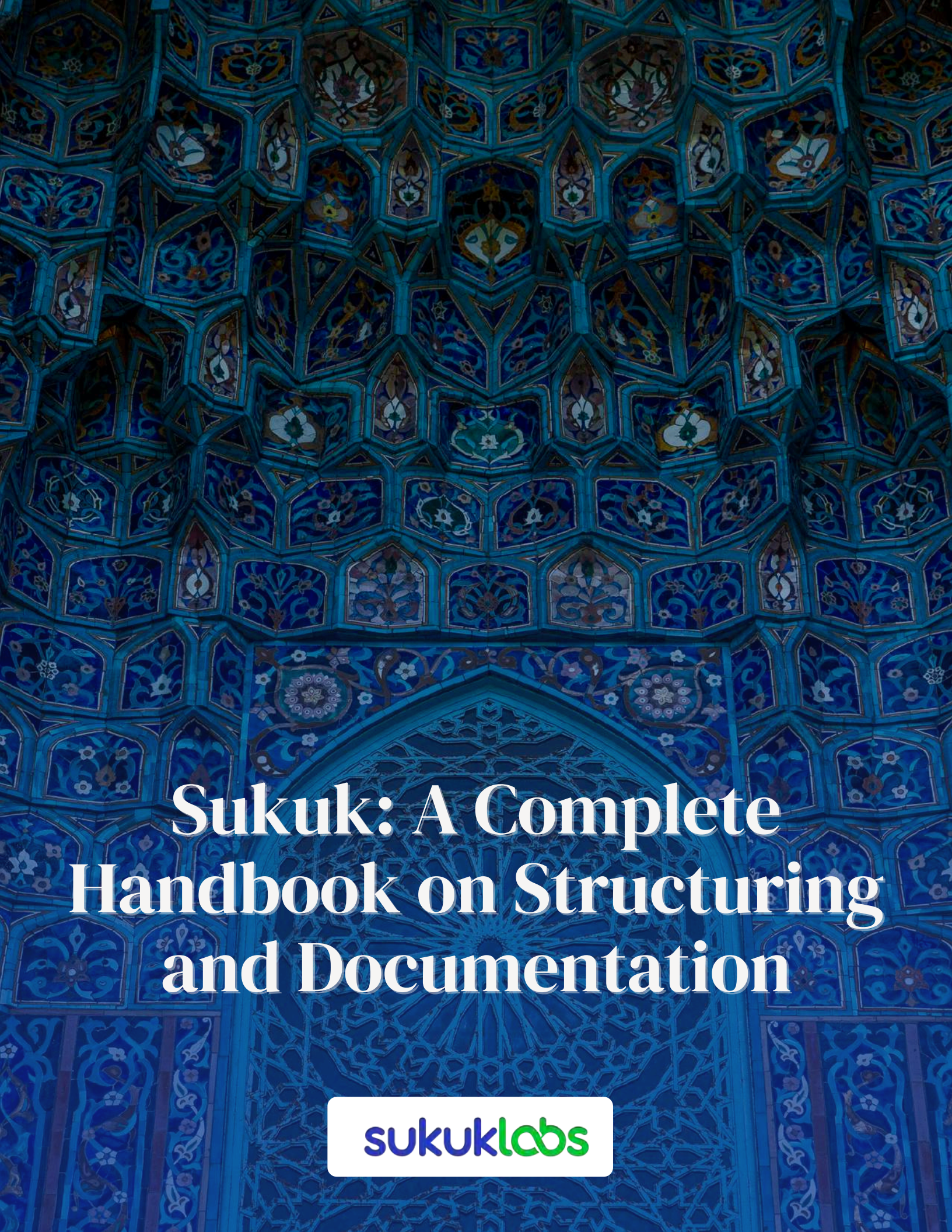




Sukuk: A Complete Handbook on Structuring and Documentation

sukuklabs

TABLE OF CONTENTS

PREFACE	007
1. INTRODUCTION	008
1.1 WHAT IS CAPITAL MARKET?	010
1.2 WHAT IS ISLAMIC CAPITAL MARKET?	011
1.3 ROLE OF CAPITAL MARKETS	012
2. BONDS	013
2.1 HISTORY OF BONDS	014
2.2 WHAT ARE BONDS?	015
2.3 BONDS OUTLOOK	015
2.3.1 Total Bond Debt Around the World	016
2.3.2 The Sustainable Bond Market	017
3. SUKUK	018
3.1 HISTORY OF SUKUK	019
3.2 WHAT ARE SUKUK?	020
3.3 DIFFERENCE BETWEEN BONDS AND SUKUK	022
3.4 SUKUK ASSETS	023
3.4.1 Throughput Services	024
3.4.2 Rights to Travel	024
3.4.3 Rights to Electricity Services	025
3.4.4 Rights to Vehicle Registration Services	025
3.4.5 Airtime Vouchers (Telecommunications Rights)	026
3.5 SUKUK PAYMENT	027
3.6 TRADABILITY OF SUKUK	027
3.6.1 AAOIFI Shariah Standard No. 17 on Investment Sukuk:	028
3.6.2 AAOIFI Shariah Standard No. 21 on Financial Papers:	028
3.7 SUKUK VALUATION	028
3.8 SUKUK OUTLOOK	029
3.8.1 Trends and Forecasts in the Sukuk Market	029
3.8.2 Global Sukuk Market Dynamics and Key Issuers	031
3.8.3 Overview of Sustainable Sukuk	032
3.8.4 Trends in Sustainable Sukuk Issuance	032
4. LEGAL FRAMEWORK OF SUKUK IN SELECTED COUNTRIES	034
4.1 BAHRAIN	035
4.2 UNITED ARAB EMIRATES	036
4.2.1 Decision No. (20 /R.M) of 2018	037
4.2.2 Decision No. (17) of 2014	037
4.2.3 Decision No. (16) of 2014	038
4.3 KINGDOM OF SAUDI ARABIA	038

TABLE OF CONTENTS

4.3.1 Key Reforms and Their Implications	039
4.3.2 Broader Economic Impact	039
4.4 MALAYSIA	040
4.5 INDONESIA	041
4.6 TURKEY	042
4.7 UNITED STATES AND UNITED KINGDOM	043
4.7.1 Key US Legislation Includes	043
4.7.2 Types of Bonds in the US and UK	044
4.7.3 Understanding of Regulation S and 144A	045
4.8 RECENT DEFAULT OF DANA GAS	046
4.8.1 Introduction	046
4.8.2 Structure of the Sukuk	046
4.8.3 Cash Flow of the Structure	047
4.8.4 Key Risk Factors	047
4.8.5 Legality	048
4.8.6 Pricing	049
4.8.7 Ratings.	049
4.8.8 Reasons for Default	049
4.8.9 Arguments in the English High Court	050
4.8.10 Verdict from the English High Court	050
4.8.11 Sharjah High Court Rulings.	051
4.8.12 Timeline of the Battle.	052
4.8.13 Lessons Learned and the Way Forward	052
5. SUKUK STRUCTURES	054
5.1 SUKUK AL-MUDARABA	055
5.1.1 Key Features of the Underlying Structure	055
5.1.2 Sukuk Al-Mudaraba Structure	056
5.1.3 Mechanism	056
5.1.4 Required Islamic Documentation for Sukuk Al-Mudaraba	058
5.2 SUKUK AL-MUSHARAKA	059
5.2.1 Key Features of the Underlying Structure	059
5.2.2 Sukuk Al-Musharaka Structure	060
5.2.3 Mechanism	060
5.2.4 Required Islamic Documentation for Sukuk Al-Musharaka	062
5.3 SUKUK AL-MURABAHA	062
5.3.1 Key Features of the Underlying Structure	063
5.3.2 Sukuk Al-Murabaha Structure	063
5.3.3 Mechanism	064
5.3.4 Required Islamic Documentation for Sukuk Al-Murabaha	065

TABLE OF CONTENTS

5.4 SUKUK AL-IJARAH	065
5.4.1 Key Features of the Underlying Structure	066
5.4.2 Sukuk Al-Ijarah Structure	067
5.4.3 Mechanism	067
5.4.4 Required Islamic Documentation for Sukuk Al-Ijarah	069
5.5 SUKUK AL-WAKALA	069
5.5.1 Key Features of the Underlying Structure	070
5.5.2 Sukuk Al-Wakala Structure	071
5.5.3 Mechanism	072
5.5.4 Required Islamic Documentation for Sukuk Al-Wakala	072
5.6 SUKUK AL-ISTISNA	073
5.6.1 Key Features of the Underlying Structure	073
5.6.2 Sukuk Al-Istisna Structure	074
5.6.3 Mechanism	074
5.6.4 Required Islamic Documentation for Sukuk Al-Istisna	075
5.7 SUKUK AL-SALAM	076
5.7.1 Key Features of the Underlying Structure	077
5.7.2 Sukuk Al-Salam Structure	078
5.7.3 Mechanism	078
5.7.4 Required Islamic Documentation for Sukuk Al-Salam	079
5.8 TIER-1 SUKUK	080
5.8.1 Tier 1 Sukuk Structure	080
5.8.2 Mechanism	081
5.8.3 Explanation of Important Terms	082
5.9 MIXED SUKUK	083
5.9.1 Mixed Structure	084
5.9.2 Mechanism	084
5.10 REQUIRED CAPITAL MARKETS DOCUMENTATION	085
5.11 AGRICULTURAL INVESTMENT SUKUK	085
5.11.1 Sukuk Al-Muzara'a (Sharecropping)	085
5.11.2 Sukuk Al-Musaqa (Irrigation)	086
5.11.3 Sukuk Al-Mugharasa (Agriculture)	086
5.12 SUKUK AL-MANFAAH	086
5.13 SUKUK AL-INTIFA	086
5.14 SUKUK MILKIYYAT AL-KHADAMAT	087
5.15 SUKUK AL-KHADAMAT AL-MAWSUFAH-FI-AL-ZIMMAH	087
5.16 RECENT SUKUK STRUCTURES	087
5.17 PIF SUKUK	087
5.17.1 Why is PIF Structure Important?	087
5.17.2 Key Features of the Underlying Structure	088

TABLE OF CONTENTS

5.17.3 PIF Structure	088
5.17.4 Mechanism	089
5.17.5 Required Islamic Documentation	089
5.18 EGYPT'S SOVEREIGN SUKUK	090
5.18.1 Key Features of the Underlying Structure	091
5.18.2 Sovereign Taskeek-Periodic Distribution	092
5.18.3 Sovereign Taskeek- Principal Repayment	093
5.18.4 Mechanism	094
5.18.5 Required Islamic Documentation	094
5.19 DEVELOPMENT OF SUKUK THROUGH WAQF	095
5.19.1 Waqf in Islam	095
5.20 CASE STUDY ON WAQF SUKUK IN SEVERAL COUNTRIES	096
5.20.1 The Practice of Sukuk Al-Intifa in Saudi Arabia	096
5.20.2 Structure of Sukuk Al-Intifa	096
5.20.3 The Practice of Cash Waqf Linked Sukuk in Indonesia	098
5.20.4 The Practice of Musharaka Sukuk in Singapore	100
5.20.5 The Practice of Musharaka SRI Sukuk in Malaysia	101
6. TYPES OF SUKUK	103
6.1 CLASSIFICATION OF SUKUK	104
6.2 TYPES OF OFFERINGS	105
6.2.1 Exempt Offering	105
6.2.2 Private Placement	105
6.2.3 Public Offering	105
6.3 CATEGORIES OF SUKUK	106
6.3.1 Senior Unsecured Sukuk	106
6.3.2 Senior Secured Sukuk	107
6.3.3 Covered Sukuk	107
6.3.4 Securitisation Sukuk	107
6.3.5 Payment Waterfall	108
6.3.6 Regulatory Capital Sukuk	109
6.3.7 Hybrid/Perpetual Sukuk	109
6.3.8 Convertible and Exchangeable Sukuk	110
6.4 SUSTAINABLE SUKUK	110
6.4.1 Sustainable Sukuk	111
6.4.2 Sustainability-Linked Sukuk	111
6.4.3 Hierarchy of Repayment in Bankruptcy	113
7. ROLE OF PARTICIPANTS	115
7.1 OBLIGOR	117
7.2 LEAD ARRANGER	117

TABLE OF CONTENTS

7.3 SHARIAH SCHOLAR	117
7.4 LEGAL COUNSEL	118
7.5 AUDITOR	119
7.6 ISSUER	119
7.7 DELEGATE	120
7.8 RATING AGENCY	120
7.9 LISTING AGENT	122
7.10 REGISTRAR	122
7.11 CALCULATION AGENT	122
7.12 TRANSFER AGENT	123
7.13 PRINCIPAL PAYING AGENT	123
8. ISSUANCE PROCESS	124
8.1 THE PROCESS OF ISSUING SUKUK	125
8.1.1 Structuring the Sukuk	126
8.1.2 Appointing the Arranger	126
8.1.3 Appointing the Trustee	126
8.1.4 Conducting Due Diligence	126
8.1.5 Marketing the Sukuk	127
8.1.6 Listing the Sukuk	127
8.1.7 Book building	127
8.1.8 Pricing	127
8.1.9 Signing	128
8.1.10 Closing	129
9. SHARIAH GOVERNANCE	130
9.1 AAOIFI (ACCOUNTING AND AUDITING ORGANISATION FOR ISLAMIC FINANCIAL INSTITUTIONS)	131
9.2 IFSB (ISLAMIC FINANCIAL SERVICES BOARD)	132
9.3 AAOIFI STANDARD 62	132
9.3.1 Key effects of the Standard 62	133
CONCLUSION	135
GLOSSARY	136
ENDNOTES	141
BACK COVER PAGE	146

PREFACE

First and foremost, I would like to thank Almighty Allah. It is a great feeling when a long-held desire becomes a reality. For years, I aspired to write a book on Sukuk, and today, that aspiration has finally materialised.

My first interaction with Sukuk was in 2003, during my time in Kuwait with an Islamic leasing company. We were mandated to market the first timeshare Sukuk for a real estate development project in Mecca—a landmark moment that sparked my interest in this fascinating area of Islamic finance.

My second major exposure came while working with a British law firm in Dubai, as part of their Islamic finance team. The firm was mandated on a high-profile Sukuk transaction to raise funds for the acquisition of P&O Ports by Dubai Ports—another milestone deal in the evolution of Sukuk.

Later, from 2005 to 2009, I had the opportunity to work at HSBC in Dubai, where I was involved in reviewing documentation for multiple Sukuk issuances. This was followed by a significant chapter of my career at Citi Islamic Investment Bank (an Islamic subsidiary of Citigroup), where I served from 2010 to 2024. Over this decade-plus period, I had the privilege of working on a wide range of Sukuk transactions, not only for issuers in the GCC but also across Asia and Africa.

In terms of scale, I have been fortunate to contribute to Sukuk deals valued at over USD 75 billion—a reflection of the depth and global reach of this important Islamic financing tool.

Over the past 20 years, I've had the privilege of engaging in in-depth discussions on the various nuances and challenges of Sukuk with a wide range of professionals—bankers, lawyers, prominent Shariah scholars, regulators, and issuers.

In many ways, Sukuk have come to represent Islamic finance on the global stage. As such, I believe it is essential that this representative is presented to the world with the best possible structure, integrity, and performance. Its character and impact should be exemplary setting a standard that reflects the values and aspirations of Islamic finance.

Naturally, there are several challenges in further refining and enhancing the profile of Sukuk. Through this book, I hope to contribute my humble efforts towards that important endeavour.

This book would not have been possible without the invaluable support of Mohammad Qutaiba, who worked closely with me in gathering data, analysing it, and developing the chapters. I am immensely thankful to Aladdin Assaiqeli for editing the draft of the book in a quite detailed and efficient way.

Mohammed Imad Ali



INTRODUCTION

CAPITAL MARKETS



sukuklabs

INTRODUCTION



Sukuk, often referred to as Islamic bonds, have emerged as a pivotal financial instrument in the global Islamic capital market. As Shariah-compliant alternatives to conventional bonds, they offer a unique investment avenue that aligns with Islamic financial principles. This book aims to provide an in-depth exploration of Sukuk, addressing both theoretical frameworks and practical applications. It serves as a valuable resource for professionals, academics, students, and policymakers interested in understanding the mechanics, structures, and regulatory considerations of Sukuk in contemporary finance.

The evolution of Sukuk can be traced back to the foundational principles of Islamic finance, which emphasise risk-sharing, asset-backed transactions, and ethical investment. In recent decades, Sukuk have gained significant traction as financial markets increasingly seek alternatives to interest-based instruments. The growing demand for Shariah-compliant financial products has driven innovation in Sukuk structuring, leading to diverse applications across sovereign, corporate, and project finance sectors. However, misconceptions and regulatory challenges continue to influence their development. Understanding the historical context and key milestones in Sukuk issuance provides a foundation for comprehending their current role in global finance.

Sukuk represent certificates of ownership in underlying assets, distinguishing them from conventional debt instruments. This book delves into the various types of Sukuk, including Ijarah, Murabaha, Mudarabah, Musharaka, and Istisna, each tailored to specific financial needs and risk-sharing models. It also explores the fundamental Shariah principles governing Sukuk issuance, such as the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *maisir* (speculation). A clear understanding of these concepts is essential for evaluating the compliance, viability, and effectiveness of Sukuk within the broader framework of Islamic finance.

This book provides a comprehensive analysis of Sukuk structuring, issuance processes, and market performance. It examines the role of key participants—including issuers, auditors, regulators, and rating agencies—in ensuring the stability and transparency of Sukuk markets.

INTRODUCTION

Furthermore, the book explores the legal frameworks governing Sukuk issuance in selected countries, including Malaysia, Indonesia, Saudi Arabia, the United Arab Emirates (UAE), the United States (USA), and the United Kingdom (UK). These jurisdictions have developed robust regulatory and legal infrastructures that have significantly contributed to the success and growth of their respective Sukuk markets. By examining these frameworks, the book offers a comparative understanding of the legal mechanisms and institutional support that facilitate Sukuk issuance and enhance investor confidence.



In addition, the book presents a detailed case study of the Dana Gas Sukuk default— a prominent and recent example that highlights the legal and practical complexities involved in Sukuk transactions. The Dana Gas case is particularly significant due to its implications for the enforceability of Shariah-compliant contracts across different legal jurisdictions. By analysing this case, readers gain valuable insights into the challenges and risks associated with Sukuk structures, including legal uncertainties and the need for harmonisation between Shariah principles and conventional legal systems.

Overall, this book equips readers with practical knowledge and real-world applications essential for navigating the complexities and risks inherent in the global Sukuk market.

1.1 WHAT IS CAPITAL MARKET?

Capital markets, like banks, are involved in intermediation; however, unlike banks, they enable direct financing. That is, the investor who buys stocks or bonds has direct exposure to the underlying firm, with nothing in between. When intermediation occurs through capital markets rather than banks, risks are not concentrated but instead spread across a large number of individual or institutional investors.

Compared to banks, which require deposit insurance and thus create a contingent liability for governments, capital market transactions require no such guarantees and therefore pose no contingent liabilities. One does not hear of mutual funds or bond issuers needing bailouts.

In addition to intermediation, capital markets can be part of the payment system and facilitate intertemporal transfers. For example, one could transfer wealth across time by investing in shares or bonds and registering the assets in the name of one's children. Where shares or bonds are traded on multiple exchanges, funds can also be moved across borders.

Furthermore, well-developed capital markets can serve as an effective medium for monetary policy transmission. When central banks aim to change interest rates or absorb excess liquidity, they typically rely on the interbank money market to implement policy.

INTRODUCTION

Modern capital markets also serve as tools for risk management, price discovery, and the dissemination of market information, in addition to their traditional functions. In today's environment, the ability of capital markets to propagate information quickly is a critical value addition. The efficiency with which a capital market performs these roles ultimately affects an economy's resource allocation.

1.2 WHAT IS ISLAMIC CAPITAL MARKET?

An Islamic Capital Market (ICM) performs all the functions of a conventional capital market while adhering to Shariah principles. The instruments, trading methods, and activities within the ICM are all Shariah-compliant. The ICM can be broadly classified into equity and debt capital markets. Regulation differs between the two, as each market offers distinct instruments and caters to different types of participants.

Due to the Shariah prohibition against *riba* (interest), gambling, and the trading of impure commodities such as alcohol and pork, investors and fund managers in the ICM cannot freely buy and sell shares. Instead, they must regularly conduct Shariah screening to ensure that their investment portfolios remain compliant with Islamic principles.

All components of a traditional capital market—including debt, equities, derivatives, and foreign currency markets—can be structured in Shariah-compliant ways under this concept. While many Islamic countries have adapted elements of the conventional system to fulfil capital market functions in a Shariah-compliant manner, Malaysia stands out as one of the few Muslim-majority nations to have developed a comprehensive Islamic Capital Market framework.¹



INTRODUCTION

1.3 ROLE OF CAPITAL MARKETS

The importance of capital markets in promoting an effective financial system cannot be overstated. A well-developed financial system contributes positively to economic growth, and thriving capital markets are essential to support such a system.

Long-term funding for firms and entrepreneurs is derived from a large pool of investor capital. This long-term capital is provided through a series of short-term contracts (securities) with investors, who retain the flexibility to enter and exit the market at any time. An effective capital market is expected to perform the following functions:

- Mobilise financial resources and allocate them efficiently across the economy to support productive investment.
- Provide market liquidity at the lowest possible cost, meaning the lowest transaction costs or bid-ask spreads on traded assets.
- Ensure transparency in securities pricing by accurately reflecting the risk premium associated with each security.
- Enable the creation of well-diversified portfolios, thereby reducing investment risk through diversification across geographic regions and time horizons.²





BONDS

HISTORY, BOND MARKETS



BONDS

2.1 HISTORY OF BONDS

The concept of bonds, as seen in modern financial markets, has roots deeply embedded in ancient civilisations. These early forms of debt instruments were pivotal in financing monumental projects and managing public debt, laying the groundwork for today's sophisticated bond markets.

In ancient Mesopotamia, evidence of debt instruments dating back to 2400 BCE has been found. These instruments, recorded on clay tablets, facilitated the financing of large-scale agricultural projects and trade expeditions. The Mesopotamians relied on a system of promissory notes—an early form of bonds—to support the smooth operation of their economy.

Similarly, ancient Egypt utilised debt instruments to fund major infrastructure projects, including the construction of the pyramids and expansive irrigation systems. The Egyptian economy relied heavily on grain, and bonds—often secured by future grain harvests—were used to mobilise resources efficiently. These instruments not only provided financing but also helped stabilise the economy during years of poor harvests, highlighting their multifaceted utility.



In the Roman Empire, the issuance of bonds became more structured and sophisticated. The Roman state frequently issued bonds, known as *aerarium*, to fund military campaigns and public works. These bonds were backed by the state treasury, allowing the Roman government to raise significant sums without immediate taxation. Roman bonds were often sold to wealthy citizens and institutions, who were assured of repayment through the empire's vast resources.

Moving forward to the Middle Ages, Venice began issuing government bonds as early as the 12th century to finance its military efforts. These were known as *presiti*. Citizens of Venice could purchase and trade these government securities, which paid an endless annuity at a fixed rate.

This trend continued into modern times. In 1693, the Bank of England issued its first government bond to raise funds for a war against France. These early bonds combined elements of lotteries and annuities. The development of bond markets accelerated thereafter.

The United States, which now hosts the world's most developed and active bond market, issued its first bonds to finance the Revolutionary War (1775–1783), with private individuals purchasing over \$27 million worth of bonds. Later, during World War I, the U.S. government issued Liberty Bonds—worth \$5 billion with a 3.5% interest rate—just three weeks after declaring war on Germany.

BONDS

However, the bond market faced significant challenges between 1955 and 1969. Bonds hit an all-time low due to the Eisenhower Recession and the economic impact of the Vietnam War. Rampant inflation and rising interest rates devalued long-term bonds, which lost nearly a quarter of their value. A turning point came in the late 1970s and 1980s, when product development and financial innovation transformed the bond market. New asset classes were introduced, including inflation-protected securities, catastrophe bonds, asset-backed securities (ABS), and mortgage-backed securities (MBS). Early investors in these instruments were heavily rewarded for their willingness to understand and price these complex financial products.³

2.2 WHAT ARE BONDS?

Bonds are secured debt instruments that enable businesses to raise capital and meet financial obligations. They represent a class of debt obtained by issuers from private investors for a predetermined period. Entities such as corporations, governments, municipalities, and other organisations issue bonds in primary markets. The capital raised is used to finance operational activities and infrastructure development by both companies and governments.

Investors purchase bonds at their nominal (face) value, which is repaid at the end of the specified term. Issuers also make periodic interest payments, either fixed or variable rates—based on the bond terms.

Individual investors who purchase bonds acquire legal and financial claims on the issuing entity's debt. As a result, issuers are obligated to repay the full face value to bondholders upon maturity. In the event of a company's bankruptcy, bondholders have priority over shareholders when it comes to debt recovery.

2.3 BONDS OUTLOOK

Bonds are secured debt instruments that enable businesses to raise capital and meet financial obligations. They represent a class of debt obtained by issuers from private investors for a predetermined period. Entities such as corporations, governments, municipalities, and other organisations issue bonds in primary markets. The capital raised is used to finance operational activities and infrastructure development by both companies and governments.

Investors purchase bonds at their nominal (face) value, which is repaid at the end of the specified term. Issuers also make periodic interest payments, either fixed or variable rates—based on the bond terms.

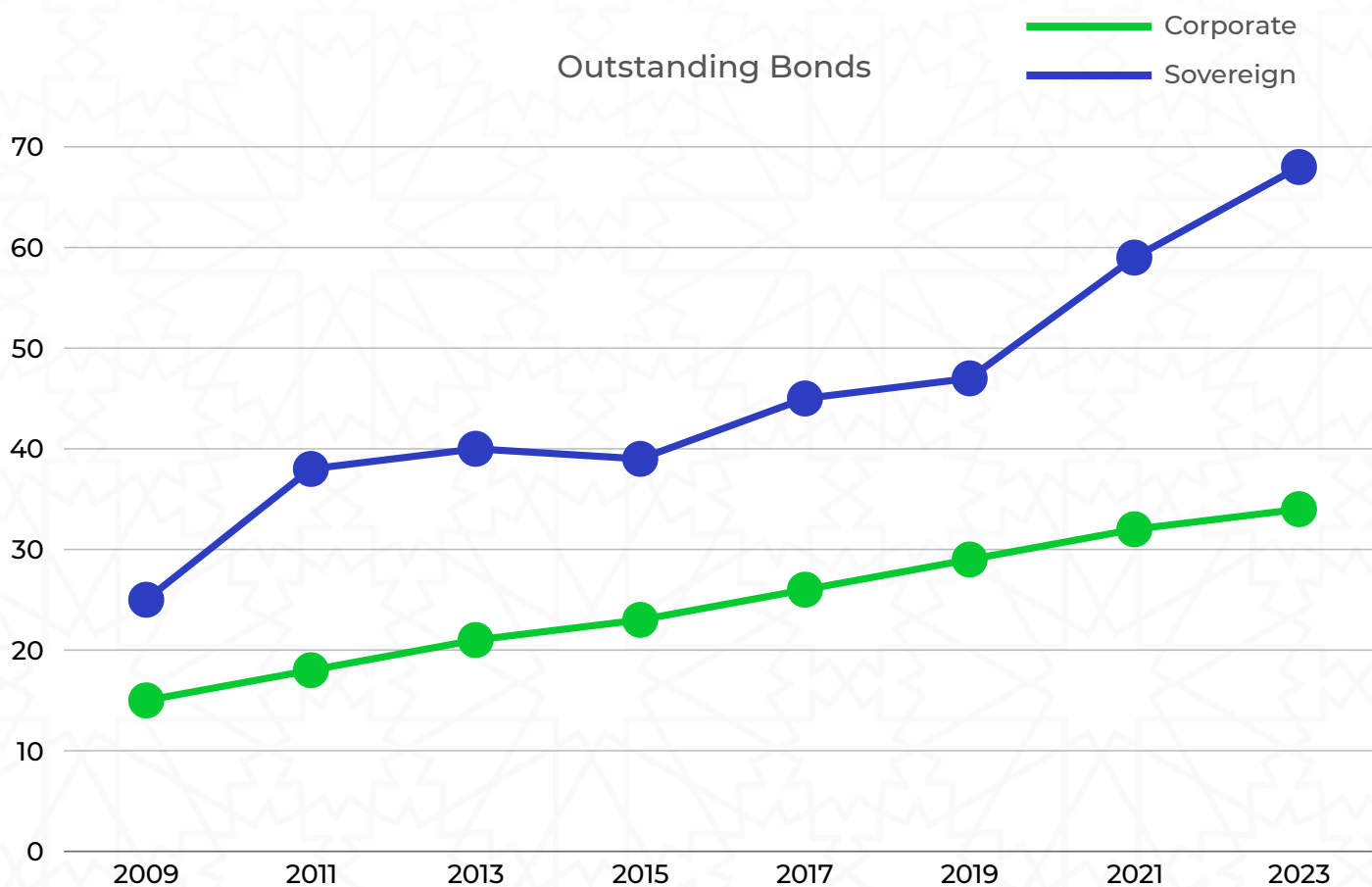
Individual investors who purchase bonds acquire legal and financial claims on the issuing entity's debt. As a result, issuers are obligated to repay the full face value to bondholders upon maturity. In the event of a company's bankruptcy, bondholders have priority over shareholders when it comes to debt recovery.⁴

BONDS

2.3.1 Total Bond Debt Around the World

At the end of 2023, the total volume of sovereign and corporate bond debt stood at nearly USD 100 trillion, roughly equivalent to global world GDP. Total government bond debt across OECD countries is projected to rise to USD 56 trillion in 2024, representing an increase of USD 30 trillion compared to 2008. As of the end of 2023, global corporate bond debt reached USD 34 trillion, with over 60 per cent of the increase since 2008 attributed to non-financial corporations.

Sovereign and corporate bond markets have expanded significantly since 2008. A favourable funding environment has driven a surge in bond issuance, extending into riskier market segments, including lower-rated governments and corporations.



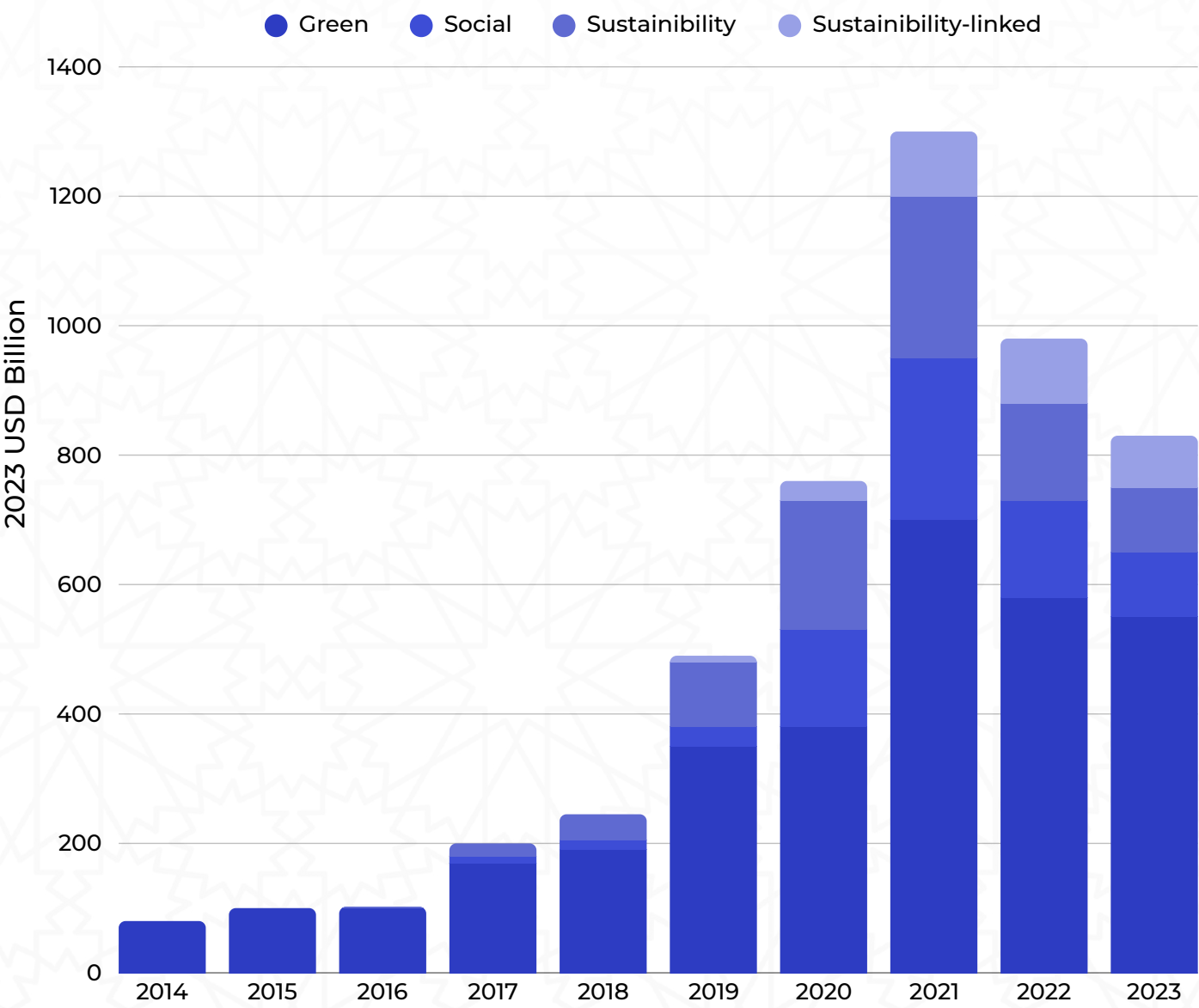
Source:⁵

The Asset-Backed Securities Market size was valued at USD 2.5 trillion in 2023 and is projected to reach USD 3.7 trillion by 2031, growing at a CAGR of 5.70% from 2024 to 2031.⁶

BONDS

2.3.2 The Sustainable Bond Market

At the end of 2023, the total amount of outstanding corporate and official-sector sustainable bonds reached USD 4.3 trillion, up from USD 641 billion just five years earlier. This growth has made sustainable bonds a key source of funding for both governments and companies seeking to accelerate the transition to a low-carbon economy. In the sustainable bond market, the corporate sector accounts for more than half of total issuance.



Source: ⁷



SUKUK

ISLAMIC BONDS



sukuklabs

3.1 HISTORY OF SUKUK

The origins of Sukuk can be traced back to the classical Islamic period (700–1300 AD), during which documents representing financial obligations arising from trade and other commercial activities were issued in accordance with verse 2:282 of the Holy Qur'an. This verse encourages formalising contracts in writing:

“O believers! When you contract a loan for a fixed period of time, commit it to writing. Let the scribe maintain justice between the parties. The scribe should not refuse to write as Allah has taught them to write..... This is more just for you in the sight of Allah, and more convenient to establish evidence and remove doubts.”⁸

During this period, a sakk (the singular form of Sukuk, literally meaning “deed” or “instrument”) was used to describe any document representing a financial liability.

A significant step towards the modern development of the Sukuk market came in 1988 when the Organisation of the Islamic Conference's International Islamic Fiqh Academy (the Fiqh Academy), based in Jeddah, Saudi Arabia, issued a statement that laid the foundation for contemporary Sukuk. The statement held that:

“Any combination of assets (or the usufruct of such assets) can be represented in the form of written financial instruments which can be sold at a market price provided that the composition of the groups of assets represented by the Sukuk consist of a majority of tangible assets.”

Shortly after this declaration, the first modern Sukuk was issued: Shell MDS Sdn Bhd's 125 million Malaysian Ringgit Bai Bithaman Ajil Sukuk in 1990. Another 11 years passed before the issuance of the first international US dollar-denominated Sukuk, Malaysian plantation company Kumpulan Guthrie Bhd's USD 150 million Sukuk in 2001. That same year, the Bahrain Monetary Authority (now the Central Bank of Bahrain) became the first government-related entity (GRE) to issue Sukuk.

Following this, several sovereign Sukuk were issued by countries such as Malaysia, the State of Qatar, the Republic of Pakistan, and the Emirate of Dubai. These issuances garnered significant international attention and set the stage for the unprecedented global growth of the Sukuk market.⁹

3.2 WHAT ARE SUKUK?

The Arabic word Sukuk is the plural of Sakk, which literally means a financial paper. The Arabic dictionary Al-Waseet defines it as “an identified paper which represents the financial right of its bearer.” Many scholars believe that the word “cheque” (or “checque”), derived from the French chèque, is in fact rooted in the Arabic word Sakk.

Sukuk are certificates that represent participation rights in an underlying asset. Formally, Sukuk represent proportionate beneficial or legal ownership of an asset for a defined period, during which the risk and return associated with the underlying asset or asset pool are passed to the Sukuk holders or investors.

Sukuk play an important role for investors by providing the ability to convert assets into liquidity without prolonged legal procedures. The structuring process of Sukuk is similar to the securitisation of assets in conventional markets. Just as in conventional securitisation, where a pool of assets is created, and securities are issued against it, Sukuk are issued as participation certificates backed by a single asset or a pool of assets.

There have been many definitions of Sukuk derived from previous studies and globally recognised organisations. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), in its Standard 62 (2-1), defines Sukuk as:

“ [Certificates of] Sukuk are investment securities of equal value for common share that establish ownership of assets (tangible assets, usufructs, rights, debts, cash, or a mix of [all of] them or some of them) that are already in existence or that will be acquired or created, and it will implicate rights for the certificate holder arising from its interest in ownership of those underlying assets and obligations on [the certificate holder] to the extent of its share in them. ”

There are several types of Sukuk. However, the most common ones, as identified by AAOIFI, include: Musharaka Sukuk, Ijarah Sukuk, Murabaha Sukuk, Mudaraba Sukuk, Istisna Sukuk, Salam Sukuk, and hybrid structures.

The Islamic Financial Services Board (IFSB) defines Sukuk as:



SUKUK

There are several types of Sukuk. However, the most common ones, as identified by AAOIFI, include: Musharaka Sukuk, Ijarah Sukuk, Murabaha Sukuk, Mudaraba Sukuk, Istisna Sukuk, Salam Sukuk, and hybrid structures.

The Islamic Financial Services Board (IFSB) defines Sukuk as:

“Sukuk (plural of Sakk), frequently referred to as ‘Islamic bonds,’ are certificates with each Sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture. These assets may be in a specific project or investment activity in accordance with Shariah rules and principles.”

Meanwhile, the Malaysian Debt Securities and Sukuk Market (BNM, 2009) offers another definition to describe Sukuk as follows:

“Certificates of equal value that represent an undivided interest (proportional to the investor's interest) in the ownership of an underlying asset (both tangible and intangible), usufruct, services or investments in particular projects or special investment activities.” Also, the Securities Commission (SC) Malaysia (2012) has defined Sukuk as “... any securities issued pursuant to any Shariah principles and concepts approved by the Shariah Advisory Council (“SAC”) of the SC.”

3.3 DIFFERENCE BETWEEN BONDS AND SUKUK

PARAMETER	CONVENTIONAL BONDS	SUKUK
Asset ownership	Bonds do not grant investors ownership in the underlying asset, project, business, or joint venture they finance; instead, they represent a debt obligation from the issuer to the bondholder.	Sukuk, on the other hand, provide investors with partial ownership in the underlying assets, entitling them to a share of the associated returns and risks.
Investment criteria	Bonds can be used to finance any asset, project, business, or joint venture, as long as they comply with local laws and regulations.	Bonds can be used to finance any asset, project, business, or joint venture, as long as they comply with local laws and regulations.
Issue unit	Each bond represents a share of the debt.	Each Sakk represents a share of the underlying asset.
Issue price	The face value of a bond reflects the issuer's creditworthiness, including its credit rating.	The face value of Sukuk is determined by the market value of the underlying asset.
Investment rewards and risks	Bondholders receive regular, often fixed-rate, interest payments over the life of the bond, with the principal amount guaranteed to be repaid at maturity.	Sukuk holders receive a share of the profits generated by the underlying assets and bear a proportionate share of any losses incurred.
Effects of costs	Bondholders are generally insulated from costs associated with the underlying asset, project, business, or joint venture, as their returns are not tied to the asset's performance.	Sukuk holders are exposed to the costs associated with the underlying asset; higher costs can reduce investor profits, while lower costs may enhance returns.

3.4 SUKUK ASSETS

According to AAOIFI Standard 62 (5-1-1), the underlying assets of Sukuk may consist of tangible assets, usufructs, services, rights, cash, or debts, whether held individually or in combination through commingling (khulṭa). For an asset to qualify as a Sukuk asset, it must meet the following criteria:

- The assets must be Shariah-compliant.
- The assets can be tangible (such as real estate or operating assets) or intangible (like goodwill or copyrights) because Sukuk represent ownership stakes in underlying assets.
- The asset must possess a recognisable and measurable value.
- The asset must be legally transferable.
- The asset must be free from any encumbrances.

Under Shariah, the assets must meet certain necessary conditions:

01

The assets must exist physically (land, building, machinery)

02

The assets must be Shariah-compliant

03

The Assets must have use (however restricted to halal use and not for example, for operations of casino or alcohol sales outlet)

04

The assets must be owned by the seller

05

The assets must be free from encumbrance

06

The assets must be known by specifications, descriptions, location, etc.

SUKUK

Sukuk assets may consist of both tangible and intangible components. Tangible assets typically include physical properties such as land, buildings, agricultural plantations, machinery, equipment, vehicles, and other infrastructure-related items that can generate income or be leased. These assets serve as the underlying subject matter for various Sukuk structures, particularly in Ijarah-based Sukuk.

In contrast, intangible assets may encompass usufruct rights, intellectual property, licenses, concession rights, or service contracts, provided they are clearly defined, transferable, and compliant with Shariah principles. The inclusion of both types of assets broadens the scope of Sukuk issuance, allowing flexibility while maintaining adherence to Islamic legal and ethical standards.

The following are representative examples of intangible Sukuk assets derived from actual-world Islamic finance transactions:

3.4.1 Throughput Services

Throughput Services represent a form of service-based Sukuk asset, typically involving operational rights within port terminals. These rights include:

- a) The handling of containerised cargo, specifically the lifting of containers on and off maritime vessels.
- b) The temporary storage of containers within Group-operated companies.
- c) The facilitation of inbound and outbound container movements, encompassing both delivery and receipt logistics

These services form a revenue-generating utility asset that can be securitised under a Sukuk structure

3.4.2 Rights to Travel

Available Tonne Kilometres (ATKM) is a metric denoting the total cargo and passenger capacity of an airline. While not a Sukuk asset per se, it serves as an operational metric in aviation-related Sukuk structures, where services such as the Right to Travel, are utilised as underlying assets.

This asset class involves the securitisation of service rights associated with airline operations, comprising:

- a) The entitlement to access airline routes operated by the Obligor (Airline), excluding routes to, from, or with in the United States, with the ability to transfer such rights to third parties.
- b) The provision of customary in-flight passenger services, excluding those that contravene Shariah principles (e.g., alcohol, pork, and tobacco-related products).

This form of Sukuk asset facilitates the monetization of travel-related services in a manner that adheres to Shariah compliance.

