International Sukuk was issued by the Government of Pakistan in January 2005 to raise finance for its public expenditure in a more cost effective way. The issue is dollar-denominated, USD 600 million in size, offering a semi-annual floating rate of return equal to six month LIBOR plus 220 basis points and having a tenor of 5 years, maturing in January 2010. The Sukuk were sold to investors by auction, as is the case with all government securities in Pakistan.

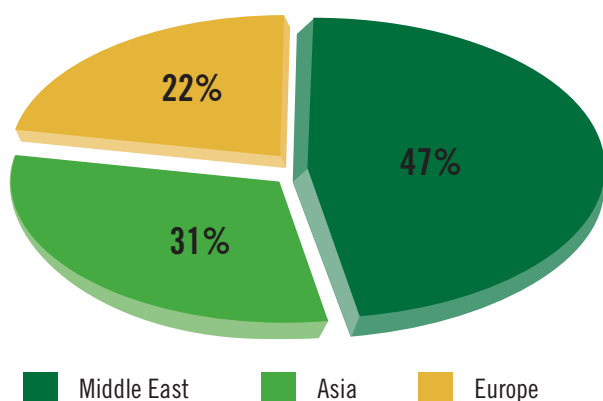
5.1.4 (b) Structure of the Issue

The Pakistan International Sukuk or the GOP Sukuk is based on Ijarah, making use of a Shari'ah compliant Purchase

Agreement, the Master Ijarah Agreement, the Purchase Undertaking and the Sale Undertaking. The asset under the lease or Ijarah is title to the land that forms the Lahore-Islamabad Motorway (M2 Motorway) or simply the Highway Land as referred to in the Prospectus. The land is under the proprietorship of the National Highway Authority (NHA), a Government of Pakistan owned entity. Under the Purchase Agreement, NHA sells title and rights of the piece of land to the SPV created for the purpose of the issue. The SPV leases out the land to the Government of Pakistan (Note that in order to comply with certain local regulations, the land is actually leased out to the President of Pakistan acting on behalf of the government of Pakistan). Pursuant to the Ijarah agreement, the GOP will pay a semiannual rate of LIBOR + 220 bps to the SPV to be passed on to the Sukukholders. Pursuant to the irrevocable Sales undertaking, the SPV will sell the assets at maturity of the Sukuk to the GOP and pursuant to the irrevocable Purchase undertaking the GOP will pay the full face value of the certificates to the SPV to be passed on to the Sukukholders. The Sukuk was rated B+ by S&P in line with the rating on the country's foreign currency debt. The issue is tradable in secondary market as it represents ownership in the Highway land.

5.1.4 (c) Geographic Distribution of the Sukuk investors

The Pakistan International Sukuk appealed to a wide investor base. Central Banks and Government Agencies accounted for 25% of the transaction, and Asset Managers another 23%. Islamic Institutions claimed 20%, and banks 18%, with the remainder being taken up by private banks, retail intermediaries and insurance companies and corporates. The Middle East accounted for 47% of the issue, Asia 31% (out of which Malaysia represented 16%) and Europe 22%



5.2 Quasi-sovereign Sukuk Case Studies

5.2.1 Khazanah Nasional (Telekom Malaysia-2006)

5.2.1 (a) Basic Information

Khazanah is the investment holding arm of the Government of Malaysia entrusted to manage the assets held by the Government and undertake strategic investments. The company is almost fully owned by the Ministry of Finance in Malaysia. Khazanah has come up with three international and two domestic issues up to June 30th 2009. Here we discuss the first one here which was used to provide finance to Telekom Malaysia, the principal provider of telecommunications and related services in Malaysia, in which Khazanah has a substantial stake. The dollar denominated issue was USD 750 million in size (issue size of USD 650 million with an over-allotment option of USD 100 million), offering a rate of return of 1.25% per annum payable annually and having a tenor of 5 years, maturing in October 2011.

