

Islamic Capital Market Overview & Role of *Sukuk*

Islamic Finance – A Paradigm Shift In Africa

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- 3) Islamic Capital Market Products vs Conventional Products
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Introduction to IIFM

- **What is IIFM?**

The International Islamic Financial Market's organization (IIFM) is the global standardization body for the Islamic Capital & Money Market (ICMM) segment of the Islamic Financial Services Industry (IFSI). Its primary focus lies in the standardization of Islamic financial products, documentation and related processes.

IIFM was founded with the collective efforts of the Central Bank of Bahrain, Bank Indonesia, Central Bank of Sudan, Labuan Financial Services Authority (Malaysia), Ministry of Finance (Brunei Darussalam) and the Islamic Development Bank (a multilateral institution based in Saudi Arabia).

Besides the founding members, IIFM is also supported by its permanent member State Bank of Pakistan and by a number of regional and international financial institutions as well as other market participants as its members.

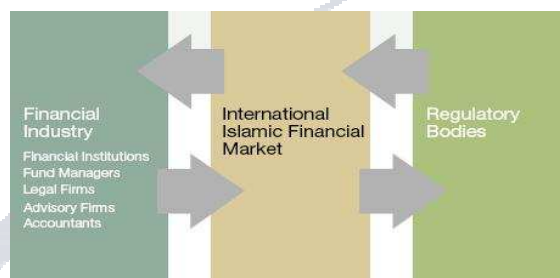
The main strength of IIFM is pooling of expertise from banks, legal and other market participants who work together under the guidance of *Shariah* scholars



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Introduction to IIFM

- **What IIFM provides to the industry?**



- ❑ Addressing the standardization needs of the industry & creating awareness
- ❑ Universal platform to market participants through 'Global Working Groups' for the development of the Islamic Capital and Money Market (ICMM)
- ❑ *Shariah* harmonization in documentation, products and processes



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Introduction to IIFM

- **Documentation & Product Standardization – Why Standardize?**

- Reduces cost of evaluation and negotiation of documentation
- Provides balance and fairness
- Increases efficiency, liquidity and certainty
- Benchmark to provide a reference point

Example: Use of IIFM MATP documentation in SWIFT Message Standardization

- Reduces the price divergence between Islamic transactions and conventional transactions



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Introduction to IIFM

- **What is the Value Addition of IIFM's Global Standardization Initiatives?**

- Standardized documentation and products bring the operations of Islamic entities at par with larger conventional peer banks
- Standardized documentation and products not only assist cross border transactions but also play a key role in the development of local market
- Involvement in IIFM's project specific global working groups provide access to key developments at international level, hence, contributing to the implementation of best practices in institutions both domestically and internationally

IIFM initiatives are very selective and based on recommendations by the Industry and practical solutions are developed in consultation with the industry



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Introduction to IIFM

- What is the Approach to IIFM's Documentation & Products Standardization?

- *Standardization of existing practices*

- Review of market practices
- Development with Industry consultation
- *Shariah* guidance & approval
- Legal environment & law reform
- Enforceability

- *Standardization through innovation*

- Market requirement & research
- Consultation by industry experts & development
- *Shariah* guidance
- applicability/practicality
- legal environment & law reform



