

Global Sukuk Fund

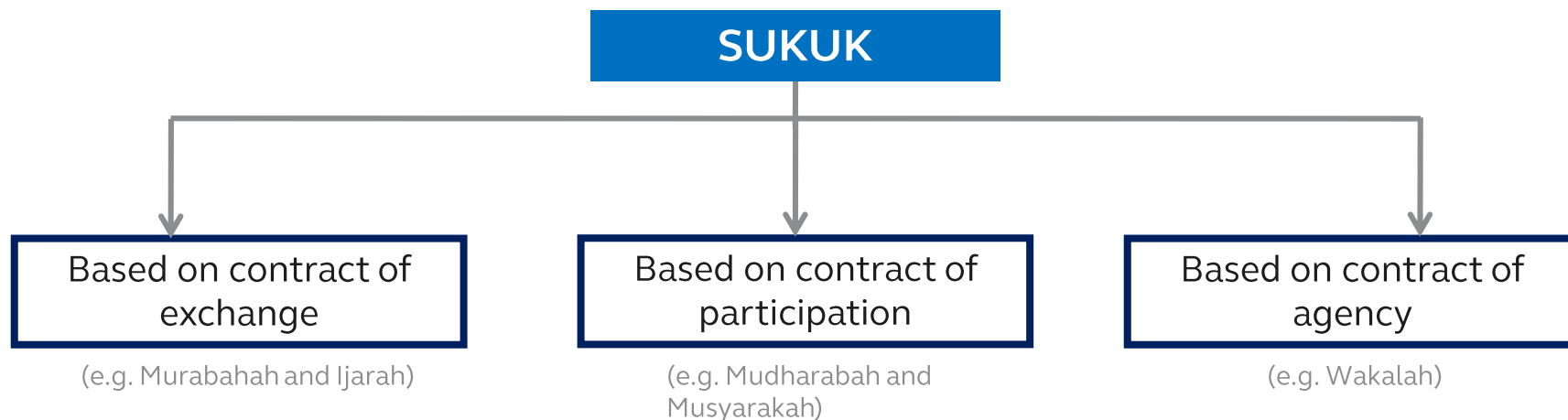
May 2019

What Is Sukuk?



Sukuk vs Conventional Bonds

- Sukuk (Arabic: صكوك, plural of صك Sak, "legal instrument, deed") refers to certificates which evidence indebtedness, or ownership or investment in underlying assets structured using the Shariah principles approved by the Shariah Adviser.
- This differs from Conventional Bonds, which is based on the exchange of paper for money (or debt owing) with interest imposed to measure returns and liabilities.
- Based on the Shariah or Islamic laws, Sukuk can be structured in a number of ways to offer the issuing entity greater financial flexibility and options to meet its funding requirements.



Sukuk vs Conventional Bonds

Parameter	Sukuk	Conventional Bonds
Contract between holders and issuers	Based on lease (ijarah) or a defined business e.g. partnership (musyarakah)	Purely earning money on money
Nature and use of the underlying assets	The underlying assets, business or project must be Islamic permissible in both nature and use	Bonds can be issued to finance almost any purpose (not necessarily assets) that is legal in its jurisdiction
Returns	Return to investors come from the profit/rental elements in the sale (murabaha), lease (ijarah) or partnership (musyarakah / mudharabah) contracts	Return to investors is the extra amount charged on the loan amount (interest charges)
Ownership	Holders own assets as well as the right on the cash flow	Holders owns cash flow only from the pure debt
Shariah compliance	Proceeds are strictly for Shariah-compliant purposes/activities only	Proceeds are invested in any businesses
Sale operation	Sale of a share of assets, business activity or project	Sale of a debt

Shariah Non-compliant Business Activities

- Financial services based on **riba' (interest)**;
- **Gambling** and gaming;
- Manufacture or sale of **non-halal products** or related products such as pork-based products, non-slaughtered meat products, alcohol-based products;
- Conventional **insurance**;
- **Entertainment activities** that are non-permissible according to Shariah;
- Manufacture and sale of **tobacco-based** products or related products;
- Stockbroking or share trading in **Shariah non-compliant securities**; and
- Other activities deemed non-permissible according to Shariah.