5.2.1 (b) Structure of the Issue

The Khazanah Sukuk or the Rafflesia Capital's Exchangeable Trust Certificates (Rafflesia being the name of the special purpose vehicle created to issue the Sukuk, referred to as the 'Issuer') is quite innovative in its structure. It is the first ever Shari'ah compliant exchangeable Sukuk. In fact it is the first and still probably the only Sukuk (besides others from Khazanah itself) to be backed solely by Shari'ah compliant financial assets (equity of Telekom Malaysia) rather than any tangible assets. The Sukuk are exchangeable into ordinary shares of Telekom Malaysia, specifically, 254,239,632 shares that form the Exchange Property or the more commonly used term, Trust assets. The structure makes use of two SPV's (perhaps necessary under the regulations of Malaysia) to transfer assets to the Certificate holders. Pursuant to an Obligor-SPV Purchase Agreement the Telekom shares are transferred to an SPV named Orchid capital, and then through another parallel SPV-Issuer Purchase Agreement, they are transferred to Rafflesia, which holds them in trust for Certificate holders in exchange for the proceeds of the issue. The Issuer appoints Khazanah as Asset manager for

the Trust Assets through a Management Agreement; Khazanah however is only entitled to a management fee and no share in the profit, implying that it's a simple management agreement and not like a Mudarabah. The Sukuk are exchangeable into ordinary shares of the Obligor at any time during the exchange period and the exchange ratio is determined by the prevailing market price of the shares in the Malaysian stock market. Khazanah in the capacity of the obligor is bound to pay the exercise price or the redemption price, whichever is applicable, through its irrevocable unilateral Purchase undertaking deed.

Another innovation in the Sukuk structure is the way the periodic payment was structured. The periodic payment is to be paid out of the dividend income on the shares of Telekom Malaysia held as trust assets. The issuer or the obligor makes no explicit or implicit guarantee of meeting the indicative 1.25% p.a. periodic payment even though the redemption amount is implicitly guaranteed by Khazanah through the Purchase undertaking. The structure does provide for a Sinking Fund (which is included in the Trust Assets) though to which all payments in excess of the maximum payable amount of 1.25% p.a. will be directed and accumulated until the sinking fund has enough funds to meet all periodic payments. The periodic payments have been made cumulative so that if there is a shortfall in one particular year and no excess funds in the sinking fund either, an additional amount will be payable with the next periodic payment to cover last year's shortfall.

The Sukuk was backed by Telekom Malaysia shares as assets; therefore it is imperative that Telekom Malaysia remains Shari'ah compliant throughout the life of the Sukuk. This has been ensured by prescribing some numerical tests similar to the Dow Jones Islamic Index criteria for selection of equities, which are run on the company's financials on a periodic basis and submitted to Shari'ah advisors as proof of Shari'ah compliance.

The Khazanah Sukuk is unrated. It is probably one of the very few Sukuk which among other risk factors also points out that 'there is no assurance that the Certificates will be Shari'ah compliant'. It's probably

due to the fact that it was cleared by Shari'ah advisors in Malaysia itself while it was being marketed elsewhere in the world and the Shari'ah views of Malaysia and the rest of the world including GCC are dissimilar in certain respects.

5.2.2 Islamic Development Bank (IDB) Trust Certificate Issuance Programme (2009)

5.2.2 (a) Basic Information

The Islamic Development Bank has been quite active in the Islamic capital markets through its trust certificate programmes from time to time. The Sukuk programmes comprise a series of Sukuk issues up to a certain pre-specified amount and are usually based on some hybrid structure. Here we cover the latest Trust certificate programme of the IDB, which commenced in September 2009 and amount to USD 1.5 billion.

5.2.2 (b) Structure of the Issue

The IDB Trust Sukuk programme is based on a hybrid structure, making use of the principles of Ijarah, Istisna'a, Murabaha as well as Wakala. The Trust assets include at least 51% of tangible assets such as Ijarah contracts and equity instruments and at the maximum 49% of intangible assets such as Istisna'a and Murabaha receivables. IDB as the Obligor appoints IDB Trust services, an SPV, as the Trustee on behalf of the Sukuk holders, which uses the proceeds of the issue to purchase these Trust Assets from IDB through a Purchase Agreement. A Purchase undertaking deed executed by the IDB in favor of the Trustee ensures that the IDB will purchase the Trust assets or the relevant portion of it from the Trustee at a pre-specified price (including the nominal amount of the issue as well as outstanding periodic payments) in case of redemption or early dissolution. Certificate holders are entitled to periodic distribution amounts, which will be announced prior to each issue in the certificate trust programme. The prospectus for each issue will specify a maximum and minimum rate of return. IDB has agreed through the Trust Deed to make available a liquidity facility to the Trustee to ensure timely payment of the periodic distribution amounts. The structure also provides

for a Wakala agreement whereby IDB is also appointed as a Wakeel for the Trust. In the capacity of a Wakeel, IDB will ensure deploying of the proceeds of the issue and profit collections into the Trust assets either from its own account or by acquiring them in the open market if it does not have sufficient assets of its own. IDB will be entitled to a fixed basic fee as well as incentive fee for acting as Wakeel. The issue will be backed by at least 51% tangible assets and will therefore be negotiable and tradable in the secondary market. While the prospectus does not mention the rating of the Sukuk, it will carry the same creditworthiness as IDB since IDB guarantees principal payments through the purchase undertaking and also guarantees the profit payments by agreeing to act as a liquidity facility provider.

