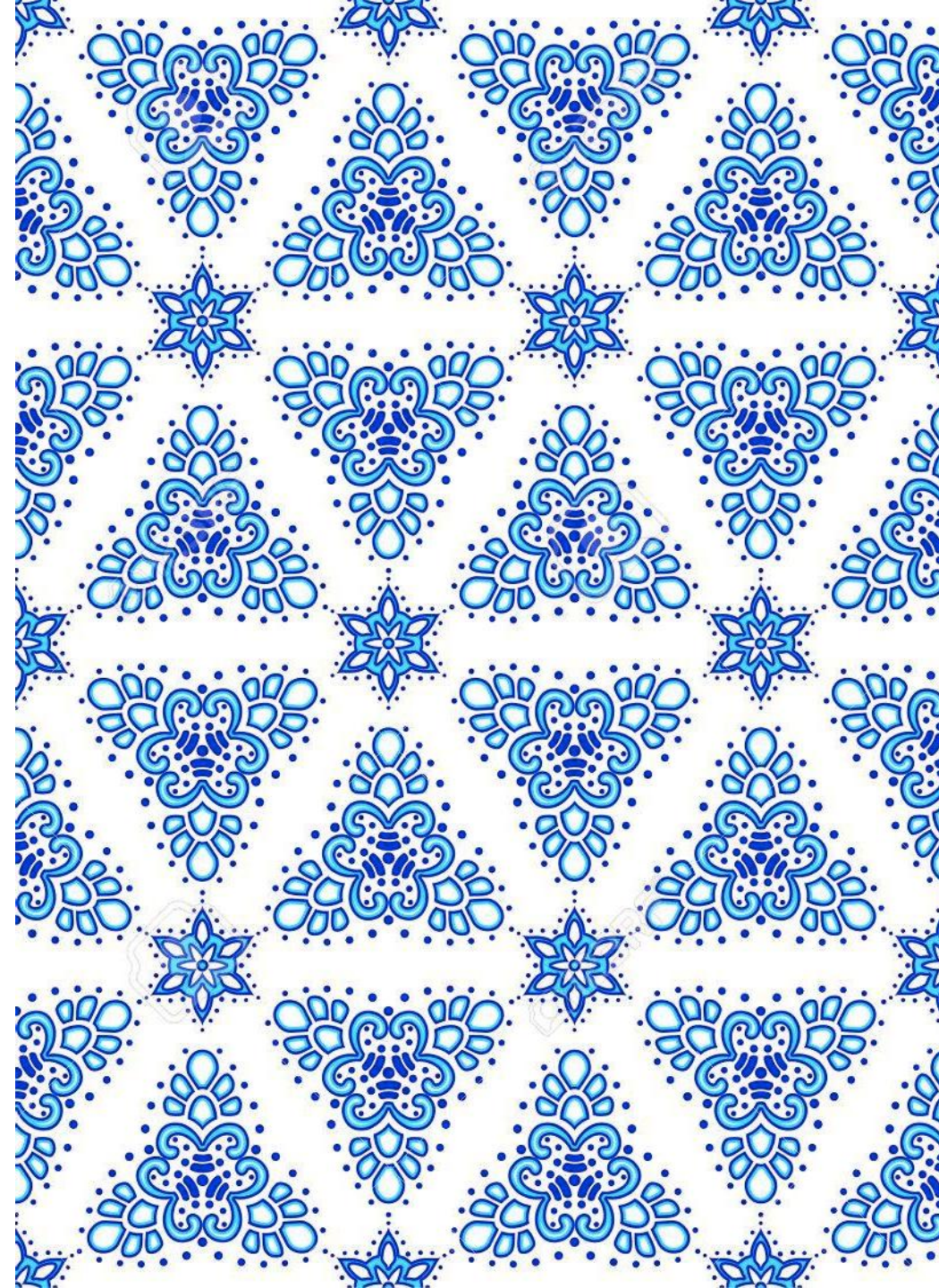


# SUKUK STRUCTURES

Prof. Dr. Aznan Hasan

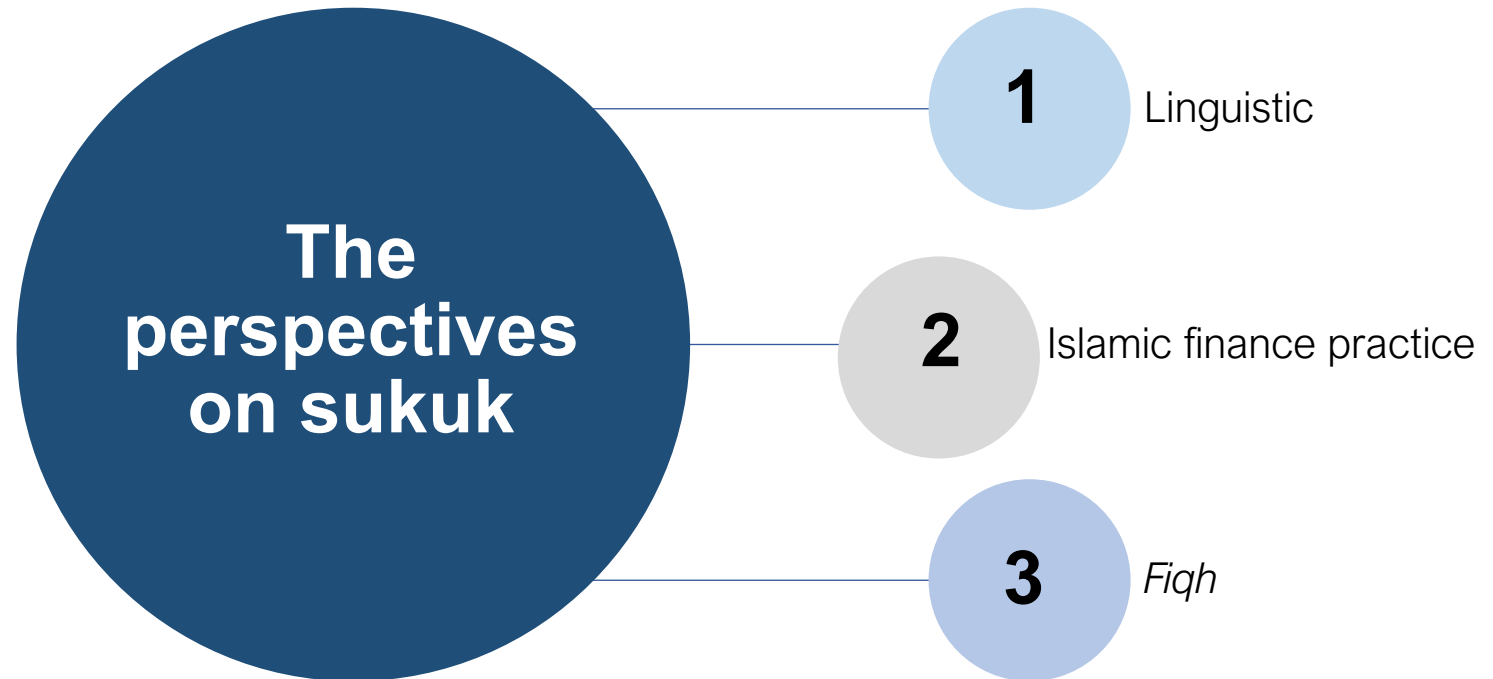
(with minor revisions by Prof Dr Engku Rabiah Adawiah)

IIUM Institute of Islamic Banking & Finance



# Definition of sukuk

Multiple perspectives on sukuk



# Definition of sukuk

A literal definition of sukuk

*Sakk* (Persian) – ‘to strike’ or ‘to hit’ and refers to any written documents.

- Hence, sukuk – a written document entitling its holders to produce/return/income of the market
- Also, it relates to the word of ‘*al-wariq*’ – dirham

*Taskik* - A process in which ownership over the assets is evidenced by certificate.

