

# I- What are Sukuks

1- Sukuk are not “Islamic bonds”

2- We may define Sukuk as:

“Tradable, rated certificates offering predictable return at relatively lower risk”.

## A proposed Sukuk structure for IILM

- IILM can issue Sukuk to make available to Islamic banks an instrument for managing liquidity.
- I believe the following structure will serve this purpose:
  - 1) Sukuk Al-Mudarabah can be issued for a total of say \$100.
  - 2) This \$100 should be divided into 2 parts:
    - a) \$51, is used in a Mudarabah contract whereby IILM deploy the funds in various investments principally Sukuk.
    - b) \$49 is used in Murabaha contract where IILM purchases from Sukuk holders SPV commodities for a term of 5 years at a profit of 13% per annum.

## **II- Shari'ah basic requirements for Sukuk**

1- Sukuk must represent Sukuk holders ownership of an asset that is eligible for sale from Shari'ah point of view.

- a) This asset can be purchased from the issuer such as real estate or equipment.
- b) It can be created by using the Sukuk proceeds in the form of Mudarabah or Musharakah

2- A true sale contract must be perfected not only from substance point of view but also formally.

- a) An SPV representing the Sukuk holders must be bankruptcy remote.
- b) Assets must be removed from the balance sheet of the issuer.

- 3- Sukuk must not be initially or at any time there after:  
money for money!
- a) The basic difference between conventional bonds and the Islamic Sukuk is the fact that the former is a debt obligation or underlying receivables or mortgage obligations. This is not allowed in Islamic Shari'ah.
- 4- Tradability of the Sukuk is permissible only if the underlying asset is eligible for sale from Shari'ah point of view.
- a) For an asset to be eligible for tradability it must be (of course halal) and neither gold or silver and not money in the form of cash or debt.

### III- Basic Financial requirements for Sukuk

1- Sukuk must be fixed income instrument.

- a) It could be indexed therefore the more accurate description is that it has predictable income.

2- Sukuk must be rated (same as issuer?).

- a) Because investors have no ability to do a costly monitoring a rating by professional rating agency is helpful.
- b) The problem is that rating agencies only rate debt obligation because their concern is ability of the issuer to pay its obligation.

3- Sukuk must have a periodical coupon payments.

- a) This is the language of “bonds” for Sukuk it is simply the income generated by the underlying assets being distributed

4- Sukuk must “payback” principal.

- a) No aspect of Sukuk has created more problems because to receive back principal you must be protected from commercial and market risks. This can only be done via an undertaking to purchase.

## **IV- Sukuk Al-Ijarah**

1- More than 80% of Sukuk were Sukuk-Ijarah.

a) Ijarah lends itself very nicely to both Shari'ah and financial requirements.

2- With certain structuring maneuvers Sukuk Ijarah meets both Shari'ah and financial requirements.

3- The use remain limited and Shari'ah requirements are not.

Salient