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Introduction to IIFM

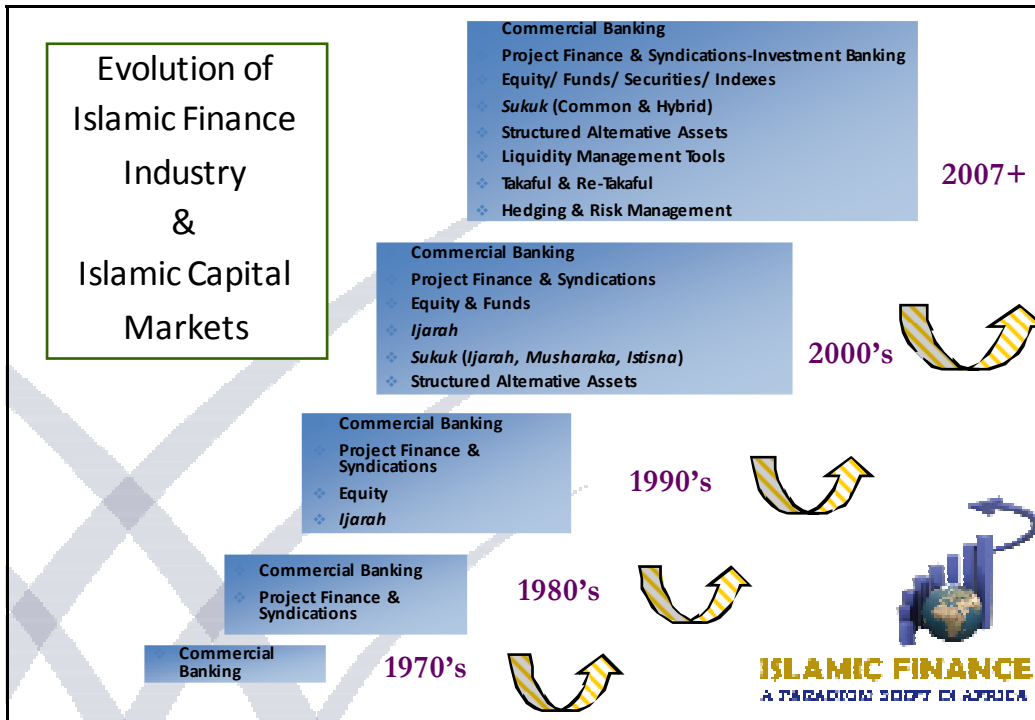
- What are IIFM's Global Standardization Initiatives & Deliverables?

- ✓ Master Agreements for Treasury Placement (MATP)
- ✓ *Tahawwut* (Hedging) Master Agreement
- Islamic Hedging Products & Templates Standardization – in progress
- Master *Wakala* Agreement – in progress
- Alternative to Repo and Collateralization Prospects – in progress
- 'Asset Backed' *Sukuk* Standardization – conceptual stage

Other initiatives as recommended by industry and reviews of completed initiatives



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Islamic Capital Market Products vs Conventional Products

Conventional Instrument	Characteristics	Shariah Compliant & Halalness
Equity	equity holder are the owners of the firm and responsible for conducting its affairs	Accepted
Preferred Stock	A hybrid security that combines features of debt and equity	-
Primes and Secures	Equity is split into a prime component that has dividend and capital gains up to a stated price and a secure component that has capital gain above this	-
Warrants	A long term call option on a firm's stock issued by the firm	-
Securities	Securities that allow combinations of assets to be obtained with low transaction costs	-
Acceptances	A writer promises to pay a given sum at a pre-specified date	Developed, but not negotiable
Commercial Paper	A short-term debt security that can be easily traded	Developed, but not negotiable
Bonds	A term obligation to make a series of fixed payments.	Accepted
Floating-Rate Bonds	The interest rate on the debt is based on LIBOR or the T-bill rate	Accepted

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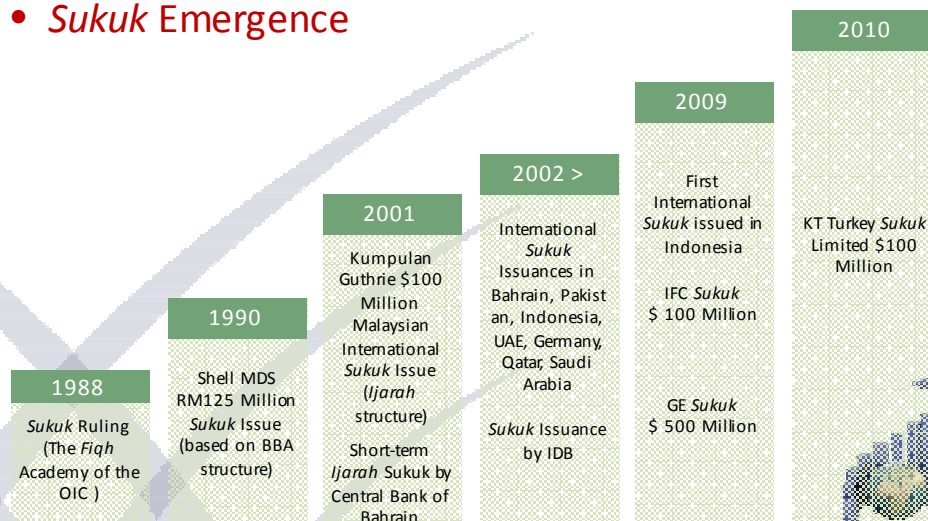
Islamic Capital Market Products vs Conventional Products

