

Introduction to Sukuk Structures

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Sukuk, commonly known as Islamic bonds, are financial instruments that comply with Islamic law (Shariah) principles. Sukuk structures are essential components of the Islamic finance industry, enabling investors to participate in Shariah-compliant investment opportunities. This glossary will provide a comprehensive overview of key terms related to Sukuk structures in the context of the Professional Certificate in Sukuk (Islamic Bonds) and Securitization course.

A

1. Asset-Backed Sukuk:

- Related Terms: Sukuk, Asset-Backed Securities
- Explanation: Asset-backed Sukuk are Islamic bonds backed by specific assets, such as real estate, infrastructure projects, or commodities. Investors receive periodic payments based on the income generated by the underlying assets.

2. Asset-Based Sukuk:

- Related Terms: Sukuk, Asset-Based Financing
- Explanation: Asset-based Sukuk are structured based on the ownership of tangible assets, such as equipment, inventory, or machinery. The returns to investors are derived from the profits generated by the assets.

B

1. Bai' Bithaman Ajil (BBA):

- Related Terms: Islamic Finance, Sale and Purchase Agreement
- Explanation: Bai' Bithaman Ajil is a Shariah-compliant financing arrangement where the seller agrees to sell goods at a deferred price, allowing the buyer to make installment payments over a specified period.

2. Bay' al-'Inah (Sale and Buyback Agreement):

- Related Terms: Islamic Finance, Repurchase Agreement
- Explanation: Bay' al-'Inah involves the sale of an asset by the seller to the buyer at a specific price, followed by the immediate repurchase of the same asset by the seller at a lower price.

C

1. Credit Enhancement:

- Related Terms: Risk Management, Credit Rating
- Explanation: Credit enhancement refers to measures taken to reduce the credit risk associated with a particular financial instrument, such as Sukuk. It can involve collateral, guarantees, or insurance to protect

investors.

2. Credit Rating:

- Related Terms: Credit Risk, Investment Grade
- Explanation: A credit rating is an assessment of the creditworthiness of a borrower or issuer of debt securities, such as Sukuk. Ratings agencies assign grades to indicate the likelihood of default on the obligation.

D

1. Dana Istisna' Sukuk:

- Related Terms: Sukuk, Istisna'
- Explanation: Dana Istisna' Sukuk are structured based on the Istisna' contract, which involves the manufacturing of goods or assets. Investors provide funds for the production of the specified assets, with returns generated from the sale proceeds.

2. Default Risk:

- Related Terms: Credit Risk, Counterparty Risk
- Explanation: Default risk is the risk that a borrower or issuer of Sukuk will be unable to meet its financial obligations, resulting in a loss for investors. It is a key consideration in assessing the credit quality of Sukuk.

E

1. Equity Participation Sukuk:

- Related Terms: Sukuk, Equity Financing
- Explanation: Equity participation Sukuk represent ownership stakes in a specific project or business venture. Investors share in the profits and losses of the underlying investment, similar to shareholders in a company.

2. Embedded Options:

- Related Terms: Sukuk, Call Option, Put Option
- Explanation: Embedded options are features included in Sukuk structures that provide the issuer or investors with the right to take certain actions, such as early redemption or extension of the Sukuk tenure.

F

1. Fatwa:

- Related Terms: Shariah, Islamic Law
- Explanation: A fatwa is a legal opinion or ruling issued by a qualified Islamic scholar on matters related to Islamic law, including the permissibility of financial transactions, such as Sukuk structures.

2. Fixed-Income Sukuk:

- Related Terms: Sukuk, Fixed-Income Securities
- Explanation: Fixed-income Sukuk provide investors with a predetermined rate of return, typically based on a fixed profit rate or coupon payment. Investors receive periodic income throughout the Sukuk tenure.

G

1. Gharar:

- Related Terms: Islamic Finance, Uncertainty
- Explanation: Gharar refers to excessive uncertainty or ambiguity in a financial transaction, which is prohibited in Islamic finance. Sukuk structures aim to eliminate gharar to ensure transparency and fairness.

2. Growth Sukuk:

- Related Terms: Sukuk, Growth Financing
- Explanation: Growth Sukuk are issued to raise capital for expanding or developing a business or project. Investors participate in the growth and success of the venture, with returns linked to the performance of the underlying assets.

H

1. Hedging:

- Related Terms: Risk Management, Derivatives
- Explanation: Hedging involves using financial instruments, such as futures or options, to offset the risks associated with price fluctuations, interest rate changes, or currency movements. Sukuk issuers may use hedging strategies to protect against market volatility.

2. Hybrid Sukuk:

- Related Terms: Sukuk, Hybrid Securities
- Explanation: Hybrid Sukuk combine features of both equity and debt instruments, offering investors a mix of fixed income and profit-sharing components. These Sukuk structures provide greater flexibility in meeting investor preferences.

I

1. Ijarah Sukuk:

- Related Terms: Sukuk, Ijarah
- Explanation: Ijarah Sukuk are based on the Ijarah contract, where investors provide funds to finance the acquisition of assets, such as real estate or equipment. The issuer leases the assets to generate rental income for investors.

