

# ISLAMIC BONDS

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# WHAT IS ISLAMIC BOND?

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- ▶ **Sukuk is an Islamic equivalent of bond**
- ▶ Sukuk is an Arabic term (plural of sakk) literally means legal instruments, deed, cheque or financial certificate
- ▶ In classical period of Islam sakk ( which is cognate with the European root “cheque”) means any document representing a contract or conveyance of rights, obligations or monies done in conformity with the Shariah
- ▶ Sukuk were a product extensively used during medieval Islam for transferring of financial obligations originating from trade & other commercial activities



# SUKUK IN PRACTICE

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- ▶ Sukuk is a certificate evidencing ownership of an asset or its usufruct
- ▶ The Sukuk structures rely on the creation of a Special Purpose Vehicle (SPV)
- ▶ SPV would issue Sukuk certificates which represent either ownership of an asset, entitlement to a debt or to rental incomes or even accumulation of returns from various Sukuk (a hybrid Sukuk)
- ▶ The return provided to a Sukuk holders come in the form of profit from a sale, rental or combination of both



# DIFFERENCES BETWEEN CONVENTIONAL BOND & ISLAMIC BOND

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- ▶ In its simplest form, a bond is a contractual debt obligation whereby the issuer is contractually obliged to pay to bondholders, on certain specified dates, interest and principal.
- ▶ In comparison, under sukuk structure the sukuk holders each hold an undivided beneficial ownership in the underlying assets
- ▶ Consequently, sukuk holders are entitled to:
  - ▶ share in the revenues generated by the sukuk assets
  - ▶ share in the proceeds of the realization of the sukuk assets



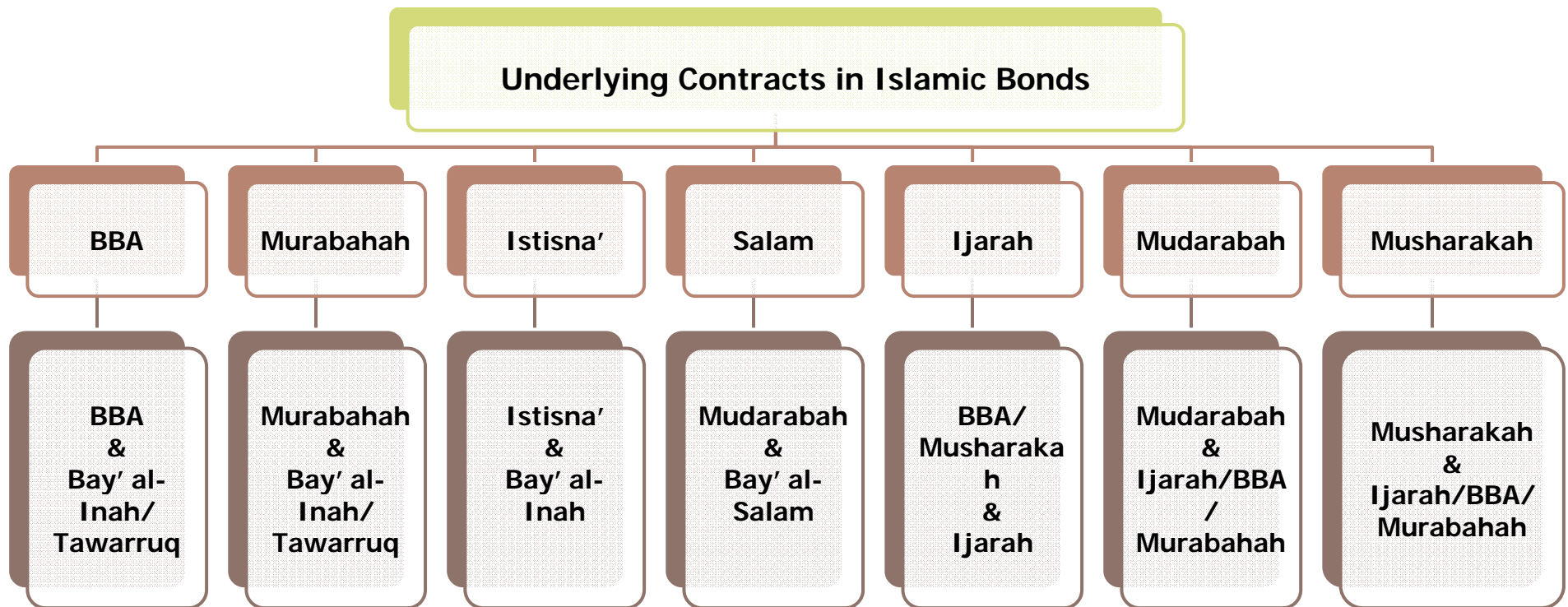
# SIMILARITIES BETWEEN CONVENTIONAL BOND & SUKUK

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Marketability	Sukuk are monetized real assets that are liquid, easily transferred and traded in the financial markets
Ratability	Sukuk can be easily rated
Enhanceability	Different sukuk structures may allow for credit enhancements
Versatility	The Variety of Sukuk Structures allow for structuring across legal and fiscal domains, fixed and variable income options etc.