3.4.3 Rights to Electricity Services

These rights pertain to the participation in and management of the electricity supply infrastructure in the country. They are characterised by:

- a) The right to engage in electricity generation and distribution.
- b) The right to operate and maintain installations supporting the electricity network.
- c) The right to receive revenue and financial distributions derived from these services, capped at a specified Net Revenue Limit per annum.

These rights are often conferred via sub-licensing or subcontracting agreements, enabling their inclusion as underlying assets in Sukuk issuances.

3.4.4 Rights to Vehicle Registration Services

This asset class pertains to rights granted by a governmental authority—specifically, the Government of Malaysia—for the administration of vehicle licensing and registration services. These rights typically include:

- a) The right to issue driving licences, manage vehicle ownership transfers, and conduct vehicle registrations.
- b) The right to receive associated revenues and economic benefits, subject to a specified Net Revenue Limit per annum.

These public service concessions constitute a stable and recurring revenue stream, making them suitable for inclusion in Sukuk structures.



3.4.5 Airtime Vouchers (Telecommunications Rights)



In a pioneering structure introduced in the Middle East, airtime on a telecommunications network was employed as a Sukuk asset. The structure is based on the following components:

- a) The sale of airtime minutes (referred to as "Original Airtime Vouchers") by a telecommunications provider to a trustee.
- b) The use of these minutes as "Series Assets" backing the Sukuk issuance.
- c) The entitlement to specified usage on the provider's mobile network by end customers.

This model exemplifies innovation in Islamic finance, enabling the monetisation of intangible service units—such as airtime—within a Shariah-compliant investment framework.

The valuation of Sukuk assets is a critical component in structuring Shariah-compliant Sukuk instruments.

Valuation may be conducted through various methods, depending on the nature of the underlying assets and the Sukuk structure. In practice, assets are often assessed by independent external financial or valuation firms to ensure transparency, credibility, and compliance with both Shariah and regulatory standards.

Additionally, Sukuk assets valuation through book value refers to a method of determining the price of a Sukuk based on the value of the underlying assets backing it. Unlike traditional bonds, where valuation is primarily based on interest rates and creditworthiness, Sukuk valuation incorporates the assets' market value and their potential for generating profit.

SUKUK

3.5 SUKUK PAYMENT

Sukuk payments are generally structured in two ways:

1. Amortising Securities or Amortising Sukuk

The payments represent the amortisation of the invested capital, along with the profits (fixed or floating) derived from the investments.

2. Non-amortising Securities or Non-amortising Sukuk

The payments of derived profits (fixed or floating) are made periodically during the tenure of the Sukuk.

The repayment of the invested capital is scheduled at the end of the period, i.e., at the final maturity date of the Sukuk.

Innovations have also led to the redemption of Sukuk in the form of exchanges, such as equities or commodities. In the case of an exchangeable Sukuk with equity, periodic payments could be derived from the dividend income stream paid to the equity.

3.6 TRADABILITY OF SUKUK

Sukuk can be classified as either tradable or non-tradable, based on:

- The underlying tangible assets, or
- Proportionate ownership of a business or investment portfolio.

Tradable Sukuk are essential for Islamic financial institutions, enabling them to manage their short-term liquidity requirements.



SUKUK

3.6.1 AAOIFI Shariah Standard No. 17 on Investment Sukuk:

- For Sukuk to be tradable, they must be owned by the Sukuk holders, with all rights and obligations of ownership in real assets—whether tangible assets, usufructs, or services—that are capable of being legally owned and sold, in accordance with the rules of Shariah.
- The manager issuing the Sukuk must certify the transfer of ownership of such assets in the Sukuk's records and must not retain them as the manager's own assets.

3.6.2 AAOIFI Shariah Standard No. 21 on Financial Papers:

- Sukuk, to be tradable, must not represent receivables or debts, except in cases where a trading or financial entity sells all its assets or a portfolio that includes some debt incidental to physical assets or usufruct. This must be in line with the specific guidelines provided.
- According to AAOIFI, Sukuk based on Ijarah, Istisna, Mudaraba, or Musharaka principles are tradable.
- Non-tradable Sukuk represent receivables of cash or goods, such as Sukuk based on Salam or Murabaha contracts.

In Malaysia, according to the resolution of the Shariah Advisory Council (SAC) of the Securities Commission (SC), Bay' al-Dayn (debt trading) is permissible, provided that it is conducted in cash.

The SAC recognises the following:

- Bay' al-Dayn, or debt trading, is one of the acceptable Shariah principles for Sukuk issuance.
- Shariah-compliant cash receivables arising from contracts such as Murabaha, Bai' Bithaman Ajil (BBA), Ijarah, or Istisna can be converted into tradable debt instruments.

This recognition facilitates the tradability of both debt- and equity-based Sukuk in the secondary market, in accordance with Shariah principles.¹⁰

3.7 SUKUK VALUATION

Sukuk valuation is the process of determining the fair price or value of a Sukuk. Typically, this involves calculating the Sukuk's cash flows—i.e., the present value of its future profit payments—as well as its face value (also known as par value), which refers to the amount the Sukuk will pay upon maturity. This valuation enables investors to determine the rate of return required for a Sukuk to be considered a worthwhile investment.

Valuation is a crucial process in identifying the true worth of any security, both for investment decisions and performance assessment. This holds true for conventional securities as well.

SUKUK

In essence, valuation involves breaking down a financial contract into its expected cash flows or payoffs, whether they are fixed, variable, growing, or stochastic, and then applying an appropriate discount rate to calculate the present value of those promised returns.¹¹

The valuation of a basic fixed cash flow Sukuk, such as an Ijarah Sukuk, involves calculating the present value of its future cash flows, which include periodic profit payments and the principal repayment at maturity. Understanding Sukuk valuation helps investors assess the attractiveness of the investment relative to their required rate of return. If market yields decrease, the present value of the Sukuk increases, making it more valuable. Conversely, an increase in market yields reduces the Sukuk's value. This valuation framework also assists investors in making informed decisions when trading Sukuk in the secondary market.¹²

3.8 SUKUK OUTLOOK

3.8.1 Trends and Forecasts in the Sukuk Market

In 2023, the Sukuk market experienced robust growth, with total issuance volumes reaching \$168.4 billion, despite facing challenges such as tighter liquidity conditions in Saudi Arabia and a lower fiscal deficit in Indonesia. The issuance of foreign currency-denominated Sukuk played a key role in mitigating these challenges.

The decline in local currency issuance—mainly due to liquidity constraints in Saudi Arabia's banking system and the reduction in Indonesia's fiscal deficit—was partly offset by increased issuance of foreign currency-denominated Sukuk.

Notably, Saudi Arabia's Vision 2030 programme served as a significant driver of Sukuk issuance in 2023 and has continued to support market activity in 2024.

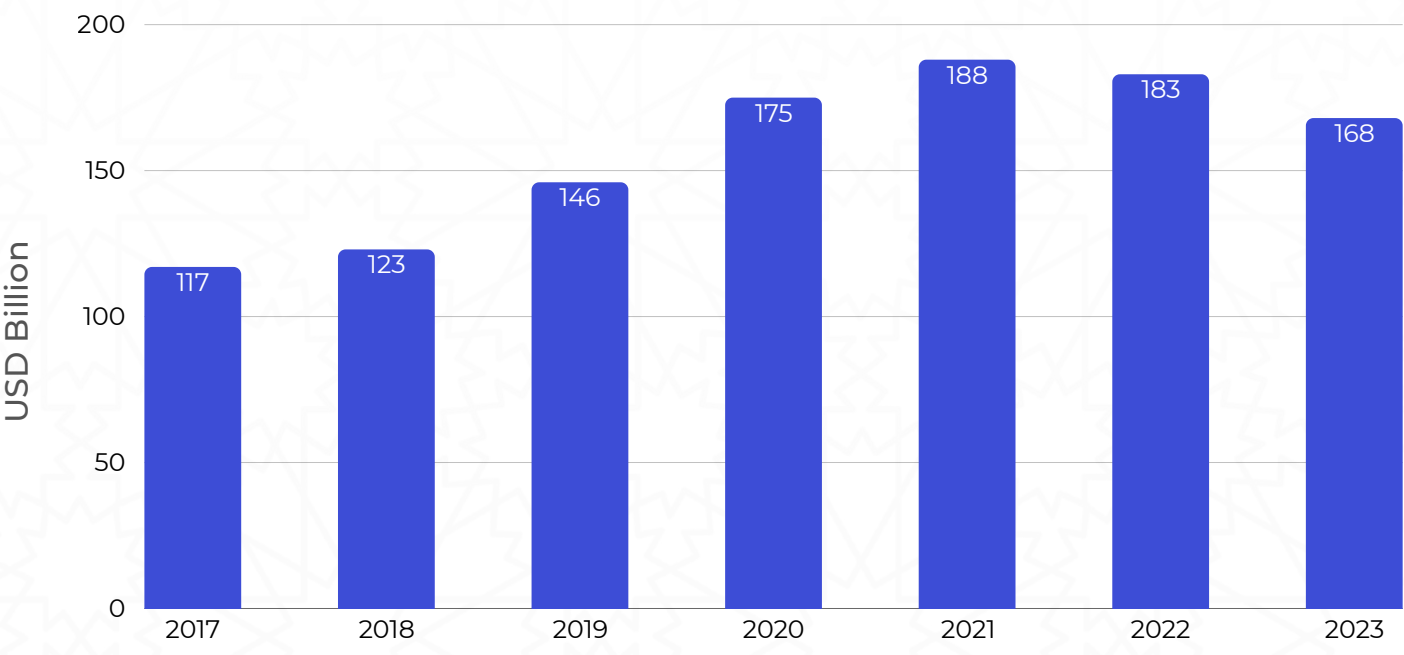
According to Bloomberg data, the global Sukuk market reached \$908.51 billion by the end of the first quarter of 2024. However, estimates vary across different sources, ranging from \$895 billion to \$1.064 trillion.

For 2024, Sukuk issuance volumes are expected to remain stable, within the range of \$160 billion to \$170 billion, maintaining levels similar to those in 2023.

Looking ahead to 2025 and beyond, the introduction of AAOIFI Standard 62 may present new challenges. The enhanced requirements on asset ownership and risk transfer could act as headwinds, potentially slowing down future issuance growth.

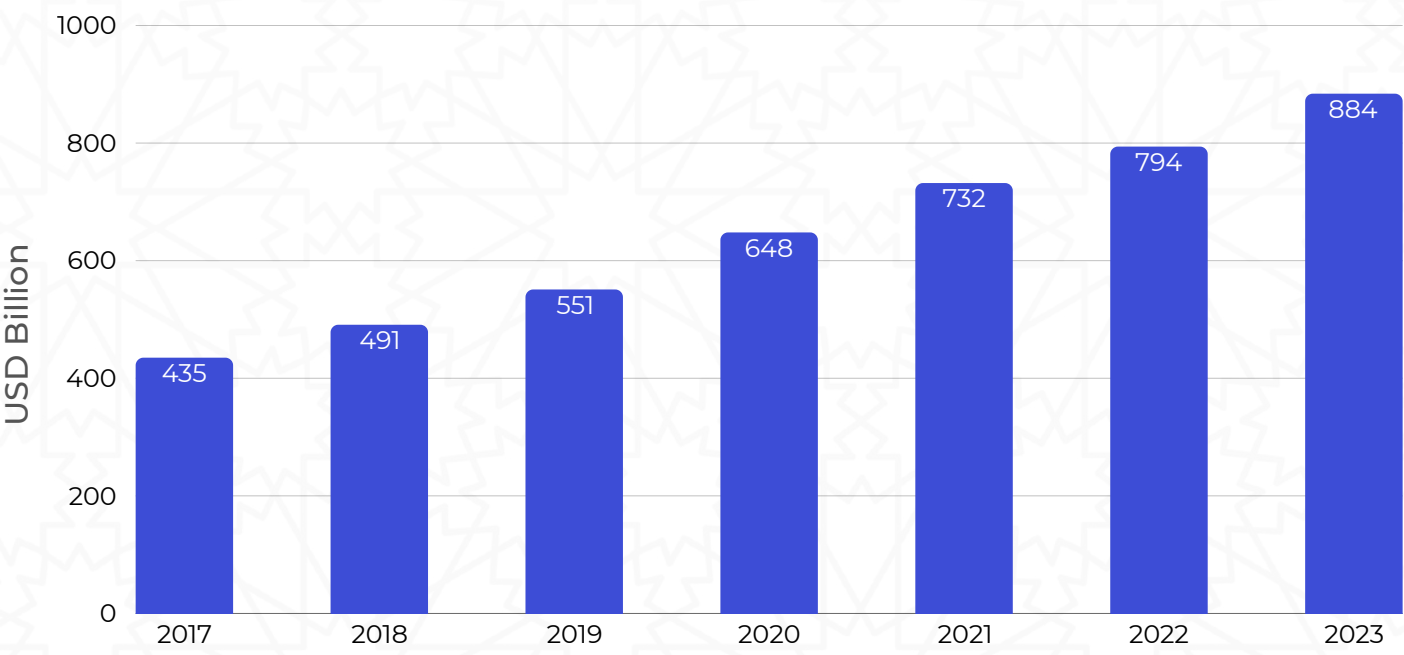


Sukuk Market - Issuance



Source:¹³

Sukuk Market - Outstanding



Source:¹⁴

3.8.2 Global Sukuk Market Dynamics and Key Issuers

In 2023, growth in the Sukuk market was driven by key regions, including the Gulf Cooperation Council (GCC) countries—particularly Saudi Arabia and the UAE—as well as Southeast Asia, led by Malaysia and Indonesia.

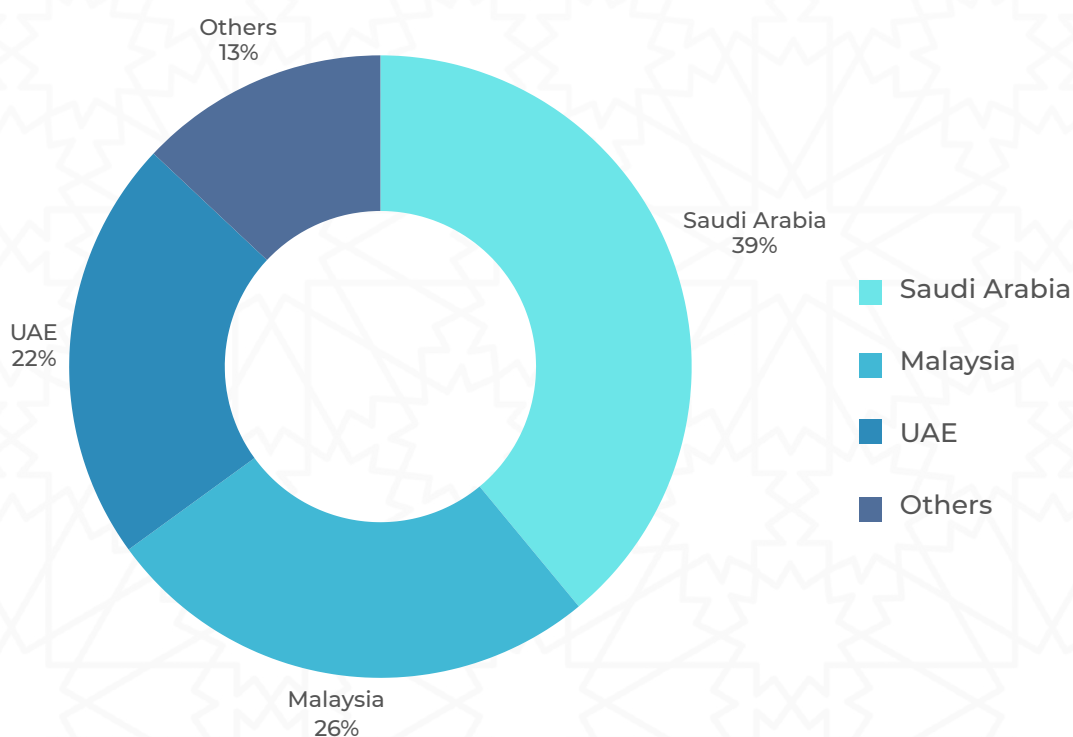
Saudi Arabia's Vision 2030 programme played a crucial role in Sukuk issuance during the year, with a strong focus on economic diversification and infrastructure projects. The UAE also saw significant activity, partly influenced by COP28, which highlighted the importance of sustainable finance.

Southeast Asia remained a pivotal region for Sukuk issuance, with Malaysia and Indonesia leading the way. The presence of strong regulatory frameworks in these countries contributed to the market's continued growth. However, tighter liquidity conditions in Indonesia led to a decline in local currency-denominated Sukuk issuance.

The Sukuk market remained active both internationally and domestically. International issuances attracted a global investor base, while local issuances in countries like Malaysia and Saudi Arabia were driven by regional demand and supportive regulations.

Digitalisation has emerged as a potential driver of future growth, with digital Sukuk offering a faster and more cost-effective way for issuers to access Islamic finance markets. However, realising this potential will require the development of robust legal frameworks and standardised Shariah interpretations.

Sukuk Issuance Full Year (FY) Issuance- 2023 (Country)



Source:¹⁵

3.2.3 Overview of Sustainable Sukuk

Sustainable Sukuk are Shariah-compliant financial instruments issued to fund projects that generate positive environmental or social impacts. They combine the principles of Islamic finance with sustainability goals, often aligning with the United Nations Sustainable Development Goals (SDGs).

3.2.4 Trends in Sustainable Sukuk Issuance

As of Q1 2024, the cumulative global issuance of sustainable bonds reached \$235.4 billion, with sustainable Sukuk contributing \$4.0 billion in the first quarter alone, marking a 17.2% increase compared to the same period in the previous year.

In 2023, sustainable Sukuk issuances totalled \$13.4 billion, surpassing the \$9.4 billion recorded in 2022 and continuing a seven-year streak of record issuances since 2017.

Overall, by the end of 2023:

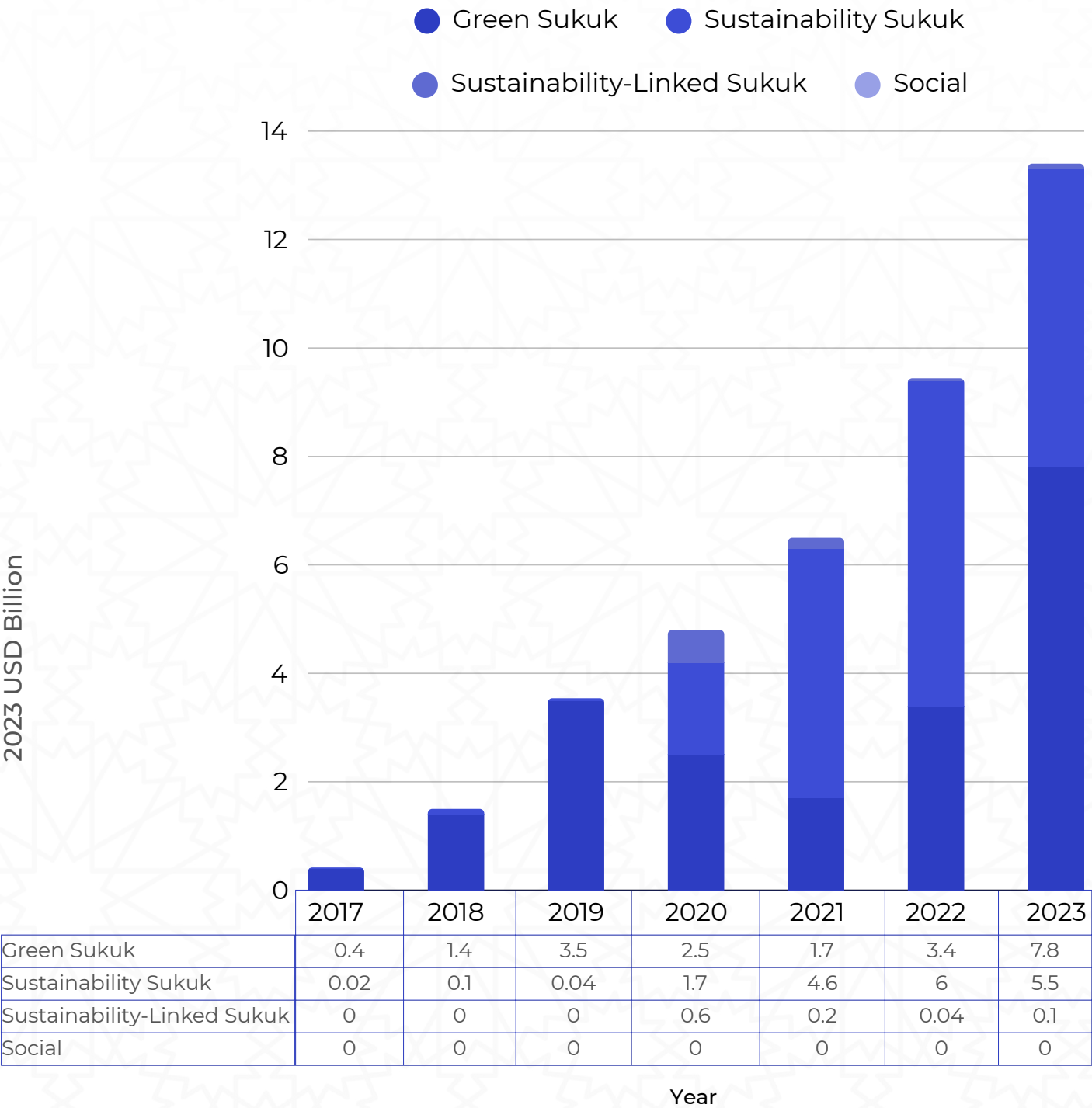
- Sustainable Sukuk accounted for 1.6% of total sustainable bond issuances, and
- 6.2% of total Sukuk issuances.

During the first six months of 2024, GCC banks were responsible for 80% of all sustainable Sukuk issuances, as they advanced their climate transition efforts.

The issuance volume of sustainable Sukuk in 2024 is projected to reach approximately \$10–12 billion, assuming no significant acceleration in the implementation of net-zero policies or regulatory changes.



SUKUK



Source:¹⁶



LEGAL FRAMEWORK

OF SUKUK IN SELECTED COUNTRIES



sukuklabs

LEGAL FRAMEWORK

4.1 BAHRAIN

The Central Bank of Bahrain (CBB) has issued regulations governing the issuance of Sukuk under the Offering of Securities (OFS) regulation, specifically in Section OFS 1.9, titled “Eligibility to Issue Shariah-Compliant (Islamic) Securities.” Module OFS establishes the regulatory framework for issuing and selling securities in or from Bahrain, incorporating provisions from Articles 80–85, 96, and 166 of the CBB Law. This framework is aligned with Article 37 of the CBB Law and the criteria outlined in Part 4 of the Central Bank of Bahrain and Financial Institutions Law of 2006.¹⁷

Following the implementation of the CBB and Financial Institutions Law (2006), Bahrain has strengthened its capital market regulations. In 2014, the CBB introduced a new module in its Rulebook (Volume 6: Offering of Securities Module, Appendix OFS-4), which provides guidelines for issuing and offering Shariah-compliant Sukuk through public or private placements. The module, comprising 27 sections, outlines regulatory and supervisory provisions, stages of issuance, and the responsibilities of the parties involved.¹⁸

The module defines the appointment, eligibility, and responsibilities of Capital Market Advisory Services Providers to ensure compliance with international standards, such as those set by IOSCO. Issuers, licensed market operators, clearinghouses, depositories, financial analysts, underwriters, and other relevant entities must comply with these regulations under Article 38 of the CBB Law.¹⁹ Article 81 extends the module’s applicability to all publicly or privately issued securities in/from Bahrain.

OFS 1.9 specifically governs the issuance of Islamic debt securities or Sukuk, requiring issuers to be single-purpose entities (SPV) and appoint a Shariah advisor.²⁰ Issuers must ensure Shariah compliance and cannot restrict the advisor’s role, with any limitations reported to the CBB and disclosed in the offering document.²¹ The regulation details Sukuk structures, including Ijarah, Salam, Murabaha, Mudaraba, Istisna, Bai Bithaman Ajil, and Intifa, or any other contract approved by a Shariah Advisory Committee.²² It elaborates on fixed and floating rental Ijarah Sukuk and hybrid structures combining Ijarah, Murabaha, and Istisna, offering more granularity than UAE and Saudi regulations.²³ Shariah governance requires advisors to review documentation, structuring, investment, and operational aspects to ensure compliance.²⁴ The prospectus must include a Shariah pronouncement, and advisors must possess relevant qualifications and at least three years of experience in Islamic finance.²⁵

Sukuk applications must include a Shariah pronouncement, a trust deed, collateral instruments, asset valuation reports from at least two independent valuers, and other relevant documents.²⁶ The regulation mandates ongoing Shariah review throughout the Sukuk’s lifecycle, reinforcing investor confidence.²⁷



4.2 UNITED ARAB EMIRATES

The establishment of the Higher Shariah Authority in the UAE was first conceptualised under Federal Law No. 6 of 1985, mandating supervision over Islamic banks, financial institutions, and investment companies to ensure compliance with Shariah principles.²⁸

According to Decretal Federal Law No. (14) of 2018, the UAE's central bank authorised the establishment of the board of the Higher Shariah Authority with the goal of enhancing uniformity in the UAE's Islamic banking sector. During its first meeting, the board identified several core objectives for the Higher Shariah Authority, including the following:

1. To issue a fatwa (ruling) and ensure the legitimacy of the products, services, and activities of institutions that provide Islamic services.
2. To introduce and authorise new and existing Shariah standards and consistent documents relating to best practices for global Islamic financial services.
3. To notify the UAE Central Bank of new or amended Shariah standards or uniform documents.
4. To undertake Shariah research on Islamic finance and methods of assistance; and
5. To connect and collaborate with other international organisations that currently create Shariah norms and standards for the Islamic financial sector. The Higher Shariah Authority should be composed of at least five members (but no more than seven), each possessing extensive knowledge of Shariah and sufficient expertise in Shariah and Islamic financial operations. The Higher Shariah Authority will be responsible for establishing the rules, norms, and basic principles governing Islamic financial organisations, as well as supervising and overseeing the Shariah committees. The fatwa issued by the Higher Authority shall be binding on both Shariah committees and all Islamic financial institutions in order to engage in and conduct all types of business.



LEGAL FRAMEWORK

Each Islamic financial institution must appoint and maintain a Shariah committee, referred to as the 'internal Shariah supervision committee' (the Shariah committee). The responsibility of the Shariah committee is to monitor and oversee the financial institution's activities, ensuring that the rules and regulations mandated by the Higher Shariah Authority are followed. Each member of the Shariah committee should possess an appropriate level of knowledge and expertise in Shariah and Islamic finance. The Shariah committee will be responsible for the Shariah supervision of the Islamic financial institution's processes, products, services, and business conduct, to ensure compliance with the Shariah rules and principles established by the Higher Shariah Authority. The Shariah committee will review all proposed financial products and associated documentation, providing a certificate certifying their Shariah compliance. Once a financial product has been certified by the Shariah committee, it may be marketed to the public in the UAE by an Islamic financial institution. If a disagreement arises among the members of the Shariah committee or between the Shariah committee and the board of directors of an Islamic financial institution over Shariah compliance, the matter must be referred to the Higher Shariah Authority, whose decision will be deemed final.²⁹

4.2.1 Decision No. (20 /R.M) of 2018

This regulation defines Islamic securities as those conforming to Shariah principles under Federal Law No. 2 of 2015. It mandates the disclosure of the Shariah Supervisory Committee's members, their qualifications, and remuneration. The law requires transparency regarding Sukuk asset evaluation, tradability, risk ownership, dispute resolution mechanisms, taxation differences, and conflicts between IFRS and AAOIFI standards. Additionally, post-issuance Shariah compliance must be maintained, with updates provided to investors. Any breach of Shariah standards must be reported, and dissenting opinions from Shariah scholars must be disclosed. The regulation also mandates an annual Shariah review.³⁰

4.2.2 Decision No. (17) of 2014

This regulation, encompassing 27 articles, includes Sukuk in its definition of securities. Article 19 mandates that issuers disclose any purchase, redemption, or cancellation of Sukuk to the UAE Authority and the market.³¹



LEGAL FRAMEWORK

4.2.3 Decision No. (16) of 2014

This regulation, comprising 28 articles, classifies Sukuk into convertible, government, institutional, and retail categories, although the classification lacks a clear pattern. Government Sukuk are exempt from its provisions. Article 5 mandates that Sukuk must be authorised by the obligor's Shariah Committee or an approved committee.³²

The regulation requires issuers to enter into a trust agreement, granting the trustee the right to access Sukuk-related information and to protect investors' interests. The UAE lacks a comprehensive trust law, except within the Dubai International Financial Centre (DIFC), which follows English common law. However, enforcement of trust-related obligations outside the DIFC remains limited. The DIFC Trust Law allows for jurisdictional flexibility, permitting trust entities to be governed by foreign laws, provided those laws recognise and enforce trust-related obligations.³³

A key challenge in UAE trust law is the non-recognition of trust assets under national law, which affects the legal standing of Sukuk structures. The DIFC Trust Law, which lacks independent legal personality, limits the ability of trusts to own assets and initiate litigation directly on behalf of Sukuk holders. While Regulation No. 28 of 2008 permits DIFC-registered firms to establish branches outside the DIFC, dual incorporation remains economically restrictive. Sukuk regulation falls under the jurisdiction of the Emirates Securities and Commodities Authority (ESCA), governed by Federal Law No. 4 of 2000. This law consists of 8 chapters and 28 articles that outline the issuance and compliance frameworks for securities, including Sukuk.

4.3 KINGDOM OF SAUDI ARABIA

The issuance of Sukuk in Saudi Arabia is regulated alongside other securities under the Rules on the Offer of Securities and Continuing Obligations (ROSCO), issued by the Capital Market Authority (CMA) under resolution number 3-123-2017, amended in 2019.³⁴ ROSCO, comprising 11 parts, 102 articles, and 24 annexes, does not distinguish between Sukuk, stocks, and conventional bonds, potentially leading to regulatory ambiguities.

Article 25 of ROSCO outlines conditions for the public offer of debt instruments, requiring issuers to be special-purpose companies. Article 26 discusses convertible debt instruments. However, despite the lack of a dedicated Sukuk governance framework, regulatory measures have been introduced to encourage Sukuk issuance, including fee reductions and a decrease in the par value of government-issued Sukuk from one million to one thousand dollars.³⁵ CMA Chairman Mohammed Al Kuwaiz emphasised the importance of enhancing debt instruments as part of Saudi Vision 2030, with the goal of stimulating Sukuk and bond issuance. However, clearer regulatory guidelines are still needed to improve the governance of Sukuk in Saudi Arabia.



LEGAL FRAMEWORK

Recently, the Capital Market Authority (CMA) of Saudi Arabia enacted a series of regulatory reforms aimed at strengthening the Sukuk and debt instruments market, in alignment with the Kingdom's Vision 2030 economic development objectives. The CMA's approval of these regulatory enhancements marks a pivotal moment for the Sukuk and debt instruments market in Saudi Arabia. By simplifying procedures and creating new opportunities for issuers and investors, these changes are expected to drive market growth and contribute to the broader economic development of the Kingdom.

4.3.1 Key Reforms and Their Implications

Exempt Offerings: The CMA introduced provisions allowing development funds, development banks, and sovereign entities with public legal status to issue debt instruments under exempt offerings. This reform is designed to streamline the issuance process by permitting these entities to bypass standard regulatory procedures, provided they meet specific conditions, thereby attracting a broader range of issuers to the market.

Private Placement Offers: Modifications to the private placement process now enable local issuers to notify the CMA and commence their offerings immediately, eliminating the previous requirement for prior approval. This change is expected to enhance market efficiency and expedite issuers' access to capital.

Public Offerings: The CMA has simplified the requirements for preparing prospectuses for public offerings. By reducing the complexity of documentation and introducing a dedicated section outlining rules for public offerings, these changes aim to facilitate companies' access to financing through the Sukuk and debt market, thereby encouraging more public issuances and contributing to market liquidity.

4.3.2 Broader Economic Impact

These regulatory enhancements are part of the CMA's ongoing efforts to develop a robust financial sector in line with Saudi Arabia's Vision 2030. By creating a more attractive and accessible market for Sukuk and debt instruments, the CMA aims to meet the financing needs of companies and support the growth of the national economy. The new regulations are also expected to diversify the investor base, attracting both local and international investors. With increased participation from a broader range of issuers and investors, the market is poised for significant growth in the coming years.

These regulatory updates represent a significant milestone for Saudi Arabia's Sukuk and debt market. By encouraging more issuances and offering greater flexibility, the enhancements will help companies diversify their funding sources. This, in turn, is expected to strengthen the debt market as a key channel for business financing and stimulate overall economic growth. With these updates, Saudi Arabia continues to position itself as a leading destination for innovative financial instruments, promoting a robust and inclusive capital market that meets the needs of both issuers and investors.³⁶

LEGAL FRAMEWORK

4.4 MALAYSIA

Sukuk are governed by Section 212 of the “Capital Markets and Services Act 2007 and are regulated by the Securities Commission Malaysia.”³⁷

Malaysia's legal structure is made up of different legal systems, including common law and Shariah.³⁸ Malaysia has a dual financial system, with both traditional and Islamic banking systems coexisting. Islamic banks and international Islamic banks operate alongside traditional banking institutions, offering a wide range of Islamic financial products to both residents and non-residents, in any currency.³⁹

The Securities Commission (SC) is responsible for supervising the Islamic capital market, which operates alongside the traditional capital market. The SC initially issued the Sukuk Guidelines, which include regulations specific to the nature and forms of Sukuk, including its intrinsic operations.⁴⁰ One of the basic requirements for issuing Sukuk in Malaysia is to get approval from the Securities Commission (SC). The SC formed the “Shariah Advisory Council (SAC) in 1996 to ensure that all Islamic domestic capital market products, including Sukuk, are in accordance with Shariah standards. The SAC consists of renowned Shariah scholars, jurists, and market experts. Their responsibility is to advise the SC on matters related to the Islamic capital market and provide Shariah guidance on Islamic capital market transactions and activities.⁴¹ Under the “Registration of Shariah Adviser Guidelines,” the Shariah Adviser must be registered with the SC. A legal counsel must also attest that the Trust Deed for the Sukuk's underlying trust is legitimate under Malaysian law.⁴²

In Malaysia, the market structure for Sukuk is the same as that for conventional bonds and notes. They are traded “over the counter (OTC)” on the same registered electronic facilities as conventional debt securities, or as exchange-traded bonds and Sukuk (ETBS) on Bursa Malaysia Securities (BMS). Trades are captured in the electronic trading platform (ETP) and cleared and settled via RENTAS.



LEGAL FRAMEWORK

4.5 INDONESIA

Otoritas Jasa Keuangan (OJK) Indonesia Financial Services Authority is the sole authority which oversees “banking, insurance, capital markets and other non-banking financial institutions”.⁴³ OJK is an independent institution with the authority to regulate, supervise, examine, and investigate the financial services sector in Indonesia. Its objective is to promote and organise a system of regulations and supervision that is integrated into the overall activities of the financial services sector. The responsibilities of OJK include ensuring that operations in the financial services industry are carried out in an organised, competitive, transparent, and accountable manner. It also establishes a financial regime that grows in a competitive and sustainable way and safeguards the interests of consumers in the financial market.⁴⁴ Law No. 7 of 1992, the Banking Act, was amended in 1998 to allow conventional banks to provide Shariah banking services. The introduction of Shariah-based banking in the conventional banking sector has contributed to the economy, and the amendment played a crucial role in the survival of the 1998 monetary crisis.⁴⁵ Bank Muamalat began operations in 1992, marking the launch of Islamic finance in Indonesia. Law No. 7 of the 1992 Banking Act permitted Islamic banks to operate alongside the conventional system and laid the foundation for banking operations based on Islamic principles and interest-free banking.⁴⁶

For the first time, on 18 April 2001, the National Sharia Board of the Indonesian Ulema Council (DSN-MUI) issued a fatwa directly related to the capital markets—Fatwa No. 20/DSN-MUI/IV/2001 on Guidelines for the Implementation of Shariah Mutual Funds. Furthermore, with the issuance of Islamic bonds by PT Indosat Tbk in early September 2002, Islamic investment instruments in the capital markets began to expand. This instrument was the first Islamic bond offered using a Mudaraba contract.⁴⁷ The Indonesian Islamic bond market is the second largest in the ASEAN+3 region, behind only Malaysia. In 2023, Islamic finance accounted for 10.95 percent of the total financial sector in Indonesia. According to the same report, Islamic finance assets reached a total of 2,582 trillion Indonesian rupiahs during the year.⁴⁸ According to the Indonesian Islamic Financial Development Report 2023:

Indonesia’s Islamic economy and finance, comprising Islamic banking, Islamic capital markets, insurance, pension funds, financing institutions, and other Islamic financial services institutions, have shown continuous development. In 2023, the assets of the Islamic financial industry (excluding Islamic stock capitalisation) reached IDR2,582.25 trillion, growing positively by 9.04% (yoy).⁴⁹

OJK promulgated Law No. 19 of 2008 in May to enable the government to issue Shariah bonds in the domestic market. This was followed by regulations for the issuance of Shariah bonds in international markets a year later. The country’s first sovereign Sukuk was issued shortly thereafter.⁵⁰ OJK has been actively working to enhance the Shariah-based capital market in the country. This effort began on 7 May 2008, when it issued its first sovereign Sukuk, known as the State Shariah Bond (SBSN). Since then, other regulations have been issued by OJK



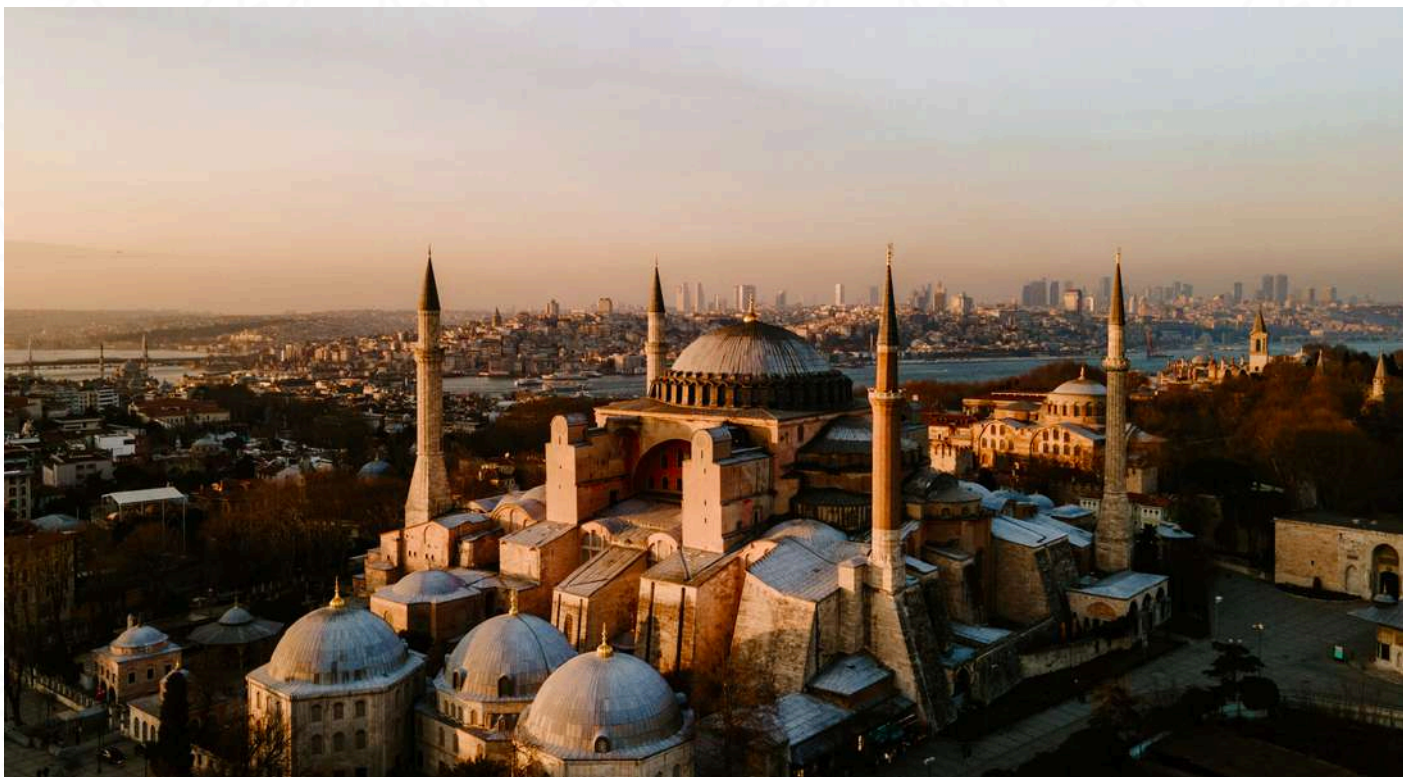
LEGAL FRAMEWORK

4.6 TURKEY

The Capital Markets Board of Turkey (CMB) serves as the regulatory and supervisory authority for the Turkish securities markets. Since the introduction of the Capital Markets Law (CML) in 1981, the CMB has been responsible for drafting and implementing detailed regulations to develop financial markets and institutions.⁵¹ The legal framework governing Turkey's capital markets includes three major legislations: Capital Markets Law (CML), Decree No. 91 on Securities Exchanges, and the Turkish Commercial Code.⁵²

The issuance of Sukuk (lease certificates) was first regulated in 2010 through Communiqué Series III, No. 43, which introduced a broad framework for Sukuk issuance.⁵³ In 2013, this was replaced by Communiqué Series III, No. 61 on Lease Certificates, which provided more specific guidelines for Sukuk issuance. Additionally, Law No. 6327 (2012) authorised the Undersecretariat of Treasury to issue sovereign Sukuk.⁵⁴

Turkey's Islamic finance sector has not yet achieved the same level of development as other Muslim-majority nations. However, demand for Sukuk instruments has increased, as evidenced by Turkey's first sovereign Sukuk issuance in August 2013, which attracted subscriptions exceeding USD 8 billion.⁵⁵ Sovereign Sukuk certificates are issued by the Treasury Undersecretariat Asset Lease Joint Stock Company (HMKVŞ) under Article 7/A of Law No. 4749 on Public Finance and Debt Management. Non-sovereign Sukuk issuances are governed by CMB's Lease Certificates Communiqué No. III-61.1, published in the Official Gazette No. 28670 on June 7, 2013, allowing companies to raise capital through lease-based instruments.⁵⁶



LEGAL FRAMEWORK

4.7 UNITED STATES AND UNITED KINGDOM

The debt capital markets of the UK and US are among the most active and sophisticated globally. The total outstanding global debt reached a staggering \$307 trillion in 2023.⁵⁷ With \$33.2 trillion in government debt, the U.S. makes up over a third of the world's total, which accounts for approximately 34.2% of the global debt. The UK's share of global debt is around 3.6%.⁵⁸

A strong regulatory framework ensures market fairness, governance, and investor protection. The US bond market, one of the oldest and largest, is regulated by the Securities and Exchange Commission (SEC), which protects investors, maintains market integrity, and facilitates capital formation.⁵⁹ The Financial Industry Regulatory Authority (FINRA) also oversees securities markets but lacks rulemaking authority.⁶⁰

4.7.1 Key US Legislation Includes

- [Securities Act of 1933](#) – Ensures full disclosure and prevents fraud.
- [Securities Exchange Act of 1934](#) – Regulates exchanges and eliminates unfair practices.
- [Investment Company Act of 1940](#) – Governs investment companies and mutual funds.
- [Investment Advisers Act of 1940](#) – Regulates investment advisers and aims to prevent conflicts of interest.
- [Sarbanes-Oxley Act \(2002\)](#) – Enhances corporate responsibility and mandates improved financial disclosure.
- [Trust Indenture Act of 1939](#) – Regulates the public issuance of debt securities.
- [Dodd-Frank Act \(2010\)](#) – Promotes financial stability and accountability in the financial system.
- [Jumpstart Our Business Startups \(JOBS\) Act \(2012\)](#) – Eases regulatory requirements for emerging growth companies.