Conventional Instrument	Characteristics	Shariah Compliance Alternatives
Securitized loans	Pools of mortgages or other types of loans that are publicly traded	Asset-based
Index-linked securities	Bonds where the payment is linked to an inflation index or a commodity price	Emerging
Convertibles	A bond that can be swapped for equity at a pre-specified rate or vice versa	Developed
Swaps	Transactions in which different streams of income are exchanged	Emerging
Options	The right to buy or sell a security on or before a specified date	Limited Acceptability
Commodity futures	Contracts for the future delivery of a commodity	Under development
Financial futures	Contracts for the future delivery of currencies, securities, or an amount of money based on an index	
Exchangeable	Exchangeable Sukuk to equity-linked instruments	Emerging

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Overview & Trends in the Global *Sukuk* Market

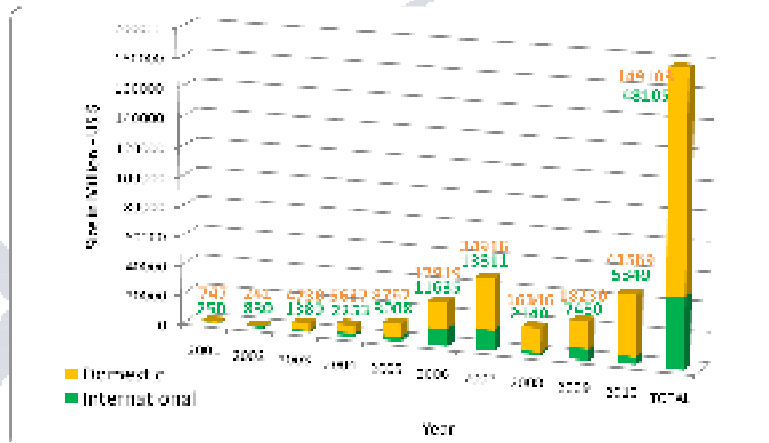
- Sukuk* Emergence**



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Overview & Trends in the Global *Sukuk* Market

- **Total Global *Sukuk* Issuance**
Sovereign, Quasi Sovereign & Corporate Issue (All currencies), Period 1st Jan 2001 – 31st Dec 2010



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Overview & Trends in the Global *Sukuk* Market

- **Country-wise Breakdown of Total Global *Sukuk* Issuance by Volume**
Sovereign, Quasi Sovereign & Corporate Issue (All currencies), Period 1st Jan 2001 – 31st Dec 2010

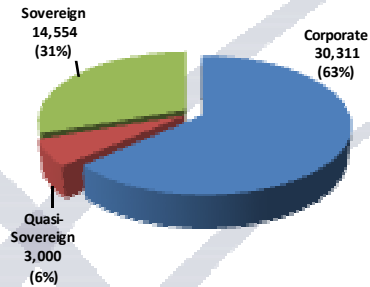
Country	Number of Issues	Volume (US \$ Million)	% of Total Value
Malaysia	1592	115393.76	58.51%
UAE	41	32201	16.33%
Saudi Arabia	22	15351.88	7.78%
Sudan	22	13057.713	6.62%
Bahrain	125	6291.69	3.19%
Indonesia	70	4658.5	2.36%
Pakistan	35	3447.207	1.75%
Qatar	6	2500.79	1.27%
Kuwait	9	1575	0.80%
Brunei Darussalam	21	1175.91	0.60%
USA	3	767	0.39%
UK	2	271	0.14%
Singapore	5	191.96	0.10%
Germany	1	123	0.06%
Turkey	1	100	0.05%
Japan	1	100	0.05%
Gambia	7	2.086	0.00%
Grand Total	1963	197208.496	100.00%

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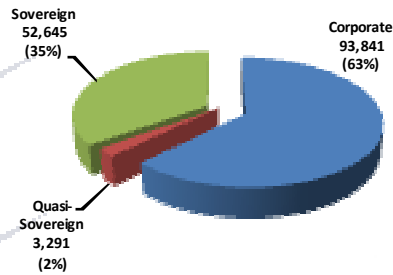
Overview & Trends in the Global *Sukuk* Market

- Breakdown of Total Global *Sukuk* Issuance by Issuer Status
Sovereign, Quasi Sovereign & Corporate Issues (All currencies) by Volume (Period 1st Jan 2001 – 31st Dec 2010)