5.3 Corporate Sukuk Case Studies

5.3.1 Dana Gas Sukuk (2007)

5.3.1 (a) Basic Information

The Dana Gas Sukuk was issued by Dana Gas, a private sector natural gas company based in the UAE, in October 2007. The Sukuk was issued to finance growth and expansion plans of Dana Gas and the proceeds raised would be invested in the ongoing business activities of the company. The issue is dollar denominated, USD one billion in size, offering an indicative annual rate of return of 7.5% payable quarterly and having a tenor of 5 years, maturing in October 2012.

5.3.1 (b) Structure of the Issue

The Dana Gas Sukuk is based upon the structure of Mudarabah. Dana Gas acts as the Mudarib (manager of the partnership) while the SPV is appointed as the Rab-al-Maal (or the financier). The Mudarabah agreement joins the SPV and Dana Gas into a partnership arrangement where the SPV provides the capital (collected through the proceeds of the Sukuk) and Dana Gas invests the capital into pre-approved business activities. There is a pre-determined profit sharing ratio of 99% to the SPV, in order to be passed on to the Sukuk holders, and 1% to the Mudarib. The agreement has been made in order

to ensure that only 7.5% per annum is passed on to the certificate holder because anything in excess will be paid to the Mudarib as incentive fee while any shortfall will have to be made up by the Mudarib through short term liquidity financing. A Declaration of Trust appoints the SPV as Trustee on behalf of the Sukukholders in respect of the rights, benefits and entitlements to the Murabaha assets.

The structure also makes use of a Purchase Undertaking and a Sale Undertaking that ensures principal amount is paid in full on maturity of the issue, or on redemption. The Purchase undertaking which comes into effect during the life of the Sukuk if at any time there is a default on any payment or change of control in the parent company or any such major event, indirectly assures the Sukuk holders of the periodic profit payments as well as the redemption amount. The Sukuk certificates are also redeemable before maturity at the option of any Sukuk holder, in fact they are exchangeable into the ordinary shares of Dana Gas, which are listed on the Abu Dhabi Securities Market, although whether the certificates are redeemed in cash or against issued shares is determined by certain conditions. If the Sukuk are held to maturity they will be redeemed in full in cash, therefore early exercise would depend on whether or not the value of the shares on exercise is greater than the redemption amount of the unexercised certificates. The exchange ratio between the Sukuk and the shares of Dana Gas at any point in time, as well as the redemption amount payable on redemption and/or maturity will be determined in the same way as for any conventional convertible or exchangeable issue, except that in this case it is governed by the Shari'ah compliant contracts of the Purchase undertaking and the Sale undertaking. The conversion price or the exchange ratio fluctuates with the market price of the shares of Dana Gas and therefore in compliance with Shari'ah. The Dana Gas Sukuk represents beneficial title to tangible assets – investment in ongoing business activities of the company – therefore they are tradable. They are unrated.

5.3.2 DP World Sukuk (2007)

5.3.2 (a) Basic Information

The DP World Sukuk was issued by DP World, a container terminal operator owned by the Dubai World Corporation and therefore indirectly by the Government of Dubai. The Sukuk was issued in July 2007 in order to fund business needs of the company, which had just come out of a massive restructuring strategy on part of its parent company and had major expansion plans. The dollar denominated issue has a face value of USD 1.5 billion although it was issued at a 0.25% discount to face value. The Sukuk offers an indicative annual rate of return of 6.25% payable semi-annually and has a tenor of 10 years, maturing in July 2017.