*Tawriq* - a process in which illiquid assets are pulled together and sold for the purposed of obtaining liquidity.

- Hence, *tawriq* and *taskik* is a process in which certain illiquid assets are pulled together and divided into units of equal value with the intention of selling them to obtain liquidity. The ownership over these assets is evidenced by the issuance of certificate.

# Definition of sukuk

A literal definition of sukuk (cont.)

Narration on **Sukuk in al-Muwatta' of Imam Malik** (hadith no. 44):

- Sukuk refers to certificates which were remitted to soldiers & public servants in the time of the Caliph Marwan Ibn al-Hakam.
- The sukuk holders entitled to the receipt of commodities when the sukuk matures.

# Definition of sukuk

Sukuk from a *fiqh* perspective

- Scholars used the term 'sakk' to refer to written documents confirming a transaction and stipulating the rights & conditions of contracting parties (ISRA, 2012).
- Sukuk – certificate or receipt

# Definition of sukuk

A practical definition of sukuk



## SC Malaysia

“Certificates of equal value which evidence undivided ownership or investment in the assets using Shariah principles and concepts endorsed by the SAC”



## AAOIFI – Shariah Standard No. 17(2) (2015)

“Certificates of equal value representing undivided shares of ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity”



## IFSB

“Certificates of each sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture (these assets could be specific Shariah-compliant project or investment activity)”

# Features of sukuk

What makes sukuk different than other financial instruments



Proportionate **ownership** of the underlying assets



Directly linked with **real economic** activities



Structured using **Shariah** contracts



Has various **tenures** e.g. short, medium, long term & perpetual



Interim **returns** paid to sukuk holders (e.g. profits & rents)

# Features of sukuk

What makes sukuk different than other financial instruments (cont.)



Proceeds must be used for **Shariah-compliant activities** only



**Trading of sukuk** in secondary market must comply with Shariah



Can be **rated, listed & created** by clearing house



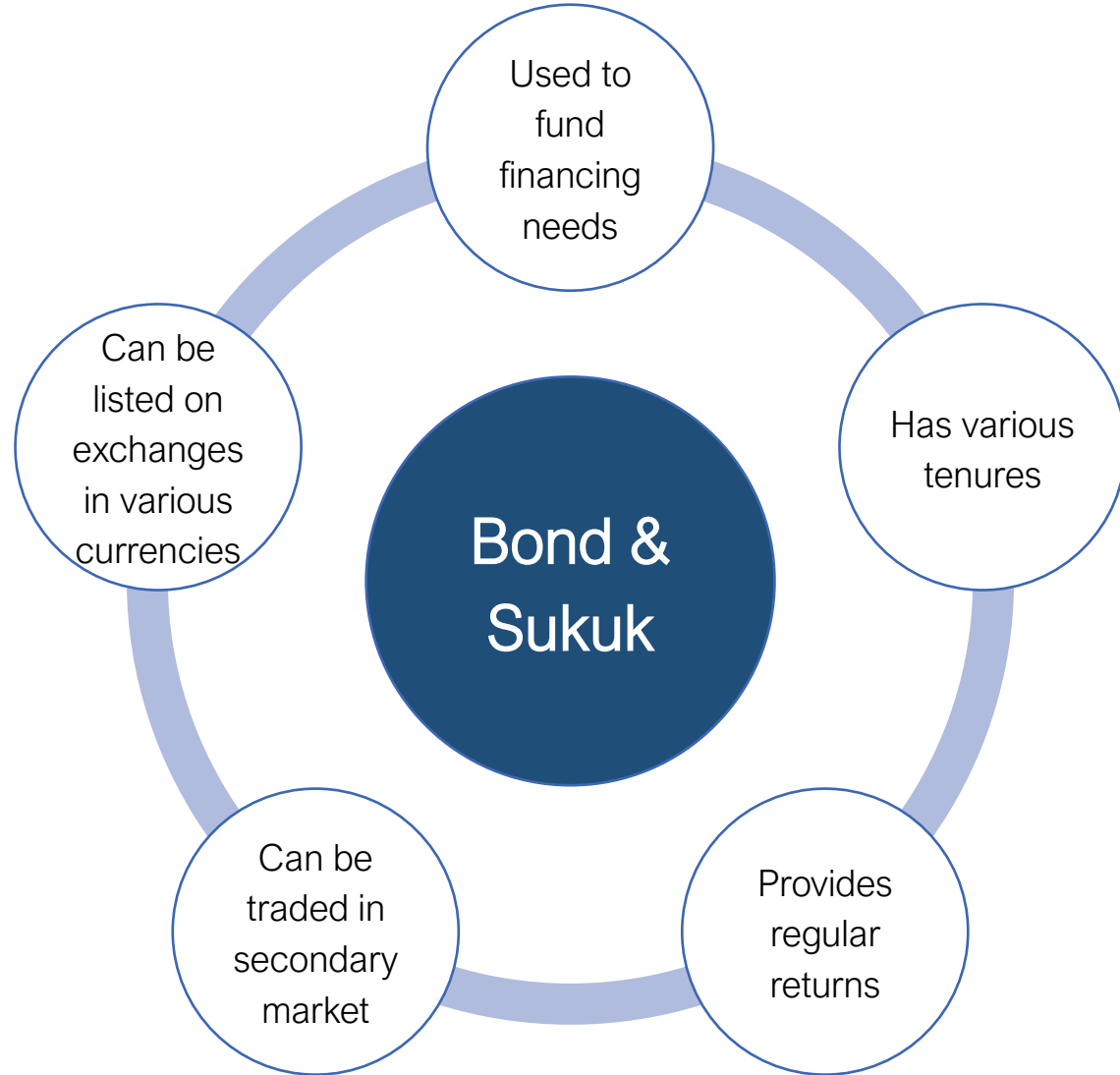
Can be issued in various **denominations & currencies**