# Contracts Underlying Islamic Bonds



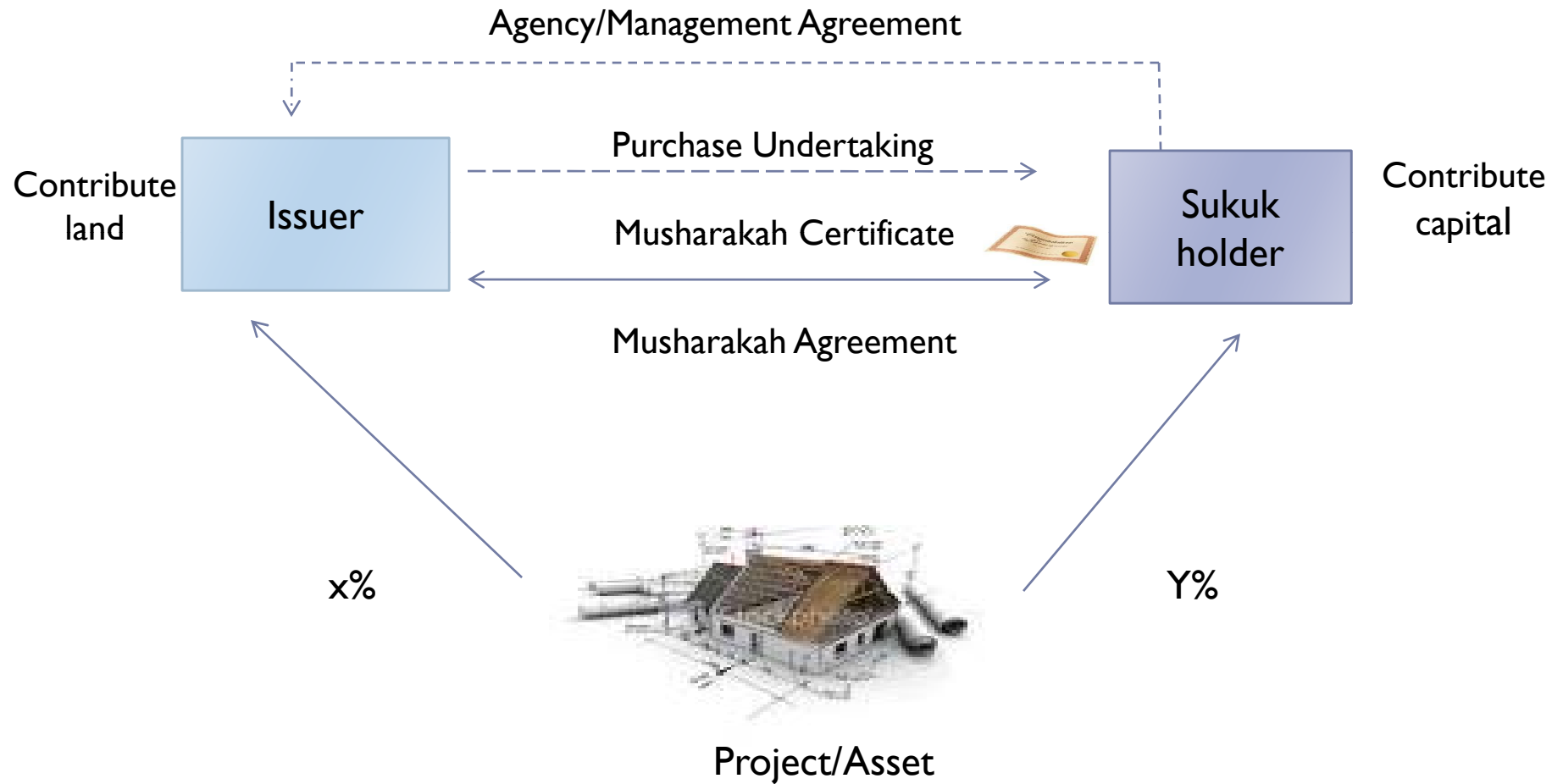
# Sukuk Structures suitable for Maldives

