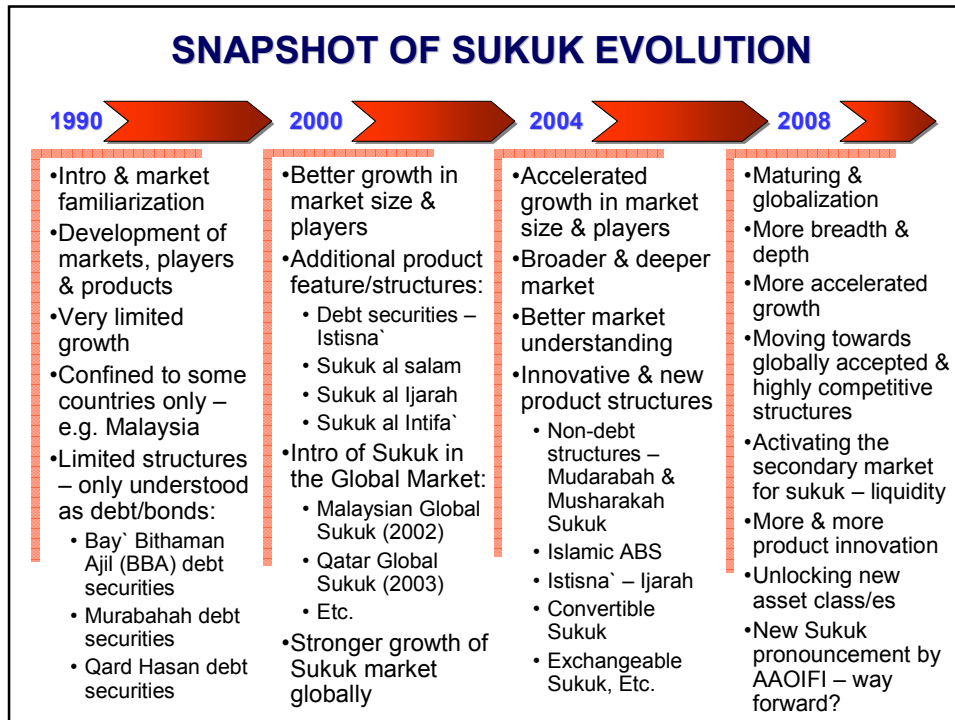


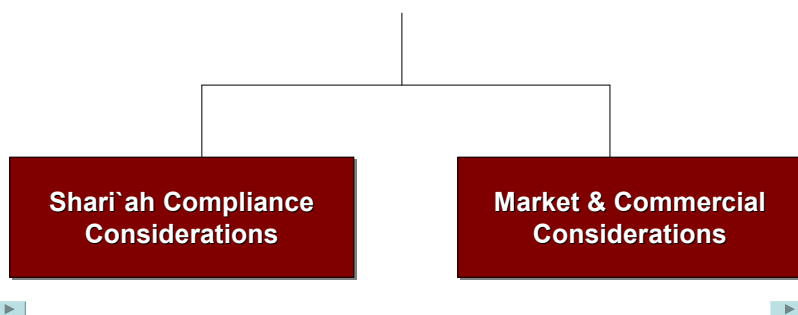
# **SHARI`AH GOVERNANCE & PROCESSES RELATED TO SUKUK & SECURITISATION STRUCTURES & ISSUANCE**

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## SNAPSHOT OF SUKUK EVOLUTION



## SUUK STRUCTURES: THE MAIN DRIVERS



## MARKET & COMMERCIAL CONSIDERATIONS

- **Legal & regulatory framework:**
  - Debt vs equity – sukuk understood as debt / fixed-income instrument?
  - Tax issues, etc.
- **Commercial competitiveness:**
  - Sukuk vis-à-vis conventional bonds
- **Issuer's concerns:**
  - Cost efficiency
  - Timeliness of transaction
  - Understanding & familiarity
- **Investors' protection:**
  - Equity-biased Sukuk?
  - Disclosures?
  - Ability to take collaterals, credit enhancements
- **Investors' appetite:**
  - Market understanding & familiarity
  - Risk / return considerations

## SHARI'AH COMPLIANCE CONSIDERATIONS

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• <b>Monetary Debt Securities:</b><ul style="list-style-type: none"><li>– Creation of debt – bay` al `inah vis-à-vis tawarruq</li><li>– Creation of debt – istisna`</li><li>– Trading of debt securities?</li></ul></li><li>• <b>Non-monetary Debt Securities:</b><ul style="list-style-type: none"><li>– Salam Sukuk &amp; Istisna` Sukuk</li><li>– Trading of the Sukuk?</li></ul></li><li>• <b>Non-debt – Equity-biased / Equity-based Sukuk:</b><ul style="list-style-type: none"><li>– Sukuk al Ijarah</li><li>– Sukuk al Intifa`</li><li>– Sukuk al Mudarabah</li><li>– Sukuk al Musharakah</li><li>– Sukuk al Istithmar, etc.</li></ul></li></ul> | <ul style="list-style-type: none"><li>• <b>Equity-based sukuk with fixed income features?</b><ul style="list-style-type: none"><li>– Top-up promise</li><li>– Capping of profit with incentive payments</li><li>– Non-distribution of expected profit constituting event of default</li><li>– Purchase undertaking at a fixed formula</li></ul></li><li>• <b>AAOIFI recent pronouncement</b></li><li>• <b>The way forward?</b><ul style="list-style-type: none"><li>– More “innovative engineering” to fit the box?</li><li>– Sukuk – “breaking” the fixed-income box – moving from main-stream to “pure-stream”?</li></ul></li></ul> |
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## SUKUK: BREAKING THE FIXED-INCOME BOX?

Sukuk – no longer replicate bonds / fixed income instruments, but become a bona fide instrument with its own unique characteristics

May need different sets of regulation, tax, risk assessment, pricing mechanism and benchmarking framework (LIBOR may no longer be suitable), rating process and credit enhancement, etc. – new framework of issuance?

- Is this the way forward for sukuk? Can Islamic finance afford to dictate on this? Bearing in mind:  
Most sukuk are also subscribed by non Islamic investors, e.g: Dubai Ports sukuk : almost half was taken up by non-Islamic investors, 11% went to European investors (source: The Wall Street Journal Asia).  
Some sukuk are even issued out of “non Islamic countries”, e.g: the Euro100 million Saxony-Anhalt Sukuk (Germany); the USD\$166 million East Cameron Partner’s Sukuk (US)

Thank You  
&  
Wassalam