LEGAL FRAMEWORK

4.7.2 Types of Bonds in the US and UK

Bonds are classified based on their issuers. The U.S. bond market has four main types:

- 1. **Government Bonds (Treasuries)** – Issued by The U.S. Department of the Treasury.
- 2. **Government-Sponsored Enterprise (GSE) Bonds** – Issued by federal agencies.
- 3. **Municipal Bonds** – Issued by local or state governments.
- 4. **Corporate Bonds** – Issued by businesses and subject to strict regulations.⁶¹



In contrast, the UK bond market mainly includes two categories:

- 1. Government Bonds (Gilts) – Issued by the UK government and considered among the safest investments.
- 2. Corporate Bonds – Issued by non-government entities, with varying degrees of risk based on the issuer’s creditworthiness.⁶²

While the U.S. market offers a broader range of bond types, benefiting both issuers and investors, the UK bond market is known for its well-structured and secure offerings.

Subject	UK Bonds	US Bonds
Issuers	Government Bonds (Gilts) Corporate Bonds	1. Treasury Bonds (Federal) 2. Agency Bonds (GSEs) 3. Municipal Bonds (State) 4. Corporate Bonds

Overall, the U.S. bond market offers a broader range of instruments, providing greater opportunities for both investors and issuers, while the U.K. market remains more streamlined and secure.

LEGAL FRAMEWORK

4.7.3 Understanding of Regulation S and 144A

The architecture of the financial system for fixed-income securities is critical to comprehend, as Sukuk instruments operate within this same infrastructure, particularly for settlement, trading, and redemption processes. Notably, distinctions exist between the frameworks governing "Regulation S" Sukuk and "144a" Sukuk. Regulation S Sukuk are typically marketed and sold exclusively to non-U.S. investors, whereas 144a Sukuk are permitted for distribution to qualified institutional buyers within the U.S.

This regulatory demarcation does not influence the Islamic structural mechanisms underlying Sukuk issuance or their commercial objectives. From a governance perspective, the differentiation primarily pertains to three domains: (1) the extent of financial disclosure mandated by the Obligor, (2) the degree of auditors' assurance provided to lead managers regarding the accuracy of financial data in prospectuses, and (3) the eligibility criteria for entities authorized to market or sell Sukuk to U.S.-based investors. These distinctions underscore the importance of jurisdictional compliance in Sukuk issuance, without altering the fundamental principles of Islamic finance governing such instruments.⁶³



LEGAL FRAMEWORK

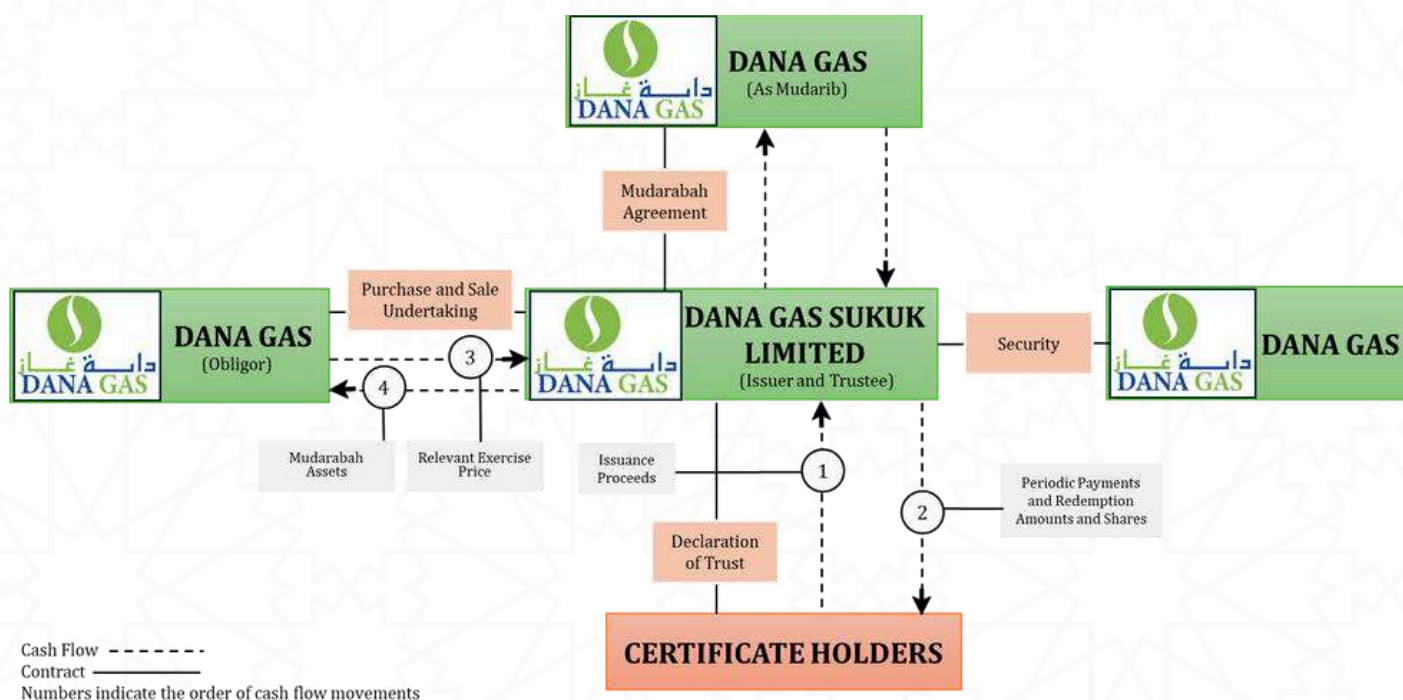
4.8 RECENT DEFAULT OF DANA GAS

4.8.1 Introduction

On May 8, 2013, shareholders of Sharjah-based Dana Gas Sukuk Ltd. authorised the restructuring of the 2007 Sukuk issuance and the reissuance of a dual-tranche US\$850 million Sukuk maturing in 2017. The new issuance was considered riskier at the time due to a 59% drop in the company's share price. Dana Gas initially defaulted to avoid diluting equity ownership, but later reversed its decision.

Two tranches were issued: a US\$450 million regular Sukuk and a convertible Sukuk, bearing interest rates of 7% and 9%, respectively. The certificates were listed on the Irish Stock Exchange and arranged by JP Morgan Securities Ltd., Citigroup Global Markets Limited, and Barclays Bank plc (the "Joint Lead Managers"), with Deutsche Trustee Company Limited acting as the delegate.⁶⁴

4.8.2 Structure of the Sukuk



On 31 October 2007, the Trustee and Dana Gas, in its capacity as Mudarib (the "Mudarib"), entered into a Mudaraba Agreement (the "Original Mudaraba Agreement") under which the Mudarib invested U.S. \$ 1,000,000,000 (the "Initial Mudaraba Capital") into certain Mudaraba assets (the "Initial Mudaraba Assets") in accordance with an approved investment plan.

At the closing date, at the Trustee's request, the Mudarib will transfer 14.992% of the Initial Mudaraba Assets (equivalent to U.S. \$ 149,920,000 of the Initial Capital) to Dana Gas in its independent capacity and will amend and restate the Original Mudaraba Agreement accordingly.

LEGAL FRAMEWORK

Dana Gas will use 100% of the proceeds to manage the remaining balance of the Initial Mudaraba Assets (U.S. \$ 850,080,000 as of the closing date) in line with the terms of the amended Mudaraba Agreement and the investment plan, enabling certain Shariah-compliant investments, including investments in Dana Gas's business activities.

Mudaraba – A form of venture capital contract where one party provides the capital (Rab al-Mal) and the other contributes expertise and management (Mudarib) to a specific project or investment. Profits are shared according to a pre-agreed ratio, while losses are borne solely by the capital provider unless they are caused by negligence or misconduct by the Mudarib.

In this transaction, there is only one party involved:

Dana Gas (SPV) – Acting as Issuer, Trustee, Purchaser, Mudarib and Obligor.⁶⁵

4.8.3 Cash Flow of the Structure

- 1. Investor Funding:** Investors provide funds to the Trustee and, in return, are issued Sukuk certificates.
- 2. Mudaraba Agreement:** The Trustee enters into a Mudaraba agreement with the Mudarib to manage the remaining capital and invest in Shariah-compliant products in accordance with the agreed investment plan. The Mudarib agrees to maintain a ledger account, referred to as the "Reserve Account," denominated in U.S. dollars, within its books.
- 3. Asset Purchase:** The Trustee's rights, benefits, and entitlements to the Mudaraba assets will be purchased by the Obligor in the relevant proportion on an "as is" basis, at the applicable exercise price. This follows the Trustee's delivery of a notice under the Purchase Undertaking (the "Exercise Notice"), in accordance with the terms and subject to the conditions outlined in the Purchase Undertaking.

4.8.4 Key Risk Factors

The risk factors are divided into three categories: risks relating to Dana Gas, risks relating to the countries in which Dana Gas operates, and risks relating to the Certificates. This overview will focus only on the key risks associated with the Certificates.

Early Redemption – The Trustee may redeem the Exchangeable Certificates, in part, at any time on or after 31 October 2013 and before the last day of the Exchangeable Conditions' exercise period, at an amount equal to the face value of the Certificates being redeemed, along with all accrued but unpaid periodic distribution amounts. The Trustee may also redeem the Ordinary Certificates, in whole or in part, in cash, prior to the scheduled redemption date, for their outstanding face value plus the applicable Optional Redemption Premium.

Claims for Specific Performance – If Dana Gas fails to fulfil its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate will include: (i) obtaining an order for specific performance of Dana Gas's obligations; (ii) pursuing a claim for damages; or (iii) enforcing the Shared Security.

LEGAL FRAMEWORK

Change in Law – The Certificates are issued under English law, Sharjah law, and UAE federal legislation and administrative procedures in effect as of the date of these listing particulars. No assurance can be given that changes to English law, Sharjah law, UAE law, or administrative practices in any of these jurisdictions after the date of these listing particulars will not affect the Trustee's ability to make payments and/or deliveries under the Certificates or Dana Gas's ability to comply with the Transaction Documents.

Enforcing Foreign Judgments – Ordinary and Exchangeable Certificates are governed by English law, while the Mudaraba Agreement, UAE Share Pledges, and UAE Mortgage are governed by UAE law. Dana Gas has submitted to the non-exclusive jurisdiction of the courts of England regarding any dispute, claim, or controversy. However, judgments obtained in English courts may not be directly enforceable in the UAE. In the absence of a bilateral treaty for the mutual enforcement of foreign judgments, the UAE and Sharjah courts are unlikely to enforce such judgments without a re-examination of the underlying claim. Moreover, these courts may not uphold the parties' choice of English law as the governing law of the Certificates. Investors should also be aware that English courts will apply English law, rather than Shariah principles, when determining the rights and obligations of the parties.

Suitability of Investment – The Certificates are complex financial instruments and may not be suitable for all investors. Each potential investor must assess the suitability of the investment in light of their own financial situation, investment objectives, and risk tolerance.

Secondary Market – No active secondary market existed at the time of issuance, and there is no assurance that one will develop during the life of the Certificates. The illiquid nature of the Certificates may adversely affect their market value.

Shariah Compliance Risk – The Shariah advisory board of Dar Al-Shariah has confirmed that, in its view, the Transaction Documents are Shariah-compliant. However, there can be no assurance that the Transaction Documents, or the issuance and trading of the Certificates, will be considered Shariah compliant by other Shariah boards or scholars. All parties involved in this issuance are reminded that, as with all Shariah interpretations, differences of opinion are possible (Prospectus-).⁶⁶

4.8.5 Legality

The Declaration of Trust, Agency Agreement, Purchase Undertaking, Sale Undertaking, Security Agreement, Security Agency Agreement, Ordinary Certificates, and Exchangeable Certificates are governed by English law and are subject to the non-exclusive jurisdiction of the English courts. The Mudaraba Agreement, UAE Share Pledges, and UAE Mortgage are governed by UAE law, with the UAE courts having non-exclusive jurisdiction over any disputes arising in relation to these agreements. The Bahrain Share Pledge and the Egyptian Assignment Agreement are governed by Bahraini and Egyptian law, respectively.

LEGAL FRAMEWORK

4.8.6 Pricing

The order book was priced with a USD 350 million ordinary Sukuk tranche at 7% and a US\$350 million Convertible Sukuk tranche at 9%, both maturing in October 2017.

4.8.7 Ratings

As of 31 January 2012, Moody's reaffirmed the UAE's long-term rating at Aa2 with a stable outlook. At that time, the UAE was not rated by any other major rating agencies.

4.8.8 Reasons for Default

Dana Gas faced a challenging year in 2013 due to delayed payments from its operations in Egypt and Kurdistan, as well as high coupon rates. The announcement sent shockwaves through the industry and had significant repercussions. However, five years later, the company reported a net profit of USD 83 million in 2018, compared to USD 88 million in 2016, and maintained a strong cash balance of USD 608 million. The Kurdistan Regional Government provided USD 1 billion, and in 2018, Dana Gas signed two-year agreements worth USD 600 million for the Khor Mor field, further boosting performance that year. In the first quarter, Pearl Petroleum sold 14.4 million units in Kurdistan.⁶⁷ Everything seemed to be in order until Dana Gas unilaterally declared its Sukuk structure to be non-compliant with Shariah law. The company claimed, without consulting a Shariah scholar, that it believed the structure violated Shariah principles.

The energy firm was accused of defaulting in order to protect equity holders, as allowing Sukuk holders to exercise their conversion option at maturity would have diluted the equity holders' shares. Under the new structure, Sukuk holders were offered the option to exchange their certificates for a four-year Shariah-compliant instrument that halved profit returns and eliminated the conversion feature. The certificates remained unredeemed after this change was implemented. Dana Gas, citing its improved financial position, stated that the new offer was beneficial for Sukuk holders.

Was this a traditional equity-debt conflict or a genuine credit issue? In an April 2018 news release, citing coverage by Al-Khaleej, Dana Gas CFO Christopher Hearne stated, "It was obvious that the company merely had a cash flow problem in meeting its debt obligations, which needed time and patience by creditors."

In June 2017, the Sharjah Federal Court, the High Court of Justice in the British Virgin Islands, and the English Court of Justice in London all issued injunctions preventing certificate holders from pursuing legal action against Dana Gas until a final decision was reached.



LEGAL FRAMEWORK

4.8.9 Arguments in the English High Court⁶⁸

Dana Gas approached courts in different jurisdictions seeking separate rulings — one from the Sharjah Federal Court of First Instance and another from the English High Court — asserting that the documents were invalid and unenforceable under the respective legal frameworks.

Conditional Obligation – Dana Gas was required to legally transfer the Sukuk assets to itself under the Sale Agreement in order to pay the Exercise Price under the Purchase Undertaking. However, the Sale Agreement was considered illegal under UAE law; therefore, the payment obligations under the Purchase Undertaking would not apply.

Void Purchase Undertaking – The Purchase Undertaking was deemed void due to a mistake, as the parties entered into it under the mistaken belief that the Mudaraba structure of the Sukuk was valid under UAE law.

Jurisdiction – The Purchase Undertaking required performance in the UAE. As such, the English courts were asked to consider whether it was enforceable under UAE law. However, Dana Gas's legal strategy backfired when the English High Court rejected all three of its arguments in November 2017.

4.8.10 Verdict from the English High Court

The English law governing the Purchase Undertaking, which outlines Dana Gas's payment obligations under the Sukuk, was held to be valid and enforceable in accordance with its terms. Accordingly, Dana Gas was required to make the relevant payments to its creditors who purchased the Sukuk.

The English High Court held:

1. As drafted, the payment of the Exercise Price under the Purchase Undertaking was not conditional upon the transfer of assets under UAE law-governed documents. Rather, the exercise and the transfer were intended to be consecutive, not concurrent,



LEGAL FRAMEWORK

2. The notion of mistake applies solely to gaps in a contract. If the parties have clearly or implicitly agreed on the consequences of specific events, no contractual gap exists, and the doctrine of mistake does not apply. In this case, the parties expressly agreed that if the Mudaraba Agreement and Sale Agreement were found to be illegal or unenforceable, the Sukuk would be dissolved, allowing the Sukuk Trustee to issue an Exercise Notice under the Purchase Undertaking. Once such a notice is issued, Dana Gas is obligated to pay the Sukuk Exercise Price under the Purchase Undertaking. As the Sukuk explicitly anticipates challenges to the validity and enforceability of the Mudaraba Agreement and Sale Agreement, the English High Court found no contractual gap, and thus, the doctrine of mistake was deemed inapplicable.
3. Under the Sukuk structure, the place of performance for the payment obligations under the Purchase Undertaking was England, as the account for the Sukuk transaction was maintained by the Sukuk Trustee with Deutsche Bank in London. In light of this, the High Court ruled that it did not need to consider any overriding mandatory provisions of UAE law when determining the enforceability of the Purchase Undertaking under English law.

4.8.11 Sharjah High Court Rulings

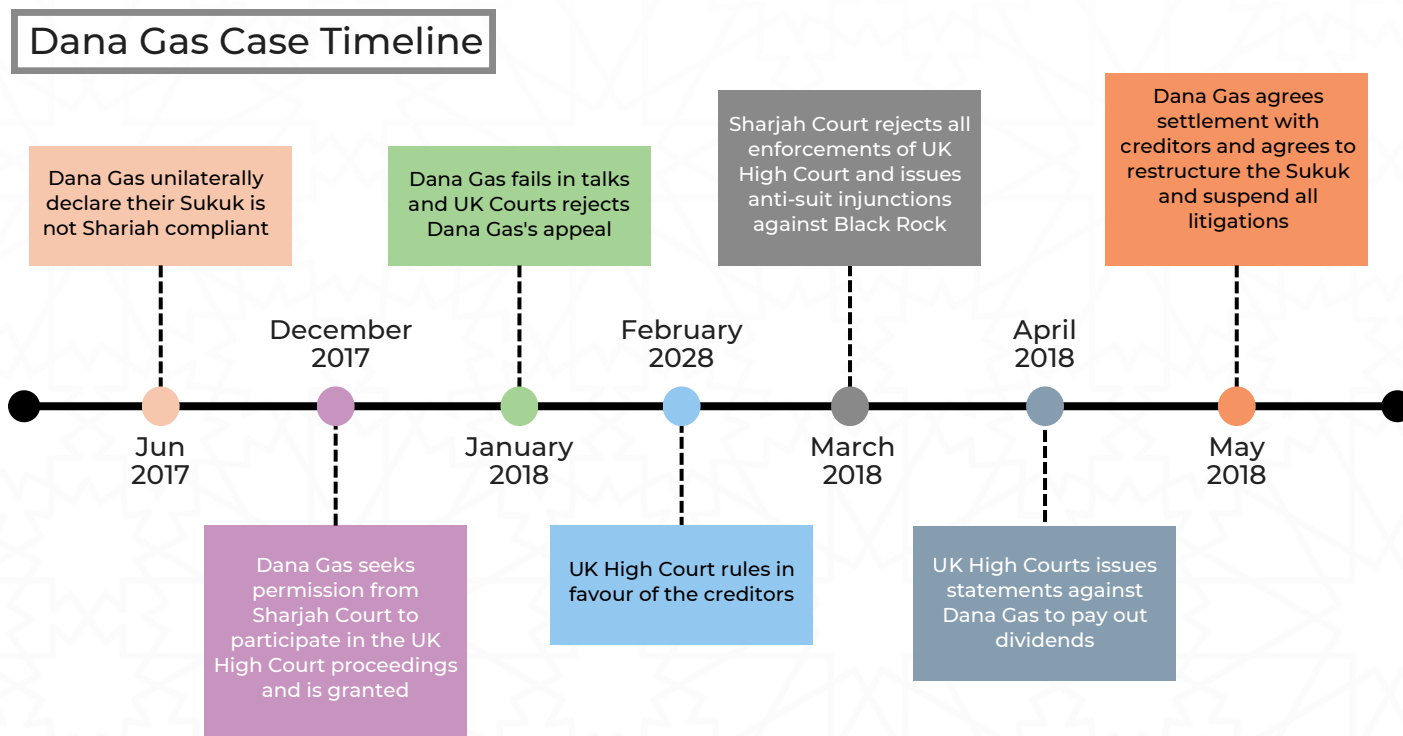
As the contract was valid, English courts had non-exclusive jurisdiction. In December 2017, the Sharjah court granted Dana Gas's request to join the UK High Court proceedings concerning the defaulted Sukuk. The ruling supported the English court's judgment that the Sukuk issuance was legal under English law. However, two months after the English court again dismissed Dana Gas's appeal, the Sharjah Court of First Instance instructed the gas firm to suspend the enforcement of English court judgments in the UAE. It directed the UAE courts to assess the enforceability of the UK rulings and to proceed with hearings, allowing any defences to be presented.

A committee representing Sukuk holders, including BlackRock Inc. and Goldman Sachs Group Inc., negotiated a new contract with Dana Gas in May 2018 to resolve legal disputes in the UK and UAE. The committee agreed to restructure the Sukuk with two options for creditors: (1) to exit the Sukuk at 90.5 US cents per dollar of face value, or (2) to roll over the existing Sukuk into a new three-year Sukuk with a 4% coupon. In August 2018, Dana Gas concluded all litigation in the UK and UAE. A buyback of \$133 million worth of Sukuk below par and future profit rate savings was expected to save the company \$21 million. Dana Gas managed to save an additional \$8 million by maintaining the profit rate at 4% per annum, bringing the total savings to \$29 million, including \$35 million reportedly 'achieved at the time of the reorganisation'⁶⁹



LEGAL FRAMEWORK

4.8.12 Timeline of the Battle



4.8.13 Lessons Learned and the Way Forward

As stated earlier, the case sent shockwaves through the Islamic finance industry and had far-reaching repercussions. Since then, most Sukuk issuances have included warranties to prevent obligors from declaring non-Shariah compliance. As with any default, had there been standardised Islamic financial products in place, such a situation might have been avoided.

The risk of someone claiming a product is not Shariah-compliant might have been avoided or mitigated through clearer Shariah interpretation. Dr. Mohamed Damak, Global Head of Islamic Finance at S&P Global Ratings, has stated that the market needs standardised legal documents to eliminate confusion. We believe this would also simplify the Sukuk rating process for rating agencies. The combination of English and local laws in structuring Shariah-compliant products could be disastrous, not only for Dana Gas but for all Sukuk issuances.



LEGAL FRAMEWORK

The UAE currently has a decentralised Shariah compliance framework for Islamic finance. Article 6 of the UAE Islamic Banking Law mandates that each Islamic bank, financial institution, and investment company establish its own Shariah Supervisory Authority to ensure that its operations and transactions comply with Islamic law. Additionally, Article 5 of Federal Law No. 6 of 1985 establishes a 'Higher Shariah Authority' to provide overarching supervision across Islamic banks, financial institutions, and investment companies.⁷⁰

We believe that if the country had established a centralised Higher Shariah Board, this charade of non-compliance might never have occurred. Moreover, given that Sukuk are both attractive and relatively higher-risk investments, investors are likely to move past this case and continue investing in these lucrative certificates going forward.

In April 2020, Dana Gas's exploration and production assets in Egypt, primarily onshore in the Nile Delta, with the exception of Block 6 located in the Eastern Mediterranean Sea, faced potential complications due to the sharp decline in oil prices. The company is considering the sale of these assets, and if the transactions materialise, it has pledged to use the proceeds to repay its outstanding Sukuk.⁷¹



SUKUK STRUCTURES



SUKUK STRUCTURES

5.1 SUKUK AL-MUDARABA

According to AAOIFI, “These are the Sukuk that are issued to finance the Obligor through Mudaraba in an investment activity. The issuer of these Sukuk is Rab-al-Maal on behalf of the certificate holders of the Sukuk, and the Obligor is the Mudarib. The certificate holders own the underlying assets of the activity in common among them, sharing the reward and the liability among them, and the certificate holders share the realised profits with the Obligor according to what they agreed upon, and the loss is borne by the certificate holders.”

Mudaraba is a profit-sharing partnership in which one party provides the capital (Rab-al-Maal) and the other provides labour or management expertise (Mudarib). The key characteristics of the Mudaraba structure can also be adopted as the underlying framework for Sukuk issuance. In this structure, each investor’s purchase of Sukuk represents units of equal value in the Mudaraba capital, with these units registered under the names of the Sukuk certificate holders, reflecting undivided ownership shares in the Mudaraba capital. Returns generated from the Mudaraba capital are distributed according to a pre-agreed profit-sharing ratio between Rab-al-Maal and the Mudarib and are subsequently passed on to investors in proportion to their individual investment in Sukuk Al-Mudaraba.

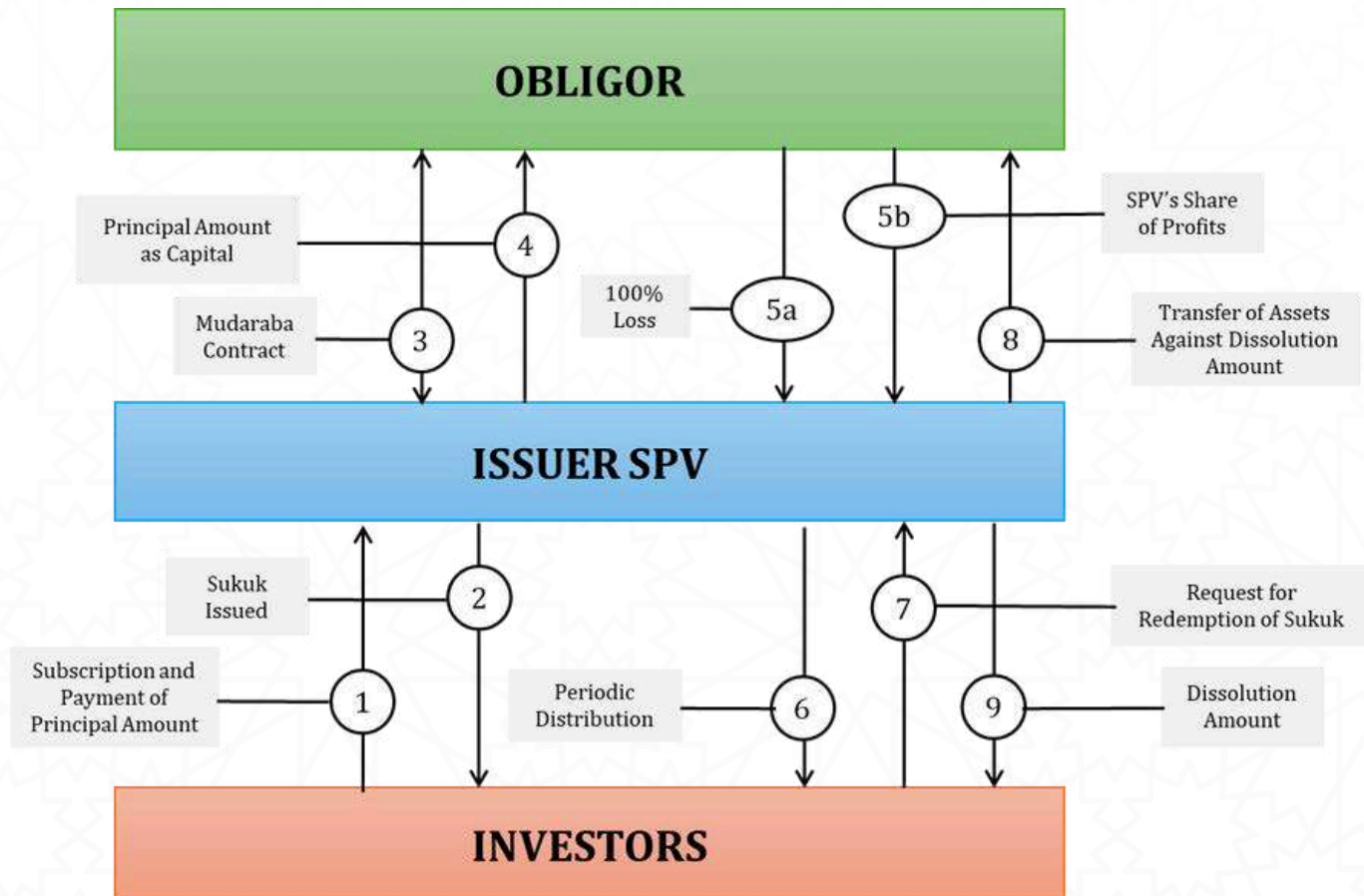
5.1.1 Key Features of the Underlying Structure

- The Mudaraba enterprise must be Shariah-compliant.
- The Obligor (as Mudarib) should perform their obligations with the same degree of skill and care as they would exercise in managing their own assets.
- The Mudaraba shall be established on a restricted basis (Al-Mudaraba Al-Muqayyada), whereby the Obligor (as Mudarib) must invest the Sukuk proceeds strictly in accordance with the specified investment plan. For Shariah compliance, at least 33% of the Mudaraba capital must be invested in tangible assets at all times.
- The profit-sharing ratio between the Issuer SPV (as Rab-al-Maal) and the Obligor (as Mudarib) must be agreed upon at the time the Mudaraba Agreement is concluded.
- Any losses of the Mudaraba enterprise shall be borne solely by the Issuer SPV (as Rab-al-Maal), except in cases of fraud, willful misconduct, or negligence on the part of the Mudarib.
- No guarantee of return shall be provided by the Obligor (Mudarib) for either the principal amount or any return thereon to the Issuer SPV (Rab-al-Maal) or the Investors.



SUKUK STRUCTURES

5.1.2 Sukuk Al-Mudaraba Structure



5.1.3 Mechanism

1. The Issuer SPV issues the prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
2. Upon receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represent an undivided ownership interest in the Mudaraba assets, as well as the Investors' right to receive Periodic Distribution Amounts and the Dissolution Amount.
3. The Issuer SPV and the Obligor enter into a Mudaraba Agreement, whereby the Obligor acts as Mudarib, and the Issuer SPV as Rab-al-Maal.
4. The Issuer SPV transfers the Principal Amount to the Obligor as capital for the Mudaraba enterprise.

SUKUK STRUCTURES

5.
 - a. Any losses incurred by the Mudaraba enterprise are borne solely by the Issuer SPV.
 - b. Profits generated by the Mudaraba enterprise are shared between the Issuer SPV and the Obligor in accordance with the profit-sharing ratios outlined in the Mudaraba Agreement. The duration of the Mudaraba enterprise aligns with the maturity period of the Mudaraba Sukuk.
6. The Obligor distributes the Issuer SPV's share of the Mudaraba profits.
7. The Issuer SPV, acting as Trustee, pays the Periodic Distribution Amounts to the Investors using the profits received from the Obligor.
8. In the event of maturity, default, or prepayment, Investors redeem the Sukuk with the Issuer SPV in exchange for the Dissolution Amount.
9. Upon maturity, default, or prepayment, the Obligor pays the Dissolution Amount to the Issuer SPV in exchange for the purchase of the Mudaraba assets held on behalf of the Investors.
 - The Issuer SPV pays the Dissolution Amounts to the Investors using the amount it has received from the Obligor.
 - In the event of maturity or default, the Issuer SPV, by exercising its rights under the Purchase Undertaking, would obligate the Obligor (Mudarib) to purchase the Assets from the Issuer SPV at the applicable Exercise Price.
 - In the case of pre-payment, tax payment, or any other event, the Obligor (Mudarib), by exercising its rights under the Sale Undertaking, would obligate the Issuer SPV to sell the Assets to the Obligor at the applicable Exercise Price.
 - In addition to its profit share, the Obligor, as Mudarib, may be granted an incentive for providing its expertise and management skills if the profit generated by the Mudaraba Enterprise exceeds a benchmark return. This incentive (if any) would either be calculated at the end of the Mudaraba term and upon liquidation of the Mudaraba or on each Periodic Distribution Date.

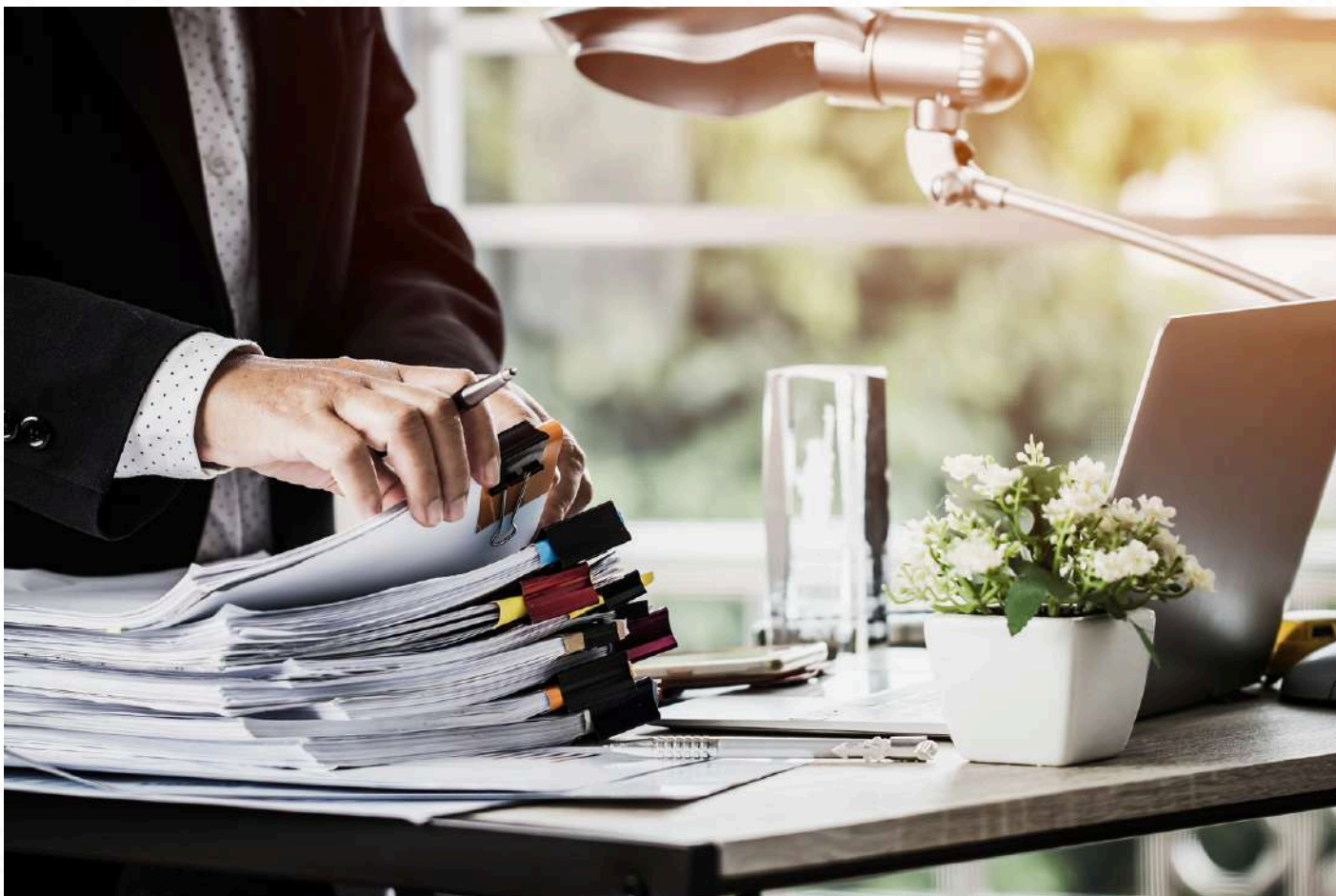


SUKUK STRUCTURES

5.1.4 Required Islamic Documentation for Sukuk Al-Mudaraba

The following is the Islamic documentation required for Sukuk A-Mudaraba:

- Prospectus between the Issuer SPV as Issuer and the Investors as Subscribers
- Declaration of trust between the Issuer SPV as Trustee and the Investors as Principals
- Mudaraba Agreement between the Obligor as Mudarib and the Issuer SPV as Rab-al-Maal
- Master Purchase Agreement between the Obligor as Purchaser and the Supplier as Seller
- In the event of maturity or default, a unilateral Purchase Undertaking by the Obligor as Purchaser, and a unilateral Sale Undertaking by the Issuer SPV as Seller
- Sale and Purchase Agreement between the Issuer SPV (as Seller or Purchaser) and the Obligor (as Purchaser or Seller)



SUKUK STRUCTURES

5.2 SUKUK AL-MUSHARAKA

According to AAOIFI, “Musharaka Sukuk refers to Sukuk in which the relationship between the certificate holders and the Obligor is based on a partnership contract, either Musharaka or Mudaraba.”

Musharaka is a partnership between two or more parties, whereby each partner contributes a specific amount of capital and has the right to participate in managing the partnership assets. Profits are distributed according to the partnership agreement, while losses are borne in proportion to each partner’s capital contribution.

Musharaka arrangements can be structured in various ways; however, in practice, the following two structures are commonly used for issuing Sukuk:

- a. **Contractual Partnership (Shirkat al-'Aqd):** A contractual partnership is an agreement between two or more parties to combine their assets, or to merge their services, obligations, and liabilities, with the aim of generating profit.
- b. **Partnership of Ownership (Shirkat al-Milk):** A partnership of ownership is the combination of assets owned by two or more individuals, resulting in shared rights to any profits, income, or increase in the value of the partnership assets. This type of partnership entails the obligation to bear any losses as well. Such ownership may arise involuntarily—through events beyond the partners’ control, such as inheritance rights—or voluntarily, such as when two or more parties jointly acquire an asset.



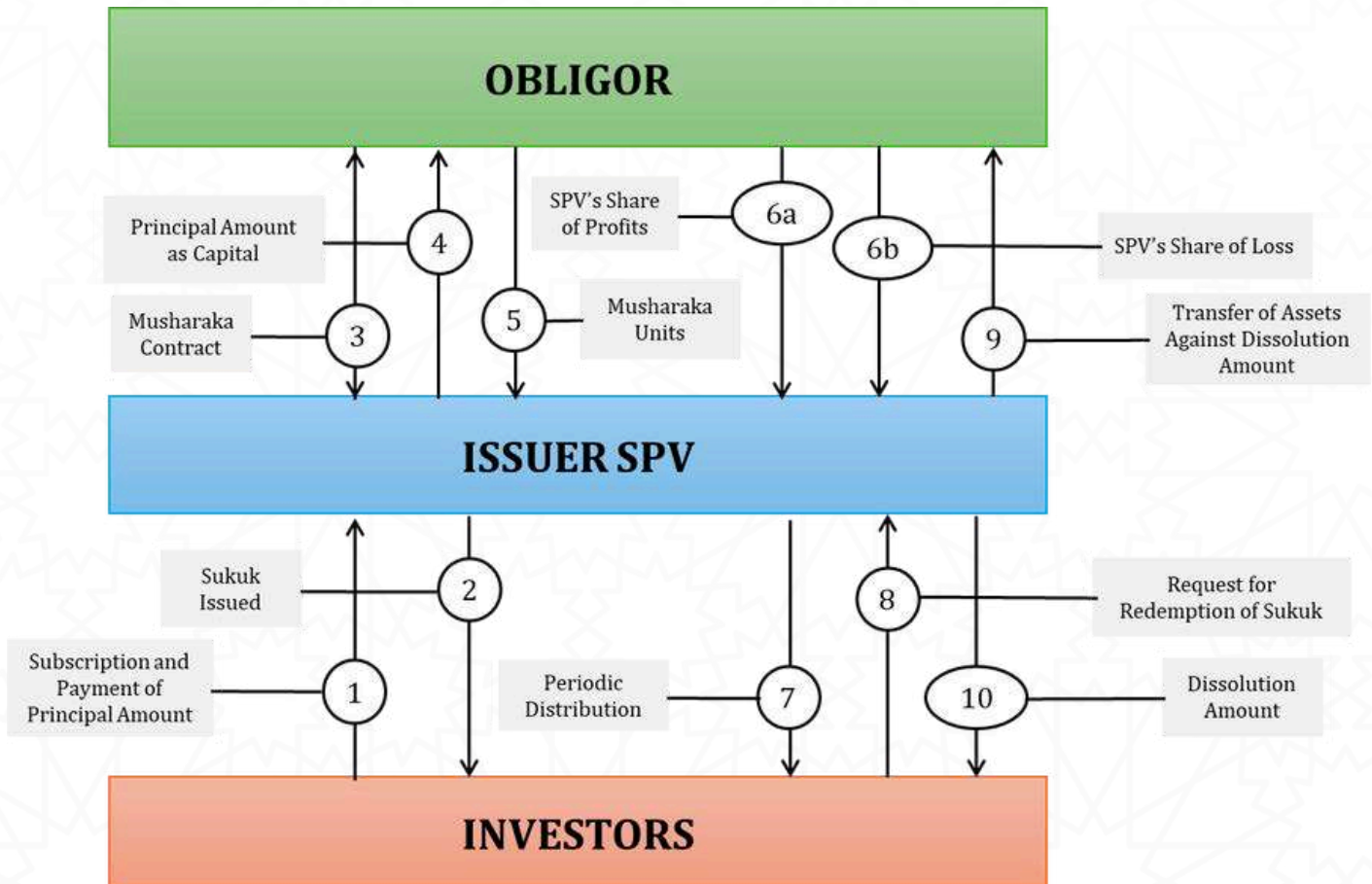
5.2.1 Key Features of the Underlying Structure

- The Musharaka Enterprise or its assets must be Shariah-compliant.
- The profit-sharing ratio must be mutually agreed upon at the outset and should be expressed as a percentage of the realised profit, not as a lump sum amount or a percentage of the Musharaka capital contribution.
- Prior to maturity or termination of the Musharaka, profits shall be distributed among the parties through a constructive liquidation of the Musharaka assets.
- The Musharaka assets must comprise at least 33% tangible assets, or up to 50%, according to the opinion of some Shariah scholars, for the purpose of tradability.

SUKUK STRUCTURES

- Losses must be borne by the parties in proportion to their capital contributions.
- From a Shariah perspective, both the Obligor and the Trustee may terminate the Musharaka at any time, provided that prior notice is given.

5.2.2 Sukuk Al-Mudaraba Structure



5.2.3 Mechanism

1. The Issuer SPV issues a prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
2. After receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represents an undivided ownership in the underlying asset to be purchased. They also represent the Investors' rights to the Periodic Distribution Amount and the Dissolution Amount.
3. The Issuer SPV declares a trust over the proceeds and thereby acts as a Trustee on behalf of the Investors.

