
Advanced Certificate in Sukuk Market Development

Introduction to Sukuk Market

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Sukuk, often referred to as Islamic bonds, are financial certificates that comply with Islamic law (Shariah) principles. The Sukuk market has gained significant traction in recent years as a viable alternative to conventional bonds for investors seeking Shariah-compliant investment options. This glossary will provide a comprehensive overview of key terms related to the Sukuk market, including specific terms, concepts, and acronyms commonly used in the field.

A

Asset-Backed Sukuk

Asset-backed Sukuk are structured based on the ownership of specific assets, such as real estate, infrastructure projects, or commodities. The cash flows generated from these assets are used to pay returns to Sukuk holders, making them a popular choice for investors seeking tangible assets as collateral.

B

Bai' Bithaman Ajil (BBA)

Bai' Bithaman Ajil is a form of Islamic financing that involves a deferred payment sale. In the context of Sukuk, BBA can be used as a structure for Sukuk issuance where the underlying asset is sold at a deferred price. The deferred payment structure allows for the payment of returns to Sukuk holders over time.

C

Commodity Murabaha Sukuk

Commodity Murabaha Sukuk are issued based on the commodity Murabaha structure, which involves buying and selling commodities at a markup price. The proceeds from the commodity sale are used to generate returns for Sukuk holders. This structure is commonly used in Sukuk issuance to provide a Shariah-compliant alternative to conventional bonds.

D

Demand for Sukuk

The demand for Sukuk has been growing steadily in recent years, driven by increasing interest from both Islamic and conventional investors. The appeal of Sukuk lies in their compliance with Shariah principles and the diverse range of sectors they can be used to finance, such as infrastructure, energy, and real estate projects.

E

Equity-Based Sukuk

Equity-based Sukuk are structured based on ownership stakes in businesses or projects. Unlike debt-based Sukuk, equity-based Sukuk provide Sukuk holders with ownership rights in the underlying assets, allowing them to participate in the profits and losses of the investment.

F

Fatwa

A Fatwa is a legal opinion or ruling issued by a qualified Islamic scholar on matters related to Islamic law. In the context of Sukuk, Fatwas play a crucial role in ensuring that Sukuk structures comply with Shariah principles and are deemed permissible for investment by Islamic investors.

G

Growth of the Sukuk Market

The Sukuk market has experienced significant growth in recent years, with increasing issuance volumes and a broader range of issuers tapping into the market. This growth can be attributed to the rising demand for Shariah-compliant investment products and the expanding investor base seeking exposure to Sukuk.

H

Hukm Shar'i

Hukm Shar'i refers to the legal ruling under Islamic law (Shariah) regarding the permissibility or impermissibility of certain actions. In the context of Sukuk, Hukm Shar'i guides the structuring and issuance of Sukuk to ensure compliance with Shariah principles.

I

Ijarah Sukuk

Ijarah Sukuk are structured based on the Ijarah (lease) contract, where the issuer leases an asset to the Sukuk holders in exchange for periodic rental payments. The rental income generated from the leased asset is used to pay returns to Sukuk holders, making Ijarah Sukuk a popular choice for financing real estate and infrastructure projects.

J

Jurisdictional Challenges

One of the challenges facing the Sukuk market is jurisdictional differences in the interpretation and application of Shariah principles. Issuers and investors operating in multiple jurisdictions must navigate these challenges to ensure that Sukuk structures comply with the diverse regulatory frameworks governing Islamic finance.

K

Kafalah Sukuk

Kafalah Sukuk are structured based on the concept of Kafalah (guarantee), where a guarantor agrees to provide a guarantee for the repayment of the Sukuk principal and returns in the event of default by the

issuer. Kafalah Sukuk enhance the credit quality of Sukuk issuance by providing additional security for investors.

L

Liquidity in the Sukuk Market

Liquidity is a key consideration for investors in the Sukuk market, as it impacts the ease of buying and selling Sukuk in the secondary market. Enhancing liquidity in the Sukuk market requires the development of robust trading platforms and market infrastructure to facilitate efficient trading of Sukuk securities.

M

Murabaha Sukuk

Murabaha Sukuk are structured based on the Murabaha (cost-plus financing) contract, where the issuer purchases goods at a cost and sells them to the Sukuk holders at a markup price. The profit generated from the sale of goods is used to pay returns to Sukuk holders, making Murabaha Sukuk a common structure for Sukuk issuance.