Can be **rescheduled** or **restructured**

# A comparison analysis

Similarities between sukuk and bond



# A Comparison analysis

Key differences between sukuk, bonds and shares

	Sukuk	Bond	Shares
➤ Nature	Represents proportionate ownership in Shariah-compliant assets, usufructs, business venture & etc.	Represents IOU / interest-bearing debt obligation.	Represents proportionate ownership in the corporation
➤ Issuer	Any issuer who engaged in Shariah-compliant activities	Not limited to certain business	Any issuer
➤ Investors	Islamic & non-Islamic investors	Only non-Islamic investors	Islamic & non-Islamic investors
➤ Relationship between issuer & investors	Depends on Shariah contracts used	Lending	Shareholding (Investment)

# A Comparison analysis

Key differences between sukuk, bonds and shares

	Sukuk	Bond	Shares
➤ Underlying assets	Underlying asset must comply with Shariah.	No assets are needed as collateral for unsecured bond.	Not required.
➤ Asset-related expenses (ARE)	Sukuk holders may be affected by ARE.	Bond holders are not affected by ARE	Not relevant.
➤ Status	<ul style="list-style-type: none"> <li>• Asset-backed sukuk: sukuk holders have recourse to the asset in the event of default (ranked superior than unsecured creditors)</li> <li>• Asset-based sukuk: sukuk holders have no recourse to the assets (ranked pari passu with unsecured creditors)</li> </ul>	Bond holders are deemed as unsecured creditors if bond are not backed by assets.	<ul style="list-style-type: none"> <li>• Shareholders are ranked inferior with full or preferred voting rights.</li> <li>• Preference shares have near-superior claims to dividends &amp; capital.</li> </ul>