SUKUK STRUCTURES

4. The Issuer SPV enters into a Musharaka arrangement with the Obligor, and both agree on their respective contributions to the Musharaka capital, allocating a number of units in proportion to their contributions.
5. The Issuer SPV pays the Principal Amount to the Obligor as its contribution to the Musharaka capital.
6. The Obligor transfers the Musharaka units to the Issuer SPV in accordance with its capital contribution.
 - 6a. SPV's Share of Profits.
 - 6b. SPV's Share of Loss.
7. In addition to contributing capital, the Obligor also manages the Musharaka Enterprise or Assets.
8. On each Periodic Distribution Date, the Obligor pays the actual profits generated by the Musharaka Assets to the Issuer SPV in proportion to its capital contribution or according to a pre-agreed ratio.
9. If the Issuer SPV's actual share of profit exceeds the pre-defined expectation, the excess amount is given to the Obligor as an incentive for its strong performance.
10. The Issuer SPV pays each Periodic Distribution Amount to the Investors using the profits it has received from the Musharaka Assets.
 - In case of loss, both the Issuer SPV and the Obligor shall bear the loss in proportion to their capital contributions.
 - In the event of maturity, default, or pre-payment, the Investors redeem the Sukuk from the Issuer SPV in exchange for the Dissolution Amount.
 - At maturity, default, or pre-payment, the Obligor pays the Dissolution Amount to the Issuer SPV.
 - The Issuer SPV pays the Dissolution Amount to the Investors using the amount received from the Obligor.
 - In the event of maturity or default, the Issuer SPV, by exercising its rights under the Purchase Undertaking, obligates the Obligor to purchase the assets from the Issuer SPV.
 - In the case of pre-payment, tax payment, or any other event as agreed between the parties, the Obligor, by exercising its rights under the Sale Undertaking, obligates the Issuer SPV to sell the assets to the Obligor.

SUKUK STRUCTURES

5.2.4 Required Islamic Documentation for Sukuk Al-Musharaka

The following is the Islamic documentation required for Sukuk Al-Musharaka:

- Prospectus between the Issuer SPV as the Issuer and the Investor as the Subscriber.
- Declaration of trust between the SPV as Trustee and the Investor as Principal.
- Musharaka Agreement between the Obligor and the Issuer SPV as partners.
- Master Purchase Agreement between the Obligor as Purchaser and the Supplier as Seller.
- Management Agreement between the Issuer SPV as a partner and the Obligor as the Managing Partner or Agent.
- In the event of maturity or default, a unilateral Purchase Undertaking by the Obligor as Purchaser and a unilateral Sale Undertaking by the Issuer SPV as Seller.
- Sale and Purchase Agreement between the Issuer SPV as Seller or Purchaser and the Obligor as Purchaser or Seller.

5.3 SUKUK AL-MURABAHA

According to AAOIFI, “It is the Sukuk in which the proceeds of subscription are used to buy a commodity, [on behalf of] the certificate holders, and then sell it on Murabaha basis. The certificate holders are the buyers of the commodity and [then] sellers of [the same] on a Murabaha basis, and the Obligor is the purchaser from [the certificate holders]. The certificate holders of Sukuk own the commodity after purchasing it and before selling it. [The certificate holders] own the price of selling [the underlying asset] after the sale.”

The issuer of these certificates is the seller of the Murabaha commodity, the subscribers are the buyers, and the realised funds represent the purchase cost of the commodity. The certificate holders own the commodity and are entitled to its sale price. It is not permissible to trade in Murabaha certificates after the delivery of the Murabaha commodity to the buyer. The same characteristics of the Murabaha structure can also be adapted for use as the underlying structure in a Sukuk issuance. Sukuk proceeds from investors may be applied by the Issuer SPV to acquire commodities and sell them to the Obligor, thereby generating revenue from the Murabaha deferred price, which would be distributed to the investors throughout the term of Sukuk al-Murabaha.

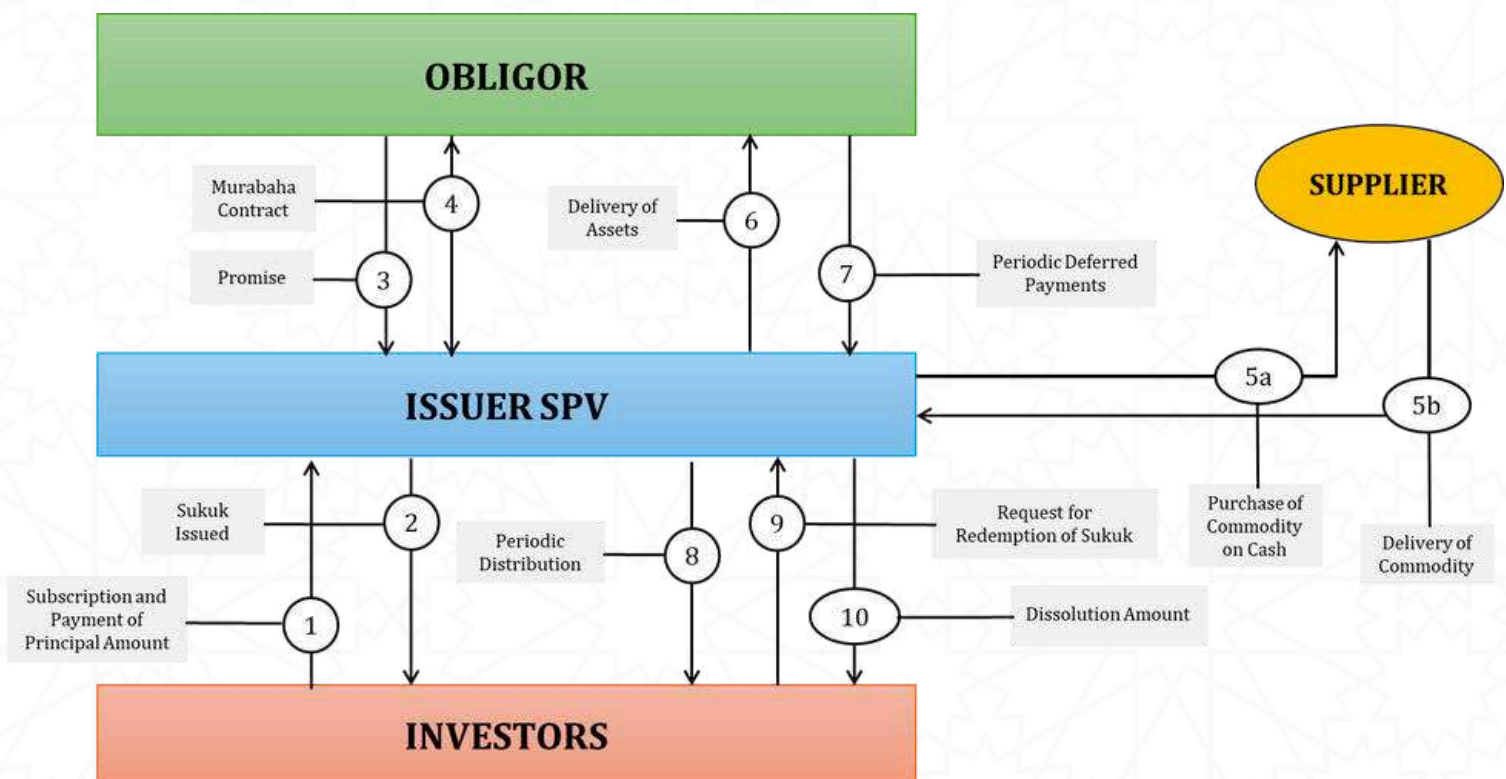


SUKUK STRUCTURES

5.3.1 Key Features of the Underlying Structure

- The Murabaha commodities or assets must be Shariah-compliant.
- The Issuer SPV may appoint the Obligor as its buying agent under a Buying Agency Agreement to purchase the commodities from the supplier in its capacity as agent.
- The Issuer SPV must disclose both the cost price and the profit margin in the Murabaha Sale Contract.
- The deferred price must be specified as a lump-sum amount, and the payment terms must be clearly agreed upon by the parties.

5.3.2 Sukuk Al-Murabaha Structure



SUKUK STRUCTURES

5.3.3 Mechanism

1. The Issuer SPV issues the prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
2. After receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represent undivided ownership in the Murabaha assets. They also entitle the Investors to the Periodic Distribution Amount and the Dissolution Amount.
3. The Issuer SPV declares a trust over the proceeds and thereby acts as Trustee on behalf of the Investors.
4. The Obligor issues a unilateral promise in favour of the Issuer SPV to purchase the commodities or assets on a Murabaha basis if the Issuer SPV acquires the assets from a third party.
5. The Issuer SPV purchases the commodities from the Supplier and pays the Cost Price on the spot.
 - 5a. Purchase of commodities on a cash basis
 - 5b. Delivery of commodities
6. The Supplier delivers the commodities to the Issuer SPV in consideration of the Cost Price paid on the spot.
7. The Obligor enters into a Murabaha Agreement with the Issuer SPV, whereby the Obligor is the purchaser and the Issuer SPV is the seller.
8. The Issuer SPV sells and delivers the Murabaha commodities to the Obligor under the Murabaha Sale.
9. The Obligor makes deferred payments of the Murabaha Sale Price to the Issuer SPV at regular intervals. Each deferred payment or instalment is distributed among the investors on the relevant Distribution Date. The schedule for deferred payments corresponds to the maturity period of the Sukuk.
10. In the event of maturity, default, or pre-payment, investors would redeem the Sukuk from the Issuer SPV in exchange for the Dissolution Amount.

Upon redemption, the Issuer SPV pays the remaining deferred sale price (equivalent to the Principal Amount) to the investors as the Dissolution Amount.

SUKUK STRUCTURES

5.3.4 Required Islamic Documentation for Sukuk Al-Murabaha

The following is the Islamic documentation required for Sukuk Al-Murabaha:

- Prospectus between the Issuer SPV as the Issuer and the Investors as Subscribers.
- Declaration of trust between the Issuer SPV as the Trustee and the Investors as Principals.
- Sale and Purchase Agreement between the Issuer SPV as the Purchaser and the Supplier as the Seller.
- Murabaha Sale Agreement between the Obligor as the Purchaser and the Issuer SPV as the Seller.

5.4 SUKUK AL-IJARAH

According to AAOIFI, these are certificates of equal value issued either by the owner of a leased asset or a tangible asset to be leased by promise, or they are issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription, so that the holders of the certificates become the owners of the assets.

The issuer of these certificates is the seller, and the subscribers are the buyers. The funds mobilised through the subscription represent the purchase price of the asset. The certificate holders jointly own the asset and share in the profits and losses. It is permissible to set up a parallel Ijarah on tangible assets by using the same description for the usufruct as that provided to the Sukuk holders. However, the two lease contracts must remain independent.

The term Ijarah refers to the leasing of property under a contract through which a specified, permissible benefit, referred to as usufruct, is obtained for a defined period in exchange for a specified, permissible consideration. One form of Ijarah is Ijarah Muntahia Bittamleek, a leasing contract that includes a promise by the lessor to transfer ownership of the leased property to the lessee, either at the end of the Ijarah period or gradually during the term of the contract.

Ijarah Sukuk can be used to provide regular payments to investors throughout the life of a financing arrangement. Additionally, the use of a purchase undertaking is widely accepted in the context of Sukuk al-Ijarah through the Ijarah Muntahia Bittamleek contract. These characteristics make Ijarah relatively straightforward to adapt as the underlying structure for Sukuk issuance.

Shariah scholars have permitted the structuring of Ijarah Sukuk in any of the following three lease forms:

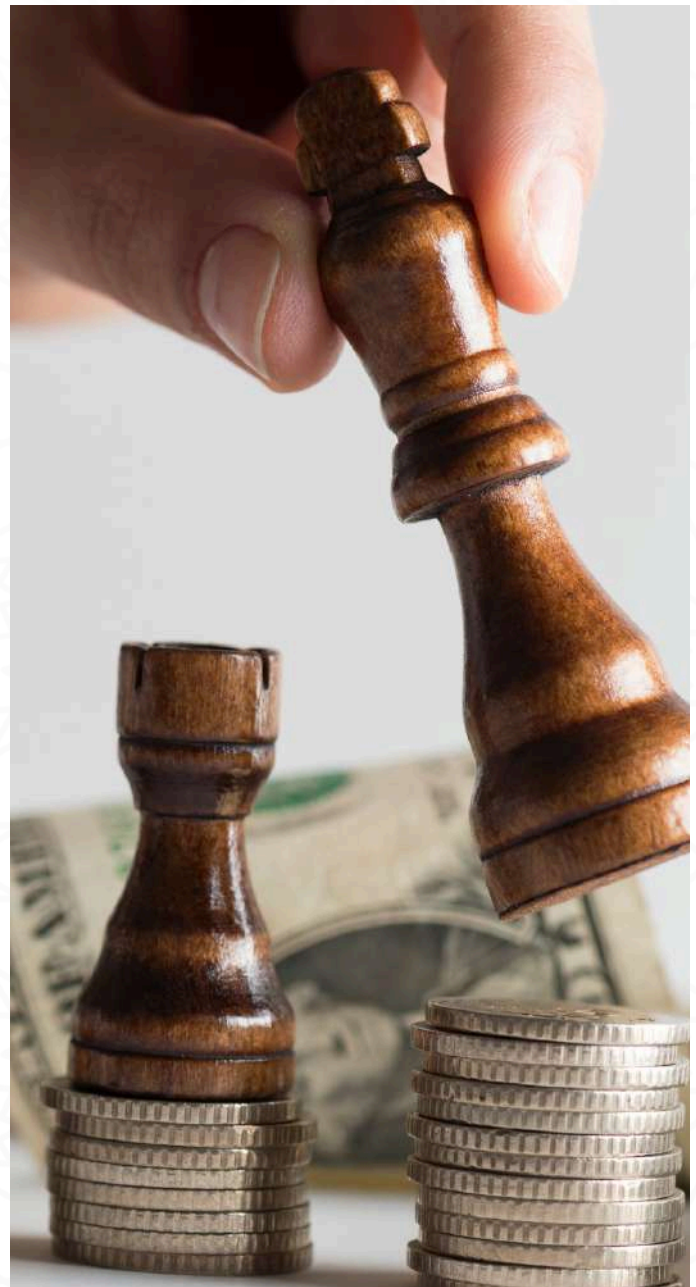
- Purchase-Leaseback:** Under this structure, the leased asset is purchased and then leased back to the same party from whom it was originally acquired. However, if the property is already under an existing lease, that lease contract must be terminated prior to the sale of the asset.

SUKUK STRUCTURES

- ii. **Purchase-Lease:** In this structure, the asset is purchased from a third party and then leased by the lessor to another party.
- iii. **Head Lease-Sublease:** This structure involves two lease contracts. The first is the head lease, through which the asset is leased for a long-term period (e.g., 50 years). The second is a sublease, under which the same asset is leased back to the original lessor under the head lease for a shorter term (e.g., 5 years).

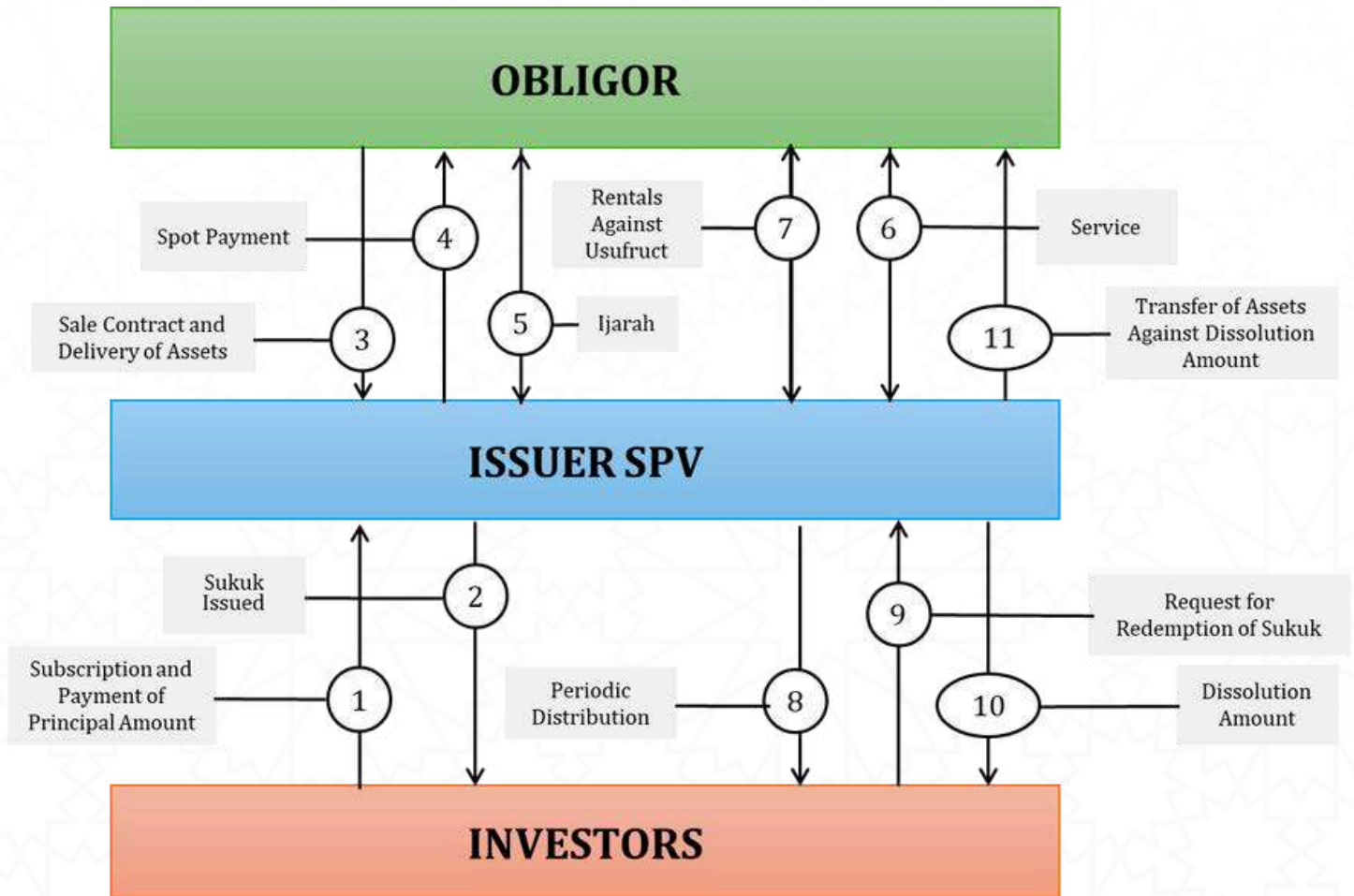
5.4.1 Key Features of the Underlying Structure

- The Ijarah asset and its use must be Shariah-compliant.
- Ownership of the asset(s) must remain with the Issuer SPV (as Lessor), and only the usufruct rights may be transferred to the Obligor (as Lessee).
- The lease rentals must be clearly specified at an agreed rate and for a defined period.
- Liabilities and risks arising from ownership of the asset(s) must rest with the Trustee (as Owner).
- Any liabilities relating to the use of the asset(s), however, rest with the Obligor (as Lessee).
- In the event of a total loss of the asset, the lease contract may be terminated.
- If the total loss is caused by misuse or negligence on the part of the Lessee, then the Lessee shall be liable to compensate the Lessor (Issuer SPV) for the depreciation or loss in the value of the asset.
- In the event of partial loss or damage to the asset, the Ijarah contract will remain in effect for the remaining portion of the asset, and the rental amount shall be recalculated or adjusted accordingly.



SUKUK STRUCTURES

5.4.2 Sukuk Al-Ijarah Structure

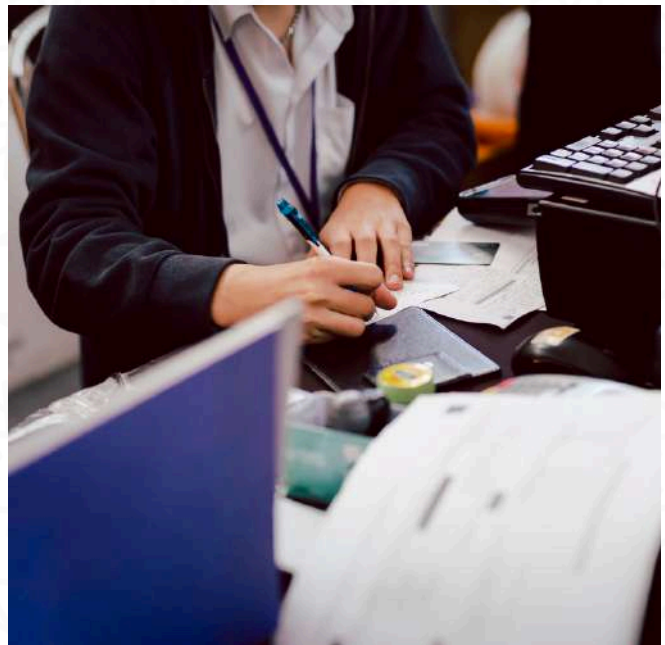


5.4.3 Mechanism

1. Issuer SPV issues a prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
2. Issuer SPV, after receiving the Principal Amount, issues the Sukuk to the Investors. The Sukuk represent an undivided ownership in an underlying asset to be purchased. They also represent the right of the Investors to the Periodic Distribution Amount and the Dissolution Amount.
3. Issuer SPV declares a trust over the proceeds and thereby acts as a Trustee on behalf of the Investors.
4. The Obligor enters into a sale and purchase arrangement with Issuer SPV. As per the agreement, the Obligor sells and delivers the tangible assets to the Issuer SPV.

SUKUK STRUCTURES

5. The Issuer SPV pays the Principal Amount as the purchase price for the tangible asset to the Obligor.
6. The Issuer SPV and the Obligor enter into an Ijarah contract. Under this contract, the Issuer SPV leases the asset to the Obligor for a term corresponding to the maturity of the Sukuk, in return for specific and periodic rental payments.
7. The Obligor, as Lessee, utilises the usufruct of the asset delivered by the Issuer SPV, as Lessor, and makes rental payments at regular intervals.
8. These rental payments may be calculated based on either a fixed rate or a variable rate (benchmarked), depending on the denomination of the Sukuk issued and subject to the mutual agreement of the parties in advance.
9. The Issuer SPV and the Obligor enter into a Service Agency Agreement, whereby the Issuer SPV appoints the Obligor as its Servicing Agent to carry out certain obligations under the lease arrangement—namely, major maintenance, insurance (or takaful), and the payment of taxes in connection with the assets—on behalf of the Issuer SPV.
10. The Issuer SPV pays each Periodic Distribution Amount to the Investors using the rental income received from the Obligor.
11. In the event of maturity, default, or pre-payment, the Investors will redeem the Sukuk from the Issuer SPV in exchange for the Dissolution Amount.
 - At maturity, default, or pre-payment of the Sukuk, the Obligor pays the Dissolution Amount to the Issuer SPV in consideration for the purchase of the leased assets.
 - The Issuer SPV pays the Dissolution Amount to the Investors using the amount received from the Obligor.
 - In the event of default, the Issuer SPV, by exercising its rights under the Purchase Undertaking, obligates the Obligor to purchase the assets from the Issuer SPV at the applicable Exercise Price, which will be equal to the outstanding fixed rental (i.e., the outstanding Principal Amount) plus any accrued but unpaid variable rental owed to the Investors.



SUKUK STRUCTURES

- In the case of pre-payment, tax payment, or any other agreed event, the Obligor, by exercising its rights under the Sale Undertaking, obligates the Issuer SPV to sell the assets to the Obligor at the applicable Exercise Price, which will be equal to the outstanding fixed rental (i.e., the outstanding Principal Amount) plus any accrued but unpaid variable rental owed to the Investors.

5.4.4 Required Islamic Documentation for Sukuk Al-Ijarah

The following is the Islamic documentation required for Sukuk Al-Ijarah:

- Prospectus between the Issuer SPV (as Issuer) and the Investors (as Subscribers).
- Declaration of trust between the Issuer SPV (as Trustee) and the Investors (as Principals).
- Master Purchase Agreement between the Obligor (as Purchaser) and the Supplier (as Seller).
- Sale and Purchase Agreement between the Obligor (as Seller) and the Issuer SPV (as Purchaser).
- Lease Agreement between the Issuer SPV (as Lessor) and the Obligor (as Lessee).
- Service Agency Agreement between the Issuer SPV (as Principal) and the Obligor (as Servicing Agent).
- In the event of maturity or default, a unilateral Purchase Undertaking by the Obligor (as Purchaser) and a unilateral Sale Undertaking by the Issuer SPV (as Seller).
- Sale and Purchase Agreement between the Issuer SPV (as Seller or Purchaser) and the Obligor (as Purchaser or Seller), as applicable.

5.5 SUKUK AL-WAKALA

According to AAOIFI, Wakala Sukuk refers to Sukuk in which the relationship between the certificate holders and the Obligor is based on an agency contract. Its key characteristics include the following:

1. Each certificate represents a common share in the agency's assets or activities.
2. Delivery of the [Wakala] capital or the underlying assets of [Agency Sukuk] to the Obligor pursuant to the agency contract establishes a fiduciary relationship between [the Obligor] and the certificate holders, so it does not entail that the capital is an indisputable obligation owed by the Obligor.
3. The capital or underlying assets of Wakala Sukuk and its profits or returns are not guaranteed by the Obligor, and it does not guarantee the capital or the value of the underlying assets to the extent that [the Obligor] recognizes it as a debt owed by it except in the event of misconduct, negligence, or breach of conditions.

SUKUK STRUCTURES

The issuer of these certificates acts as the investment agent, the subscribers are the principals, and the realised funds constitute the entrusted investment capital. The certificate holders own the assets represented by the certificates, along with their associated benefits and risks, and are entitled to the profits.

Wakala can be defined as the delegation by one person (the Principal) to another (the Agent) to act on their behalf in a known and permissible transaction. In this arrangement, the Agent (Wakil) represents and acts on behalf of the Principal. The Principal (the investor) appoints the Wakil to invest the funds provided into a pool of investments or assets. The Wakil then applies their expertise to manage these investments on behalf of the Principal for a specified duration, with the aim of generating an agreed-upon profit return.

Under Wakala Sukuk, it is also possible to combine two or more types of Islamic finance contracts—such as Murabaha and Ijarah, or Istisna and Ijarah—to structure and issue the Sukuk. The underlying assets are then packaged together to form a diversified portfolio.



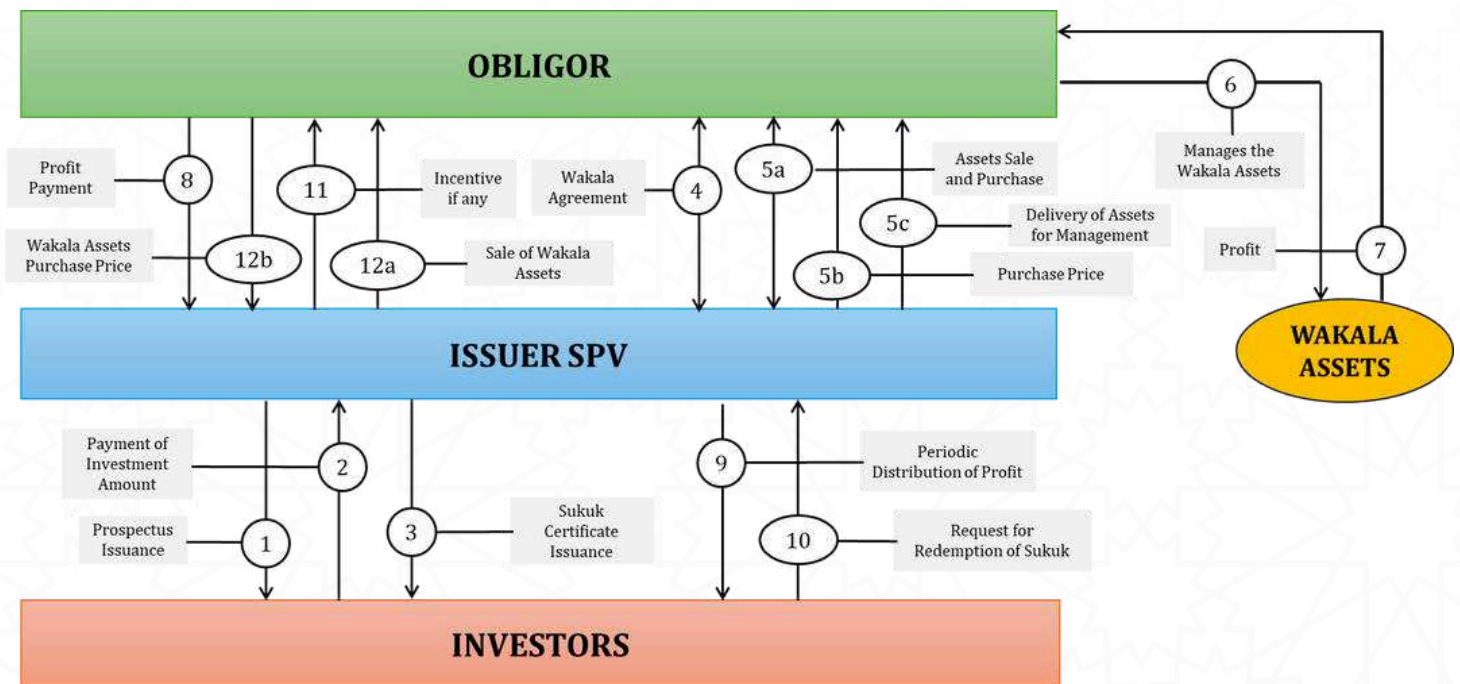
5.5.1 Key Features of the Underlying Structure

- The Wakala arrangement and the Wakala assets must comply with Shariah principles.
- The subject matter of the Wakala agreement—such as the duration of the Wakala, the type or criteria of assets that the Wakil may select, and the fees payable to the Wakil—must be clearly defined and specific.
- The Wakil must be paid a fee, even if nominal, for the Wakala arrangement to be valid.
- Wakala assets must meet eligibility criteria. Specifically, at least 30% of the asset portfolio should comprise tangible assets (such as Ijarah equities or other asset-based Sukuk).
- To maintain the tradability and Shariah compliance of the Sukuk (especially where multiple Islamic contracts are combined to form the asset portfolio), the documentation must include safeguards to ensure that the net asset value of Ijarah contracts (and their underlying assets), shares, and asset-based Sukuk certificates (i.e., excluding Sukuk al-Murabaha) is not less than 51% of the total net asset value of the Sukuk assets as of the closing date.
- Principal amounts from the underlying financial assets must not be used to pay service coupons under the Sukuk.

SUKUK STRUCTURES

- The Wakala fee may be combined with an incentive fee payable at maturity, based on the overall performance of the Sukuk assets.

5.5.2 Sukuk Al-Wakala Structure



5.5.3 Mechanism

- The Issuer SPV issues the prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
- Upon receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represent undivided ownership in the underlying assets to be purchased, as well as the Investors' rights to receive the Periodic Distribution Amount and the Dissolution Amount.
- The Issuer SPV declares a trust over the proceeds and thereby acts as Trustee on behalf of the Investors.
- The Issuer SPV enters into a Wakala Agreement with the Obligor. Under this agreement, the Issuer SPV acts as the Principal, and the Obligor acts as the Wakil, agreeing to manage the Wakala assets.
- The process of asset acquisition and management is as follows:
 - 5a: The Issuer SPV purchases the assets from the Obligor using the Sukuk proceeds received from the Investors.

SUKUK STRUCTURES

- 5b: The Obligor delivers the assets to the Issuer SPV for management.
- 6. The Wakala assets will be held and managed by the Obligor on behalf of the Issuer SPV for the duration of the Sukuk, with the objective of generating the expected profit.
- 7. The Obligor transfers the profit or income generated from the Wakala assets to the Issuer SPV. Typically, the profit or income amount corresponds to each Periodic Distribution Amount. In the event of a shortfall due to lower-than-expected income from the Wakala assets, the Obligor arranges financing on behalf of the Issuer SPV to cover the deficit.
- 8. The Issuer SPV pays the Periodic Distribution Amounts to the Investors on the relevant Periodic Distribution Dates.
- 9. Any profit in excess of the Periodic Distribution Amounts will be paid to the Obligor as an incentive fee by the Issuer SPV at maturity.
- 10. In the event of maturity, default, or pre-payment, the Investors will redeem the Sukuk from the Issuer SPV in exchange for the Dissolution Amount.
- 11. The Issuer SPV pays the Dissolution Amount to the Investors using the amount received from the Obligor.
- 12. In the case of default, maturity, or early payment, the Obligor repurchases the Wakala assets from the Issuer SPV at an exercise price that includes:
 - 12a: The Principal Amount.
 - 12b: Any unpaid Periodic Distribution Amounts.

5.5.4 Required Islamic Documentation for Sukuk Al-Wakala

The following is the Islamic documentation required for Sukuk Al-Wakala:

- Prospectus between the Issuer SPV as Issuer and the Investors as Subscribers.
- Declaration of trust between the Issuer SPV as Trustee and the Investors as Principals.
- Wakala Agreement between the Issuer SPV as Principal and the Obligor as Wakil.
- Master Purchase Agreement between the Obligor as Purchaser and the Supplier as Seller.
- In the event of maturity or default, a unilateral Purchase Undertaking by the Obligor as Purchaser and a unilateral Sale Undertaking by the Issuer SPV as Seller.
- Sale and Purchase Agreement between the Issuer SPV as Seller or Purchaser and the Obligor as Purchaser or Seller.

SUKUK STRUCTURES

5.6 SUKUK AL-ISTISNA

According to AAOIFI, it is the Sukuk in which the proceeds of subscription are used to purchase a specified-cum-unidentified Istisna commodity, on behalf of the certificate holders, and then selling it after taking its possession. The certificate holders are Mustansir (the buyers), and the Obligor is Sani, the manufacturer, (the seller) of the Istisna commodity. The certificate holders of Sukuk own the Istisna commodity after purchasing it. [The certificate holders] own the price of selling [the underlying asset] after the sale.

The issuer of these certificates is the manufacturer (supplier/seller), the subscribers are the buyers, and the funds realised from the subscription represent the cost of the product. The certificate holders are the owners and are entitled to the sale proceeds of the certificates or the sale price of the products sold under a parallel Istisna arrangement. It is permissible to trade or redeem Istisna certificates if the funds have been converted into assets owned by the certificate holders.

Istisna is a contract of sale for specified items to be manufactured or constructed, with an obligation on the part of the manufacturer or builder (contractor) to deliver them to the customer upon completion. These same characteristics are utilised in structuring Istisna Sukuk. The Istisna arrangement is often combined with a lease arrangement (Ijarah Mawsufah fi al-Dhimmah), through which investors can advance funds to an Obligor and receive periodic payments under the Ijarah contract.



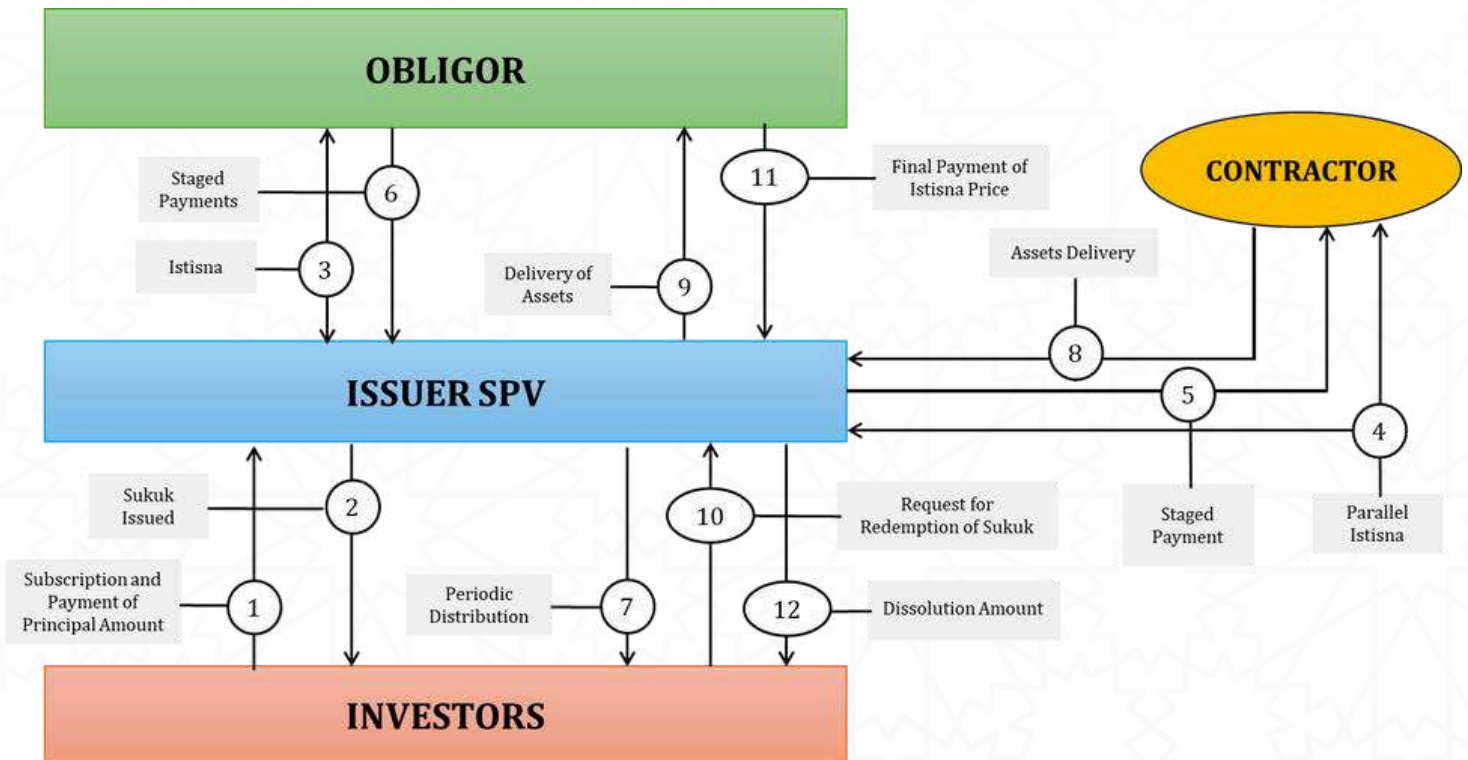
5.6.1 Key Features of the Underlying Structure

- The Istisna asset must be Shariah-compliant.
- The price and specifications of the goods or assets to be manufactured or constructed must be clearly defined at the outset.
- Payment for the Istisna asset is flexible and can be made in stages corresponding to various phases of manufacturing, paid upfront, or settled at the time of delivery.

SUKUK STRUCTURES

- The purchaser may specify a maximum time for delivery. If delivery occurs after the agreed completion date, the purchaser has the right to reject the goods.

5.6.2 Sukuk Al-Istisna Structure



5.6.3 Mechanism

- The Issuer SPV issues the prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
- After receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represent an undivided ownership in an underlying asset that is to be built or manufactured. They also entitle the Investors to the Periodic Distribution Amount and the Dissolution Amount.
- The Obligor (as Mustasni) enters into an Istisna agreement with the Issuer SPV (as Sani). Under the contract, the Issuer SPV agrees to manufacture or construct the Istisna Assets and undertakes to deliver those assets at a specified future date.
- The Issuer SPV (as Mustasni) enters into a parallel Istisna contract with the ultimate contractor (as Sani).
- The Issuer SPV (as Mustasni) pays the Istisna Asset purchase price to the ultimate contractor (Sani) in staged payments.

SUKUK STRUCTURES

6. Generally, during the construction period, the Obligor (as Mustasni) pays the Issuer SPV (as Sani) only the portion of the Istisna Price that corresponds to the profit component. In some cases, depending on the maturity of the Sukuk, such payments may continue even after the construction is completed.
7. The Issuer SPV pays each Periodic Distribution Amount to the Investors using the funds received from the Obligor (as Mustasni).
8. The ultimate contractor (Sani) delivers the Istisna Assets to the Issuer SPV (as Mustasni) either in stages at regular intervals or upon completion.
9. Similarly, the Issuer SPV (as Sani) delivers the Istisna Assets to the Obligor (as Mustasni) in the same manner as received from the ultimate contractor (Sani).
10. In the event of maturity, default, or pre-payment, the Investors may request the Issuer SPV to redeem the Sukuk against the Dissolution Amount.
11. At maturity, default, or pre-payment of the Sukuk, the Obligor pays the remaining portion of the Istisna sale price (i.e., the Dissolution Amount) to the Issuer SPV, which is then paid to the Investors. Upon such payment by the Obligor (as Mustasni), any mortgage over the Istisna Asset is released by the Issuer SPV.

5.6.4 Required Islamic Documentation for Sukuk Al-Istisna

The following is the Islamic documentation required for Sukuk Al-Istisna:

- Prospectus between the Issuer SPV (as Issuer) and the Investors (as Subscribers).
- Declaration of trust between the Issuer SPV (as Trustee) and the Investors (as Principals).
- Istisna Agreement between the Issuer SPV (as Purchaser) and the Obligor (as Contractor).
- Lease (Ijarah Mawsufah fi al-Dhimmah) Agreement between the Issuer SPV (as Lessor) and the Obligor (as Lessee).
- Service Agency Agreement between the Issuer SPV (as Principal) and the Obligor (as Servicing Agent).
- In the event of default or maturity, a unilateral Purchase Undertaking by the Obligor (as Purchaser) and a unilateral Sale Undertaking by the Issuer SPV (as Seller).
- Sale and Purchase Agreement between the Issuer SPV (as Seller or Purchaser) and the Obligor (as Purchaser or Seller).