General Structuring Parameters for Sukuk

Underlying Assets

- The underlying asset and its use must comply with the requirements of Shariah.
- An encumbered asset, such as an asset charged to a financial institution or an asset that is co-owned with another party can only be used as underlying asset provided the issuer has obtained consent from the chargee or co-owner.
- Government Awards are acceptable underlying assets as well as contracts awarded by the Federal Government, State Governments, statutory bodies and Government-linked Companies.

Utilisation

- Utilisation of Sukuk proceeds has to be strictly for Shariah-compliant purposes.
- Utilisation for non-permissible activities are strictly prohibited.
- Utilisation can be used to re-finance existing debts both conventional or Islamic.

Permitted Investments/Designated Accounts

- These must strictly be in Shariah-compliant investments/ placements

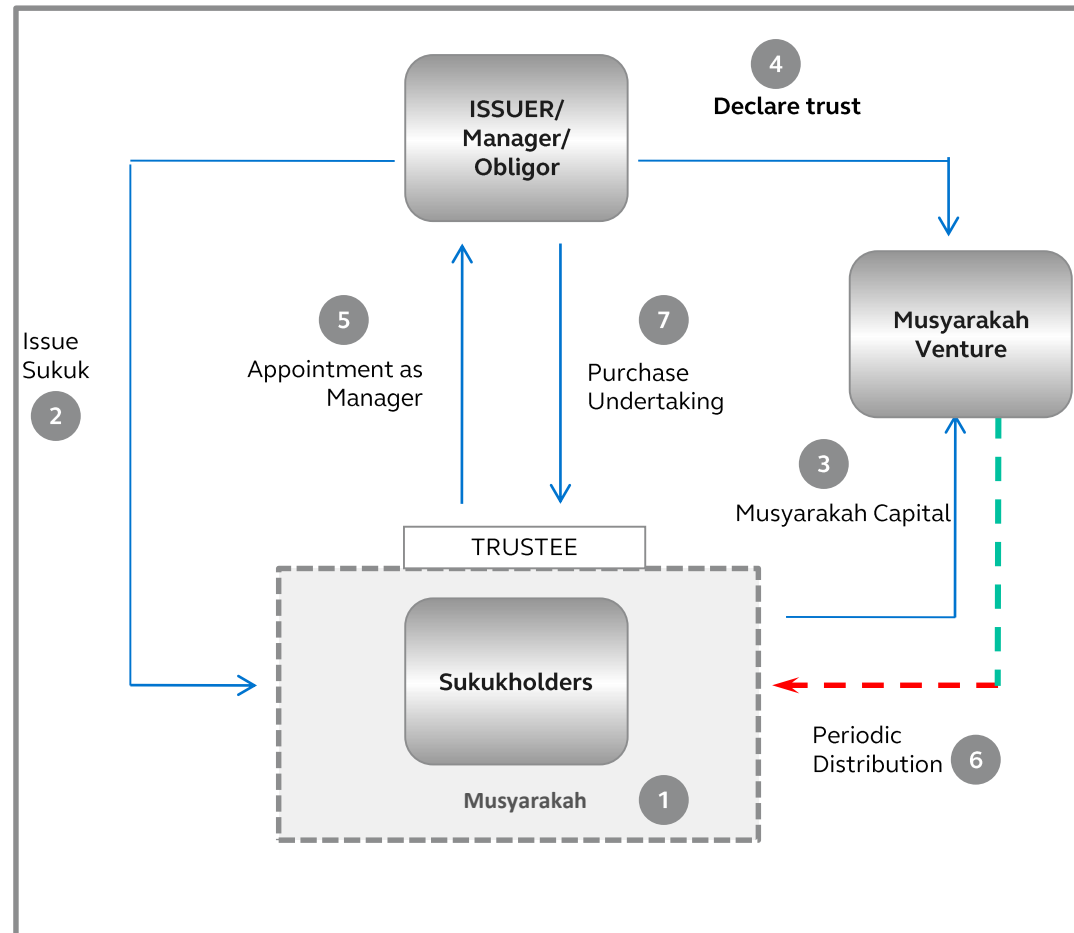
Shariah Screening

- Islamic Finance characteristics
 - Strong emphasis on aligning finance with social good
 - Seek to increase the contribution of the finance sector to the real economy
 - Pursue a more resilient financial system void of unsustainable system risk
- Parameters of Shariah screening include the following:-