N

Non-Performing Sukuk

Non-performing Sukuk refer to Sukuk securities that have defaulted on their payment obligations or are at risk of default. Non-performing Sukuk can pose challenges for investors seeking to recover their investments and highlight the importance of conducting thorough due diligence on Sukuk issuers and structures.

O

Operational Risks in Sukuk Issuance

Operational risks in Sukuk issuance encompass a range of risks related to the process of structuring, marketing, and distributing Sukuk securities. These risks include legal and regulatory compliance, documentation errors, and operational failures that can impact the successful issuance and trading of Sukuk in the market.

P

Profit-Sharing Sukuk

Profit-sharing Sukuk are structured based on the concept of Mudarabah (profit-sharing partnership), where the issuer and Sukuk holders enter into a partnership to share profits generated from the underlying investment. Profit-sharing Sukuk provide Sukuk holders with a stake in the profits of the investment, aligning their interests with the issuer.

Q

Qualification of Shariah Scholars

The qualification of Shariah scholars is a critical factor in the issuance of Sukuk, as their expertise and

knowledge of Islamic law (Shariah) principles guide the structuring and approval of Sukuk structures. Shariah scholars must possess the necessary qualifications and experience to issue Fatwas and provide guidance on the permissibility of Sukuk issuance.

R

Risk Management in Sukuk Investment

Risk management is an essential aspect of Sukuk investment, as investors must assess and mitigate various risks associated with Sukuk securities. These risks include credit risk, market risk, liquidity risk, and operational risk, which can impact the performance and value of Sukuk investments in the market.

S

Shariah Compliance in Sukuk Structures

Shariah compliance is a fundamental requirement for Sukuk structures, as they must adhere to Islamic law (Shariah) principles to be considered permissible for investment by Islamic investors. Ensuring Shariah compliance involves working with Shariah scholars to review and approve Sukuk structures based on the guidance of Islamic jurisprudence.

T

Takaful Sukuk

Takaful Sukuk are structured based on the Takaful (Islamic insurance) principles, where the proceeds from Sukuk issuance are used to fund Takaful operations and provide insurance coverage to policyholders. Takaful Sukuk offer investors exposure to the growing Islamic insurance market and provide a Shariah-compliant alternative to conventional insurance products.

U

Underlying Assets in Sukuk Issuance

The selection of underlying assets is a crucial consideration in Sukuk issuance, as they determine the cash flows and returns generated for Sukuk holders. Common underlying assets for Sukuk issuance include real estate, infrastructure projects, commodities, and lease agreements, which provide collateral and revenue streams to support Sukuk payments.

V

Valuation of Sukuk Securities

The valuation of Sukuk securities is essential for investors to assess the fair value and risk-return profile of Sukuk investments. Valuation methods for Sukuk securities may vary based on the underlying assets, cash flows, and market conditions, requiring investors to conduct thorough due diligence and analysis to make informed investment decisions.

W

Wakalah Sukuk

Wakalah Sukuk are structured based on the concept of Wakalah (agency), where the issuer appoints a Wakil (agent) to manage the Sukuk proceeds and investments on behalf of Sukuk holders. The Wakil acts as a fiduciary for Sukuk holders, ensuring that the Sukuk proceeds are invested in accordance with Shariah principles and the terms of the Sukuk issuance.

X

X-Asset Sukuk

X-Asset Sukuk are structured based on a combination of different asset classes, such as real estate, infrastructure, and commodities, to diversify the revenue streams and risk profile of Sukuk investments. X-Asset Sukuk offer investors exposure to multiple sectors and assets, providing a balanced portfolio of Sukuk securities.

Y

Yield Curve in the Sukuk Market

The yield curve in the Sukuk market represents the relationship between Sukuk yields and maturities, reflecting the risk-return profile of Sukuk securities across different tenors. Understanding the yield curve is essential for investors to assess the pricing and performance of Sukuk securities and make informed investment decisions based on market conditions.

Z

Zakat Treatment of Sukuk Returns

Zakat is an obligatory charitable contribution for Muslims based on their wealth and assets. The treatment of Zakat on Sukuk returns depends on the Shariah compliance of the Sukuk structure and the nature of the underlying assets. Sukuk holders must calculate and pay Zakat on their Sukuk returns in accordance with Islamic principles and guidelines.