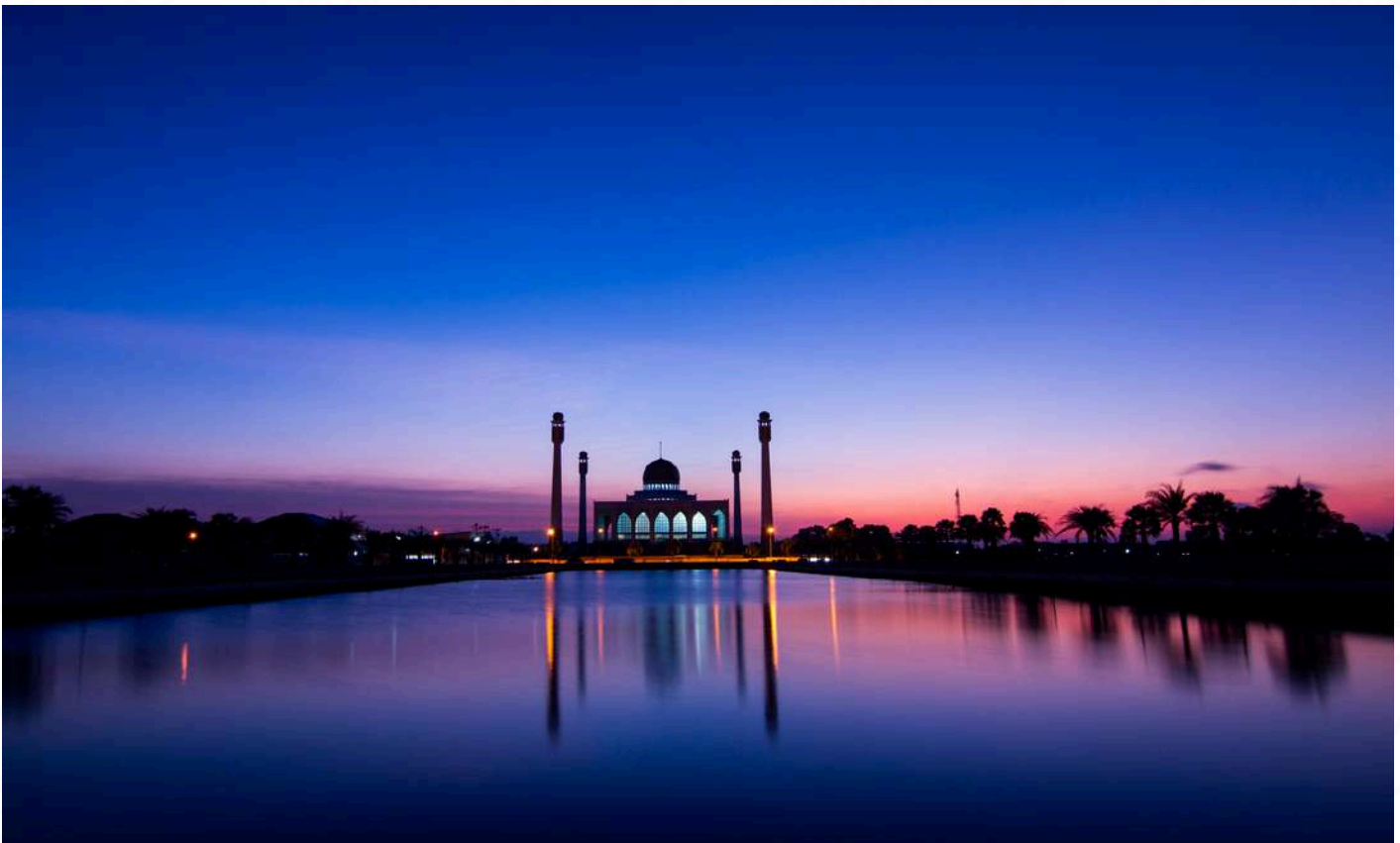
SUKUK STRUCTURES

5.7 SUKUK AL-SALAM

According to AAOIFI, it is the type of Sukuk in which the proceeds from the subscription are used to purchase a specified yet initially unidentified Salam commodity on behalf of the certificate holders and then sell it after taking possession. The certificate holders are the purchasers of the commodity under the Salam arrangement, while the Obligor acts as the seller of the Salam commodity. Upon purchase, the certificate holders become the owners of the Salam commodity. After its subsequent sale, they become entitled to the sale proceeds of the underlying asset.

The issuer of these certificates is the seller of the Salam goods, while the subscribers are the buyers. The funds raised through subscriptions represent the purchase price of the goods. The holders of the Salam certificates are the owners and are entitled to the sale proceeds of the certificates or the sale price of the Salam goods sold through a parallel Salam. Trading in Salam certificates is not permissible.

A Salam transaction is the purchase of a commodity for deferred delivery in exchange for immediate payment. It is a type of sale in which the price, known as the Salam Capital, is paid at the time of contracting, while the delivery of the item to be sold, known as Al-MuSalam Fihi (the subject matter of a Salam contract), is deferred. The seller and the buyer are referred to as Al-MuSalam Ilaihi and Al-MuSalam or Rabb al-Salam, respectively. Sukuk al-Salam can be used to provide regular payments throughout the life of a financing arrangement to the investors.



SUKUK STRUCTURES

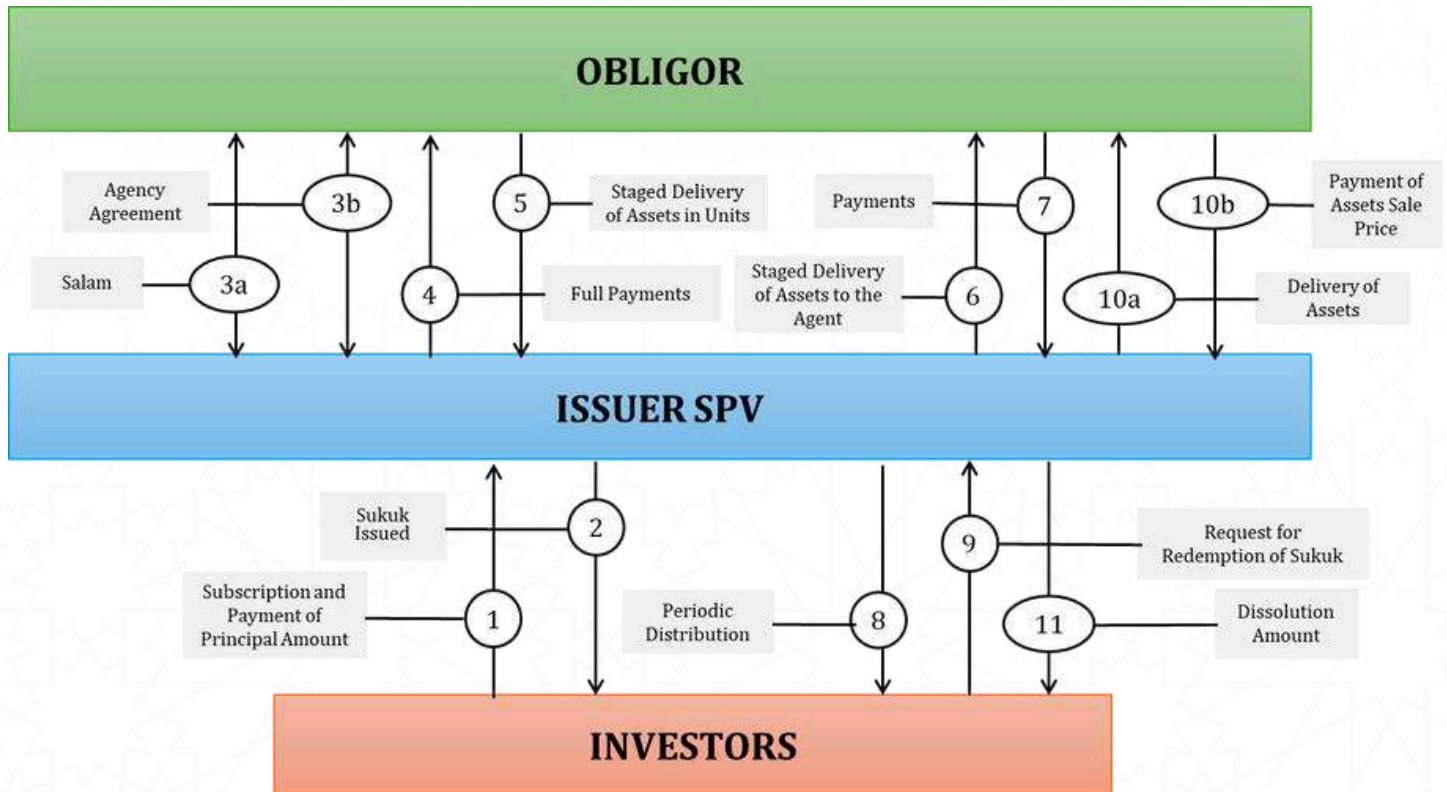
5.7.1 Key Features of the Underlying Structure

- Salam goods must be Shariah-compliant.
- The currency, amount, and manner of payment of the Salam capital must be certain and specifically known to both the Trustee and the Obligor.
- Payment of the Salam capital must be made immediately or on the spot at the time of the contract.
- Salam assets can only be fungible goods or individual articles that do not differ significantly, or assets manufactured by companies that can be identified by standardised specifications.
- The assets cannot include gold, silver, currency, land, trees, or any item for which the Obligor cannot be held responsible, or any asset whose value is subject to subjective assessment (e.g., precious stones).
- The quality, quantity, and time of delivery of the Salam assets must be clearly known to both the Obligor and the Trustee, eliminating any uncertainty or ambiguity that may lead to a dispute.
- Delivery of the Salam assets may occur periodically by way of instalments.
- Early delivery of the Salam assets, prior to the agreed delivery date, is permissible.
- Sukuk certificates held by investors are generally non-tradable, as they represent a debt (i.e., the future delivery of the Salam assets). However, once the Salam assets (or a proportion thereof) have been delivered, and provided the tangibility of the pool of Sukuk assets is sufficient to meet Shariah requirements (typically between 33% and 50%), the Sukuk may become tradable at that point.
- The liabilities associated with the Salam assets remain with the Obligor until the assets are delivered to the Trustee, at which point the liabilities transfer to the Trustee.



SUKUK STRUCTURES

5.7.2 Sukuk Al-Salam Structure



5.7.3 Mechanism

1. The Issuer SPV issues the prospectus, and the Investors subscribe and pay the proceeds as the Principal Amount.
2. After receiving the Principal Amount, the Issuer SPV issues the Sukuk to the Investors. The Sukuk represent undivided ownership in the underlying asset to be purchased. They also confer the right of the Investors to receive the Periodic Distribution Amount and the Dissolution Amount.
3. The Obligor enters into a Salam contract with the Issuer SPV.
 - a. Under the contract, the Obligor agrees to sell, and the Issuer SPV agrees to purchase the Salam assets on immediate payment and deferred delivery terms.
 - b. The Issuer SPV appoints the Obligor as its agent to sell the Salam assets on its behalf.
4. The Issuer SPV pays the sale price in advance to the Obligor as consideration for the purchase of the Salam Assets, in an amount equal to the Principal Amount.

SUKUK STRUCTURES

5. The quantity of the Salam Assets sold is typically structured at the outset to allow for periodic deliveries throughout the life of the Sukuk (to enable payment of the Periodic Distribution Amounts), with a final delivery of the remaining Salam Assets upon maturity or early redemption (to facilitate repayment of the Principal and any outstanding amounts).
6. Prior to each date on which the Periodic Distribution Amount is due to the Investors, the Obligor delivers a proportion of the Salam Assets to the Issuer SPV.
7. The Issuer SPV makes payments to the Obligor for the delivered assets.
8. The Issuer SPV pays each Periodic Distribution Amount to the Investors using the sale proceeds received from the Obligor (acting as Agent).
9. In the case of maturity, default, or early redemption, the Investors redeem the Sukuk to the Issuer SPV against the Dissolution Amount.
10.
 - a. The Obligor delivers the remaining quantity of Salam Assets to the Issuer SPV.
 - b. The Issuer SPV receives the sale proceeds for the Salam Assets.
11. The Issuer SPV, through its agent (the Obligor), sells the Salam Assets at the applicable Exercise Price, which is equal to the Principal Amount plus any accrued but unpaid Periodic Distribution Amounts owed to the Investors.
 - The Issuer SPV pays the Dissolution Amount to the Investors using the amount received from the Obligor.
 - It is important to note that, in the event of maturity or default, the Obligor is obligated to deliver all outstanding Salam Assets (those not yet delivered) to the Issuer SPV.

5.7.4 Required Islamic Documentation for Sukuk Al-Salam

The following is the Islamic documentation required for Sukuk Al-Salam:

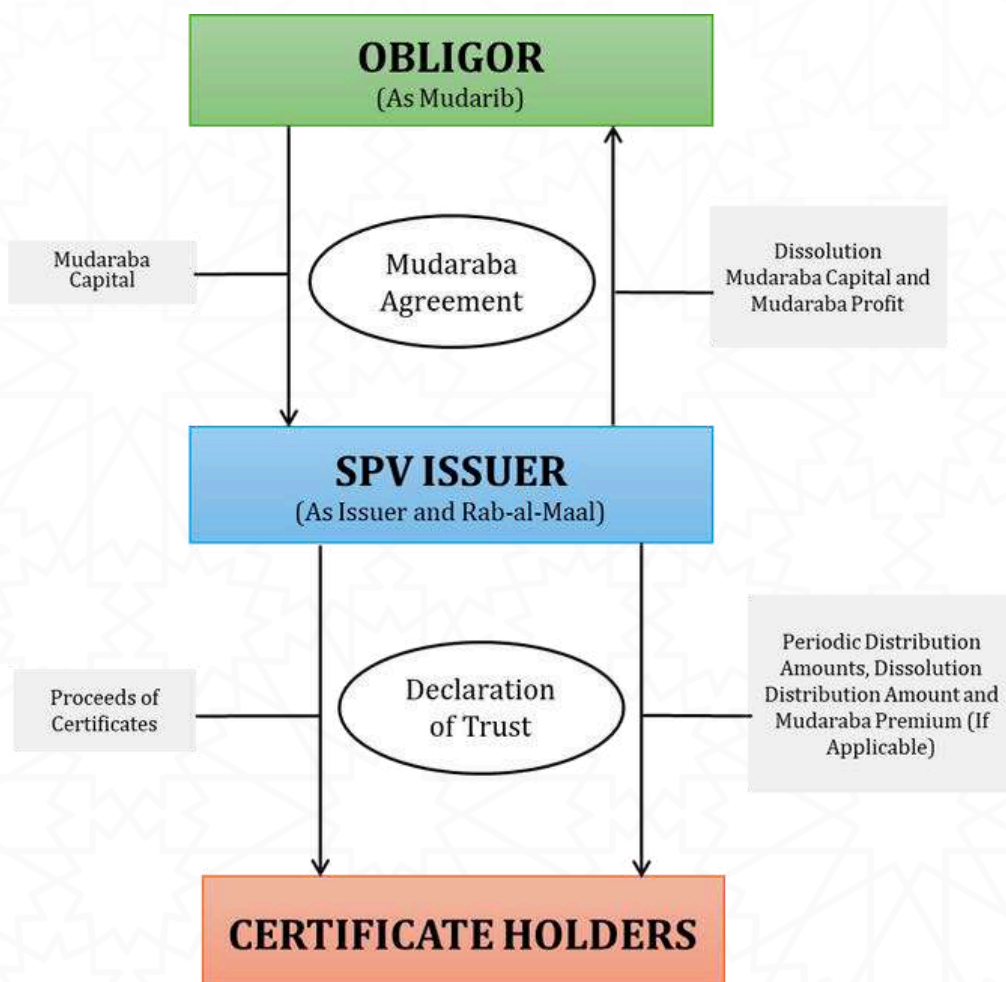
- Prospectus between the Issuer SPV (as Issuer) and the Investors (as Subscribers).
- Declaration of trust between the Issuer SPV (as Trustee) and the Investors (as Principals).
- Salam Agreement between the Obligor (as Seller) and the Issuer SPV (as Purchaser).
- In the event of maturity or default, a unilateral Purchase Undertaking by the Obligor (as Purchaser) and a unilateral Sale Undertaking by the Issuer SPV (as Seller).
- Sale and Purchase Agreement between the Issuer SPV (as Seller or Purchaser) and the Obligor (as Purchaser or Seller).

SUKUK STRUCTURES

5.8 TIER-1 SUKUK

A Mudaraba Sukuk provides an ideal Shariah-compliant structure to accommodate the features of Additional Tier 1 capital, such as discretionary profit payments. While the transaction structure closely follows that of a typical Mudaraba Sukuk, a few key differences enable the Sukuk to comply with Basel III requirements.

5.8.1 Tier 1 Sukuk Structure



Source:⁷²

SUKUK STRUCTURES

5.8.2 Mechanism

1. On the Issue Date, the SPV will issue the Certificates, and the Certificate holders will pay the issue price to the SPV in its capacity as Issuer/Trustee.
2. The Issuer, acting as Trustee, will declare a trust in favour of the Certificate holders over the proceeds from the issuance of the Certificates, as well as its rights, title, benefits, and interests under the transaction documents, along with certain related rights.
3. The SPV will apply the proceeds from the issuance of the Certificates towards the capital of the Mudaraba under the Mudaraba Agreement (the “Mudaraba Capital”).
4. The Obligor (as Mudarib) will invest the Mudaraba Capital into its business activities in accordance with the agreed Investment Plan set out in the Mudaraba Agreement.
5. The Obligor, as Mudarib, agrees to contribute its expertise and labour in managing the Mudaraba enterprise.
6. It is responsible for managing the SPV’s capital contribution in accordance with the Mudaraba Agreement, with the objective of generating profit on the principal amount.
7. Prior to each Periodic Distribution Date, unless a Non-Payment Event or Non-Payment Election has occurred, the Obligor (as Mudarib) shall distribute the profits generated by the Mudaraba to both the Issuer and the Mudarib in accordance with an agreed profit-sharing ratio: 90% to the Issuer (as Rab-al-Maal) and 10% to the Mudarib (Obligor).
8. Payments of Mudaraba Profit by the Obligor (as Mudarib) are at its sole discretion and may only be made if such payments do not breach specified conditions.
9. The Mudarib is not obligated to make any subsequent payment for unpaid profits (whether from its own funds, from the Mudaraba Reserve, or otherwise).
10. The Issuer applies its share of the profits (if any) on each Periodic Distribution Date to pay the Periodic Distribution Amounts due to the Certificate holders.
11. If the Obligor exercises its discretion not to distribute profits under the Mudaraba, it will be restricted from declaring or paying any dividends on its ordinary shares. This restriction will remain in effect until two consecutive profit payments under the Mudaraba have been paid in full (or equivalent amounts have been set aside for the benefit of the Issuer, acting as Trustee).
12. The Certificates are perpetual securities, meaning they do not have a fixed redemption date. Accordingly, the Mudaraba is a perpetual arrangement with no fixed termination date.
13. Subject to certain conditions, the Obligor (as Mudarib) may opt to liquidate the Mudaraba in whole, but not in part, based on an actual liquidation of the Mudaraba, in the following circumstances:

SUKUK STRUCTURES

14. At its option, on the First Call Date or any Periodic Distribution Date thereafter. As a regulatory requirement, the First Call Date must be at least five years from the Issue Date. Alternatively, on any date on or after the Issue Date (whether or not a Periodic Distribution Date), if a Tax Event or Capital Event occurs.
15. A Tax Event occurs if a change in tax laws results in additional amounts becoming payable under the Mudaraba Agreement and/or the Certificates.
16. A Capital Event occurs if the Bank notifies the Obligor in writing that the notional amount of the Certificates that qualifies as regulatory capital would cease to qualify for full inclusion in the consolidated Tier 1 capital of the Obligor.
17. Upon the occurrence of any of the above circumstances, the Trustee shall (only upon the instructions of the Obligor) redeem the Certificates.
18. Alternatively, upon the occurrence of a Tax Event or Capital Event, the Obligor (as Mudarib) may require the Trustee to make variations to the terms of the Certificates and the Mudaraba Agreement in order to ensure that the Certificates continue to qualify as Tier 1 capital instruments.
19. The Obligor (as Mudarib) agrees, in the transaction documents, that any such variations shall not be materially prejudicial to the interests of the Certificate holders.

5.8.3 Explanation of Important Terms

Non-Payment Event

A Non-Payment Event would occur if:

- The payments required to be made by the Obligor under the Mudaraba Agreement, when aggregated with any other obligations ranking senior to or *pari passu* therewith, exceed the Obligor's non-consolidated retained earnings and reserves.
- The Obligor is in breach of its applicable regulatory capital requirements, or making the payment would cause such a breach, or the financial regulator requires the Obligor not to make the relevant payment.
- On the relevant payment date, the Obligor is not solvent, or making the payment would cause it to become insolvent.
- The Obligor, at its sole discretion, elects not to pay the Mudaraba profit.
- In the event that a Non-Payment Event has occurred or been exercised by the Obligor:
- The Obligor will not be permitted to declare or pay any distribution or dividend on any ordinary shares issued by the Obligor until two consecutive payments due under the Mudaraba have been paid in full (or equivalent amounts have been set aside for the benefit of the Issuer).

SUKUK STRUCTURES

First Call Date

- The First Call Date refers to the earliest date on which the Obligor (as Mudarib) may optionally liquidate the Mudaraba or redeem the Certificates.
- As a regulatory requirement, this date must generally be at least five years from the Issue Date.
- If the Obligor does not redeem the Certificates on the First Call Date, the profit rate of the Sukuk is typically reset for the following five-year period.

Tax Event

- A Tax Event occurs if a change in tax laws results in additional amounts becoming payable under the Mudaraba Agreement and/or the Certificates.

Capital Event

- A Capital Event occurs if the Central Bank notifies the Obligor in writing that the notional amount of the Certificates qualifying as regulatory capital will cease to be fully included in the Obligor's consolidated Tier 1 capital.⁷³

5.9 MIXED SUKUK

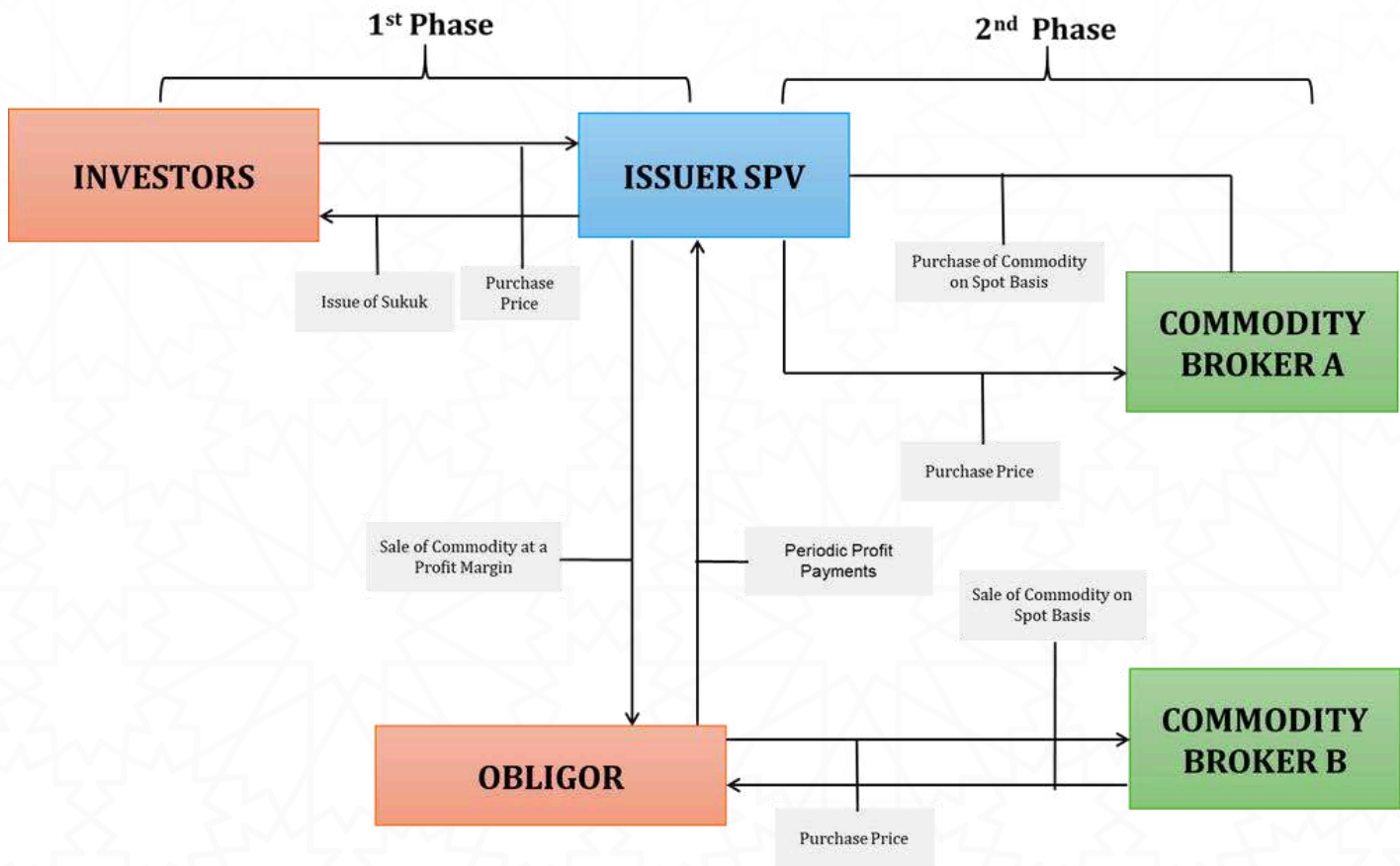
Mixed Sukuk is a combination of two or more Sukuk structures, such as Mudaraba and Ijarah. This structure enables issuers to customise Sukuk by incorporating specific features from multiple structures to meet the needs of investors. Mixed Sukuk offers flexibility to issuers seeking to broaden their investor base by accommodating the preferences of different types of investors. It also allows investors to diversify their portfolios by investing in Sukuk with varying structures and risk profiles.

A type of Sukuk structure in which the underlying pool of assets consists of two or more Islamic finance contracts. For example, the funds may be mobilised based on an Istisna contract, an Ijarah contract, and a Mudaraba contract, all simultaneously and within the same structure. This mixed structure enhances the mobilisation of funds as it allows the use of various Shariah-compliant financing contracts for refinancing purposes. It also bears resemblance to a conventional securitisation structure, as debt receivables can be sold to a Special Purpose Vehicle (SPV), which then issues Sukuk backed by those assets.



SUKUK STRUCTURES

5.9.1 Mixed Structure



5.9.2 Mechanism

1. An SPV is established as the Issuer (Mudarib). This Mudarib will raise funds from the Rab-al-Maal (Investors) by issuing Sukuk al-Murabaha (notes based on Murabaha).
2. The SPV will use the proceeds to fund the purchase of commodities.
3. The proceeds received are used to pay the purchase price of the commodity.
4. The SPV purchases commodities on a spot basis from a commodity exchange through a Broker.
5. The SPV sells the commodity to the fund user at the Purchase Price plus a profit margin, payable over a period of time, such as five years.
6. The Obligor sells the commodity back to Broker B at the Purchase Price.

SUKUK STRUCTURES

7. The Obligor makes periodic profit distributions to the SPV, which in turn makes corresponding profit payments to the Sukuk holders.
8. Upon maturity of the transaction, the Obligor reimburses the SPV with the Purchase Price to redeem the Sukuk notes.

5.10 REQUIRED CAPITAL MARKETS DOCUMENTATION

Document	Parties Involved	Purpose / Description
Prospectus (including terms & conditions)	General (Applies to all Sukuk types)	Provides risk factors, disclosure on Obligor and Issuer SPV, and investor information.
Declaration of Trust	Issuer SPV, Obligor & Delegate	Establishes trust certificates and Delegate's authority.
Agency Agreement	Issuer SPV, Obligor, Delegate, Paying Agent, Transfer Agent, Calculation Agent	Appoints agents for Sukuk transactions.
Subscription Agreement	Issuer SPV, Obligor & Joint Lead Managers	Covers Sukuk subscription by Joint Lead Managers.

Source:⁷⁴

5.11 AGRICULTURAL INVESTMENT SUKUK

Agricultural Investment Sukuk refer to Sukuk in which the relationship between the certificate holders and the Obligor is based on one of the agricultural investment contracts, namely Muzara'a, Musaqqa, or Mugharasa.

5.11.1 Sukuk Al-Muzara'a (Sharecropping)

These Sukuk are issued to utilise the funds raised through subscriptions for a cultivation project. They are structured based on the Muzara'a contract. The certificate holders become entitled to a share of the crop according to the terms of the agreement. In some cases, the issuer of these certificates is the owner of the land, the subscribers are the cultivators, and the funds raised represent the cultivation cost. In other cases, the issuer may be the cultivator, the subscribers are the landowners, and the certificate holders are entitled to a share of the land's produce.

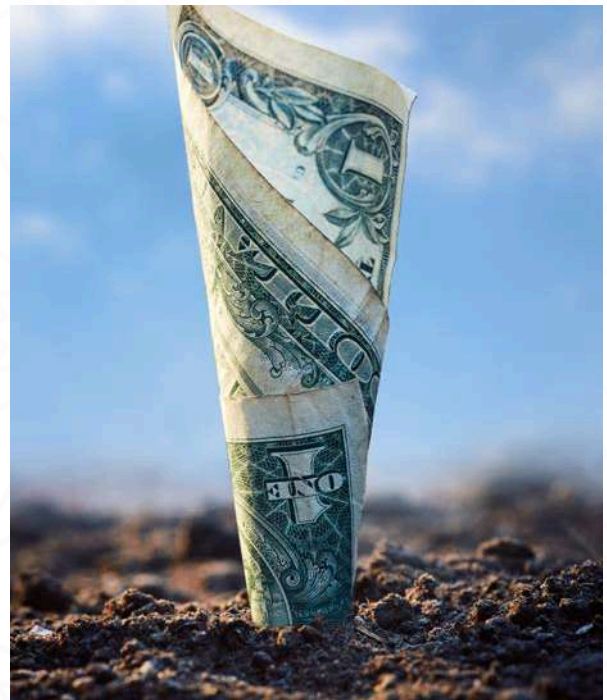
SUKUK STRUCTURES

5.11.2 Sukuk Al-Musaqa (Irrigation)

These Sukuk are issued to utilise the funds raised through subscriptions for an irrigation project, such as providing irrigation to fruit-bearing trees, maintaining them, and ensuring their care. They are structured based on the Musaqa contract. The certificate holders become entitled to a share of the crop as per the agreement. In some cases, the issuer of these certificates is the owner of the land with the trees, while the subscribers are those who assume the responsibility of irrigation under a Musaqa contract. The funds raised represent the maintenance costs of the trees. In other cases, the issuer may be the irrigator, the subscribers are the landowners, and the certificate holders are entitled to a share of the produce from the trees.

5.11.3 Sukuk Al-Mugharasa (Agriculture)

These Sukuk are issued to utilise the funds raised through subscriptions for an agricultural project, such as planting trees and undertaking the work and expenses required for such a plantation. They are structured based on the Mugharasa contract. The certificate holders become entitled to a share in both the land and the plantation. In some cases, the issuer of these certificates is the owner of the land suitable for planting, while the subscribers are those who assume the responsibility of planting under the Mugharasa contract. The funds raised represent the cost of maintaining the plantation. In other cases, the issuer may be the planter, the subscribers the landowners, and the certificate holders are entitled to a share in both the trees and the land as per the agreement.



5.12 SUKUK AL-MANFAAH

These Sukuk are issued by the owner of an existing asset with the aim of subleasing the usufruct and receiving rental payments. Sukuk holders become owners of the usufruct. These Sukuk also fall under asset-based securitisation, although the asset is in the form of usufruct and services.

5.13 SUKUK AL-INTIFA

These Sukuk are issued for the purpose of leasing out tangible future assets and collecting rental payments, so that the usufruct of the specified future asset passes into the ownership of the Sukuk holders. These are considered part of asset-based securitisation, although the underlying asset consists of services to be performed in the future.

SUKUK STRUCTURES

5.14 SUKUK MILKIYYAT AL-KHADAMAT

These Sukuk are issued for the purpose of providing or selling services through a specified supplier (such as educational programmes at a designated university) and receiving the value in the form of subscription income. In this case, the Sukuk holders become owners of the services. Similar to other Ijarah-based securities, these Sukuk fall under the category of asset-based securitisation.

5.15 SUKUK AL-KHADAMAT AL-MAWSUFAH-FI-AL-ZIMMAH

These Sukuk are issued to provide future services through designated providers (such as specified educational benefits from a university, without naming the institution) and to collect fees in the form of subscription income. The Sukuk holders thereby become owners of the services. Although the services are to be delivered in the future, they are considered assets, making these Sukuk a form of asset-based securitisation

5.16 RECENT SUKUK STRUCTURES

5.17 PIF SUKUK

The Public Investment Fund (PIF) was established in 1971 to invest on behalf of the Saudi government. In support of its ambitious Vision 2030 goals, the PIF has been actively diversifying its funding sources. A key milestone in this effort was the issuance of its inaugural dollar-denominated Sukuk in October 2023, which successfully raised \$3.5 billion. This type of Sukuk was highly oversubscribed, attracting orders exceeding \$25 billion, more than seven times the issuance amount.⁷⁵

Following this, the PIF continued its Sukuk programme with another issuance in February 2024, raising an additional \$2 billion. This issuance was also highly successful, being oversubscribed eight times with orders exceeding \$16 billion.⁷⁶

5.17.1 Why is PIF Structure Important?

For a long time, Shariah-compliant shares—both listed and unlisted—were commonly used as underlying assets for Sukuk issuances. However, structuring a Sukuk based solely on Shariah-compliant shares faced significant challenges from a Shariah perspective due to the inherent price volatility of these shares. In the event of maturity or default, ensuring the obligor's commitment to repay the outstanding principal amount of the Sukuk was not feasible. The PIF Sukuk structure addressed the issue of price volatility through the implementation of Shariah-compliant hedging mechanisms for the shares, thereby mitigating the associated risks.



5.17.2 Key Features of the Underlying Structure

- ### 5.17.3 PIF Structure



SUKUK STRUCTURES

5.17.4 Mechanism

1. On the issue date, certificate holders pay the issue price to the Trustee.
2. The Trustee uses these funds to purchase listed shares from PIF and/or unlisted shares from the Holding SPV.
3. These assets form the Wakala Portfolio, which constitutes the underlying assets of the Sukuk.
4. Dividends and revenues from the Wakala Assets are collected in the Collection Account.
5. On each distribution date, the Service Agent transfers the required funds to the Transaction Account for payments to certificate holders.
6. Excess revenues are credited to the Reserve Account, which may be used to cover shortfalls in future distributions.
7. If a shortfall remains, the Service Agent may provide Shariah-compliant funding (Liquidity Facility) to cover the deficit.
8. On the day before the Scheduled Dissolution Date, the Trustee requires PIF to purchase the Wakala Assets at the exercise price.
9. For co-owned listed shares, the Service Agent may claim under a Shariah-compliant hedging arrangement to cover the Hedging Required Amount.
10. For co-owned unlisted shares, PIF pays the Shortfall Amount under the Co-ownership Undertaking.
11. Early redemptions are funded in the same manner as dissolution payments.⁷⁷

5.17.5 Required Islamic Documentation

The following is the Islamic documentation required:

- Master Purchase Agreement – Governs the purchase of listed and unlisted shares by the Trustee from PIF and the Holding SPV.
- Trust Deed – Establishes the Trustee's role and responsibilities in managing the Wakala Portfolio on behalf of certificate holders.
- Service Agency Agreement – Outlines the Service Agent's duties, including the management of the Collection Account, Reserve Account, and Liquidity Facility.

SUKUK STRUCTURES

- Purchase Undertaking – Grants the Trustee the right to require PIF to purchase the Wakala Assets at the exercise price upon dissolution.
- Sale and Substitution Undertaking – Allows PIF to require the Trustee to sell the Wakala Assets back to PIF in the event of early redemption.
- Co-ownership Undertaking – Governs the treatment of unlisted shares and ensures payment of the Shortfall Amount, if applicable.
- Hedging Arrangement – A Shariah-compliant mechanism to mitigate risks associated with the price volatility of listed shares.
- Prospectus – Provides comprehensive details of the Sukuk issuance, including its terms, conditions, and associated risks.

5.18 EGYPT'S SOVEREIGN SUKUK

On 15 August 2021, Egyptian President Abdel-Fattah El-Sisi ratified the Sovereign Sukuk Law No. 138 of 2021 (the “Law”), allowing the government to securitise certain assets and issue Shariah (Islamic law) compliant securities, known as sovereign Sukuk (“Sukuk”). The proceeds from the sale of the Sukuk are to be used to finance investment and development projects included in the social and economic development plan outlined in the State’s general budget.⁷⁸

Egypt made history by issuing its first-ever sovereign Islamic Sukuk, which proved to be a resounding success. The issuance was oversubscribed more than four times, with subscriptions amounting to USD 6.1 billion for a USD 1.5 billion offering. This reflects strong investor confidence in Egypt’s economic potential and its ability to meet financial obligations. The transaction marks a major milestone in the MENA region, being the first Sukuk programme for the Egyptian Government following the enactment of the Sovereign Sukuk Law in 2021. It also sets a precedent as the first issuance under the programme, with the Sukuk listed as Shariah-compliant bonds on the London Stock Exchange.



SUKUK STRUCTURES

This type of Sukuk was established as part of an international programme for issuing sovereign Sukuk, valued at USD 5 billion, which the Egyptian Ministry of Finance plans to implement over the coming years. The programme was registered on the London Stock Exchange on February 14, 2023, and received a provisional rating of (P) B3 from Moody's⁷⁹

The main challenge that sovereigns face relates to the transfer of ownership of Sukuk assets to an offshore SPV, as this typically requires special approvals and raises public concerns about sovereign assets being sold to international investors. However, if the structure is based on the transfer of leasehold interests, these concerns can be mitigated. The Government of Egypt's Sukuk type was a highly successful structure, and it presents a model that can be replicated by many other sovereigns.

5.18.1 Key Features of the Underlying Structure

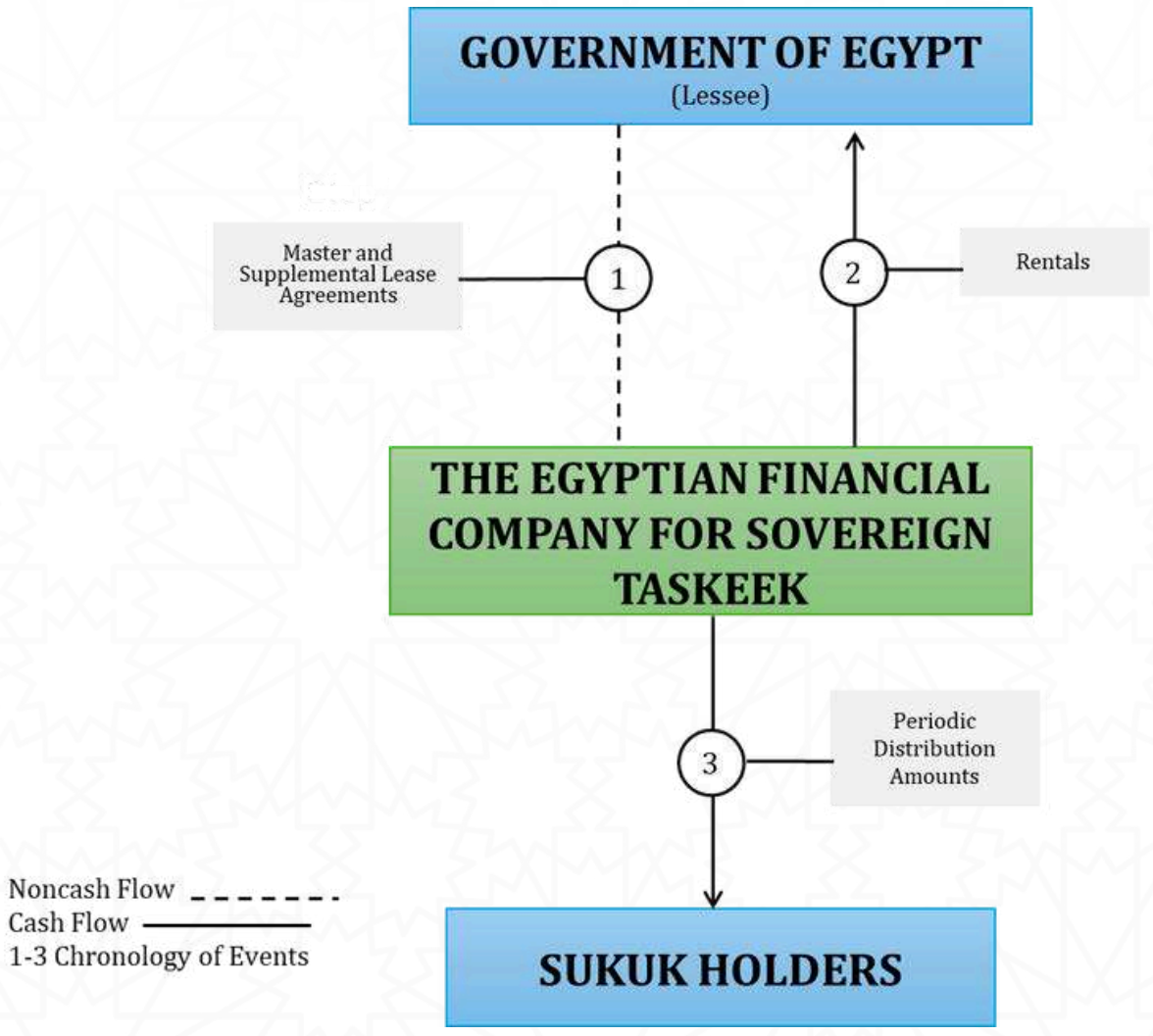
- The Sukuk is structured to comply with Islamic finance principles, using leasehold interests (usufruct rights) as the underlying assets.
- Instead of transferring ownership of sovereign assets, these Sukuk are based on the transfer of usufruct rights—i.e., the rights to use and derive profit from the assets.
- The inaugural issuance was oversubscribed by more than four times, demonstrating strong investor confidence.
- This type of Sukuk is part of a USD 5 billion international programme registered on the London Stock Exchange.
- The Sukuk maturity is structured to ensure that there are always remaining usufruct rights, with a maximum maturity of less than 50 years.

The Egyptian Ministry of Finance (MOF) provides an unconditional and irrevocable guarantee to purchase the usufruct rights at a predefined exercise price upon maturity or early dissolution.