International *Sukuk*



Domestic *Sukuk*

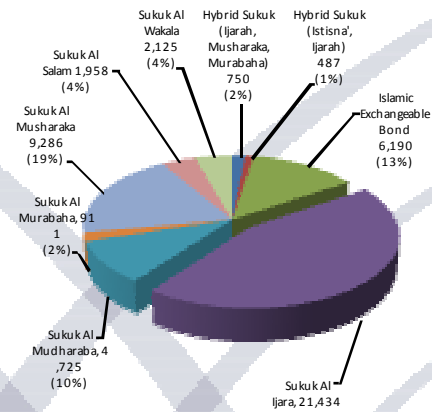


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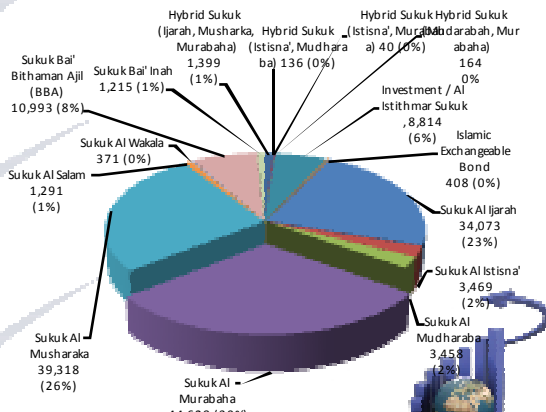
Overview & Trends in the Global *Sukuk* Market

- Structural Breakdown of Total Global *Sukuk* Issuance by Volume
Sovereign, Quasi Sovereign & Corporate Issue (All currencies), Period 1st Jan 2001 – 31st Dec 2010

International *Sukuk*



Domestic *Sukuk*



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Overview & Trends in the Global *Sukuk* Market

• Structure Developments

International Corporate *Sukuk* Issues

- 2001 – 2005
 - ❑ *Ijarah* (Dominant structure)
- 2005 – Q2 2008
 - ❑ *Musharaka*, *Mudaraba*, Exchangeable, Convertible
- Q2 2008 – Dec 2010
 - ❑ *Ijarah*, *Murabaha* and *Wakala*



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Overview & Trends in the Global *Sukuk* Market

• Structure Developments – Lessons from Corporate Issuance

Sukuk Defaults and Restructuring

- Investment Dar (Kuwait)
- East Cameron (US)
- Golden Belt (Saudi Arabia)
- Tabreed (UAE) \$463 Million
- IIG (Kuwait)



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Overview & Trends in the Global *Sukuk* Market

- **Structure Developments – Lessons from Corporate Issuance**

Asset Based vs Asset Backed

- Are *Sukuk* holders investment pari passu with other secured or unsecured creditors?
- Do *Sukuk* holders have title transfer?
- In case of Real Estate, is property freehold?



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Overview & Trends in the Global *Sukuk* Market

- ***Sukuk* Trends – Impact Due To Downturn**

International *Sukuk* Issuance

- ❑ 2007 - \$ 13.8 billion
- ❑ 2008 - \$ 2.15 billion
- ❑ 2009 - \$ 7.5 billion
- ❑ 2010 - \$ 5.35 billion



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Overview & Trends in the Global *Sukuk* Market

- ***Sukuk* Trends – Shariah Impact**

Example GCC

- Gulf Holding Company *Sukuk*, \$190 million (*Musharaka* Structure)
 - ❑ Adjustment due to AAOIFI *Shariah* Ruling
 - Purchase undertaking does not specify purchase price and linking of redemption and periodic profit payments to the projects profitability
 - Use of Standby Letter of Credit as a 'Security Package'



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Overview & Trends in the Global *Sukuk* Market

- **Developments in *Sukuk* Market**

- **Call back of a portion of *Sukuk***
 - ❑ Dubai Islamic Bank \$200million - Cash tender offer @ 88% of face value
- ***Sukuk* Issuance based on Reverse Enquiry**
 - ❑ Monetary Authority of Singapore
- **Domestic Retail *Sukuk* Issuance**
 - ❑ Indonesia
- **Islamic Government Investment Securities Issuances**
 - ❑ State Bank of Pakistan
- **Investment *Sukuk* Issuance**
 - ❑ Islamic Development Bank
- **Fixed Rate of Profit Issuances**
 - ❑ Bahrain, Indonesia and IFC *Sukuk*



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