2. Islamic Finance:

- Related Terms: Shariah, Halal
- Explanation: Islamic finance refers to financial activities that comply with Islamic principles and guidelines. It prohibits the payment or receipt of interest (riba) and promotes risk-sharing, ethical investments, and social responsibility.

J

1. Jurisprudence:

- Related Terms: Shariah, Fiqh

- Explanation: Jurisprudence, or Fiqh, is the Islamic legal framework that governs all aspects of Muslim life, including financial transactions. Scholars interpret Shariah principles to ensure compliance with Islamic law in Sukuk structures.

2. Joint Venture Sukuk:

- Related Terms: Sukuk, Joint Venture
- Explanation: Joint venture Sukuk involve multiple parties joining together to finance a specific project or business venture. Investors share the risks and rewards of the investment based on their respective ownership stakes.

K

1. Kafalah:

- Related Terms: Islamic Finance, Guarantee
- Explanation: Kafalah refers to a guarantee or surety provided by a third party to ensure the fulfillment of financial obligations. In Sukuk structures, kafalah can be used to enhance credit quality and mitigate risk for investors.

2. Kijang Emas Sukuk:

- Related Terms: Sukuk, Gold
- Explanation: Kijang Emas Sukuk are Islamic bonds backed by physical gold reserves. The issuance of gold-based Sukuk provides investors with exposure to the precious metal while complying with Shariah principles.

L

1. Legal Documentation:

- Related Terms: Sukuk, Contractual Terms
- Explanation: Legal documentation for Sukuk structures includes the prospectus, trust deed, and sale and purchase agreements that outline the rights and obligations of issuers, investors, and other parties involved in the transaction.

2. Liquidity Risk:

- Related Terms: Sukuk, Market Risk
- Explanation: Liquidity risk refers to the possibility that an investor may not be able to sell or trade Sukuk quickly without incurring significant losses. Sukuk structures with low liquidity may face challenges in secondary market trading.

M

1. Mudarabah Sukuk:

- Related Terms: Sukuk, Mudarabah
- Explanation: Mudarabah Sukuk are based on the Mudarabah contract, where investors provide capital to a fund manager (mudarib) for investment purposes. Profits generated from the investments are shared between investors and the mudarib.

2. Musharakah Sukuk:

- Related Terms: Sukuk, Musharakah
- Explanation: Musharakah Sukuk involve joint ownership of assets or projects by multiple investors, who share profits and losses based on their respective contributions. Investors have a direct stake in the underlying venture.

N

1. Noor Islamic Bank Sukuk:

- Related Terms: Sukuk, Financial Institution
- Explanation: Noor Islamic Bank Sukuk are issued by financial institutions to raise funds in compliance with Shariah principles. These Sukuk are backed by the assets and profits of the issuing bank, providing investors with a secure investment option.

2. Non-Performing Sukuk:

- Related Terms: Sukuk, Default
- Explanation: Non-performing Sukuk are Islamic bonds that fail to generate the expected returns or meet the payment obligations to investors. Issuers of non-performing Sukuk may face financial difficulties and default risks.

O

1. Overcollateralization:

- Related Terms: Credit Enhancement, Collateral
- Explanation: Overcollateralization involves pledging assets with a value greater than the amount of Sukuk issued, providing additional security for investors. This risk mitigation technique helps enhance the credit quality of Sukuk structures.

2. Origination:

- Related Terms: Sukuk, Issuance Process
- Explanation: Origination refers to the process of structuring and launching Sukuk in the primary market. Issuers work with underwriters, legal advisors, and Shariah scholars to create Sukuk structures that meet investor demand.

P

1. Profit-Sharing Sukuk:

- Related Terms: Sukuk, Mudarabah, Musharakah
- Explanation: Profit-sharing Sukuk distribute profits to investors based on the performance of the underlying assets or projects. Investors receive a share of the profits generated by the Sukuk issuer, in accordance with Shariah principles.

2. Principal Amount:

- Related Terms: Sukuk, Face Value
- Explanation: The principal amount of Sukuk represents the initial investment made by investors, which is

typically returned upon maturity or redemption of the Islamic bonds. Investors receive the principal amount along with the profit or returns earned.

Q

1. Qard al-Hasan:

- Related Terms: Islamic Finance, Benevolent Loan
- Explanation: Qard al-Hasan is a benevolent loan provided on a goodwill basis, where the borrower is obligated to repay only the principal amount borrowed without any additional interest. It is considered a charitable form of financing in Islamic finance.

2. Qibla Wall Sukuk:

- Related Terms: Sukuk, Real Estate
- Explanation: Qibla Wall Sukuk are structured based on real estate assets, with a focus on properties that face the Qibla direction (towards Mecca). These Sukuk are popular among investors seeking Shariah-compliant real estate investments.

R

1. Rahn Sukuk:

- Related Terms: Sukuk, Collateral
- Explanation: Rahn Sukuk are Islamic bonds backed by collateral, such as gold or jewelry, provided by the issuer as security for the Sukuk holders. The collateral helps mitigate risk and protect investors in case of default.