SUKUK STRUCTURES

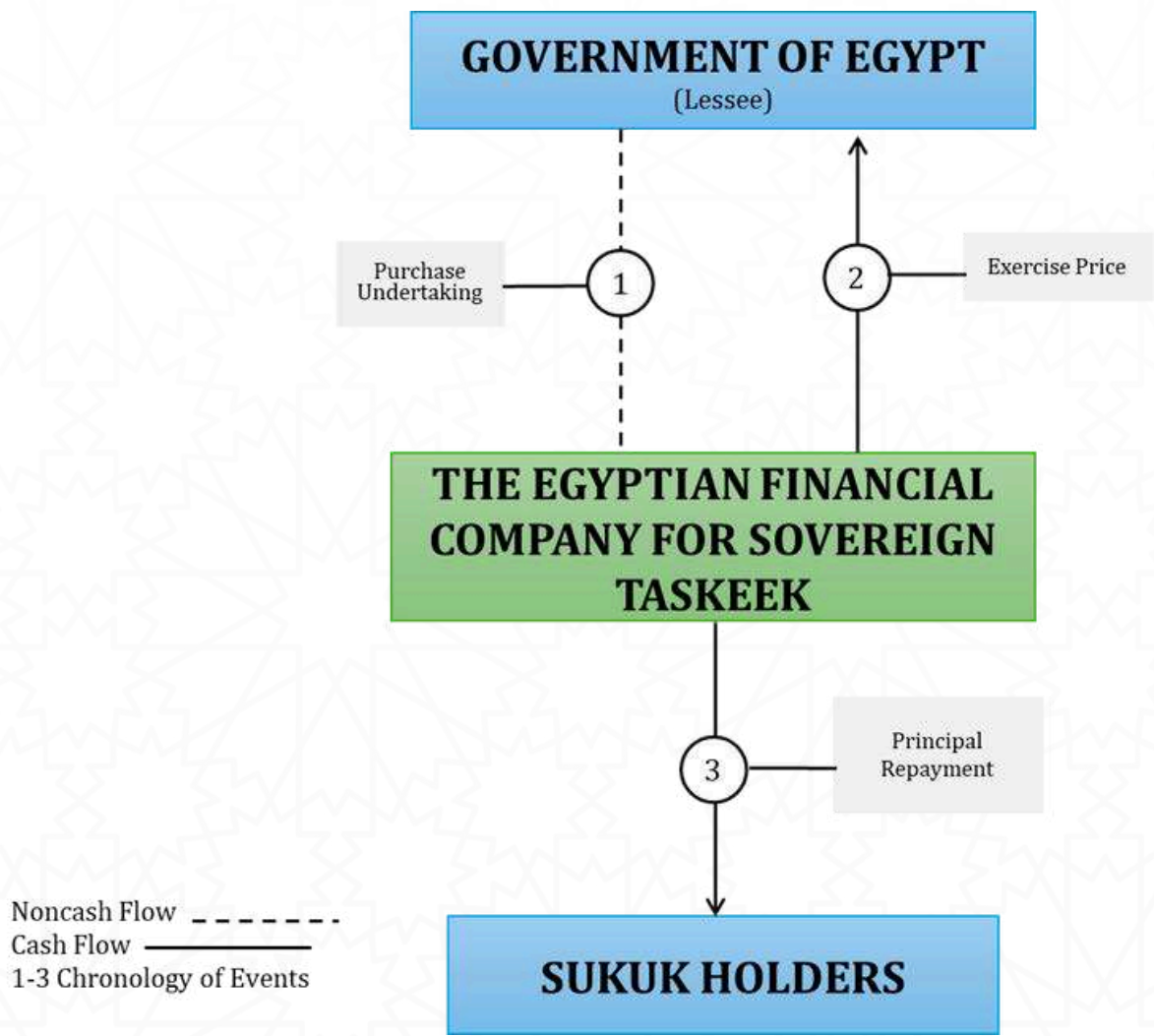
5.18.2 Sovereign Taskeek-Periodic Distribution



Source:⁸⁰

SUKUK STRUCTURES

5.18.3 Sovereign Taskeek- Principal Repayment



Source:⁸¹

SUKUK STRUCTURES

5.18.4 Mechanism

1. The Egyptian Ministry of Finance (MOF) establishes a Special Purpose Vehicle (SPV) to issue the Sukuk.
2. The SPV transfers usufruct rights (leasehold interests) in sovereign assets to the Sukuk holders.
3. Investors subscribe to the Sukuk by paying the issue price, which is used to finance development projects.
4. Sukuk holders receive periodic distribution payments derived from the usufruct rights (e.g., rental income or profits generated from the assets).
5. The MOF ensures that all costs related to the transaction are covered through a cost undertaking.
6. On the maturity date, or in the event of early dissolution, the MOF irrevocably undertakes to purchase the remaining usufruct rights at a predefined exercise price.
7. The MOF's obligations under the purchase undertaking are unconditional and rank equally with Egypt's other unsecured and unsubordinated external debt.
8. The Sukuk can be redeemed early under specific conditions.⁸²

5.18.5 Required Islamic Documentation

- The following is the Islamic documentation required for these Sukuk:
- Sovereign Sukuk Law No. 138 of 2021: The legal framework enabling the issuance of sovereign Sukuk in Egypt.
- Master Declaration of Trust: Establishes the SPV and outlines the roles and responsibilities of the Trustee and the Ministry of Finance (MOF).
- Lease Agreement (Ijarah): Governs the transfer of usufruct rights from the MOF to the SPV and Sukuk holders.
- Purchase Undertaking: The MOF's irrevocable commitment to purchase the usufruct rights at the exercise price upon maturity or early dissolution.
- Cost Undertaking: The MOF's guarantee to cover all transaction-related costs.
- Prospectus: Provides details of the Sukuk issuance, including terms, conditions, and risks.
- Service Agency Agreement: Outlines the duties of the Service Agent in managing periodic distributions and other administrative tasks.

5.19 DEVELOPMENT OF SUKUK THROUGH WAQF

5.19.1 Waqf in Islam

Islam strongly encourages socio-wellbeing and welfare-oriented practices such as Sadaqah and Zakat. Waqf is another important Islamic institution that aims to alleviate poverty in Muslim societies by promoting education and healthcare, while also enhancing access to tangible resources, public amenities, and employment opportunities. Waqf contributes to the broader goal of achieving universal socio-economic well-being within the Muslim community by fostering a culture in which the needy, poor, and vulnerable are entitled to benefit from a portion of the wealth held by the more affluent members of society.

Waqf, as a form of continuous philanthropic act (Şadaqah Jariyah), is not explicitly mentioned in the Qur'an. However, the concept of Waqf can be inferred from various Qur'anic verses. For example, Allah says in the Qur'an:

“You will never achieve righteousness until you donate some of what you cherish. And whatever you give is certainly well known to Allah.”⁸³

In addition to that, Allah declares in the Qur'an: “And in their wealth, there is a rightful share fulfilled for the beggar and the poor.” Based on these Qur'anic declarations, it can be implied that the act of designating an asset as Waqf transfers its ownership exclusively to Allah, with Shariah serving as a guide in allocating the usufruct for righteous purposes.

Regarding the Hadith, the most frequently cited narration on Waqf is the hadith concerning Umar al-Khattab and his land in Khaybar. He sought the guidance of the Prophet (peace be upon him) on how best to utilise it:

“O Allah's Messenger, I have acquired some land in Khaybar, which is more valuable to me than any other property I have ever owned. What do you advise me to do with it?” The Prophet (peace be upon him) said, “If you wish, you can give it as an endowment and distribute its produce in charity.” So `Umar gave it in charity as a waqf (endowment), with the condition that it would neither be sold, nor given as a gift, nor inherited. Its yield was to be distributed in charity—to the poor, to relatives, for the emancipation of slaves, in the cause of Allah, and to travellers and guests. He also stipulated that there would be no sin upon the guardian of the endowment if they consumed from it according to their needs with good intention and fed others from it without hoarding it for the future.”⁸⁴

According to Ibn Hajar, this hadith is considered the 'aşl'—the foundational basis—of the principles of Waqf.⁸⁵ Likewise, the Prophet (peace be upon him) said: “When a person dies, all their good deeds come to an end except three: [firstly] perpetual charity (Şadaqah Jariyah), [secondly] beneficial knowledge, and [thirdly] a righteous child who prays for them.”⁸⁶ According to many scholars, Şadaqah Jariyah refers specifically to Waqf, as it represents ongoing charity that continues to benefit others even after a person's death.

SUKUK STRUCTURES

In the Waqf sector, where many assets are in the form of property, issuing Sukuk has become a popular method for financing the development of Waqf properties. While traditional Islamic practices relied on tools such as *hikr* and *ijāratayn*, the introduction of Sukuk instruments has significantly accelerated the progress and growth of Waqf. Moreover, the integration of Sukuk and Waqf within a single structure represents a promising and innovative development with substantial potential.

5.20 CASE STUDY ON WAQF SUKUK IN SEVERAL COUNTRIES

5.20.1 The Practice of Sukuk Al-Intifa in Saudi Arabia

Through a Sukuk Al-Intifa structure, King Abdul Aziz Waqf developed a complex of tall buildings known as the Zam Zam Tower near Masjid Al-Haram in Makkah, Saudi Arabia. This model granted the developer a 24-year lease on the land. While the land remains Waqf property, the buildings belong to the developer, and the rights to use the property (*manfaa*) were sold to Sukuk holders. This arrangement is similar to a time-share model, where investors own a portion of the lease. Sukuk Al-Intifa was used instead of the more common Sukuk Ijarah because Saudi law prohibits foreigners from owning real estate in Makkah and Madina.⁸⁷

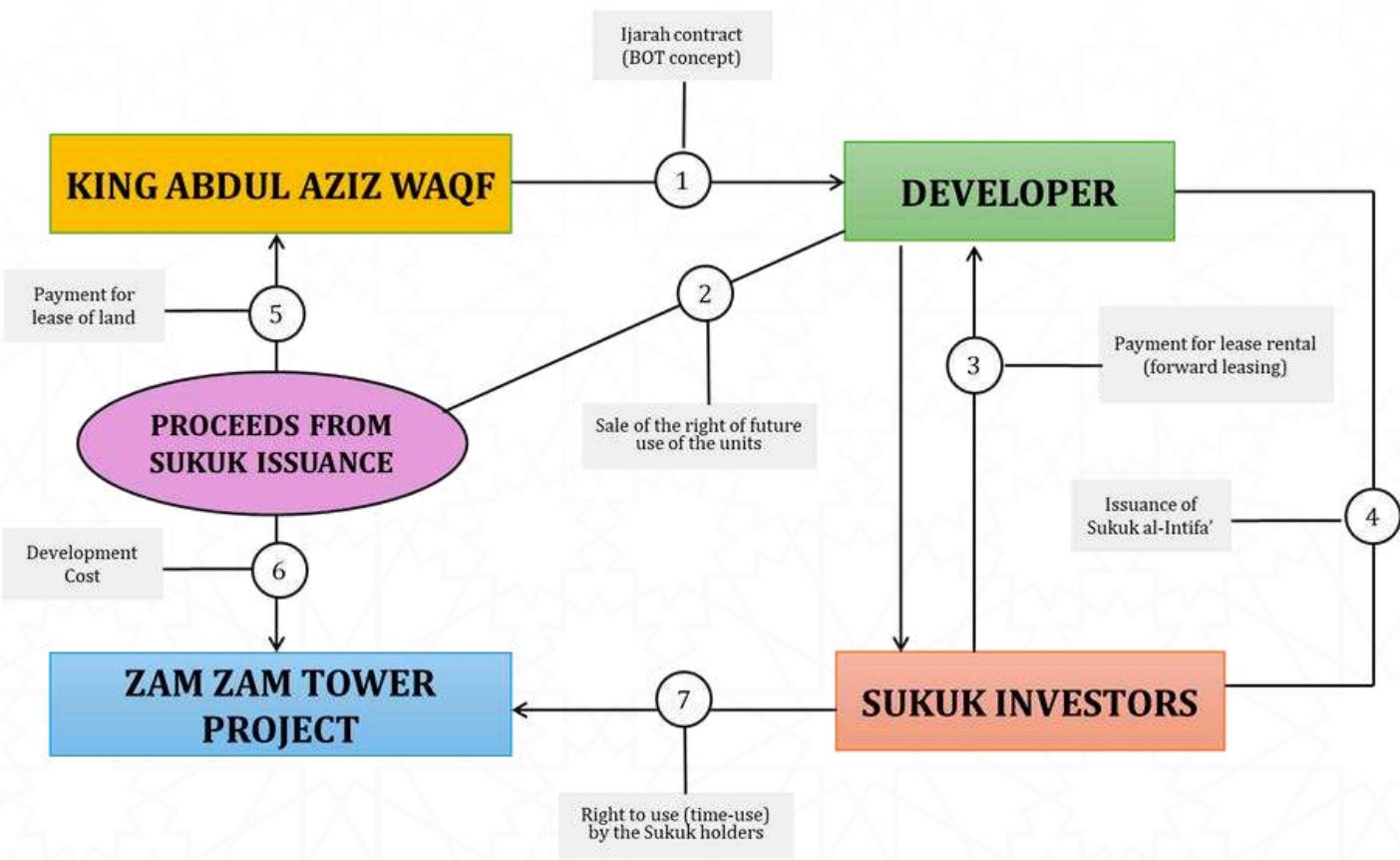
The Waqf land adjacent to the Kaaba was leased by the King Abdul Aziz Endowment (Waqf) through a Build-Operate-Transfer (BOT) agreement with a leading Saudi Arabian construction company. Under this agreement, the company was tasked with constructing a shopping complex, four towers, and a hotel as part of the Zam Zam Tower Project. The developer then leased the project to Munshaat Real Estate Projects KSC to finance, operate, and eventually transfer it back to the King Abdul Aziz Endowment at the end of a 28-year lease period. To facilitate this arrangement, both the builder and Munshaat Real Estate Projects KSC entered into a forward Ijarah contract.

To finance the project's development, Munshaat Real Estate Projects KSC issued a US\$390 million Sukuk Al-Intifa with a 24-year term. The proceeds from the Sukuk issuance were used by Munshaat to make progress payments to the various parties involved in the project's construction. Upon completion, Sukuk holders would be presented with four options: they could either utilise their reserved time, exchange it through a specialised affiliate of Munshaat, contract Munshaat to sub-lease the time to a tenant wishing to visit Makkah during that period, or sell their sakk to a willing buyer. The transaction structure is outlined below.

5.20.2 Structure of Sukuk Al-Intifa

Through a Sukuk Al-Intifa structure, King Abdul Aziz Waqf developed a complex of tall buildings known as the Zam Zam Tower near Masjid Al-Haram in Makkah, Saudi Arabia. This model granted the developer a 24-year lease on the land. While the land remains Waqf property, the buildings belong to the developer, and the rights to use the property (*manfaa*) were sold to Sukuk holders. This arrangement is similar to a time-share model, where investors own a portion of the lease. Sukuk Al-Intifa was used instead of the more common Sukuk Ijarah because Saudi law prohibits foreigners from owning real estate in Makkah and Madina.

SUKUK STRUCTURES



Source: ⁸⁸



SUKUK STRUCTURES

5.20.3 The Practice of Cash Waqf Linked Sukuk in Indonesia

Cash Waqf Linked Sukuk (CWLS) is a system in which cash Waqf is invested in Sovereign Sukuk (SBSN) to support the government's social infrastructure projects. Through CWLS, the private sector can directly contribute to the government's efforts in developing public facilities, thereby benefiting society as a whole. The key advantage of CWLS lies in its ability to enhance returns by funding well-governed, government-managed public projects with minimal risk.⁸⁹

To date, the Indonesian government has issued two types of Cash Waqf Linked Sukuk (CWLS). The first, SW001, was issued in March 2020 through private placement, targeting institutional investors. The second, SWR001, was introduced in October 2020, focusing on retail investors. Additionally, CWLS allows Waqf funds to be allocated temporarily for a defined period, providing greater flexibility for wakif contributions.⁹⁰ The CWLS model can be summarised in three steps:

- a) Waqf funds are collected from wakif (Waqf donors) by the nazhir (Waqf institutions), specifically the Indonesian Waqf Board (BWI).
- b) The Indonesian Waqf Board (BWI) purchases Sovereign Sukuk (SBSN) from the Ministry of Finance through a private placement mechanism.
- c) The Ministry of Finance utilises the funds to support government projects that benefit Waqf beneficiaries.

The Sukuk returns from the investment of Waqf funds were utilised to establish a retina centre at the Achmad Wardi Eye Hospital, a Waqf-based facility in Serang, Banten. The hospital is managed by the Indonesian Waqf Board and the Dompot Dhuafa Foundation. This retina centre will be the first in Indonesia to provide services to those in need. By March 2020, Bank Indonesia, the Indonesian Waqf Board, the Ministry of Finance, the Productive Waqf Forum, and the Appointed Islamic Financial Institutions had successfully raised IDR 50 billion.⁹¹



SUKUK STRUCTURES

CWLS Terms & Conditions

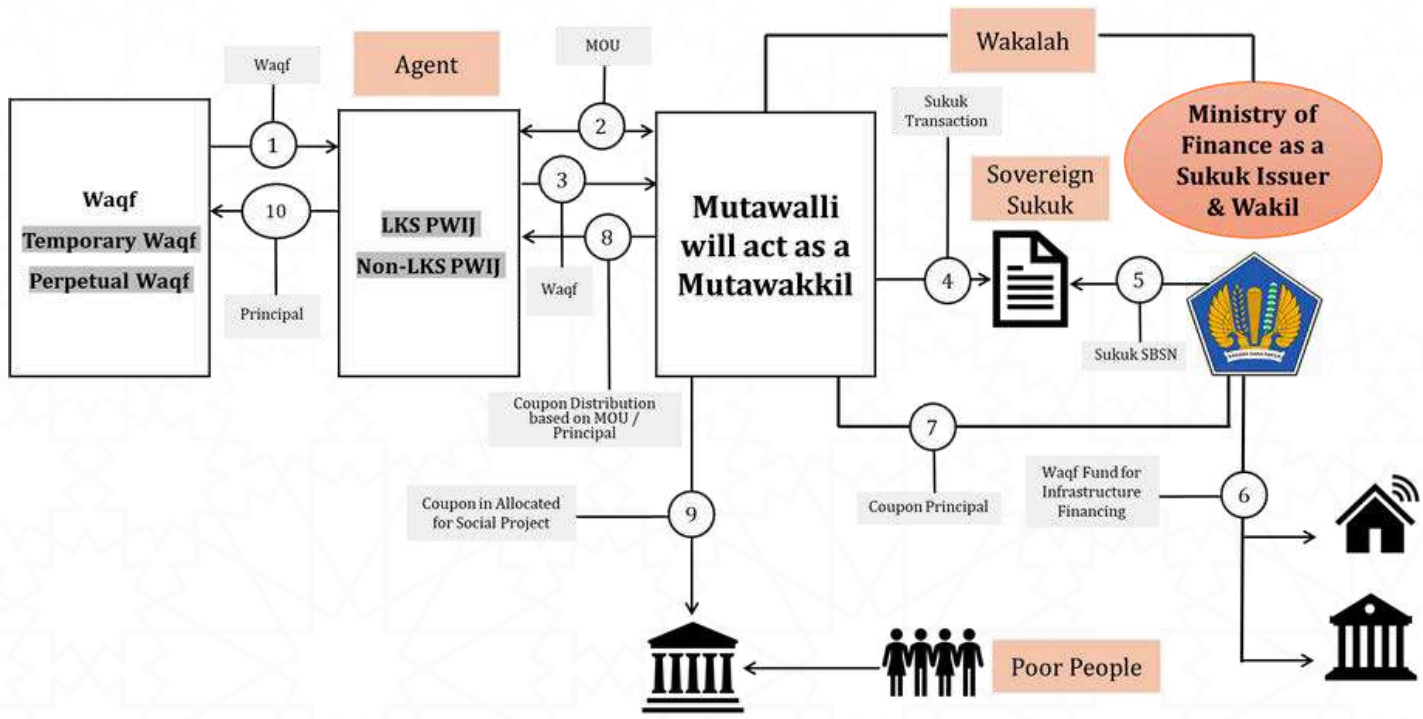
NO	Description	SW001
1	Nominal Stock Value	Rp50,849,000,000 / \$3,614,232
2	Type of SBSN	Non-Tradable
3	Contract	<i>Wakala</i>
4	Yield	6.15%
5	Coupon	Fixed 5.00% (Per Year)
6	Date of Issue	10th of March 2020
7	Due Date	10th of March 2025
8	First Coupon Payment	10th of April 2020
9	Next Coupon Payment	10th of every month

Source:⁹²



SUKUK STRUCTURES

CWLS Structure



Source:⁹³

5.20.4 The Practice of Musharaka Sukuk in Singapore

The Musharaka Sukuk issued by MUIS was divided into two parts. The first involved a \$25 million Sukuk used to purchase a building at 11 Beach Road. The second raised \$35 million for a mixed-use development project at Bencoolen Street. The Waqf property for this project belonged to an Arab merchant, Shaikh Ali bin Omar Aljunied. Given the high commercial value of the land at Bencoolen Street, MUIS decided to develop it. The proposed development includes 104 serviced apartments, a mosque, and a six-story commercial complex, with an estimated cost of \$35 million. A Musharaka Sakk was issued to fund the project.

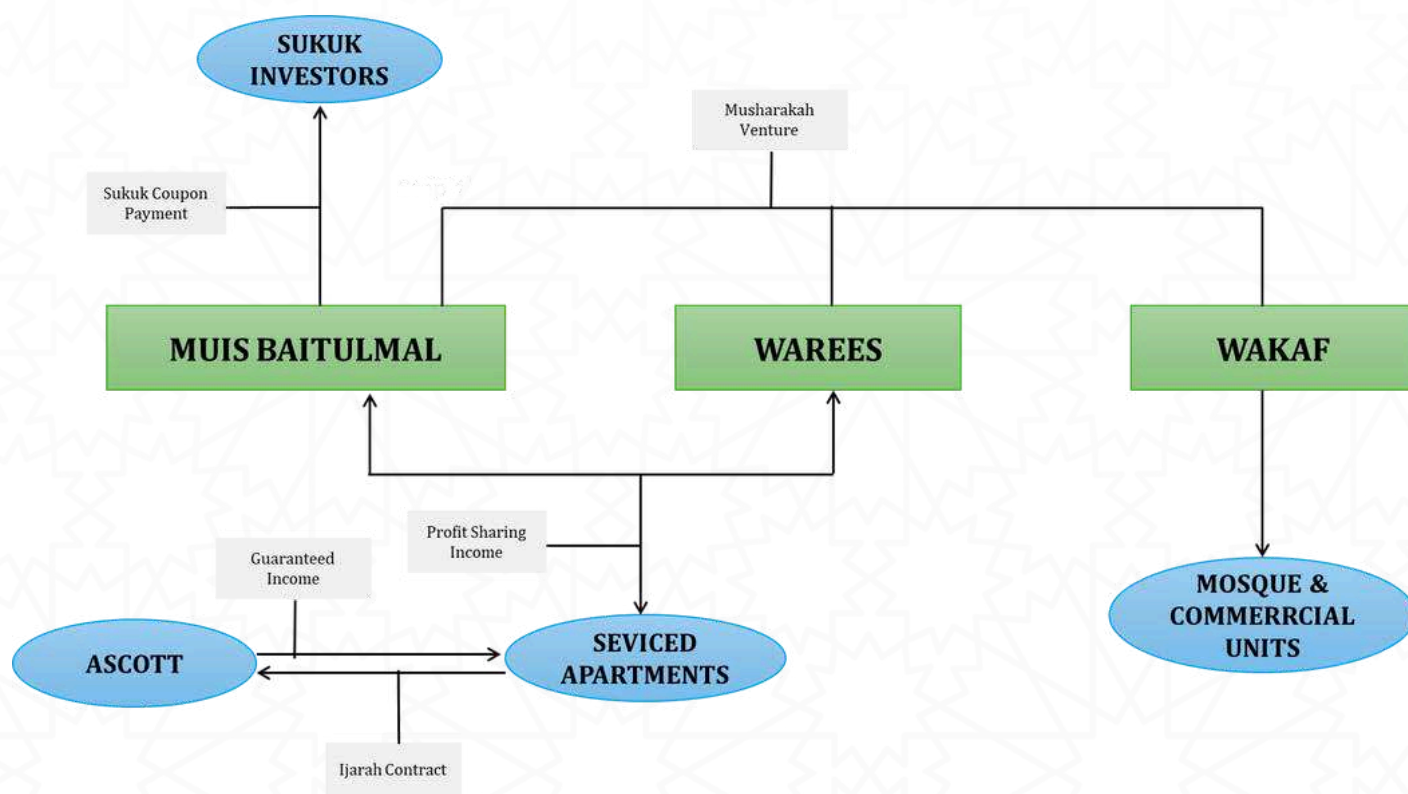
The initial stage of the project involved a Musharaka partnership among three parties: the Waqf, Baitulmal, and Warees (a subsidiary of MUIS). The Waqf contributed the land and capital, including \$35 million raised from investors, while Warees contributed a smaller amount of capital along with their expertise.

In the second stage, a leasing contract was signed between the Special Purpose Vehicle (SPV) and Ascott International Pt. Ltd., which agreed to lease the property for 10 years. This arrangement ensured a steady income stream that complemented the returns for investors. As a Musharaka venture, profits were distributed in proportion to the capital invested by the three parties. Owing to the success of this Sukuk structure, MUIS was awarded the Mohammed Bin Rashid Al Maktoum Islamic Finance Award for Regional Continuing Contribution to Islamic Finance that year.⁹⁵

SUKUK STRUCTURES

This innovative approach significantly increased property revenue, raising the annual rental income from \$19,000 to a gross income of \$5.3 million in 2006. The distribution of returns among the three parties is illustrated in the figure below.

Musharaka Sukuk in Singapore



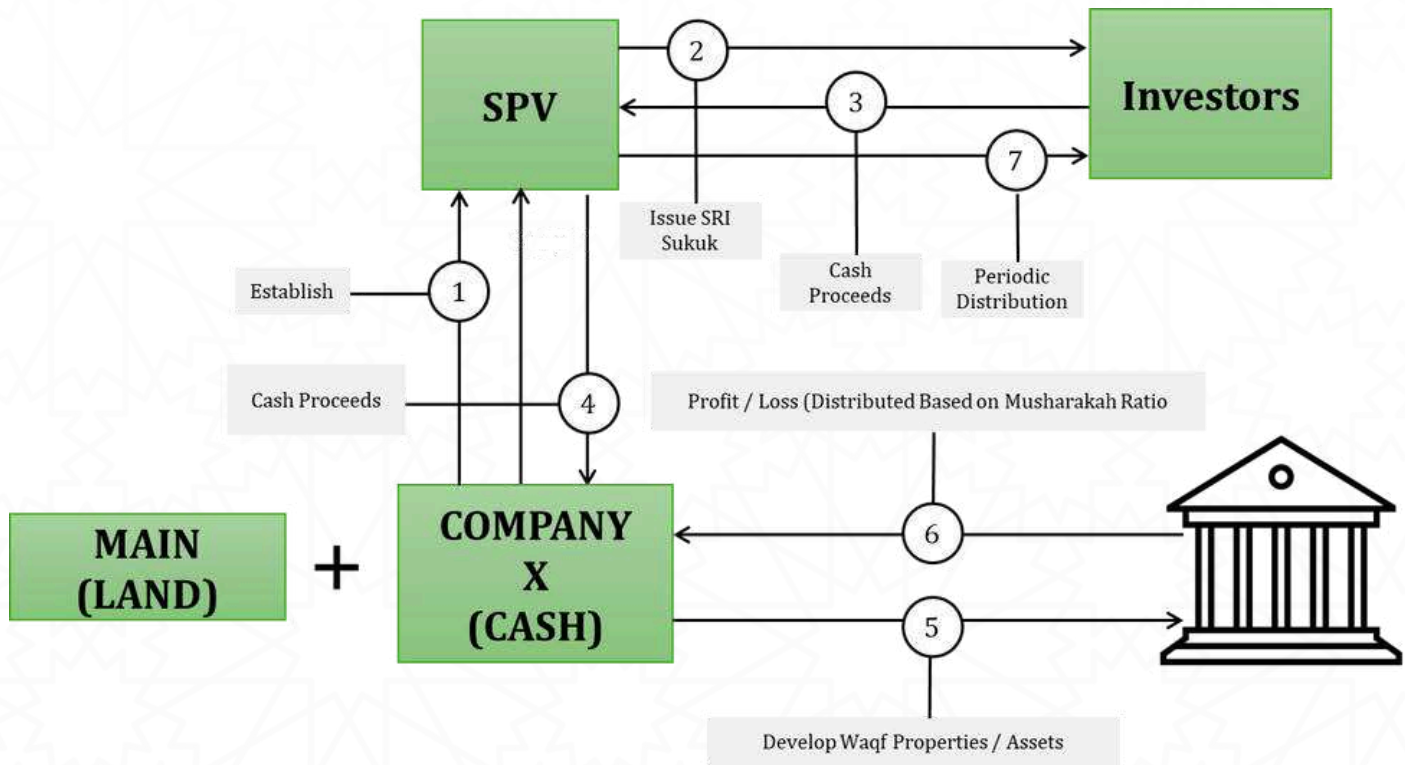
Source:⁹⁶

5.20.5 The Practice of Musharaka SRI Sukuk in Malaysia

Inspired by the Sukuk Musharaka utilised for Singapore's Bencoolen Waqf project, the Musharaka SRI Sukuk model can be administered via several methods, including Musharaka, Mudaraba, or acting as an investment agency. Initially, either the government or the State Islamic Religious Council (Majlis Agama Islam Negeri) spotlights a clear social or economic challenge, be it the demand for affordable housing or the problem of unemployment. The underlying aim of this Waqf development is to foster a revenue-producing asset that simultaneously tackles the identified societal concern.⁹⁷

SUKUK STRUCTURES

SRI Musharaka-based Sukuk in Malaysia



Source:⁹⁸

In this model, Majlis Agama Islam Negeri (MAIN) and Company X form a Musharaka to develop Waqf properties/assets. The procedure is as follows:

- Company X sets up a Special Purpose Vehicle (SPV).
- The SPV issues SRI Sukuk.
- Investors contribute cash.
- The SPV uses the funds from the Sukuk to finance the Musharaka.
- Together, they work on developing the Waqf properties/assets.
- The income generated from these developments is shared among the partners.
- Company X then distributes a portion of the income to the investors based on an agreed percentage.



TYPES OF SUKUK



TYPES OF SUKUK

6.1 CLASSIFICATION OF SUKUK

Sukuk can be classified based on the description of the Obligor, the class of underlying assets, and the contractual relationship established between the Sukuk holders/issuer and the Sukuk Obligor.

In terms of the description of the Obligor, Sukuk can be categorised as either Sovereign Sukuk or Corporate Sukuk:

- a) **Sovereign Sukuk:** These are Sukuk issued by a recognised government or state to raise funds for public expenditure.
- b) **Corporate Sukuk:** These are Sukuk issued by business firms or commercial entities (including financial institutions) to raise funds either for capital expenditure (CAPEX) or for working capital needs. When a privately owned business entity issues Sukuk for such purposes, it is referred to as Corporate Sukuk.

On the other hand, based on the class of assets, Sukuk can be categorised as either asset-based or debt-based. Both types of Sukuk are linked to either tangible or intangible assets.

- a) **Asset-based Sukuk:** Asset-based Sukuk are those in which the underlying asset remains with either the issuer or the investor (who are the owners of the asset) throughout the Sukuk period. In this type of Sukuk, the pay-off to investors is linked to the performance of the asset.
- b) **Debt-based Sukuk:** In contrast, debt-based Sukuk are those where the underlying assets do not remain with either the issuer or the investors. In this type, the pay-off to investors is tied to the credit risk of the Obligor.



TYPES OF SUKUK

As mentioned earlier, Sukuk may also be classified as Investment or Non-Investment Sukuk based on the relationship established between the issuer (acting on behalf of the Sukuk holders) and the Obligor. If the Obligor is appointed as an investment manager, the Sukuk is classified as an Investment Sukuk. However, it is considered a Non-Investment Sukuk if the relationship between the Obligor and the issuer is solely based on a sale or lease agreement.

Sukuk can also be classified based on maturity:

- a) **Tier 1 Sukuk:** A perpetual Sukuk with no maturity date.
- b) **Tier 2 Sukuk:** A senior unsecured Sukuk with a fixed maturity.

6.2 TYPES OF OFFERINGS

Generally, capital market offerings can be made at three broad levels within a country, although specific rules may vary across jurisdictions. The three primary levels of offering distribution are:

6.2.1 Exempt Offering

In this case, the offering is not approved by the regulatory authority; instead, the regulator exempts it from approval, subject to certain conditions. Typically, the marketing of such offerings is restricted to a very limited number of qualifying (institutional) investors.

6.2.2 Private Placement

This type of offering is approved for restricted marketing. It often benefits from lower disclosure requirements, no listing requirement, shorter approval timelines, and reduced costs. However, the drawback is that it can only be marketed to a limited number of qualifying (institutional) investors.

6.2.3 Public Offering

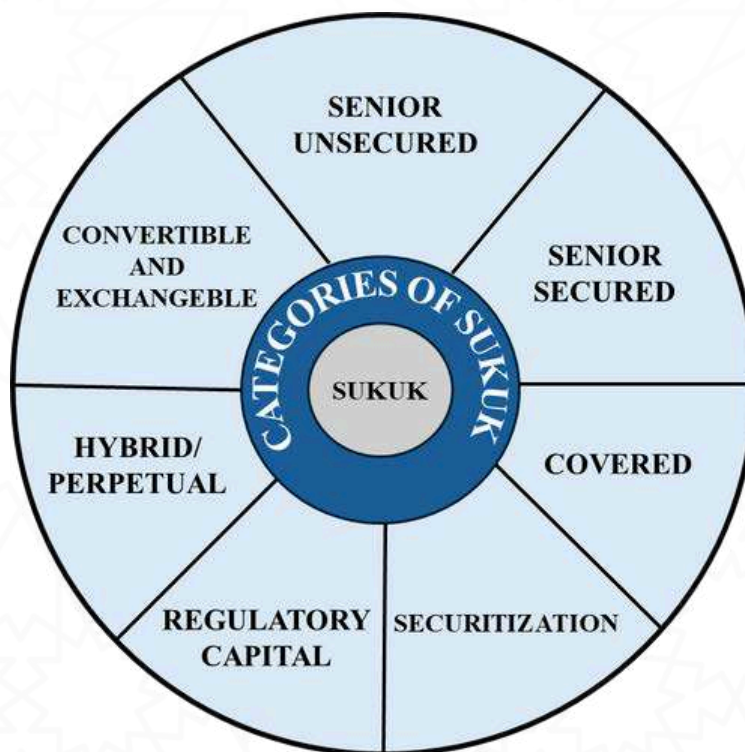
A public offering is approved for unrestricted marketing and subscription by the general public. It is typically used for high-quality offerings by well-established entities. This route involves extensive disclosure obligations, a listing requirement, a longer approval timeline, and higher legal and marketing costs. Legal due diligence and greater structural transparency (e.g., for Sukuk) may also be required to ensure investor protection.⁹⁹



TYPES OF SUKUK

6.3 CATEGORIES OF SUKUK

This section explores the different commercial types of Sukuk, with a focus on the legal rights and recourse available to investors. Broadly, Sukuk can be categorised into seven types: Senior Unsecured Sukuk, Senior Secured Sukuk, Covered Sukuk, Securitisation Sukuk, Regulatory Capital Sukuk, Hybrid/Perpetual Sukuk, and Convertible and Exchangeable Sukuk. Each type has distinct features, which are discussed in detail below.



6.3.1 Senior Unsecured Sukuk

Senior Unsecured Sukuk are a type of Islamic financial instrument in which investors are exposed to the credit risk of the issuer, known as the Obligor. These Sukuk are not backed by collateral, meaning investors do not have direct claims on the underlying assets. Instead, they rely on the Obligor's overall business performance for profit payments and principal repayment. In the event of the Obligor's financial distress or insolvency, investors are treated on par with other senior unsecured creditors, in accordance with the jurisdiction's insolvency laws. These instruments are often referred to as asset-based Sukuk, as the Islamic structure is used to justify the cash flows and payments from a Shariah-compliant perspective. However, a key distinction is that investors cannot seize or enforce claims against the underlying Sukuk assets.¹⁰⁰

An unsecured asset-based Sukuk represents an unsecured exposure to the corporate credit of the underlying obligor, whereas an asset-backed Sukuk transaction offers no recourse against the Obligor but provides full recourse to the underlying assets themselves.

TYPES OF SUKUK

6.3.2 Senior Secured Sukuk

Senior Secured Sukuk are backed by specific assets of the borrower, giving them a more senior position in the capital structure. This means that, in the event of bankruptcy, Sukuk holders are among the first to be paid. This seniority significantly reduces credit risk, making these instruments attractive to investors. In the event of default, investors also benefit from higher recovery rates, as the Sukuk are secured by tangible assets. Additionally, due to their distinct structure and covenants, Senior Secured Sukuk tend to have lower correlation with other types of Sukuk, making them a valuable tool for portfolio diversification.¹⁰²

6.3.3 Covered Sukuk

Covered Sukuk are similar to conventional covered bonds, offering investors recourse to a dedicated pool of assets in the event of the issuer's insolvency. This structure provides enhanced security, combining the principles of Shariah-compliant finance with the added protection typically associated with covered bonds, making it a relatively safer investment option.¹⁰³

A Covered Sukuk is a financial instrument backed by a pool of assets, such as mortgage loans or public sector loans, typically issued by banks. These Sukuk often feature a soft bullet structure and represent a dual recourse arrangement: investors have recourse both to the issuer and to the underlying pool of assets, which remains on the issuer's balance sheet as cover pools. This collateral pool provides an additional layer of protection for Sukuk holders. Covered Sukuk are generally regarded as high-quality debt instruments with preferential claims, making them a secure investment option. Their issuance is governed by legislative frameworks that ensure the maintenance of adequate asset coverage and adherence to credit quality standards.

Covered Sukuk, recognised as a cost-effective financing tool for lenders, offer an alternative to issuing unsecured debt instruments and support the expansion of their business activities. These Sukuk, similar in nature to residential mortgage-backed securities (MBS) and asset-backed securities (ABS), operate within a structured framework. The process typically begins with a bank selling a pool of financial assets, such as mortgages or public sector loans, to a financial institution. The issued Covered Sukuk, functioning like debt securities, represent investments in which profit payments are supported by the cash flows generated from the underlying loans. This cash flow mechanism ensures a steady income stream for Sukuk holders. To manage risk and preserve credit quality, financial institutions can replace defaulted or prepaid loans within the cover pool with performing assets, thereby maintaining the integrity and performance of the Sukuk.¹⁰⁴

6.3.4 Securitisation Sukuk

Securitisation is a common structured finance strategy that is gaining popularity in Islamic finance, notably in the context of Sukuk. In Arabic, securitisation (tawreeq) is divided into two categories: issues (taskeek) and securities (tawreeq) (tasneed). The term sakk (singular of Sukuk) literally means "to strike" or "to hit," as in stamping a seal on a document.¹⁰⁵

TYPES OF SUKUK

Islamic securitisation is a legal structure that applies the core principles of Islamic finance to achieve the economic objective of transforming non-tradable assets into tradable securities. It relies on a structural arrangement in which assets are transferred from the Obligor to a special purpose vehicle (SPV), which then issues securities. The underlying assets typically consist of income-generating financing arrangements between financial institutions and their customers. These may include portfolios of home financing contracts structured through Ijarah financing, vehicle finance portfolios structured using Murabaha or Ijarah, or participations in larger syndicated financing transactions conducted through Shariah-compliant structures.¹⁰⁶

Asset-backed securities (ABS) allow issuers to raise cash, which can then be used for lending or other investment purposes. The underlying assets of an ABS are often illiquid and cannot be sold individually. By pooling these assets together and creating a financial instrument—a process known as securitisation—the issuer makes otherwise illiquid assets marketable to investors. This also enables the issuer to remove riskier assets from their balance sheet, thereby reducing their credit risk.

An ABS typically includes three tranche classes: A, B, and C:

- **Tranche A**, the senior tranche, is almost always the largest. It is structured to have an investment-grade rating to attract investors
- **Tranche B** has lower credit quality than Tranche A and, consequently, offers a higher yield.
- **Tranche C** has the lowest credit rating and may have such poor credit quality that it cannot be sold to investors. In such cases, the issuer retains Tranche C and absorbs any associated losses.¹⁰⁷

6.3.5 Payment Waterfall

The payment waterfall for Asset-Backed Securities (ABS) is a structured mechanism that dictates how cash flows generated by the collateral pool are distributed among various stakeholders, including noteholders and service providers. This mechanism allocates income generated by the collateral pool (e.g., profit, principal receipts, and recoveries on defaults) to ABS notes and counterparties. It also governs the distribution of enforcement proceeds in the event of default and outlines the loss allocation process.

Income Waterfall

1. **First:** Pay senior trust expenses and senior termination payments.
2. **Second:** Repay any outstanding draws under the liquidity facility.
3. **Third:** Pay profit due on Class A1, A2, AB, and B notes, as well as other facilities.
4. **Fourth:** Allocate remaining income collections to principal collections to cover unreimbursed losses.
5. **Fifth:** Distribute any remaining income collections to the residual income unitholder.

TYPES OF SUKUK

Principal Waterfall

1. **First:** Apply principal collections to Class A1, A2, AB, and B notes.
2. **Second:** Repay redraws under the mortgage loans.
3. **Third:** Repay the outstanding principal under the redraw facility.
4. **Fourth:** Distribute any remaining principal collections to the residual capital unitholder.¹⁰⁸

6.3.6 Regulatory Capital Sukuk

Tier 1 Sukuk are part of a bank's core capital and possess equity-like features. These Sukuk are perpetual and are often used to meet regulatory capital requirements. They do not have a maturity date and are considered a stable source of capital for financial institutions.¹⁰⁹ A bank's capital is divided into two main categories: Tier 1 capital and Tier 2 capital. These two types of capital reserves differ in several key aspects. Tier 1 capital represents the bank's core capital and includes equity capital and disclosed reserves that are visible on the bank's financial statements. These funds are essential for supporting the bank's day-to-day operations and are fundamental to its overall financial strength.

On the other hand, Tier 2 capital serves as a bank's supplementary capital. It comprises undisclosed reserves, subordinated term debt, hybrid financial instruments, and similar items. A bank's total capital is calculated by combining its Tier 1 and Tier 2 capital. Regulators use the capital ratio to assess and rank a bank's capital adequacy.

Tier 2 Capital Sukuk are Sukuk that form an essential component of this second layer of banking capital. These Sukuk are categorised as subordinated debt, meaning they are repaid only after higher-ranking debts have been settled in the event of a bank's liquidation or bankruptcy. Due to their subordinate status, Tier 2 Capital Sukuk typically offer higher profit rates compared to other Sukuk, reflecting the increased risk undertaken by investors. Their repayment depends on the full settlement of obligations to senior Sukuk holders, making them inherently riskier.

The issuance of Tier 2 Capital Sukuk is often subject to legislative restrictions designed to maintain a bank's financial stability and to protect depositors and other creditors. These regulations aim to prevent excessive reliance on subordinated debt, which could weaken a bank's financial position and lead to broader financial instability.¹¹⁰

6.3.7 Hybrid/Perpetual Sukuk

Perpetual Sukuk are recognised as an equity instrument when it meets the criteria outlined under MFRS 132, specifically in the relevant paragraph pertaining to equity classification. However, if a Public Listed Company (PLC) no longer has an unconditional right to avoid redeeming the perpetual Sukuk, it may need to be reclassified as a financial liability. The classification of a perpetual Sukuk—as either an equity instrument or a financial liability—must be assessed based on the facts and circumstances existing at the time of evaluation.¹¹¹

TYPES OF SUKUK

Hybrid or Perpetual Sukuk are issued by non-bank or financial institutions and are typically treated as equity or equity-like from an accounting perspective. These Sukuk may have no maturity date or may include a mechanism to increase the profit rate if the Sukuk is not redeemed after a specified period, such as every 10 years.

The Obligor's obligation to pay the profit (coupon) is subordinated to its senior liabilities, and the Obligor may elect not to make coupon payments even if senior liabilities are current. The consequences of not paying the coupon depend on whether the Sukuk is cumulative or non-cumulative and may include capitalising the unpaid coupon or triggering a dividend blocker.

Hybrid or perpetual Sukuk is usually subordinated, meaning investors rank behind senior secured and unsecured creditors. This type of Sukuk is considered an expensive form of capital and is rarely issued. However, it plays an important role when an Obligor needs to strengthen the equity side of its balance sheet without raising additional shareholders' equity.¹¹²

6.3.8 Convertible and Exchangeable Sukuk

This type of Sukuk structure includes an embedded option that grants Sukuk holders the right, but not the obligation, to convert (or exchange) their Sukuk into real assets. Sukuk holders may convert their holdings into a predetermined amount or value of real assets after a specific period, typically subject to preset conditions such as a lock-up period following subscription.

Exchangeable Sukuk are particularly useful for investors seeking to protect their position, especially in cases where periodic distributions are unsecured. These investors can exit the Sukuk contract by converting their holdings into real assets that are currently created or owned by the Obligor.

The conversion ratio depends on the current market price of the Sukuk. For example, if the Sukuk price falls below the value of the underlying asset, holders may choose to convert. Conversely, if the Sukuk price exceeds the asset value, they may opt to retain their investment.¹¹³

6.4 SUSTAINABLE SUKUK

Sustainable Sukuk, specifically green and social Sukuk, are Shariah-compliant financial instruments used to finance environmentally and socially beneficial projects. They leverage the asset-backed and risk-sharing nature of Sukuk to promote sustainable development.