5.3.2 (b) Structure of the Issue

The DP World Sukuk makes use of a Mudarabah structure. DP World acts as the Mudarib (manager of the partnership) while the SPV (DP World Sukuk Company) is appointed as the Rab-al-Maal (or the financier). Investors pay the issue price for the Sukuk and Dubai World Sukuk Ltd. (in its capacity as rab-al-maal, or provider of capital) applies the proceeds as the capital of the Mudarabah, pursuant to a Mudarabah agreement entered into between the SPV and DP World. DP World invests the capital of the Mudarabah in its business activities in accordance with an agreed Shari'ah-compliant investment plan (essentially constituting the development of terminal 2 at Jebel Ali port) designed to generate "profits," which will be used to service the certificates. Mudarabah agreements are characterized by a pre-determined profit sharing ratio, which in this case has been affixed as 99% to the SPV, in order to be passed on to the Sukuk holders, and 1% to the Mudarib. Note that a Mudarabah agreement, being an investment partnership, cannot specify or guarantee a pre-determined rate of return as in the case of sales contracts such as Ijarah, Salam or Murabaha, therefore the rate of profit is only indicative. However, if insufficient profit is generated, then DP World will be required to provide Shari'ah-compliant funding to meet the payments in full. The credit risk therefore is eventually DP World's and in a way DP World will

ensure that Sukuk holders do receive the indicated 6.25% rate of return.

The Sukuk features an unconditional Purchase Undertaking from DP World, which provides that in the event of insolvency of the SPV or payment shortfall, DP World will promptly pay all amounts due under the Sukuk. This payment undertaking serves as the functional equivalent of a guarantee by DP World although for Shari'ah compliance reasons, no such guarantee can be specified in the prospectus or any other document. The Sukukholders can also redeem their Sukuk before maturity. Either at the pre-determined redemption date or due to an early Dissolution Event (such as standard Events of Default, but also a Change of Control defined as the government reducing its stake to below 50%), the SPV has the right to exercise its Sales undertaking and require DP World to purchase the beneficial interest in the Mudarabah Assets, and all rights, benefits and entitlements under these Assets at the Relevant Exercise Price, which is fixed at the level of the proceeds from the Certificates. This effectively redeems the Certificates and places the obligation to repay the certificate holders with DP World.

The DP World Sukuk, bearing an indirect indicative sovereign guarantee on all payments related to the Sukuk (because DP World is owned by the Govt. of Dubai) was rated A+ by S&P and A1 by Moody's. The Sukuk represent ownership in Mudarabah assets, which includes tangible assets, therefore it is tradable in secondary market.

CHAPTER SIX

CONCLUSION



6.1 Conclusion

The overall finding of the research included in this study is clearly understood through the conclusion of this report that Sukuk, as mentioned earlier, has become a very important instrument worldwide over the past decade and it has been accepted not only by the Muslim investors but also by the many non-Muslim investors across the globe. Its unique characteristics have enabled it to give competitive advantages over other instruments in the Islamic Capital Market. Hence, the purpose of this work research did not extend beyond examining and analyzing issues which are very crucial to the future development and enhancement of the Sukuk industry. Also among the other things discussed in this research work, is the impact of the 2008 AAOIFI Shari'ah ruling on Sukuk issuances across the globe. The conclusion of this research work is made on the basis of the following points:

1. The main function and objective of the Sukuk issuance is to provide an alternative way of transactions in the capital and money market industry to the Muslim investors as well as non-Muslims. To Muslim investors this will give them peace of mind, security confidence and concentration.
2. In respect to the issuance of Sukuk at international level, GCC region has dominated. However, until mid 2008 the international Sukuk market was driven mainly by corporate issues or quasi-sovereign (mostly without implicit government guarantee) while sovereign Sukuk were few which had resulted into imbalance and hurdles for issues such as creation of bench mark yield curve. Since then, due to the financial crisis, the international Sukuk issuance trend has shifted towards Sovereign or few multilateral agencies issuances mainly due to better quality & safe heaven reasons. Furthermore, there has been limited investors' appetite for corporate risk. As regard to the issuances of Sukuk at the

domestic level, the analysis shows that Malaysia is ahead.