# A Comparison analysis

Key differences between sukuk, bonds and shares

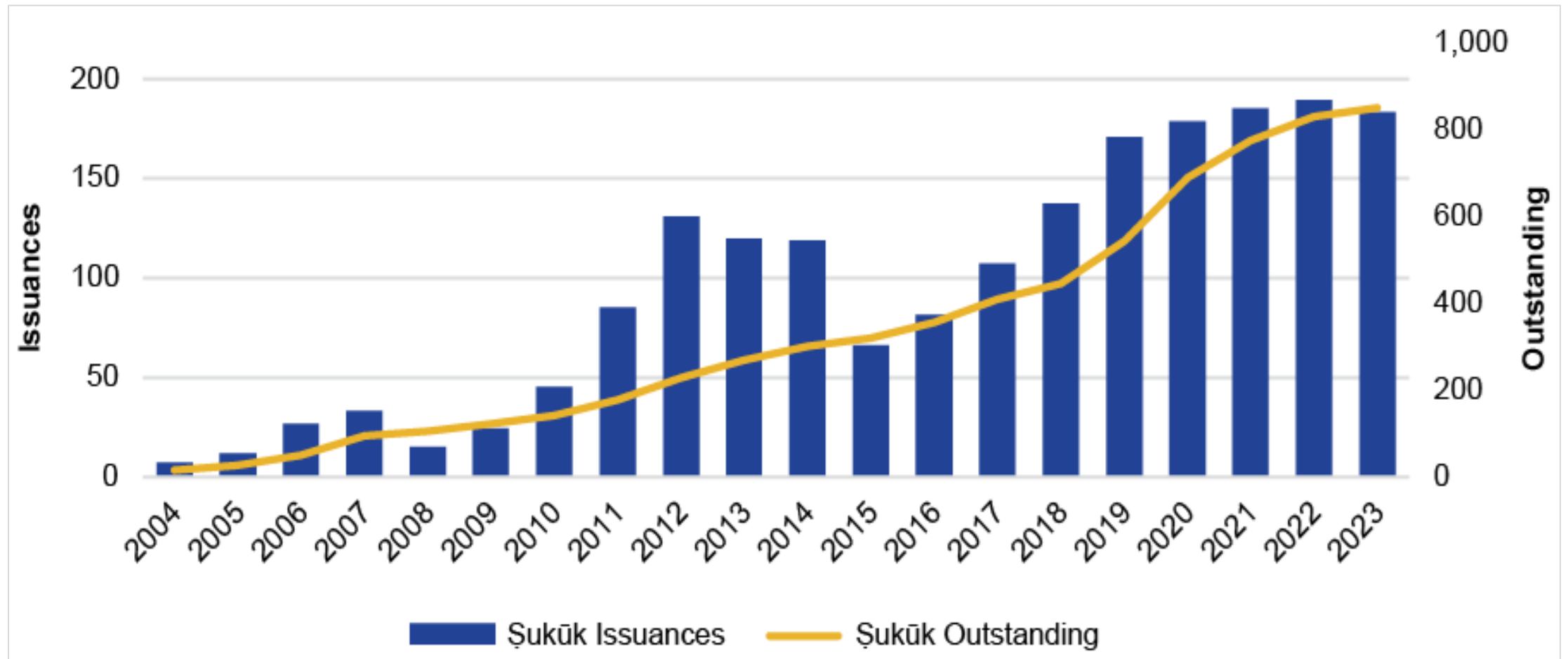
	Sukuk	Bond	Shares
➤ Returns to investors	Periodic payments representing actual profit and/or rentals received.	Coupon payments (interest)	Dividend payments
➤ Principal repayment by issuer	Depends on Shariah contracts used	Return of principal is an irrevocable obligation (regardless of the profitability of the projects).	None except upon liquidation (if any).
➤ Utilisation of proceeds	Must be used for financing Shariah-compliant activities & assets only.	No specific requirements.	Used to meet objectives of corporation.