TYPES OF SUKUK

6.4.1 Sustainable Sukuk

Sustainable Sukuk are predominantly issued in international markets, accounting for 67% of total cumulative issuance as of Q1 2024. This stands in stark contrast to traditional Sukuk, where international issuances represent only 25.2% annually. Subscription rates for sustainable Sukuk generally exceed those of traditional Sukuk, reflecting growing investor interest. Sustainable Sukuk is also expected to help boost overall Sukuk issuance, which has remained relatively low. This was a key focus at COP28 in the UAE, which highlighted the significant role of Islamic finance and Sukuk in addressing climate change. Several key initiatives were announced at COP28 to support the growth of the sustainable Sukuk market, including the National Biodiversity Strategy 2031, the Green Fujairah Initiative, and the Waste to Zero Initiative.

The UAE has also extended the waiver of registration fees for green and sustainable Sukuk and bonds. According to Fitch, the UAE accounts for 19% of the global sustainable Sukuk market. With 51% of sustainable issuances in the Gulf region being Sukuk, these initiatives are expected to benefit significantly from the heightened awareness generated by COP28.¹⁴⁴



6.4.2 Sustainability-Linked Sukuk

Sustainability-linked Sukuk are Sukuk instruments whose financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability or ESG (Environmental, Social, and Governance) objectives. These objectives are measured through Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets (SPTs). The same definition also applies to sustainability-linked bonds.

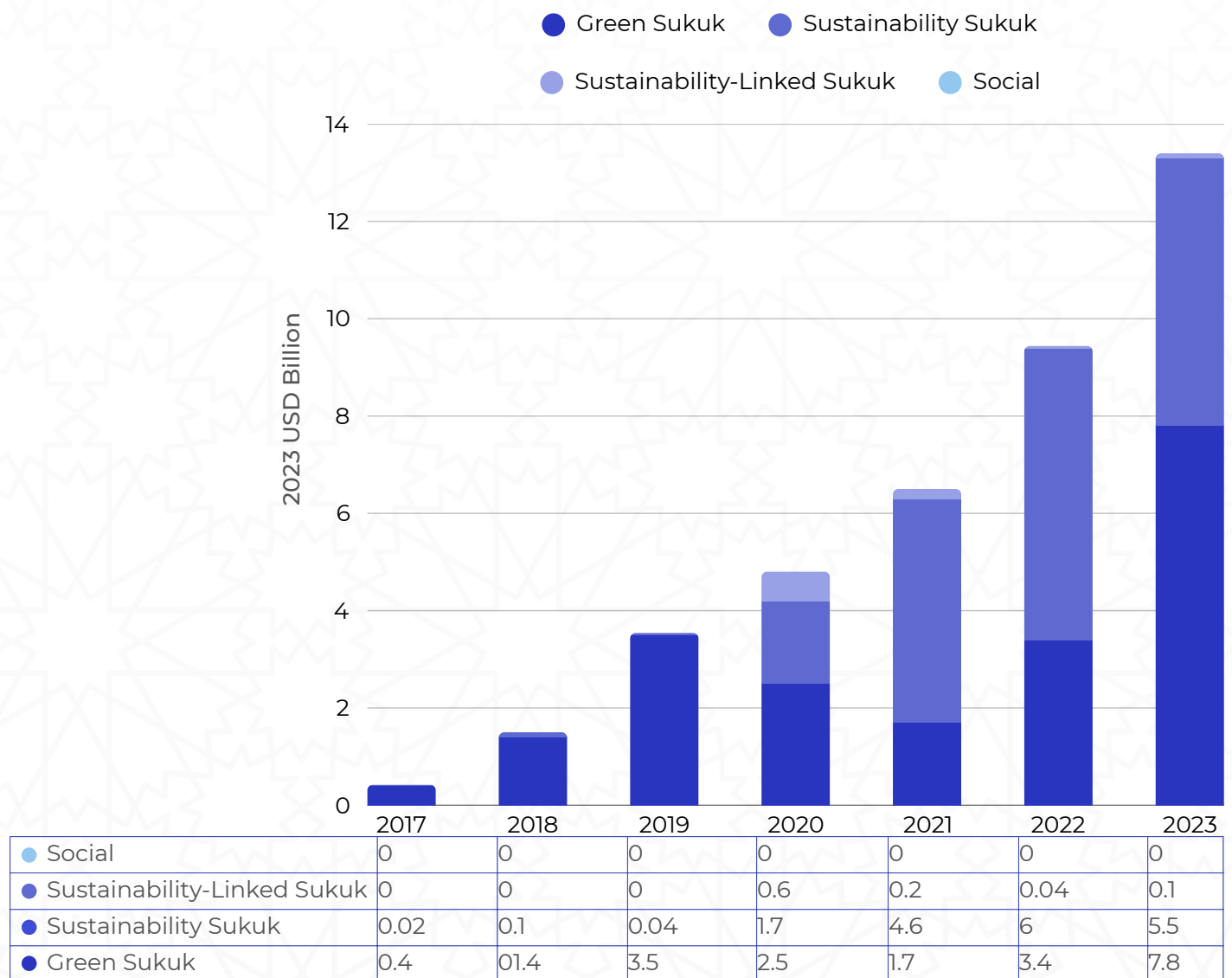
Unlike use-of-proceeds Sukuk, which require the funds to be allocated to specific green or social projects, sustainability-linked Sukuk place no restrictions on how the proceeds are used. Instead, they focus on the issuer's performance against sustainability goals.

To qualify as sustainability-linked, an issuance must comply with the following five core requirements:

1. Selection of KPIs
2. Calibration of Sustainability Performance Targets (SPTs)

TYPES OF SUKUK

3. **Sukuk Characteristics** – The financial or structural features of the Sukuk must vary depending on whether the KPIs meet the SPTs.
4. **Regular Reporting** – Ongoing disclosure of progress against KPIs/SPTs.
5. **Post-Issuance Verification** – Assessment by an independent external party to confirm performance.
6. A sixth, non-mandatory requirement—obtaining third-party verification or a Second Opinion review—is highly recommended, as it is generally expected by investors.¹⁵⁵



Source:¹¹⁶

TYPES OF SUKUK

The chart above illustrates that in 2022, the issuance of Sustainability-Linked Sukuk was relatively low, totalling only USD 0.04 billion. This marked a significant decline compared to 2020 and 2021, indicating limited adoption or cautious market participation. In 2023, issuance saw a slight increase to USD 0.1 billion. While still modest, this growth suggests a renewed interest in Sustainability-Linked Sukuk, potentially driven by rising awareness of sustainability objectives and evolving regulatory frameworks.

Despite the recent increase, the overall market for Sustainability-Linked Sukuk remains small compared to other sustainable Sukuk categories, such as Green Sukuk and Sustainability Sukuk. Future growth will depend on factors such as investor confidence, supportive policy measures, and the broader integration of sustainability principles within Islamic finance.

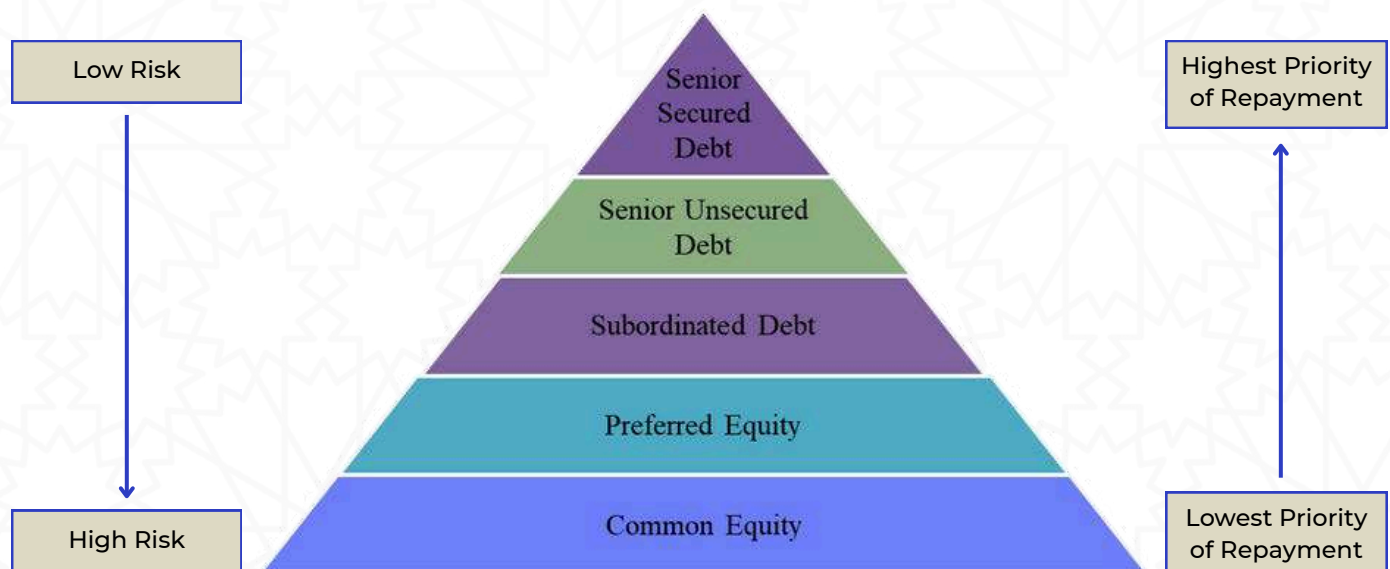
6.4.3 Hierarchy of Repayment in Bankruptcy

If a company or government declares bankruptcy, it does not automatically render its Sukuk worthless. Bankruptcy allows an entity to reorganise in the hope of returning to profitability. Once a restructuring plan is approved by the court, the bankrupt entity may emerge as a newly reorganised organisation with reduced debt.

While bankruptcy often results in losses for equity investors, Sukuk holders are more likely to recover at least part of their initial investment. This is because the order of repayment during bankruptcy is governed by laws that prioritise creditors based on their claims, much like an airline gate agent boards passengers according to ticket class (e.g., first class, coach, or basic economy).

In the case of a Sukuk default, a similar repayment hierarchy is followed. In today's market, the majority of Sukuk issued are senior unsecured Sukuk, meaning they are not backed by specific collateral but still take precedence over subordinated debt or equity in repayment.

This hierarchy of repayment typically looks like this:



TYPES OF SUKUK

As the chart shows, senior secured debt holders—typically banks—are paid first. Sukuk holders fall into the next group, and a bankrupt firm often retains enough assets to repay them at least a portion of what they are owed.

While your position in the repayment hierarchy influences when and how much you are repaid, the form of repayment can vary depending on the company's business model, the nature of its assets, and its route out of bankruptcy. Once a company files for bankruptcy, Sukuk holders stop receiving principal and profit payments. When the process is complete, they may be compensated with newly issued Sukuk, cash, or equity shares, which may not be equal in value to the original Sukuk they held.¹¹⁷



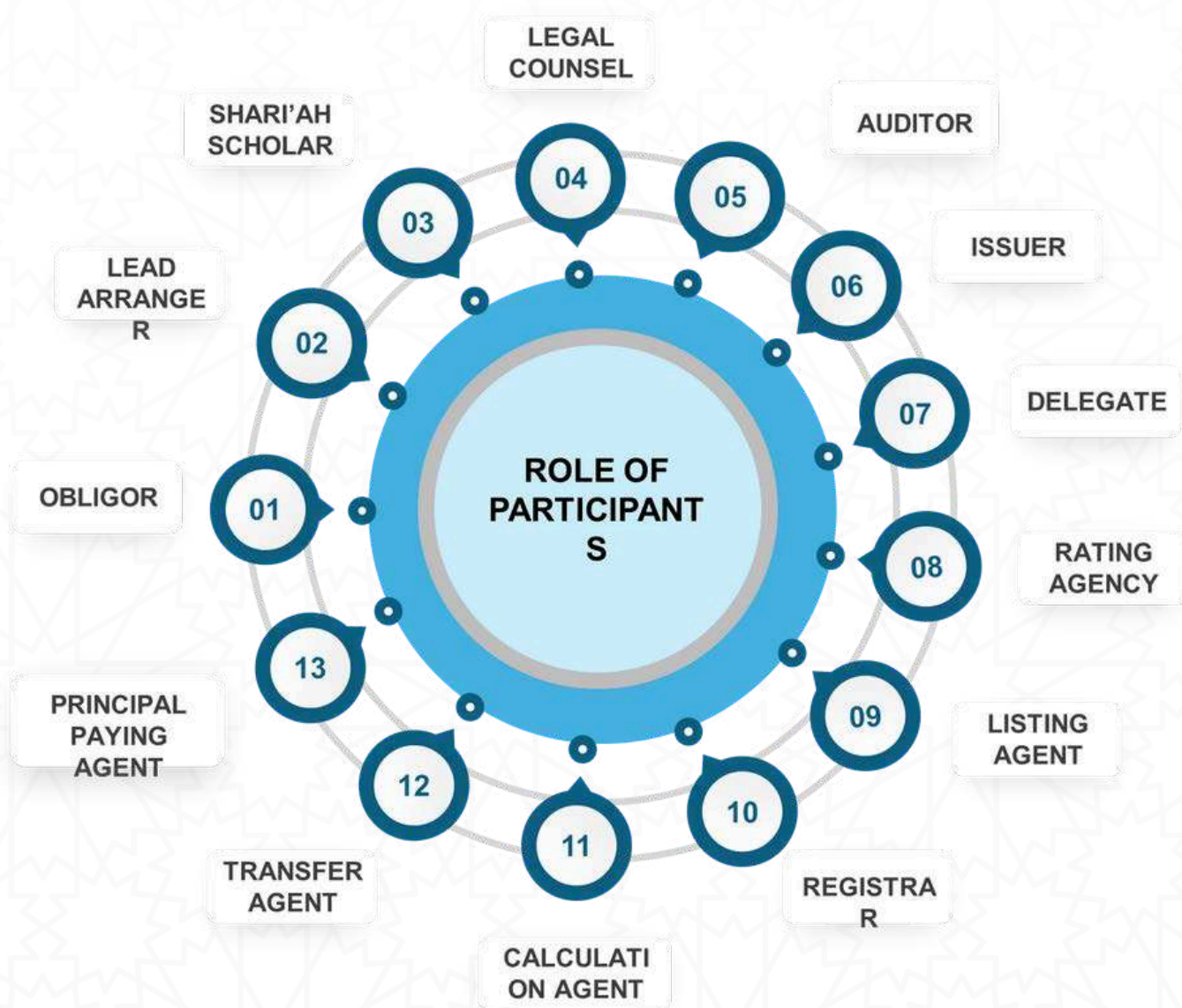
ROLE OF PARTICIPANTS



ROLE OF PARTICIPANTS

This section outlines the roles of the various parties involved in a Sukuk transaction and clarifies the associated terminology. Each party plays a distinct role in ensuring that the Sukuk issuance is structured, executed, and managed in accordance with both Islamic principles and commercial requirements.

The key parties typically involved in a Sukuk transaction include the Obligor, Auditor, Legal Counsel, Lead Arranger, Shariah Scholar, Issuer, Delegate, Rating Agency, Listing Agent, Registrar, Calculation Agent, Transfer Agent, and the Principal Paying Agent. Each of these roles is explained in detail below.



ROLE OF PARTICIPANTS

7.1 OBLIGOR

The Obligor in a Sukuk issuance is the party legally or contractually obligated to make payments to Sukuk holders based on their holdings. Typically, the obligor is the entity that ultimately requires funding and is responsible for paying the Sukuk profit rate and repaying the principal amount (the invested funds) to Sukuk holders, in accordance with the terms and conditions of the contract.

While the issuer of the Sukuk is usually a special purpose company (SPC) or special purpose vehicle (SPV)—which is bankruptcy-remote and acts as a conduit to issue Sukuk certificates—the obligor is the real economic party behind the transaction. The SPC sells Sukuk to investors and represents their interests in dealings with the obligor (also referred to as the Obligor).

Technically, the obligor functions similarly to a borrower in the conventional bond market. However, the term “obligor” is preferred in the Sukuk context, as Sukuk are designed to reflect a different type of contractual relationship between investors and issuers—one that aligns with Shariah principles rather than a simple debtor-creditor model. The obligor may be a private corporation or a government entity seeking to raise funds for specific projects or purposes.¹¹⁸

7.2 LEAD ARRANGER

The Lead Arranger, typically an investment bank or financial institution, is responsible for structuring, managing, and timing the Sukuk issuance. Acting as an advisor to the issuer, the lead arranger plays a central role in ensuring the success of the transaction. If the Sukuk is to be listed, the lead arranger also serves as the “sponsor” to ensure compliance with relevant regulatory requirements.

In addition to advising on structure and documentation, the lead arranger is involved in marketing and distributing the Sukuk to investors. Working on behalf of the obligor, the lead arranger ensures that the issuance is strategically positioned and well-received in the capital markets.¹¹⁹

7.3 SHARIAH SCHOLAR

A Sukuk transaction must be approved as Shariah-compliant by a Shariah scholar or a panel of scholars. These scholars issue a fatwa (Islamic legal pronouncement) confirming that the Sukuk structure and its associated documentation comply with Islamic principles.

The identity of the Shariah scholar(s) involved depends on the parties involved in the transaction. If the obligor is a Shariah-compliant entity, such as an Islamic bank or financial institution, the approval is typically granted by the obligor’s own Shariah board. Likewise, joint lead managers involved in the transaction may issue a fatwa through their respective Shariah boards. In cases where the obligor is not a Shariah-compliant entity, and none of the joint lead managers have a Shariah board, the obligor may appoint an independent Shariah consultant to review the transaction and issue the required Shariah approval.

ROLE OF PARTICIPANTS

In cases where the obligor is not a Shariah-compliant entity, and none of the joint lead managers have a Shariah board, the obligor may appoint an independent Shariah consultant to review the transaction and issue the required Shariah approval.

The Shariah pronouncement is a critical component of a Sukuk issuance and must be obtained before the Sukuk is launched, as potential Islamic investors require assurance that the transaction complies with Shariah principles. This pronouncement provides comfort during the marketing phase, signalling that the structure has been reviewed and approved by qualified scholars.

However, the pronouncement is typically issued on a non-reliance basis, meaning that investors are still expected to make their own determination of Shariah compliance. In certain jurisdictions, such as the UAE and Malaysia, regulatory authorities mandate the issuance of a Shariah pronouncement before the Sukuk can be marketed to investors.

Although the pronouncement is subjective—reflecting the interpretation and reasoning of the Shariah board—it plays an important role in identifying the scholars who have endorsed the transaction, thereby facilitating internal Shariah approvals for institutional investors.

Historically, the Shariah board's role in a Sukuk transaction was limited to reviewing the structure and documentation prior to issuance. However, its role has since expanded to include ongoing oversight throughout the life of the Sukuk.

For instance, if the composition of Sukuk assets changes or the tangibility of the trust assets falls below a specified threshold—commonly 51% or 33%, depending on the jurisdiction—the Shariah board must review the transaction and recommend appropriate remedial actions.

According to AAOIFI Standard No. 59, if the tangibility of the Sukuk assets drops below 51%, the obligor is required to consult the Shariah board to restore the asset composition to the required level of tangibility.¹²⁰

7.4 LEGAL COUNSEL

Separate legal counsels are typically appointed by both the issuer and the lead manager. If the issuance involves a trust arrangement, the trustee will also appoint legal counsel, although in some cases, the trustee may engage the same firm as the lead manager, with a Chinese wall established between the two teams to maintain independence.

Most Sukuk issuances are governed by English law. However, if the transaction involves an overseas jurisdiction, local lawyers must be appointed, regardless of whether the Sukuk are governed by English law, to ensure compliance with local laws and regulations.

The primary role of legal counsel in a Sukuk issuance includes the preparation of transaction documents, participation in the due diligence process, and the issuance of a legal opinion confirming the legality and enforceability of the transaction.¹²¹

ROLE OF PARTICIPANTS

7.5 AUDITOR

Auditors are involved in the issuance process whenever the issuer is an entity that produces financial statements (primarily companies and certain quasi-governmental entities). The lead manager and their legal advisers typically review the issuer's audited accounts for at least the previous three years. If the Sukuk is to be listed, the audited accounts may need to be published or incorporated by reference into the offering documents.

Auditors often work closely with Shariah advisors or Shariah boards to ensure that the Sukuk structure and underlying transactions align with Islamic finance principles.

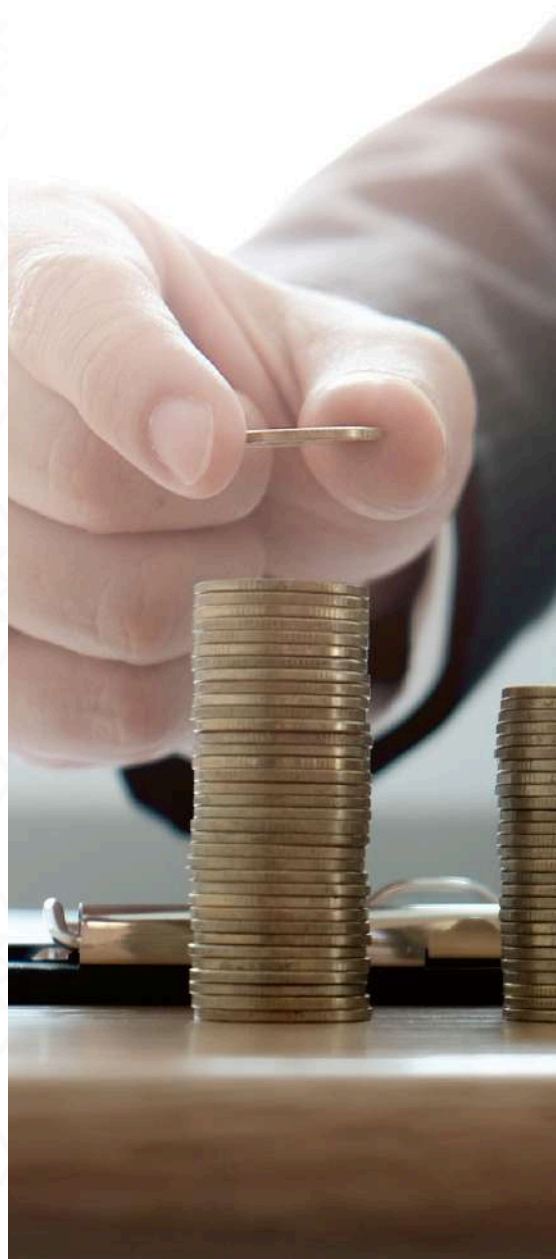
Additionally, auditors are typically asked to provide:

- A letter of consent, permitting the inclusion of their audit report in the listing particulars (or information memorandum); and
- Comfort letters addressed to the managers, essentially confirming:
 - a) That there has been no material adverse change in the issuer's financial position since the date of the latest audited accounts; and
 - b) That any unaudited financial information included in the offering document is accurate.

There are usually two comfort letters: the first is provided at the execution of the subscription agreement (the "signing"), and the second, which updates the first, is delivered at the time of closing. Comfort letters are as important to the managers as legal opinions and are legally binding on the auditors, although auditors often seek to limit their liability.¹²²

7.6 ISSUER

Sukuk are issued as forms of tradable debt. The Sukuk issuer is the borrower, while the Sukuk holder or purchaser is the lender. At the maturity of the Sukuk, issuers repay the Sukuk holders the principal value.



ROLE OF PARTICIPANTS

An issuer is a legally recognised entity responsible for the development, registration, and sale of securities as a means of financing its operations. Issuers may take various forms, including corporations, investment trusts, or governmental bodies at both domestic and international levels. They are legally obligated to fulfil the responsibilities associated with the issuance of securities, which include disclosing financial conditions, reporting material developments, and complying with operational regulations as stipulated by the relevant legal and regulatory frameworks.

Issuers primarily engage in the issuance of various types of securities, including but not limited to common and preferred stocks, Sukuk, notes, debentures, bills, and derivatives. Additionally, certain issuers operate by pooling funds from multiple investors to offer mutual fund shares or exchange-traded funds (ETFs).

Sukuk transactions often involve an issuer located in offshore jurisdictions such as the Cayman Islands, Jersey, Malaysia (including Labuan), the Dubai International Financial Centre (DIFC), and the Abu Dhabi Global Market (ADGM). Other jurisdictions may also be used, depending on the legal, tax, and regulatory analysis of the transaction. The use of an SPV is essential to segregate the obligor's obligations from the issuer's obligations from an Islamic perspective. For example, the obligor cannot enter into an Ijarah or Mudaraba contract with itself, so an SPV is required as the counterparty.

One exception to the use of an SPV is in domestic Sukuk transactions in Saudi Arabia, where the corporate entity issuing the Sukuk can act in multiple legal capacities, such as both Obligor and Issuer, without the need for a separate SPV or the common law concept of a trust. This structure is specific to Saudi Arabia's domestic market and is recognised under its laws.¹²³

To illustrate the function of an issuer, consider the example of ABC Corporation, which issues common shares to the public in an effort to raise capital for its business operations. In this scenario, ABC Corporation assumes the role of an issuer and is required to submit regulatory filings with authorities such as the Securities and Exchange Commission (SEC). These filings must provide comprehensive financial disclosures and demonstrate adherence to the legal and regulatory obligations of the jurisdiction in which the securities are issued. Additionally, in financial markets, entities that write options contracts are sometimes referred to as issuers, as they are engaged in the sale of securities.¹²⁴

7.7 DELEGATE

In the context of Sukuk issuance, a “delegate” typically refers to an entity, often a financial institution, that acts on behalf of the trustee to perform specific duties related to the Sukuk certificates and the underlying assets, especially in cases where the Capital Market Law permits the beneficiary to issue their own Sukuk.¹²⁵

7.8 RATING AGENCY

A rating agency plays a vital role in assisting investors to make well-informed decisions when considering Sukuk investments. These ratings provide an independent assessment of the creditworthiness of the Sukuk issuer and the associated risks. They offer valuable insights into the issuer's ability to meet its financial obligations and the level of risk associated with the investment.

ROLE OF PARTICIPANTS

Investors can use credit ratings as a guide to evaluate the relative safety and potential returns of different Sukuk offerings. Higher-rated Sukuk typically carry lower credit risk and may be more attractive to risk-averse investors, while lower-rated Sukuk might offer higher potential returns but come with increased risk. Major rating agencies such as Moody's, Fitch, and S&P are prominent in evaluating Sukuk issuers. Bloomberg also provides composite ratings for many Sukuk issues.

The credit rating industry has been around for approximately 158 years, with three main rating agencies—Standard & Poor's, Moody's, and Fitch Ratings—now controlling 90% of the global market.¹²⁶ These credit ratings are used by a wide range of market participants. Issuers use them to enhance the market value and pricing of their debt and other assets.¹²⁷

Sukuk and credit ratings are also used by buy-side and sell-side investors, private contracts, and regulators to analyse credit risks, follow investment criteria, and estimate the amount of collateral needed to withstand credit derivatives risks. On the other hand, rating agencies have faced significant criticism for their methodology and other challenges. Furthermore, since the adoption of new regulations, the informational impact of rating changes has become more prominent, implying that credit ratings are becoming increasingly important to capital and Sukuk market participants.¹²⁸

Credit Ratings				Credit Risk ↓
Investment Grade	S&P	Moody's	Fitch	
	AAA	Aaa	AAA	
	AA	Aa	AA	
	A	A	A	
	BBB	Baa	BBB	
Speculative Grade	S&P	Moody's	Fitch	
	BB	Ba	BB	
	B	B	B	
	CCC	Caa,	CCC	
	C	C	C	
	D	D	D	

Source:¹²⁹

ROLE OF PARTICIPANTS

7.9 LISTING AGENT

For debt instruments slated for listing on a stock exchange, a listing agent becomes essential. This agent acts as an intermediary between the issuer and the stock exchange, preparing all necessary materials, including the prospectus, for submission to the exchange. The listing agent facilitates the listing process, ensuring compliance with exchange requirements.

When listing on certain exchanges, a listing agent must be appointed by the issuer to communicate with the listing authority on its behalf, lodge the necessary documents with the listing authority, and advise the issuer on the listing rules. Instruments may be listed on the stock exchange to improve marketability. The stock exchange's listing rules apply to ongoing admissions for listing. Admission to listing requires the filing and approval of various key documents.

If the Sukuk are listed on an exchange, a listing agent is required. The agent advises on matters related to the listing and ensures compliance with the listing rules of the relevant stock market. The agent also handles the process of procuring registration with the relevant listing authority or stock exchange.¹³⁰

7.10 REGISTRAR

A registrar is an entity or individual responsible for maintaining records of ownership for securities such as stocks and Sukuk. They ensure that every transaction is accurately recorded, that shareholders receive their dividends, and that corporate actions like stock splits or mergers are executed seamlessly. Without registrars, the financial markets would lack the transparency and trust that investors rely on.

The register includes details such as the outstanding face value of certificates, serial numbers, dates of issue, transfers of ownership, payment of periodic distributions, and investor details. The registrar is also responsible for exchanging the global certificate (held in the name of the common depository) for definitive certificates (in the name of each investor) in the event of a market disruption.

In the United States, registrars often work alongside transfer agents, who handle the actual transfer of securities from one party to another. While the roles overlap, the registrar focuses more on record-keeping, while the transfer agent deals with the mechanics of the transaction. For example, if you buy shares of a company, the registrar ensures your name is added to the shareholder registry, while the transfer agent facilitates the transfer of those shares to your account.¹³¹

7.11 CALCULATION AGENT

A calculation agent is a party that performs calculations set out in a transactional document that requires calculations for its operation. The calculation agent determines periodic distribution amounts, particularly for floating-rate Sukuk. For fixed-rate Sukuk, a calculation agent is not required.¹³² In scenarios where more intricate coupon payments are required, particularly when dealing with floating rates linked to indices or derivatives, a calculation agent at the agent bank assumes a vital role. This agent performs complex calculations, ensuring the precise determination of coupon payments according to the specified terms and conditions.¹³³

ROLE OF PARTICIPANTS

7.12 TRANSFER AGENT

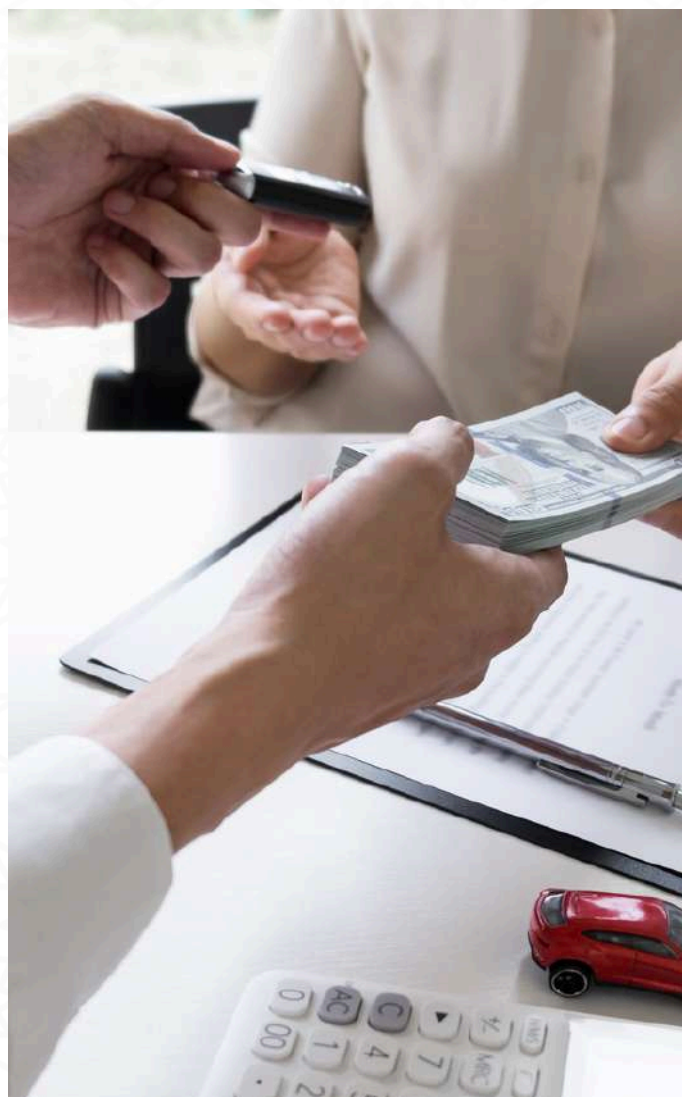
Transfer agents work for the security issuer to record changes of ownership, maintain the issuer's security holder records, cancel and issue certificates, and distribute dividends. Transfer agents are usually banks or trust companies, but sometimes a company acts as its own transfer agent. Transfer agents are required to be registered with the SEC, or if the transfer agent is a bank, with a bank regulatory agency.

Most issuers identify their transfer agent on their company website under the "Investor Relations" tab. You may need to contact the company directly to obtain the transfer agent's name and contact information.¹³⁴

7.13 PRINCIPAL PAYING AGENT

A principal paying agent is an agent of the issuer responsible for coordinating payments of principal and profit under the Sukuk. It will receive payment monies from the issuer and distribute them to the appropriate paying agents, who pay the Sukuk holders residing in their jurisdictions. If an issuer uses a fiscal agent, it will usually take the role of principal paying agent. However, if the issuer uses a trustee structure (or if the fiscal agent does not have a 'presence' in a jurisdiction in which profit payments must be made), a principal paying agent (or additional paying agents) will be appointed.

The principal paying agent primarily handles the collection and distribution of principal and profit payments associated with Sukuk. Unlike a bond trustee, a principal paying agent lacks the authority to enforce Sukuk payment obligations. Their role is limited to the processing and distribution of payments. In scenarios where there is only a principal paying agent without a Sukuk trustee, there is a notable absence of an independent party designated to protect the rights of Sukuk holders in the event of a default on the Sukuk. This absence can potentially leave Sukuk holders without a dedicated entity to safeguard their profits.¹³⁶





ISSUANCE PROCESS



ISSUANCE PROCESS

Sukuk issuance follows a structured process involving several key steps. These steps are essential to ensure that the Sakk/Sukuk comply with Shariah principles, meet investment requirements, and appeal to potential investors. The unique nature of Sukuk necessitates a specific issuance process for this financial instrument.

8.1 THE PROCESS OF ISSUING SUKUK

Sukuk, an Islamic financial instrument that complies with Shariah law, has emerged as a promising investment vehicle in recent years. It has gained popularity among investors worldwide due to its unique features. Unlike traditional bonds, Sukuk represent ownership in tangible assets, with returns generated from the revenue streams of the underlying assets. This structure makes Sukuk more transparent and potentially less risky than conventional bonds.

The process of issuing Sukuk is complex and involves various parties, including the issuer, arranger, trustee, and investors. This section provides a comprehensive guide to the Sukuk issuance process, detailing the necessary steps, the parties involved, and the legal requirements.



ISSUANCE PROCESS

8.1.1 Structuring the Sukuk

The first step in issuing Sukuk involves structuring the instrument. The issuer must determine the type of Sukuk to issue and identify the underlying assets that will generate the returns. There are various types of Sukuk, including Ijarah, Musharaka, Mudaraba, and Wakala. The issuer must select the appropriate structure that complies with Shariah law and meets their specific financing needs. For example, suppose the issuer aims to finance a construction project. In that case, they may issue an Ijarah Sukuk, in which investors become owners of the property and receive rental income as returns.

8.1.2 Appointing the Arranger

The next step involves appointing an arranger, who will structure the Sukuk and coordinate the transaction. The arranger is responsible for preparing the necessary documentation, including the prospectus, offering circular, and legal agreements. They also assist the issuer in marketing the Sukuk to potential investors. It is essential that the arranger possesses expertise in Islamic finance and has a strong understanding of the local market.

8.1.3 Appointing the Trustee

The issuer must appoint a trustee to represent the interests of the Sukuk holders and ensure compliance with Shariah law. The trustee monitors the underlying assets and ensures they are managed in accordance with Shariah principles. Additionally, the trustee is responsible for taking action in the event of a default or breach of contract.

8.1.4 Conducting Due Diligence

Before issuing the Sukuk, the issuer must conduct due diligence on the underlying assets, the arranger, and the trustee. This process involves reviewing legal and financial documentation and verifying compliance with Shariah law. The issuer must also disclose all relevant information to investors, including the associated risks and potential returns.



ISSUANCE PROCESS

8.1.5 Marketing the Sukuk

Once the documentation is prepared and due diligence is completed, the arranger markets the Sukuk to potential investors. The issuer may target both local and international investors, depending on their financing needs. The arranger must ensure that investors fully understand the Sukuk's structure, risks, and potential returns.

8.1.6 Listing the Sukuk

After the Sukuk is issued, it can be listed on a stock exchange or traded over the counter. Listing the Sukuk provides liquidity for investors and can help the issuer raise additional capital in the future. Sukuk may also be listed on multiple exchanges, depending on the issuer's preference.

The process of issuing Sukuk is complex and involves various parties and legal requirements. Nevertheless, it has become a popular financing tool due to its unique features and compliance with Shariah law. The Sukuk market is expected to continue growing in the coming years, with more issuers likely to tap into this market to meet their financing needs.¹³⁷

8.1.7 Bookbuilding

This phase concludes the marketing period. During this stage, lead managers synthesise investor feedback to gauge market demand and subsequently announce the transaction to the market, specifying an indicative issuance amount (e.g., USD 100 million) and indicative pricing parameters. Investors then submit formal orders to the lead managers or book-runners, allowing for the finalisation of the issuance size and pricing based on aggregated demand.

Bookbuilding is a process used by corporations to determine the pricing of their securities and stimulate interest among prospective investors. It involves the creation of a “book” or “order book” that records the specifics of investor demand for the offered assets. This method establishes the price range and the final price at which the securities will be sold to the public.

Bookbuilding is a dynamic and efficient method for pricing and distributing securities. It promotes effective price discovery, enhances transparency, and stimulates investor interest. By allowing market participants to engage in the process, bookbuilding ensures that securities are valued according to actual market demand, benefiting both the issuing entity and investors. As financial markets continue to evolve, book building remains a vital mechanism in capital market offerings, playing a significant role in the success of corporations and their securities.¹³⁸

8.1.8 Pricing

The Pricing Phase formalises the commercial terms of the Sukuk, including the definitive issuance size and pricing, based on investor commitments. Concurrently, two critical regulatory identifiers must be established: the Legal Entity Identifier (LEI) for both the Obligor and the Issuer SPV—which must be obtained no later than the pricing date—and the International Securities Identification Number (ISIN), which is uniquely assigned to each issuance once the final term sheet is ratified.

ISSUANCE PROCESS

Under a multi-series programme, the Issuer SPV retains a single LEI, while each individual issuance or series is assigned a distinct ISIN. This structured approach ensures transparency, regulatory compliance, and market efficiency, with the LEI and ISIN serving as foundational elements for tracking and settlement in global capital markets.¹³⁹

While U.S. Treasury yields are often used as a benchmark for Sukuk pricing, Sukuk themselves are not directly benchmarked to U.S. Treasuries. Instead, they are linked to the performance of the underlying Shariah-compliant assets they represent.

Swap rates are derived from the swap curve, which is constructed using a set of market points. These market points are obtained from liquid markets for benchmark swap spreads, which represent the differences between government bond yields and the swap curve. By adding these benchmark swap spreads to government bond yields, one can determine the benchmark swap rates for various maturities, such as 2-year, 3-year, 5-year, 7-year, 10-year, 20-year, and 30-year tenors.

Once constructed from these benchmark swap spreads, the swap curve serves as a mathematical model that provides swap rates for any given tenor. For instance, to calculate an 8.5-year swap rate, one would refer to the swap curve. Subsequently, a spread (e.g., 35 basis points) can be added to this swap rate, resulting in a swap rate plus the spread, which represents the bond's spread to swaps.

The rationale for utilising the swap curve is multifaceted. Theoretically, the swap curve is based on a set of rates that banks use for interbank lending, with the flexibility to switch between fixed and floating rates. This characteristic makes the swap curve a convenient benchmark for various financial applications. Furthermore, the supply of government bonds for certain tenors may be limited, leading to supply and demand-driven price distortions. In contrast, swaps are not subject to such supply constraints, making them a more reliable benchmark for certain financial instruments.¹⁴⁰

Mid Swaps (MS) are calculated as the average of the bid and offer swap rates for a specific maturity on the profit-setting date. The floating rate of profit payable on a Sukuk is expressed as the mid-swap rate plus a margin that reflects the borrower's credit risk.

For example, if the mid-swap rate for a 5-year maturity is 4% and the margin for the obligor is 150 basis points (bp), then the final profit rate would be:

$$\text{MS} + \text{Margin} = 4\% + 1.5\% = 5.5\%.^{141}$$

8.1.9 Signing

This phase typically occurs two days after the pricing date, allowing lead managers sufficient time to finalise arrangements with investors and complete the necessary administrative tasks. The funds must be settled with the issuer, normally net of fees, within five days of the deal's completion.¹⁴²

ISSUANCE PROCESS

8.1.10 Closing

The Closing Phase of Sukuk issuance is typically executed on a T+3 or T+5 timeline, occurring three or five days after the signing date. During this phase, the transactional and legal frameworks are finalised. Key activities include the execution and activation of the Declaration of Trust and the Paying Agency Agreement, which formalise the roles of intermediaries and establish the global note or Sukuk certificate.

Concurrently, Shariah-compliant transactional documents, such as the sale agreement, Ijarah (lease) agreement, service agency agreement, and purchase and sale undertakings, are signed and dated. These agreements effectuate the transfer of the underlying assets to the Issuer SPV and initiate the lease arrangement with the Obligor, ensuring compliance with Islamic finance principles.

The global certificate is authenticated by the Registrar and delivered to the common depository, facilitating settlement through predefined confirmations and instructions outlined in the issuance infrastructure. Proceeds from the issuance (e.g., USD 100 million) are then disbursed to the Obligor, concluding the financial transaction.

Parallel to these steps, legal opinions from the counsel representing the Obligor, Issuer SPV, and Lead Managers are issued, validating the enforceability of contractual obligations. A final fatwa is also issued by Shariah scholars, reaffirming the transaction's adherence to Islamic jurisprudence.

The final prospectus (termed the “black”), incorporating the definitive issuance size and pricing, is submitted to the relevant stock exchange for approval. Upon regulatory assent, the Sukuk certificates are formally admitted to listing, enabling secondary market trading.

This phase integrates legal, regulatory, and Shariah compliance, ensuring the Sukuk's operational readiness and market legitimacy.¹⁴³



SHARIAH GOVERNANCE



SHARIAH GOVERNANCE

SHARIAH GOVERNANCE

The development of Islamic finance would not have been possible without the significant efforts and invaluable contributions of Shariah standard-setting bodies—namely, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Without exaggeration, the industry must acknowledge that it would not have reached its current state without the foundational work of these two institutions, although the contributions of other self-regulated bodies should also not be overlooked.

While much remains to be done in areas such as Sukuk issuance, marketing, listing, subscription, restructuring, and redemption, these organisations have provided essential guidance to the Islamic finance industry in the development of its flagship capital market instrument—Sukuk. There is no doubt that these two institutions have accomplished what many formal regulatory authorities, even within Islamic countries, have not yet achieved.

9.1 AAOIFI (ACCOUNTING AND AUDITING ORGANISATION FOR ISLAMIC FINANCIAL INSTITUTIONS)

Bahrain-based AAOIFI is a globally recognised, leading non-profit organisation established in 1991. It issues Shariah standards and guiding principles for the Islamic financial services industry worldwide. To date, AAOIFI has issued a large number of Shariah standards, accounting standards, and governance standards. Its main focus is on providing the industry with state-of-the-art, unified standards for Islamic products and services, as well as for accounting and book-building procedures.