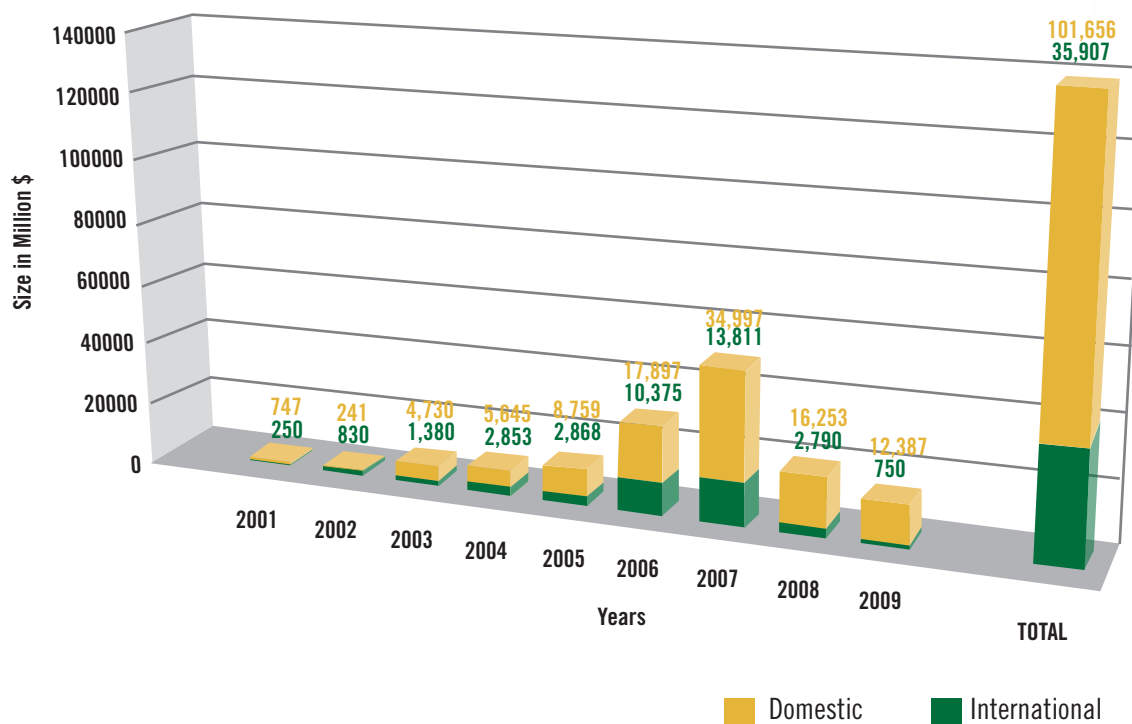
3. With regard to the growth in both international and domestic Sukuk issuances, the conclusion reached based on this study is that, until 2007 there has been high growth in both international and domestic Sukuk issuances, but unfortunately, the growth pattern was dented by the credit crunch. Nevertheless, in first half of 2009 the growth trend again showed sign of recovery and the market may have witnessed a stead reversal in Sukuk issuance if it was not hit by few troubled Sukuk issues.

4. Tenor wise international Sukuk is mostly confined to 5 year tenor and there are just a couple of long term Sukuk which again high light the need for having balance between short, medium and long term tenors more for secondary market development purposes.

5. At international level the Ijarah Sukuk structure is the most widely used followed by Musharakah. During mid 2008 to mid 2009 the market witnessed the issuance of Sukuk dominated by Ijarah structure where issuance by Government of Indonesia of its retail and sovereign Sukuk are good examples. Exchangeable/Convertible and Hybrid Sukuk structures have also emerged as one of the potential growth drivers due to their innovation potential and provision of an equity market link.

6. Finally, the market conditions and AAOIFI Shari'ah Board ruling had impacted the Musharakah and Mudarabah Sukuk issuance. Nevertheless, we are of the view that the acceptance and growth of Sukuk is expected to continue which necessitate more and continue effort and improvement in many of its aspects.

6.2 Appendix (A): GLOBAL SUKUK ISSUANCE (1st JAN 2001 - 30th JUNE 2009)



Source: In house IIFM Sukuk issuance database

6.3 Appendix (B)

Terms Glossary

Term	Meaning
Shari 'ah	Islamic Laws as revealed in the Holy Quran and through the example of Prophet Muhammad (pbuh).
Shari'ah compliant	Means an act or activity that complies with the Islamic Law requirements. The term is often use in the Islamic banking industry.
Shari'ah board	A Shari'ah board is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of the Shari'ah compliant products.
Shari'ah advisor	A trained Islamic Shari'ah scholar that advises an Islamic financial institution such as Islamic bank on the compliance of its products and services with Shari'ah.
IIFM	International Islamic Financial Market
AAOIFI	The Accounting and Auditing Organisation for Islamic Financial Institutions.
Sukuk	Sukuk (plural of Sak) is an Arabic word which means (Certificates). It has Similar characteristics to that of a conventional bond with the difference being that they are asset backed; Sukuk represents proportionate beneficial ownership in the underlying asset.