Negative Screening	Positive Screening
Economic activities involving uncertainty or ambiguities (gharar) as they entail deception & injustice	Moderation, balance & harmony in life e.g. fair competition, justice, transparency in dealings, safeguarding of individual rights & obligations
Dealings in unfair practices e.g. monopolies, price fixing, money laundering, bribery	Environmental sustainability which is concerned with waste & excessive exploitation of non-renewable resources & promotes the maintenance of ecological balance
Manufacturing, supply or service of Shariah non-permissible goods & services e.g. alcohol, tobacco, drugs, gambling, etc	Payment of compulsory alms (zakah) & voluntary charity which helps in the development of a social conscience through sharing of one's resources with the under-privileged
Activities that would cause environmental damage or imbalance	Profit & loss sharing between investor, the financial intermediary & the entrepreneur through financial contracts like mudharabah (passive partnership) and musharakah (partnership)

Sukuk Musyarakah

Illustrative Diagram

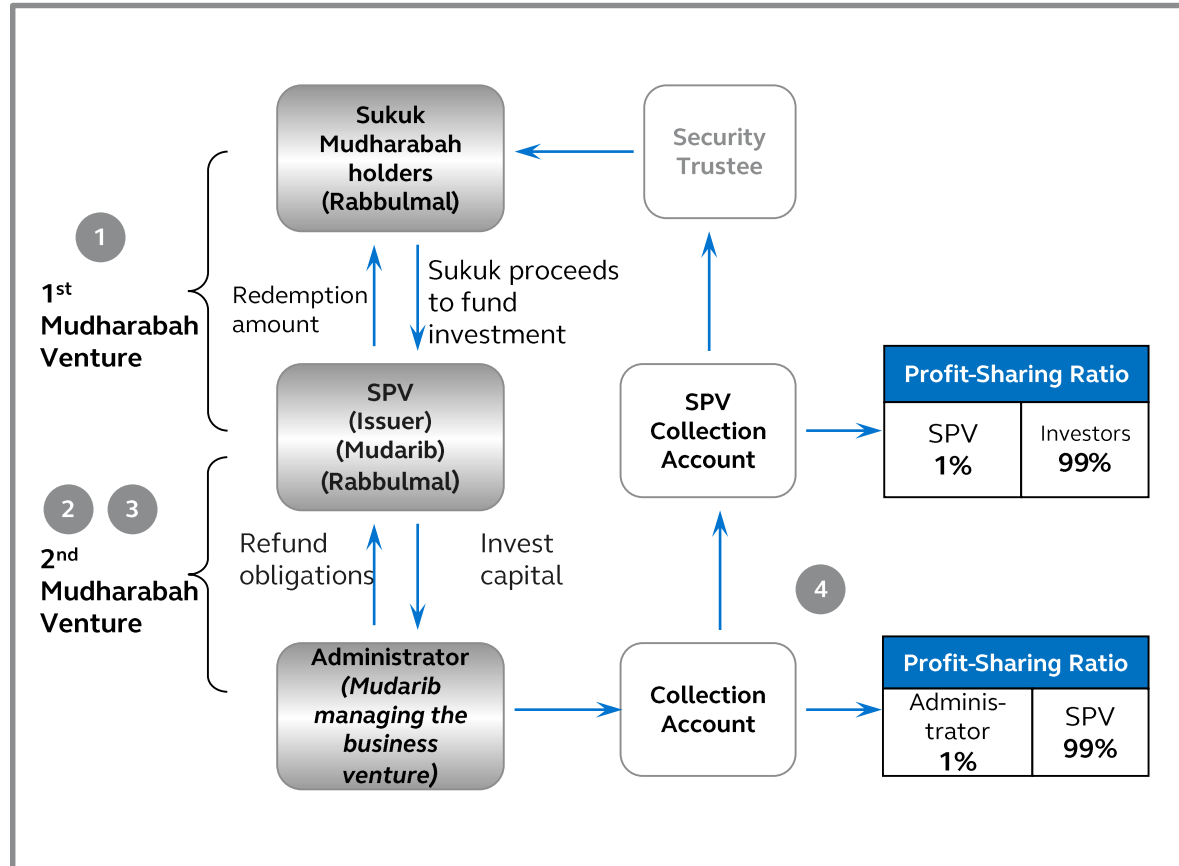


MUSYARAKAH CONTRACT

- A partnership contract in which all partners contribute capital and share the profit and loss of the venture.
- In this transaction, the Musyarakah venture refers to the business activities carried out by the partners
- Profit sharing ratio may be based on agreement between partners, while losses are also shared proportionately according to their capital contribution
- Asset may/may not be required

Sukuk Mudharabah

Illustrative Diagram

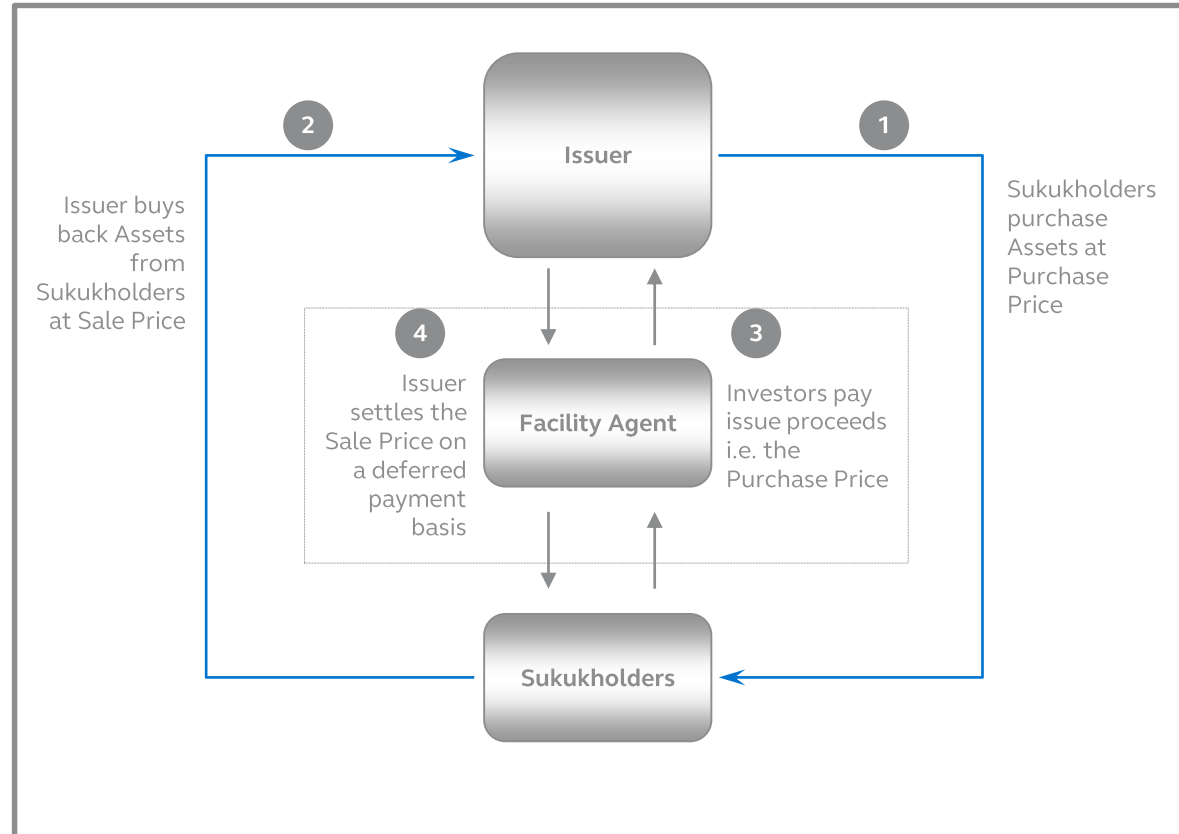


MUDHARABAH CONTRACT

- An investment partnership between 2 parties – investor and entrepreneur
- The investor (the *rab al maal*) provides capital to the entrepreneur (the *mudarib*)
- To undertake a business venture or investment activity. While profits are shared on a pre-agreed ratio, losses are borne solely by the investor
- May /may not require asset