Altogether, AAOIFI has issued 94 different Shariah standards, which have been warmly welcomed by industry players. The organisation claims that “its standards are adopted by central banks and regulatory authorities in a number of countries, either on a mandatory basis or as a basis for guidelines.”

AAOIFI is supported by numerous institutional members, including central banks, regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. To supply a skilled and qualified workforce to the Islamic finance industry, it offers two renowned certifications: the CSAA (Certified Shariah Auditor and Advisor) and the CIPA (Certified Islamic Professional Accountant).

Its standards are available in Arabic, English, French, and Russian, and are currently followed by leading Islamic financial institutions worldwide, progressively harmonising practices across the Islamic finance industry.

Though AAOIFI has not provided detailed Sukuk issuance guidelines like the Islamic Financial Services Board (IFSB), it has issued a concise guiding note for Sukuk issuers. In three meetings held between 2007 and 2008 in Madinah, Makkah, and Bahrain, AAOIFI conducted an in-depth review of prevailing Sukuk market practices and ultimately released a brief guideline.

SHARIAH GOVERNANCE

On the governance side, and to regulate Sukuk issuance properly, AAOIFI emphasised the expanded role of Shariah Supervisory Boards. In its sixth article, it stated:

Shariah Supervisory Boards should not limit their role to the issuance of a fatwa on the permissibility of the Sukuk structure. All relevant contracts and documents related to the actual transaction must be carefully reviewed by them. They should then oversee the implementation process and ensure that the operation complies, at every stage, with Shariah guidelines and the requirements specified in the Shariah Standards. Furthermore, the investment of Sukuk proceeds and their conversion into assets—using one of the Shariah-compliant investment methods—must conform to Article (5/1/8/5)⁷ of AAOIFI Shariah Standard No. 17. In addition, the Shariah Board advises Islamic financial institutions to reduce their engagement in debt-based operations and to promote genuine partnerships based on profit-and-loss sharing, thereby aligning financial practices more closely with the objectives of Shariah.

9.2 IFSB (ISLAMIC FINANCIAL SERVICES BOARD)

The IFSB is a Malaysia-based international standard-setting body for Islamic banking and finance. It was officially inaugurated on 3rd November 2002 and commenced operations on 10th March 2003. Among its key roles, the organisation primarily promotes and enhances the soundness and stability of the Islamic financial services industry by developing international standards and prudential guidelines.

Its scope covers a wide range of sectors, including Islamic banking, capital markets (particularly Sukuk), and Islamic insurance (Takaful). The IFSB works closely with national, regional, and international organisations to coordinate efforts aimed at addressing industry-related challenges. It also conducts extensive research programmes, seminars, and conferences to explore and resolve pressing issues in the Islamic finance sector.

In April 2017, the IFSB issued the 'Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukuk and Islamic Collective Investment Schemes),' which undoubtedly marked a significant milestone in the evolution of Sukuk.

9.3 AAOIFI STANDARD 62

In early November 2023, AAOIFI released a Sukuk exposure draft in response to the rapid growth in Sukuk issuance and the market's development over the past decade.¹⁴⁴ This draft standard mandates the transfer of ownership and associated risks of the underlying assets to Sukuk holders, significantly impacting how Sukuk are structured and issued. Businesses must reassess their Sukuk frameworks to ensure compliance with the new ownership and risk transfer requirements. Auditors must also update their methodologies to evaluate adherence to the revised standards, with a particular focus on asset verification and risk assessment. These measures aim to ensure that Sukuk transactions remain aligned with Shariah principles while promoting transparency and accuracy in financial reporting.

SHARIAH GOVERNANCE

A key change in the draft standard is the requirement for an actual transfer of ownership to take place under a Sukuk investment: “Sukuk are an investment instrument wherein their owners share the reward (ghunm) [as well as] the liability (ghurm) of the underlying assets of the (Ijarah) Sukuk that are owned jointly by (the certificate holder)” (emphasis added).¹⁴⁵ The draft also clarifies that economic benefits, such as rental income or other returns, are not sufficient to constitute underlying assets for an Ijarah Sukuk structure.¹⁴⁶ As expected, this sparked significant commentary and discussion within the Islamic finance community, which is actively considering the implications of this change to the Shariah standard governing Ijarah Sukuk.¹⁴⁷

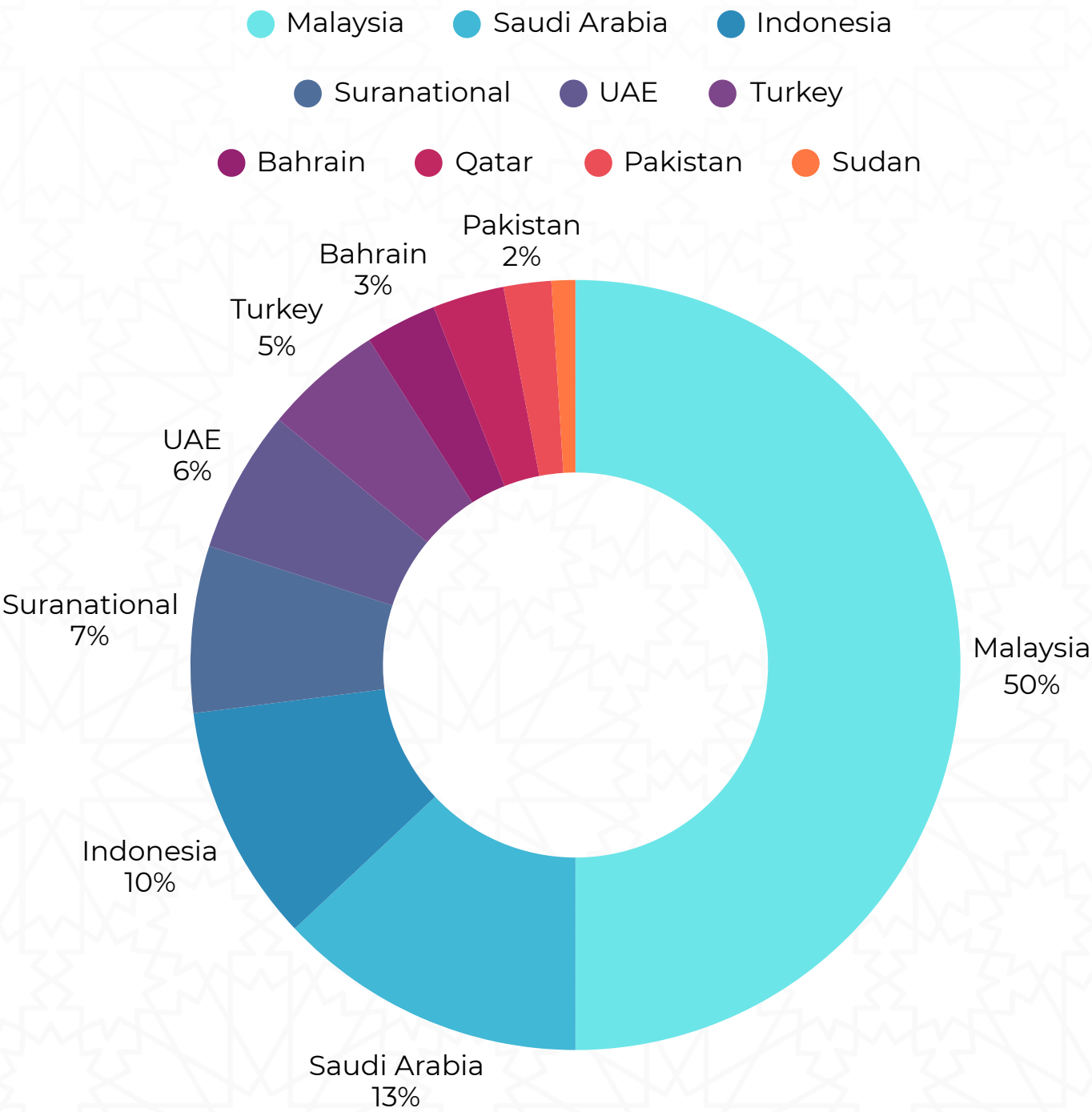
9.3.1 Key effects of the Standard 62

1	Ownership and Risk Transfer	The standard mandates that both ownership and the risks associated with the underlying assets must be transferred to Sukuk holders.
2	Impact on Structuring Sukuk	Structuring certain types of Sukuk—particularly those backed by sponsors’ contractual obligations—will become more challenging.
3	Reluctance to Transfer Sovereign Assets	Sovereign entities may hesitate to transfer assets due to concerns that such actions could be perceived as a form of privatisation.
4	Corporate Concerns over Asset Control	Corporations may be unwilling to relinquish control over their assets, as this could lead to increased financing costs.
5	Market Fragmentation and Investor Confidence	The standard could result in greater market fragmentation between AAOIFI adopters and non-adopters. It may also affect investor confidence, potentially altering the pricing dynamics of Sukuk transactions. ¹⁴⁸



SHARIAH GOVERNANCE

As a result, the growth of the Sukuk market may decelerate from 2025 onwards. Nonetheless, 78% of Sukuk issuances between 2001 and 2022 originated from countries (highlighted in blue in the chart below) that do not adhere to AAOIFI standards, which may help mitigate the broader impact of these regulatory changes.



Source: ⁴⁹

CONCLUSION

It can be concluded that the prolonged and rigorous process of Sukuk issuance, rigid regulatory requirements, high costs, weak legal systems, exchange controls, and lack of transparency are common challenges that require immediate reform in many jurisdictions. Additionally, significant gaps and shortcomings exist in areas such as SPV incorporation, disclosure, listing, enforceability of judgments, taxation, Sukuk structuring, and Shariah governance. The Sukuk regulations in these jurisdictions often lack a comprehensive and robust governance framework. Therefore, the authorities in Muslim-majority nations should consider evaluating and adopting elements from the Sukuk regulations and guidelines of countries like Malaysia, the USA, and the UK, in order to implement more resilient and inclusive practices within their legislative frameworks.

In addition, it is recommended that the relevant authorities and regulatory bodies ensure that the disclosure and SPV frameworks provide all material information and clearly define the roles and legal status of all parties involved in an SPV. They should also draft comprehensive disclaimers covering acts and omissions related to the execution of each party's responsibilities. Furthermore, it is strongly advised that regulators in Muslim-majority nations reform their SPV and disclosure frameworks to explicitly and effectively promote transparency and comprehensively outline the rights and obligations of all parties involved in Sukuk issuance. These elements are directly linked to Sukuk issuance outcomes, influencing investor decision-making, impacting Sukuk ratings, and establishing confidence in the legitimacy and viability of the institution and its products. Without such structural reforms, the relevance of SPVs may continue to diminish, ultimately hindering their modernisation and compromising their effectiveness in supporting Sukuk transactions.

Going forward, fintech is poised to significantly influence how Sukuk are structured, issued, and invested. A detailed study in this area could enhance the growth of the Sukuk market and help address the various challenges it currently faces. ESG (Environmental, Social, and Governance) considerations also present a promising area of exploration, potentially offering alternative approaches to Sukuk. Furthermore, there is a noticeable lack of innovation in the Sukuk market, with the majority of issuances resembling conventional debt instruments. Greater experimentation with convertible Sukuk structures is needed to attract a broader and more diverse investor base.

Sukuk is experiencing rapid growth and plays a crucial role in financial markets, serving as an important fundraising avenue for corporations, sovereign entities, and Islamic financial institutions. However, it also faces several challenges, particularly following the introduction of Shariah Standard 62 by AAOIFI.

Standard 62 introduces significant changes to the Sukuk market by requiring the transfer of ownership and the associated risks of the underlying assets to Sukuk holders. This shift could promote the development of mortgage-backed Sukuk in jurisdictions that adhere to AAOIFI standards. Additionally, these changes may lead to the creation of new Sukuk structures that both comply with Shariah requirements and remain commercially viable.

GLOSSARY

WORD TRANSLATION -ENGLISH	ARABIC FORM	DEFINITION
<i>Quran</i>	القرآن	It is a divine book and the word of Allah, revealed as the final revelation and guidance to His last prophet and messenger, Muhammad (peace be upon him). It contains 114 chapters and more than 6,000 verses.
<i>Al Wa'ad</i>	الوعد	Literally, it is a promise or an undertaking. In Islamic finance transactions, it is always issued unilaterally by one party in favor of the other. A 'promise' is sought by a party that wishes to secure its position or ensure certain rights are available to it within the transaction.
<i>Shirkat Al-Aqd</i>	شركة الع	A contract between two or more parties who establish a business or financial enterprise with the aim of making a profit. This is generally referred to as 'Shirkah'.
<i>Fiqh Al-Muamalat</i>	فقه المعاملات	Fiqh al-Muamalat refers to the study of Islamic law related to transactions and business dealings in daily life. It encompasses various aspects such as buying and selling, usury (riba), reservations, renting, partnership contracts, investments, savings, and pledges.
<i>Halal</i>	حلال	That which is permissible under Shariah, including valid earnings and lawful activities.
<i>Ijarah</i>	إجارة	An Islamic lease contract.

GLOSSARY

WORD TRANSLATION -ENGLISH	ARABIC FORM	DEFINITION
<i>Islam</i>	الإسلام	Literally, it means 'submission,' signifying that a believer submits to the will of Allah (Almighty God) by conforming both inwardly and outwardly to His laws. Islam is the only religion that Allah sent to humankind through all of His messengers and prophets. It was perfected with the final revelation to His last prophet, Muhammad (peace be upon him), in the form of the Quran.
<i>Istisna</i>	الاستصناع	Istisna is a type of sale transaction involving an item that requires manufacturing or construction. Under Istisna, an asset is sold before it comes into existence, as the seller is obligated to transform raw materials into a specified asset through a defined manufacturing or construction process. This contract is commonly used to finance the production or construction of machinery, houses, plants, infrastructure projects, bridges, roads, and highways.
<i>Khulta</i>	خلطة	Mixing (pooling) of a number of Shariah-compliant asset classes in securitization (tasnid/ taskik) or capital structure. For examples of khultah in securitization include pooling of real estate property, equity, and debt. Khulta in capital structure involves combination of equity and debt financing. In either case, from a shari'ah point of view, the maximum limit of sales receivables (zhimam madina), in Sukuk structures, or the total percentage of debt/ dayn to market capitalization should not exceed 1/3 (one third) or 33.33%.
<i>Madina</i>	مدينة	<i>This is the second holiest city in Islam, located in the Kingdom of Saudi Arabia. It is also known as the City of the Prophet Muhammad (peace be upon him), as he migrated there from his birthplace, Makkah.</i>

GLOSSARY

WORD TRANSLATION -ENGLISH	ARABIC FORM	DEFINITION
Makkah	مكة	This is the holiest city in Islam. It is located in the Kingdom of Saudi Arabia, where the Kaaba is situated at the center of Masjid al-Haram. Makkah is also the birthplace of Prophet Muhammad (peace be upon him).
Mudaraba	مضاربة	Mudaraba is a type of partnership in which the investor (the 'Rab al-Maal') provides capital to another party/entrepreneur (the 'Mudarib') to undertake a business activity. While profits are shared based on a pre-agreed ratio between the parties, the loss is solely borne by the investor, while the Mudarib loses only their time and effort.
Mudarib	مضارب	Mudarib is the entrepreneur or investment manager in a Mudaraba who invests the investor's funds in a project or portfolio in exchange for a share of the realised profit.
Musharaka	مشاركة	<i>It is a partnership between two or more parties who contribute their capital or combine their assets, labor, or liabilities with the aim of making a profit. In Musharaka, the profit is shared according to an agreed ratio, whereas the losses are shared in proportion to the capital of each partner.</i>
Rab-al-Maal	رب المال	This refers to the owner of capital. In a Mudaraba contract, this is the person who invests the capital.
Sakk (Singular of Sukuk)	صك (جمع: صكوك)	Sakk is the Arabic word for financial certificates but commonly refers to the Islamic equivalent of bonds. According to AAOIFI, Sukuk are 'certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs, and services, or (in the ownership of) the assets of particular projects or special investment activities.'

GLOSSARY

WORD TRANSLATION -ENGLISH	ARABIC FORM	DEFINITION
<i>Shariah</i>	شريعة	Shariah, literally means, the path to the watering place. In technical and legal usage, however, Shariah refers to the commands, prohibitions, guidance, and principles derived from the primary sources of Islam: the Quran and Sunnah.
<i>Sukuk Al-Intifa</i>	صكوك الانتفاع	These Sukuk are issued for the purpose of leasing out tangible future assets and collecting rentals, so that the usufruct of the described future asset passes into the ownership of the Sukuk holders.
<i>Sukuk Al-Manfaa</i>	صكوك المنفعة	These Sukuk are issued by the owner of an existing asset with the aim of subleasing the usufruct and receiving rental payments.
<i>Sunnah</i>	السنة	Literally, Sunnah denotes a custom, habit, or way of life. It is commonly understood as the sayings and living example of the Prophet Muhammad (peace be upon him), as recorded in the books of Hadith. The Sunnah is a legislative source, along with the Quran.
<i>Takaful</i>	تكافل	Mutual Guarantee: It is the backbone of Islamic insurance.
<i>Tawarruq</i>	التورق	Tawarruq refers to the acquisition of cash through trade activities. Technically, according to Muslim jurists, Tawarruq can be defined as the act of buying a commodity at a deferred price in order to sell it for cash at a lower price.

GLOSSARY

WORD TRANSLATION -ENGLISH	ARABIC FORM	DEFINITION
<i>Wakala</i>	وكالة	Literally, it means Agency.
<i>Wakil</i>	وكيل	Agent
<i>Wakif</i>	واقف	Creator of a Waqf is a Wakif.
<i>Waqf</i>	وقف	Waqf literally means 'hold,' 'confinement,' or 'prohibition.' Technically, it refers to the appropriation or tying up of property in perpetuity, such that no proprietary rights can be exercised over its use. It represents an endowment in the form of a charitable trust, where specific property is held and preserved for a defined charitable objective, with any use or disposition outside that objective strictly being prohibited.

ENDNOTES

1. Bacha, O. I. (2017). Growth and development of the Malaysian Islamic capital market . In A. & Kareem, Islamic finance in Malaysia: growth & development (pp. 207-242). Kuala Lumpur, Malaysia: Pearson Malaysia Sdn Bhd.
2. Iqbal, Z. &. (2011). An Introduction to Islamic Finance, Theory and Practice. United Kingdom: John Wiley & Sons (Asia) Pte, Ltd.
3. A Brief History of Bonds - Life of a Modern Man
4. Bonds - Characteristics, Types, How They Work
5. OECD (2024), Global Debt Report 2024: Bond Markets in a High-Debt Environment, OECD Publishing, Paris.
6. Asset Backed Securities Market Size, Share, Trends & Forecast
7. OECD (2024), Global Debt Report 2024
8. <https://quran.com/en/al-baqarah/282>
9. Ahmed, E. R., Islam, A., & Hashim, F. (2020). Sukuk: History and Development Essia (Issue January). <https://doi.org/10.4018/978-1-7998-0218-1.ch036>.
10. Chapter 7 Sukuk and Securitisation | PPT
11. Sukuk Securities, Their Definitions, Classification and Pricing Issues. Available from: https://www.researchgate.net/publication/259694801_Sukuk_Securities_Their_Definitions_Classification_and_Pricing_Issues.
12. How to Value a Basic Fixed Cash flow Sukuk? - Musaffa Academy
13. IIFM Sukuk report 2023; Bloomberg; S&P Global Market Intelligence.
14. IIFM Sukuk reports 2018-2023; Bloomberg; Research and Markets: Sukuk Global Market Report 2024.
15. Bloomberg.
16. ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024; S&P Global Market Intelligence.
17. CBB. (2021, 10 10). [cbb.complinet.com](http://cbb.complinet.com/net_file_store/new_rulebooks/c/b/CBB_EDFIS_Vol_6_Offering_of_Securities_Module_OFS_9_Dec_2013.pdf). Retrieved from http://cbb.complinet.com/net_file_store/new_rulebooks/c/b/CBB_EDFIS_Vol_6_Offering_of_Securities_Module_OFS_9_Dec_2013.pdf
18. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-a12). Retrieved from cbben.thomsonreuters.com/rulebook/ofs-a12.
19. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-19-eligibility-issue-sharia-compliant-islamic-securities). Retrieved from <https://cbben.thomsonreuters.com/rulebook/ofs-19-eligibility-issue-sharia-compliant-islamic-securities>.
20. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-offering-securities). Retrieved from [cbben, rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-offering-securities](https://cbben.thomsonreuters.com/rulebook/ofs-offering-securities).
21. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-191). Retrieved from [cbben, rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-191](https://cbben.thomsonreuters.com/rulebook/ofs-191).
22. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-197). Retrieved from [cbben. rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-197](https://cbben.thomsonreuters.com/rulebook/ofs-197).
23. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-38-role-and-responsibilities-sharia-advisor). Retrieved from [cbben.rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-38-role-and-responsibilities-sharia-advisor](https://cbben.thomsonreuters.com/rulebook/ofs-38-role-and-responsibilities-sharia-advisor).
24. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-383). Retrieved from [cbben.rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-383](https://cbben.thomsonreuters.com/rulebook/ofs-383).
25. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-4314). Retrieved from [cbben.rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-4314](https://cbben.thomsonreuters.com/rulebook/ofs-4314).
26. CBB. (2021, 10 10). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/ofs-57-additional-and-specific-content-islamic-securities). Retrieved from [cbben.thomsonreuters.rulebook: https://cbben.thomsonreuters.com/rulebook/ofs-57-additional-and-specific-content-islamic-securities](https://cbben.thomsonreuters.com/rulebook/ofs-57-additional-and-specific-content-islamic-securities).
27. CBB. (2021, 10 12). [cbben.thomsonreuters.com](https://cbben.thomsonreuters.com/rulebook/central-bank-bahrain-volume-6-capital-markets). Retrieved from [cbben.thomsonreuters: https://cbben.thomsonreuters.com/rulebook/central-bank-bahrain-volume-6-capital-markets](https://cbben.thomsonreuters.com/rulebook/central-bank-bahrain-volume-6-capital-markets)
28. UAE, C. (2020, 10 11). [www.centralbank.ae](https://www.centralbank.ae/en/laws-and-regulations/legislation). Retrieved from [centralbank.ae: https://www.centralbank.ae/en/laws-and-regulations/legislation](https://www.centralbank.ae/en/laws-and-regulations/legislation).
29. Law, D. F. (2021, 10 11). [https://www.mof.gov.ae](https://www.mof.gov.ae/en/lawsAndPolitics/govLaws/Documents/Decretal%20Federal%20Law%20No.%20%2814%29%20of%202018%20Regarding%20the%20Central%20Bank.pdf). Retrieved from [mof.gov.ae: https://www.mof.gov.ae/en/lawsAndPolitics/govLaws/Documents/Decretal%20Federal%20Law%20No.%20%2814%29%20of%202018%20Regarding%20the%20Central%20Bank.pdf](https://www.mof.gov.ae/en/lawsAndPolitics/govLaws/Documents/Decretal%20Federal%20Law%20No.%20%2814%29%20of%202018%20Regarding%20the%20Central%20Bank.pdf).
30. SCA, D. o. (2020, 10 11). [https://www.gulfbondsukuk.org](https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No.-20_R.M-of-2018-Concerning-the-Issuing-and-Offering-of-Islamic-Securities.pdf) . Retrieved from [gulfbondsukuk.org: https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No.-20_R.M-of-2018-Concerning-the-Issuing-and-Offering-of-Islamic-Securities.pdf](https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No.-20_R.M-of-2018-Concerning-the-Issuing-and-Offering-of-Islamic-Securities.pdf).

ENDNOTES

31. Decision, T. A. (2020, 10 11). <https://www.gulfbondsukuk.org>. Retrieved from [gulfbondsukuk.org: https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No-17-of-2014-Concerning-the-Regulation-of-Debt-Securities.pdf](https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No-17-of-2014-Concerning-the-Regulation-of-Debt-Securities.pdf).
32. Decision, T. A. (2020, 11 10). <https://www.gulfbondsukuk.org>. Retrieved from [gulfbondsukuk.org: https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No-16-of-2014-Concerning-the-Regulation-of-Sukuk.pdf](https://www.gulfbondsukuk.org/wp-content/uploads/2020/06/SCA-Decision-No-16-of-2014-Concerning-the-Regulation-of-Sukuk.pdf).
33. Falahi, I. R. (2017). Sukuk Issuance: Legal & Regulatory Challenges in UAE. Abu Dhabi – UAE: Thesis for Master in International Business Law, Paris-Sorbonne Abu Dhabi – UAE.
34. Authority, C. M. (2020, 11 10). <https://cma.org.sa>. Retrieved from [cma.org.sa: https://cma.org.sa/en/RulesRegulations/Regulations/Pages/default.aspx](https://cma.org.sa/en/RulesRegulations/Regulations/Pages/default.aspx).
35. Saudiexchange. (2021, 10 12). www.saudiexchange.sa. Retrieved from [saudiexchange.sa](http://www.saudiexchange.sa).
36. [Saudi Arabia Boosts Sukuk Market with New Regulations](#)
37. MIFC. (2021, 10 14). www.mifc.com. Retrieved from Malaysia International Islamic Finance Marketplace : http://www.mifc.com/index.php?ch=ch_kc_framework&pg=pg_kcfm_regulatory&ac=278.
38. Hasan, Z. (2010). Regulatory Framework of Shariah Governance System in Malaysia, GCC countries and UK. *Kyoto Bulletin of Islamic Area Studies*, 82-115.
39. Luk, A. O. (2019). Banking Regulation in Malaysia: Overview. Thomson Reuters Practical Law, accessed at: <https://uk.practicallaw.thomsonreuters.com/w-008-0538>.
40. Market, M. S. (2020, 11 14). www.bixmalaysia.com. Retrieved from [bixmalaysia.com: https://www.bixmalaysia.com/Learning-Center/Articles-Tutorials/Malaysia-Sukuk-Market-In-A-Glance](https://www.bixmalaysia.com/Learning-Center/Articles-Tutorials/Malaysia-Sukuk-Market-In-A-Glance).
41. D'Cruz, G. Z. (n.d.). The Islamic Finance and Market Review Edition 4., Adnan Sundra & Low.
42. Ahmed, E. R. (2018). Sukuk documentation and legitimacy: the role of shariah supervisory board as a moderator. *Management*, 5(3), 22-40.
43. Co, C. &. (2015). Islamic Finance in Indonesia 2015. <https://www.lexology.com/library/detail.aspx?g=bc813e89-6729-4617-806e-5c8f2ca9db66>.
44. Gonthor R. Aziz, (Senior Advisor Indonesia Capital Market and Financial Institutions Supervisory Agency), Otoritas Jasa Keuangan (Indonesia Financial Services Authority)
45. Syarif, F. (2019). Regulatory Framework for Islamic Financial Institutions: Lesson learned between Malaysia and
46. Indonesia. *Journal of Halal Product and Research* Volume 2 Nomor 2, 79-85.
47. Furqani, H. (2017). Consumption and morality: Principles and behavioral framework in Islamic economics. *Journal of King Abdulaziz University: Islamic Economics*, 89-112.
48. Dewi, M. K. (2013). Socializing Islamic Capital Market Products through Public Education Events: The Case of Indonesia. <https://www.mei.edu/publications/socializing-islamic-capital-market-products-through-public-education-events-case>.
49. [Indonesia: Islamic finance market share 2023 | Statista](#)
[Indonesian Islamic Financial Development Report \(LPKSI\) 2023](#)
50. Bank, W. (2017). Establishing a legal framework for sovereign sukuk issuance: a public debt management perspective. World Bank.
51. Turkey, C. M. (2021, 10 15). www.cmb.gov.tr. Retrieved from [cmb.gov.tr: https://www.cmb.gov.tr/Sayfa/Index/0/0](https://www.cmb.gov.tr/Sayfa/Index/0/0).
52. Sahu, J. (2013). Regulation in Stock Market of Turkey. Available at SSRN 2222404.
53. Erdem, H. E. (2014). Prominence Of Sukuk In Turkey As An Islamic Finance Instrument . <http://www.erdem-erdem.av.tr/publications/law-post/prominence-of-sukuk-in-turkey-as-an-islamic-finance-instrument/>.
54. Kasaroğlu, H. Ö. (2015). Turkey: Islamic Financing: Notion And Key Instruments. <https://www.mondaq.com/turkey/islamic-finance/447606/islamic-financing-notion-and-key-instruments>.
55. Erdem, H. E. (2014). Prominence Of Sukuk In Turkey As An Islamic Finance Instrument . <http://www.erdem-erdem.av.tr/publications/law-post/prominence-of-sukuk-in-turkey-as-an-islamic-finance-instrument/>.
56. Kasaroğlu, H. Ö. (2015). Turkey: Islamic Financing: Notion and Key Instruments. <https://www.mondaq.com/turkey/islamic-finance/447606/islamic-financing-notion-and-key-instruments>.
57. [Global debt is at \\$307 trillion. Why does it matter? | World Economic Forum](#)
58. [Visualizing \\$97 Trillion of Global Debt in 2023](#)
59. US, S. (2015). Investor Bulletin: An Introduction to the U.S. Securities and Exchange Commission – Organisation and Mission. https://www.sec.gov/oiea/investor-alerts-bulletins/ib_mission.html.

ENDNOTES

60. FINRA. (2021, 10 16). www.finra.org. Retrieved from [finra.org](https://www.finra.org/): <https://www.finra.org/>.
61. SEC. (n.d.). What Are Corporate Bonds? https://www.sec.gov/files/ib_corporatebonds.pdf, 1-6.
62. Choudhry, M. (2010). An introduction to bond markets. John Wiley & Sons
63. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
64. Mcaughtry, L. (2017). Digesting Dana Gas: Lessons learned. Islamic Finance News, 15(21).
65. Dana Gas PJSC is a publicly traded natural gas company, based in Sharjah, United Arab Emirates. Incorporated and listed on the Abu Dhabi Securities Exchange in 2005.
66. <https://islamicmarkets.com/publications/dana-gas-sukuk-limited-prospectus>.
67. (Islamic Finance News-23rd May 2018).
68. The end of Dana Gas saga? (2018). Trowers & Hamlis. <https://www.trowers.com/insights/2018/june/the-end-of-dana-gas-saga>.
69. Khan, S. (2019). Dana Gas buys back \$133m of sukuk as part of restructuring agreement. The National. <https://www.thenationalnews.com/business/energy/dana-gas-buys-back-133m-of-sukuk-as-part-of-restructuring-agreement-1.837809>.
70. Institute of Islamic Banking and Finance, International Islamic University of Malaysia-An Evaluation of Dana Gas's Mudaraba Sukuk from Shariah h and Legal Perspectives- Muhammad Salahuddin Hekmatyar*, Ebrahim Parkar*
71. Barbuscia, H. A. S. and D. (2020, April 23). UAE's Dana Gas pledges proceeds of Egypt sale to repay sukuk. Reuters. <https://www.reuters.com/article/dana-sukuk/update-1-uaes-dana-gas-pledges-proceeds-of-egypt-sale-to-repay-sukuk-idUSL5N2CB12T/>.
72. Alvi, I. A. (2018). IIFM's Sukuk Documentation & Market Guidelines Standardization Initiative. International Islamic Financial Market, March.
73. Latham & Watkins. (2014). The Sukuk Handbook: A Guide to Structuring Sukuk. Latham & Watkins LLP, 38.
74. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
75. PIF | PIF Announces Pricing of Inaugural \$3.5 billion International Sukuk Issue | Public Investment Fund
76. PIF | PIF completes pricing of \$2 billion international sukuk offering | Public Investment Fund
77. <file:///C:/Users/Dell/Downloads/international-sukuk-program-offering-circular-2024.pdf>.
78. Egypt prepares its debut in the Islamic Finance Market. The new Sovereign Sukuk Law reviewed - Al Tamimi & Company
79. Egypt's first-ever Sovereign Sukuk attracts Global Investors
80. S&P Global Ratings.
81. S&P Global Ratings.
82. https://www.spglobal.com/_assets/documents/ratings/research/12416011.pdf.
83. <https://quran.com/en/ali-imran/92>
84. Muhammad bin Ismail, al-Bukhari, Sahih al-Bukhari, (Misr: Dar Tauq al-Najah, 1422), 3.199.
85. Ibn Hajar, al-Asqalani, Fath al-Barai Shar Sahih al-Bukhari, (Maktabah Shamilah, 1379), 5.399-401.
86. Al-Tirmidhi, Abu 'Isa Muhammad, Sunan al-Tirmidhi, (Halab: Shirkat Maktabah Mustafa al-Yab, 1975), Vol, 3: Hadith no:1376.
87. (Kholid, Muhamad, Raditya Sukmana, and Kamal Abdul Kareem Hassan. "Waqf through sukuk al-intifa'a: A proposed generic model." Awqaf Journal 17 (2005): 1-16; Hasan, Shabana M. "Contemporary Waqf Development through Sukuk." Global Islamic Economics Magazine 25 (2014): 14-17; Duriat, Fazrihan Bin Mohamed. "Sukuk in Singapore—Case Studies & Challenges Ahead." (2014).).
88. (Kholid, Muhamad, Raditya Sukmana, and Kamal Abdul Kareem Hassan. "Waqf through sukuk al-intifa'a: A proposed generic model." Awqaf Journal 17 (2005): 1-16.
89. (Bank Indonesia, 2020; Fauziah, Najim Nur, Engku Rabiah Adawiah Engku Ali, and Asmaou Mohamed Bacha. "An analysis of cash waqf linked sukuk for socially impactful sustainable projects in Indonesia." Journal of Islamic Finance 10 (2021): 001-010.)
90. (Fauzi, Achmad, and Hendri Tanjung. "Risk Management in Cash Waqf Linked Sukuk Based on the Waqf Core Principle: A Preliminary Study." JES (Journal of Islamic Economics) 2, no. 1 (2021): 1-29.)
91. (Indonesian Waqf Board, 2020; Cahyono, Eko Fajar, and Sutan Emir Hidayat. "Cash waqf and the development: A case study of cash waqf linked sukuk in Indonesia." El Barka: Journal of Islamic Economics and Business 5, no. 1 (2022): 150-182.)

ENDNOTES

92. Fauziah, Najim Nur, Engku Rabiah Adawiah Engku Ali, and Asmaou Mohamed Bacha. "An analysis of cash waqf linked sukuk for socially impactful sustainable projects in Indonesia." *Journal of Islamic Finance* 10 (2021): 001-010.
93. Fauziah, Najim Nur, Engku Rabiah Adawiah Engku Ali, and Asmaou Mohamed Bacha. "An analysis of cash waqf linked sukuk for socially impactful sustainable projects in Indonesia." *Journal of Islamic Finance* 10 (2021): 001-010.
94. Yuliana, Indah, and Rosy Anggraini. "Contract, Scheme, and Underlying Asset Awqaf-based Sukuk: Study Case in Malaysia, Singapore and Indonesia." 2018; Hasan, Shabana M. "Contemporary Waqf Development through Sukuk." *Global Islamic Economics Magazine* 25 (2014): 14-17.)
95. Zain, Syahirah, and Zulkarnain Muhamad Sobri. "Musharaka SRI Sukuk & Development of Waqf Properties/Assets in Malaysia." (2017); Duriat, Fazrihan Bin Mohamed. "Sukuk in Singapore–Case Studies & Challenges Ahead." (2014).
96. Zain, Syahirah, and Zulkarnain Muhamad Sobri. "Musharaka SRI Sukuk & Development of Waqf Properties/Assets in Malaysia." (2017); Duriat, Fazrihan Bin Mohamed. "Sukuk in Singapore–Case Studies & Challenges Ahead." (2014).
97. (Zain, Syahirah, and Zulkarnain Muhamad Sobri. "Musharaka SRI Sukuk & Development of Waqf Properties/Assets in Malaysia." (2017).)
98. (Zain, Syahirah, and Zulkarnain Muhamad Sobri. "Musharaka SRI Sukuk & Development of Waqf Properties/Assets in Malaysia." (2017).)
99. ISRA. (2017). *Sukuk Principles and Practices*. Kuala Lumpur, Malaysia;: International Shariah Research Academy for Islamic Finance.
100. Senior Unsecured Sukuk. (2024). Fincyclopedia. <https://fincyclopedia.net/islamic-finance/s/senior-unsecured-sukuk>.
101. Debashis Dey and Gregory Man, C. C. (2010). Sukuk: A Secured Investment? Eureka Hedge. https://www.eurekahedge.com/NewsAndEvents/News/393/Sukuk_A_Secured_Investment#:~:text=,An unsecured asset-based sukuk,recourse against the assets themselves
102. Group, C. I. (2022). Why senior secured loans are loved by bond investors. UBS Asset Management. <https://www.ubs.com/global/en/assetmanagement/insights/asset-class-perspectives/fixed-income/articles/senior-secured-loans.html#:~:text=,Senior secured loans are not,is great for portfolio construction>.
103. Corporate, I. (2017). Covered Sukuk: A unique option for low-risk issuance. *Islamic Finance News*. <https://www.islamicfinancenews.com/covered-sukuk-a-unique-option-for-low-risk-issuance.html>.
104. [Covered Bonds: Comprehensive Guide for Global Investment Opportunities](#)
105. Manzur, I. (1985). *Lisan al-Arab*. Beirut: Dar Dader: Beirut.
106. Rafiq Jaffer, M. M. (2020). Understanding Islamic Securitisation. Al Tamimi & Co. <https://www.tamimi.com/law-update-articles/understanding-islamic-securitisation/>.
107. <https://www.investopedia.com/terms/a/asset-backedsecurity.asp>
108. Bank, R. (2015). Cash Flow Waterfall Reporting Template for Repo-Eligible Asset-backed Securities. July, 1–17.
109. Tier-1 Sukuk. (2021). Fincyclopedia. <https://fincyclopedia.net/islamic-finance/t/tier-1-sukuk>.
110. [Investing in Tier 2 Capital Bonds: The Strategic Guide for Investors](#)
111. Surendran, S. (2022, April 13). Perpetual bonds: The good and the bad. *The Edge Malaysia*. <https://theedgemalaysia.com/article/perpetual-bonds-good-and-bad>.
112. Latif, Q. (2022). *Islamic Capital Markets* (1st ed.). Motivate Media Group.
113. [Exchangeable Sukuk – Fincyclopedia](#)
114. Finvizier Consultancies. (2024). *Sustainable Sukuk: Global Trends and Market Overview* (Issue July).
115. ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024.
116. ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024; S&P Global Market Intelligence
117. When bonds go bad. (2023). Fidelity. <https://www.fidelity.com/learning-center/investment-products/fixed-income-bonds/when-bonds-go-bad>.
118. [Obligor](#)

ENDNOTES

- 119. David Adams LLB, S. (2006). Banking and Capital Markets. College of Law Publishing.
- 120. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
- 121. David Adams LLB, S. (2006). Banking and Capital Markets. College of Law Publishing
- 122. David Adams LLB, S. (2006). Banking and Capital Markets. College of Law Publishing.
- 123. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
- 124. Issuer
- 125. Islamic Capital Markets: Understanding Sukuk - Islamic Finance - Pakistan
- 126. Deshun, X. (2018, May 10). Major shakeup needed in global credit rating sector. Retrieved from Global Times: <https://www.globaltimes.cn/page/201805/1101737.shtml>.
- 127. Dichev, I. D. (2001, February). The Long-Run Stock Returns Following Bond Ratings Changes. The Journal of Finance, 173-203. Retrieved from The Journal of Finance: <https://doi.org/10.1111/0022-1082.00322>.
- 128. Jorion, P. L. (2005). Informational effects of regulation FD: Evidence from rating agencies. Journal of Financial Economics, 309-330.
- 129. Credit Rating | Scoring System Chart + Credit Agencies
- 130. Bond Issue – Irish Legal Blog
- 131. [Demystifying the Role of the Registrar: A Beginner's Guide - Accountend
- 132. [The Role of Calculation Agents in Capital Markets - Finance Unlocked
- 133. Paying Agent Essentials: Roles, Regulations, and Qualifications
- 134. Transfer Agents | Investor.gov
- 135. David Adams LLB, S. (2006). Banking and Capital Markets. College of Law Publishing.
- 136. Paying Agent Essentials: Roles, Regulations, and Qualifications
- 137. The Process Of Issuing Sukuk. (n.d.). Faster Capital. <https://fastercapital.com/topics/the-process-of-issuing-sukuk.html>.
- 138. What is Book Building: Meaning, How Does It Work - Kotak Securities
- 139. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
- 140. Bond Pricing- Why are bonds priced against mid-swaps? | Wall Street Oasis
- 141. Mid-swap - ACT Wiki
- 142. Demystifying the bond issuance process | The Association of Corporate Treasurers
- 143. Latif, Q. (2022). Islamic Capital Markets (1st ed.). Motivate Media Group.
- 144. AAOFI Exposure Draft of Shariah Standard No. (62), Sukuk, accessible here: [link](#).
- 145. Standard No. (62), p. 3.
- 146. Standard No. (62), p. 53.
- 147. United Arab Emirates: Shariah Standard 62 - Much ado about nothing? - Baker McKenzie InsightPlus
- 148. (Finvizier Consultancies, 2024).
- 149. IIFM Sukuk Report, August 2023

Sukuk: A Complete Handbook on Structuring and Documentation

About the Author

Mohammed Imad Ali has been a key contributor to the Islamic banking and finance industry for nearly two decades, offering a unique blend of in-depth academic knowledge and executive-level practical experience. He has held leadership roles in both Shariah governance and business operations, including heading the Islamic finance division of a global bank.

Throughout his career, Imad has worked across multiple markets—including the USA, UK, Malaysia, Indonesia, the GCC, and Africa—advising and leading initiatives in areas such as Islamic private banking, structured products, derivatives, Sukuk, treasury, and retail banking solutions.

He spent thirteen years at Citi Islamic Investment Bank (CIIB), a wholly owned subsidiary of Citigroup Inc. in Bahrain. At CIIB, he served for nine years as Shariah Control Officer before being appointed CEO and Executive Director, a role he held for four years.

Prior to his time at CIIB, Imad worked with HSBC Amanah in Dubai, and earlier with the Islamic Finance team at Dentons, a prominent international law firm. Academically, he holds a Master's degree in Comparative Law and a Ph.D. in Islamic Banking and Finance from the International Islamic University Malaysia. He is also a qualified lawyer, admitted to the bar in India.

About the Book

[Sukuk: A Complete Handbook on Structuring and Documentation](#) offers a clear, authoritative, and forward-looking exploration of Sukuk—one of the most dynamic instruments in Islamic finance. Blending deep Shariah insights with practical financial expertise, this book demystifies the complexities of Sukuk structuring, issuance, and regulation across global capital markets.

Designed as both a practical manual and a strategic reference, it guides readers through the essential principles and real-world applications of Sukuk, highlighting how these instruments can meet Shariah compliance while addressing modern financial needs. It also tackles key challenges, dispels common misconceptions, and provides actionable solutions to bridge the gap between Islamic jurisprudence and contemporary market demands.

Whether you're a finance professional, regulator, policymaker, academic, or student, this book equips you with the tools and knowledge needed to navigate the Sukuk landscape with confidence. Forward-looking and accessible, this handbook empowers readers with a deep understanding of Islamic financial instruments and highlights their transformative potential in building inclusive, ethical, and resilient capital markets.



sukuklabs