Salam Sukuk	Salam is a sale whereby the seller undertakes to supply a specific commodity to the buyer at a future date in exchange of an advanced price paid in full on the spot. The price is in cash but the supply of the purchased good is deferred. Salam Sukuk are issued for the purpose of mobilizing funds.
Istisna'a Sukuk	Istisna'a is a contract of sale of specified goods to be manufactured, with an obligation on the manufacturer to deliver them upon completion. Istisna'a Sukuk are securities whose holders are common owners of the property that is acquired on the Istisna'a contract basis.
Musharakah Sukuk	Musharakah contract is an investment partnership between two or more entities which together provide the capital of the Musharakah and share in its profits according to a stipulated ratio and share losses on the basis of equity participation. Musharakah Sukuk are securities in which its holders are owners of a specified property in common. Its holders will gain from any increase or loss from any decrease in the underlying assets prices. It has specified maturity date and is negotiable in the secondary market.
Mudarabah Sukuk	Mudarabah is an investment partnership between two entities whereby one entity is mainly a provider of capital and the other is mainly the manager.
Ijarah Sukuk	Ijarah Sukuk is a certificate the holder of which owns in common part of an asset that has been transferred on the Ijarah contract basis. It has a fixed yield and it can be transferred to other party in the secondary market. Ijarah Sukuk has various types of Sukuk such as Liquidity Ijarah Sukuk, Financing Ijarah Sukuk and leasing Ijarah Sukuk.
International Sukuk	For the purpose of this report: Are Sukuk issued in hard currency with minimum issue size of USD 51 million or above.
Domestic Sukuk	For the purpose of this report: Are Sukuk issued in local currency or if in hard currency such as US Dollar then with issue size of USD 50million or less.
Global Sukuk	For the purpose of this report: Both international and domestic Sukuk.
Convertible or exchangeable Sukuk	Convertible or exchangeable Sukuk certificates are convertible into the issuer's shares or exchangeable into a third party's shares at an exchange ratio which is determinable at the time of exercise with respect to the going market price and a pre-specified formula.
Hybrid Sukuk	Hybrid Sukuk combine two or more forms of Islamic financing in their structure such as Istisna'a and Ijarah, Murabaha and Ijarah, etc.
Sovereign Sukuk	Are Sukuk issued by a national government. The term usually refers to Sukuk issued in foreign currencies, while Sukuk issued by national governments in the country's own currency are referred to as government Sukuk .
Corporate Sukuk	Is a Sukuk issued by a corporation as opposed to those issued by the government. It is a major way companies raise funds in order to expand its business or for a specific project.
Quasi-sovereign Sukuk	Are Sukuk issued by a public sector entity that is like sovereign Sukuk. It may carry explicit or implicit government guarantee.

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About IIFM

IIFM is the global standard setting body for the Islamic Capital & Money Market segment of the IFSI. Its primary focus lies in the standardization of Islamic products, documentation and related processes. IIFM was founded with the collective efforts of Central Bank of Bahrain, Central Bank of Indonesia, Central Bank of Sudan, Labuan Offshore Financial Services Authority (Malaysia), Ministry of Finance (Brunei Darussalam) and Islamic Development Bank (Saudi Arabia). Besides the founding members, IIFM is supported by its permanent members namely State Bank of Pakistan and Dubai International Financial Centre (UAE). IIFM is further supported by a number of regional and international financial institutions as well as other market participants as its members. Information about IIFM is available at www.iifm.net.

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National Bank of Kuwait
Al Baraka Banking Group
Khaleeji Commercial Bank
Crédit Agricole Corporate and Investment Bank
Al Salam Bank
Standard Chartered Bank
Bank Islam Malaysia Berhad
European Islamic Investment Bank
Abu Dhabi Islamic Bank
Jordan Islamic Bank
Ahli United Bank
ABC Islamic Bank
Global Banking Corporation
Al Hilal Bank
Ithmaar Bank

Islami Bank Bangladesh Limited
Bahrain Islamic Bank
Seera Investment Bank
Gulf International Bank
HSBC Amanah
Bank Kerjasama Rakyat Malaysia Berhad
Malaysian Rating Corporation Berhad
UAE Securities & Commodities Authority
Ernst & Young
DDCAP Limited
Investors Bank
United Gulf Bank
First Habib Modaraba
Clifford Chance
Gatehouse Bank
Bank AlJazira
Allen & Overy
Al Khalij Commercial Bank
Zaid Ibrahim & Company
Royal Bank of Scotland
Islamic Bank of Asia
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IFC Linova

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