Sukuk Murabahah

Illustrative Diagram

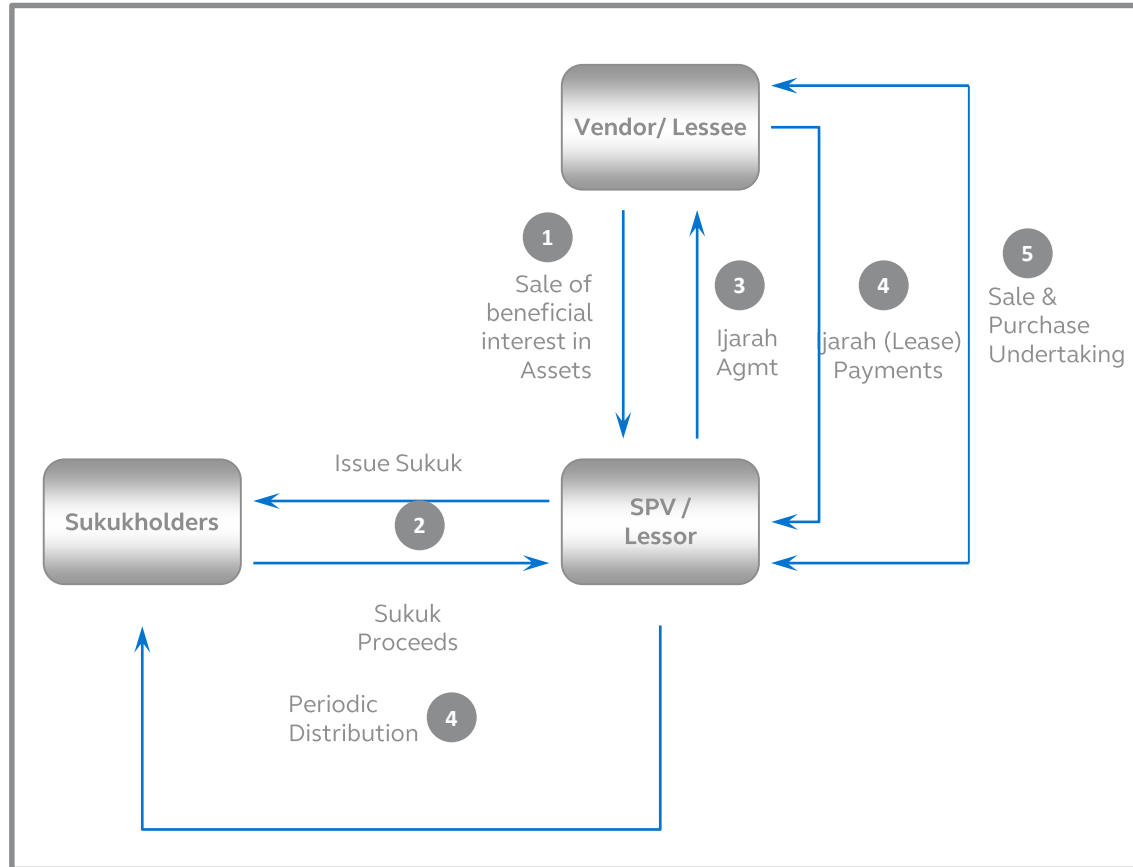


MURABAHAH CONTRACT

- Involved sale and purchase of an identified underlying Asset
- A mark-up sale where the cost and profit-margin is disclosed to the buyer
- An underlying Asset is required

Sukuk Ijarah

Illustrative Diagram



IJARAH CONTRACT

- The Owner of the Asset first sells the Asset to an SPV prior to the lease transaction.
- A leasing contract herein involves the lease of the Asset by SPV/Lessor to the lessee
- To allow the lessee to enjoy the usufructs of the Assets, lessee shall pay the agreed rental for an agreed lease period
- Upon expiry of the ijarah, the Asset will return to the Owner via the Purchase Undertaking/Sale Undertaking