2. Rating Agency:

- Related Terms: Credit Rating, Credit Risk
- Explanation: A rating agency is a financial institution that assesses the creditworthiness of issuers and their debt securities, including Sukuk. Ratings agencies assign grades based on the issuer's ability to meet financial obligations.

S

1. Sale and Leaseback:

- Related Terms: Islamic Finance, Ijarah
- Explanation: Sale and leaseback involves the sale of an asset by the owner to a buyer, who then leases it back to the original owner. In Sukuk structures, sale and leaseback arrangements can be used to generate rental income for investors.

2. Shariah Compliance:

- Related Terms: Shariah, Islamic Finance
- Explanation: Shariah compliance refers to the adherence to Islamic principles and guidelines in all financial activities, including Sukuk structures. Shariah scholars review and approve Sukuk transactions to ensure they comply with Islamic law.

T

1. Takaful Sukuk:

- Related Terms: Sukuk, Islamic Insurance
- Explanation: Takaful Sukuk are Islamic bonds issued by Takaful (Islamic insurance) companies to raise capital for their operations. Investors participate in the profits and risks of the Takaful business, in line with Shariah principles.

2. Tranche:

- Related Terms: Sukuk, Structured Finance
- Explanation: A tranche is a portion of a larger financial instrument, such as Sukuk, that is divided into several segments with different characteristics. Each tranche may have distinct risk profiles, payment terms, and maturity dates.

U

1. Underwriting:

- Related Terms: Sukuk, Issuance Process
- Explanation: Underwriting involves financial institutions guaranteeing the sale of Sukuk to investors by purchasing the Islamic bonds from the issuer. Underwriters assess the credit quality and market demand for Sukuk before the issuance process.

2. Usufruct Sukuk:

- Related Terms: Sukuk, Usufruct
- Explanation: Usufruct Sukuk are based on the concept of usufruct, which grants the holder the right to use and derive income from a property or asset without owning it. Investors receive periodic returns from the use of the underlying asset.

V

1. Variable-Rate Sukuk:

- Related Terms: Sukuk, Floating Rate
- Explanation: Variable-rate Sukuk have profit rates or coupon payments that adjust periodically based on benchmark interest rates or market conditions. Investors receive variable returns tied to changes in the underlying reference rates.

2. Vesting Sukuk:

- Related Terms: Sukuk, Ownership
- Explanation: Vesting Sukuk grant investors ownership rights or equity stakes in specific assets or projects. Investors have vested interests in the underlying assets, entitling them to a share of the profits and risks associated with the investment.

W

1. Wakalah Sukuk:

- Related Terms: Sukuk, Agency Agreement
- Explanation: Wakalah Sukuk are structured based on the Wakalah contract, where investors appoint an agent (wakil) to manage their funds and investments on their behalf. The agent receives a fee for the services provided to investors.

2. Waqf Sukuk:

- Related Terms: Sukuk, Charitable Endowment
- Explanation: Waqf Sukuk are Islamic bonds issued to finance charitable endowment projects, such as mosques, schools, or hospitals. Investors contribute funds to support waqf initiatives and earn rewards based on the social impact of the projects.

X

1. X-Factor Sukuk:

- Related Terms: Sukuk, Risk Factor
- Explanation: X-Factor Sukuk incorporate additional risk factors or contingencies into the Sukuk structure to protect investors from unexpected events or market uncertainties. The X-factor provides a buffer against potential losses in Sukuk investments.

2. Xenophobia Sukuk:

- Related Terms: Sukuk, Social Responsibility
- Explanation: Xenophobia Sukuk are Islamic bonds issued to promote social inclusion and diversity, combatting discrimination and prejudice. Proceeds from Xenophobia Sukuk support initiatives that foster tolerance and understanding among communities.

Y

1. Yield Curve Sukuk:

- Related Terms: Sukuk, Term Structure
- Explanation: Yield curve Sukuk represent the relationship between the maturity dates of Islamic bonds and their corresponding yields. Investors use the yield curve to analyze the term structure of Sukuk and assess interest rate expectations.

2. Yield Enhancement:

- Related Terms: Sukuk, Return on Investment
- Explanation: Yield enhancement strategies aim to increase the overall returns on Sukuk investments by optimizing the portfolio composition, adjusting risk exposure, or utilizing financial derivatives. Investors seek to maximize yields while managing risk effectively.

Z

1. Zakat Sukuk:

- Related Terms: Sukuk, Islamic Tax
- Explanation: Zakat Sukuk are issued to collect funds for Zakat, the Islamic obligation to give alms to the needy. Investors contribute to Zakat Sukuk to support charitable causes and fulfill their religious duty of

wealth distribution in the Muslim community.

2. Zawaj Sukuk:

- Related Terms: Sukuk, Marriage Contract
- Explanation: Zawaj Sukuk are structured based on the Islamic marriage contract (nikah), with proceeds used to finance matrimonial services or wedding expenses. Investors participate in Zawaj Sukuk to support marital relationships and family values in the community.