# A Comparison analysis

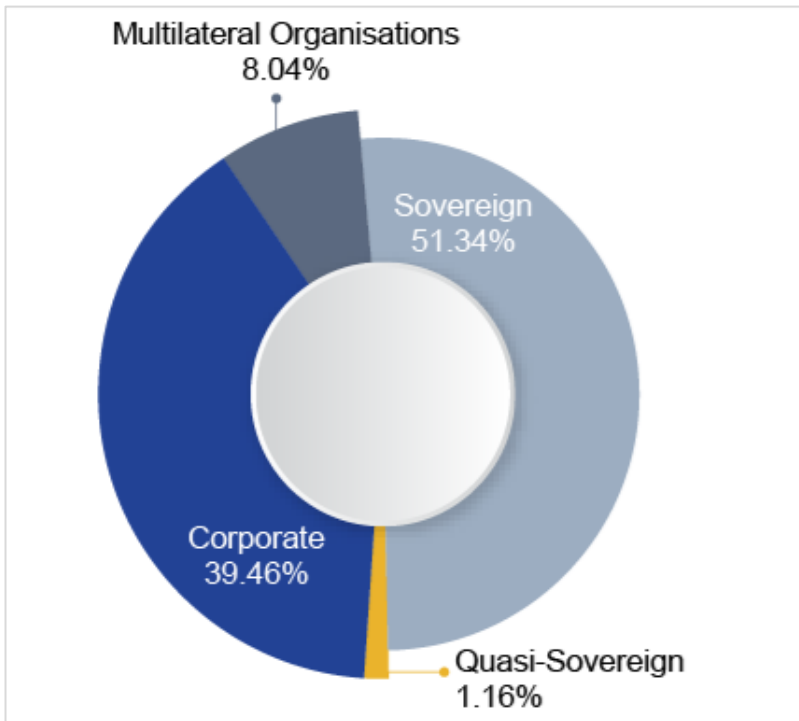
Key differences between sukuk, bonds and shares

	Sukuk	Bond	Shares
➤ Tradability on secondary market	Different scholars' views, e.g. AAOIFI only allows the sale of tangible and non-debt assets whereby Malaysia allows the sale of debt (debt-based sukuk) too.	Represent sale of debt.	Represent sale of company's shares (rights & liabilities in the company).
➤ Pricing	<ul style="list-style-type: none"><li>• Depends on the structure of the sukuk.</li><li>• e.g. asset-backed sukuk: pricing is based on the value of asset backing the sukuk.</li><li>• Fixed-income/debt-based sukuk: pricing may be similar to bond pricing.</li></ul>	Based on credit rating of the issuers as well as terms & conditions and has a reference interest rate.	Depends on the performance of the company.

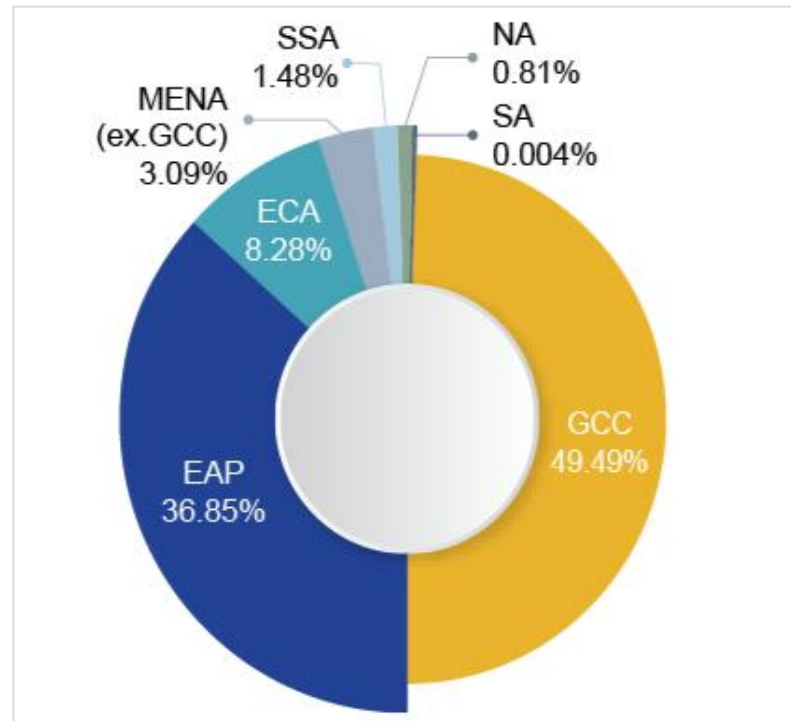
# Global Şukūk Issuances and Şukūk Outstanding Trends (2004-2023) USD billions