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- ▶ Due to legal inhibitions, the sukuk issued in Maldives will not involve an SPV
- ▶ Furthermore, not all types of Shari'ah contracts are suitable
- ▶ Hence, until further amendments are brought to the law, the sukuk structures in Maldives will be limited to a few Shari'ah contracts

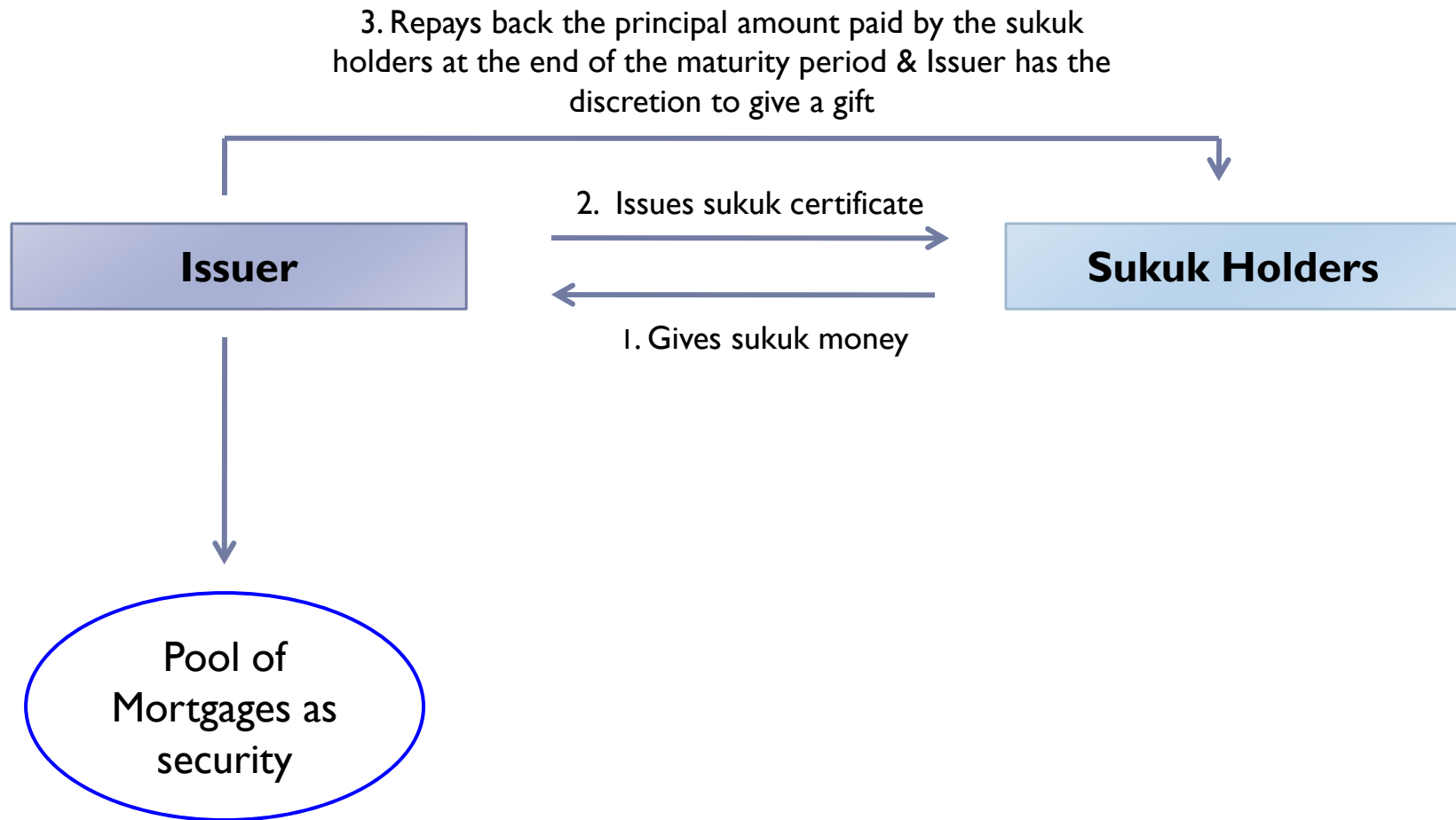


# MUSHARAKAH BOND



# Gard al Hassan bond (Zero-coupon bond)

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# What needs to be done?

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Finding a suitable project



Securitization & Cost-benefit Analysis



Determination of maturity period



Documentation



Disclosure of the agreements and negotiation

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**THANK YOU**

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