# Global Şukūk Markets: Growth, Trends, and Resilience

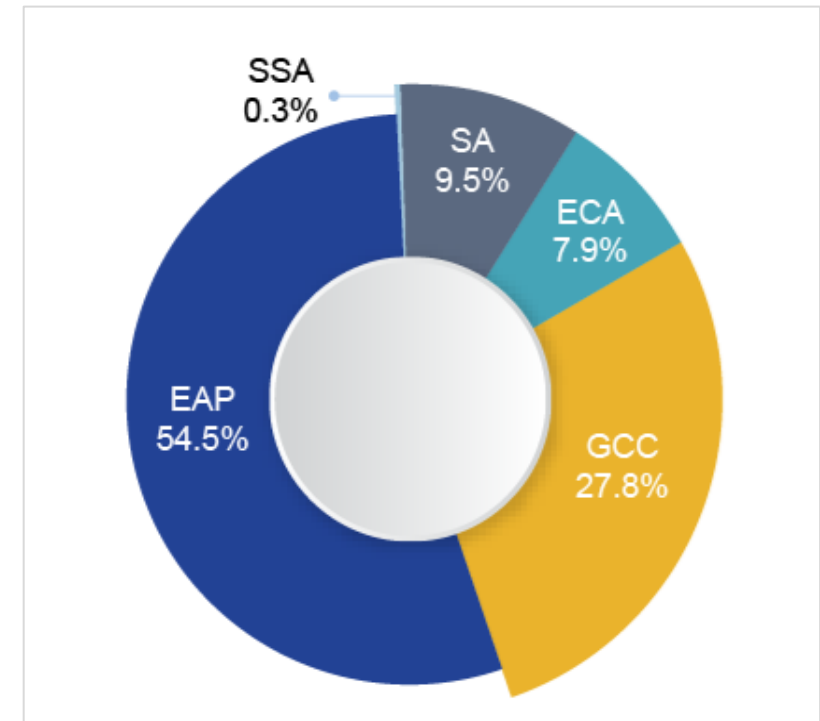


Şukūk Issuances by Issuer Type (2023)



Corporate Şukūk Issuances by Region of the Originator (2023)

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Sovereign Şukūk Issuances by Region of the Originator (2023)



# STRUCTURING SUKUK

# VARIOUS TYPES OF INVESTMENT SUKUK UNDER AAOIFI STANDARD (No. 17)

- Sukuk of ownership in leased assets
- Sukuk of ownership of usufructs, which can be further sub-divided into other sub-classifications, i.e.:
  - Sukuk of ownership of usufructs of existing assets:
    - Ownership of an existing asset with the aim of leasing the asset
    - Ownership of the usufruct of an existing asset with the aim of sub-leasing the usufruct
  - Sukuk of ownership of usufructs of described future assets
  - Sukuk of ownership of services of a specified party
  - Sukuk of ownership of described future services
- Istisna` Sukuk
- Salam Sukuk
- Murabaha Sukuk
- Musharaka Sukuk, which can be further sub-divided into three sub-classifications, i.e.:
  - Participation (shirkah) Sukuk
  - Mudaraba Sukuk
  - Investment Agency Sukuk
- Muzara`a (sharecropping) Sukuk
- Musaqqa (irrigation) Sukuk
- Mugharasa (agricultural) Sukuk

# TYPES OF SUKUK

## Debt securities:

- BBA papers/debt securities
- Murabahah papers/debt securities
- Istisna` papers/debt securities
- Sukuk al salam

## Non-debt (equity-biased) securities:

- Sukuk al ijarah
- Sukuk al intifa`
- Sukuk al musharakah
- Sukuk al mudarabah
- Sukuk al muzara`ah
- Sukuk al musaqah
- Sukuk al mugharasah

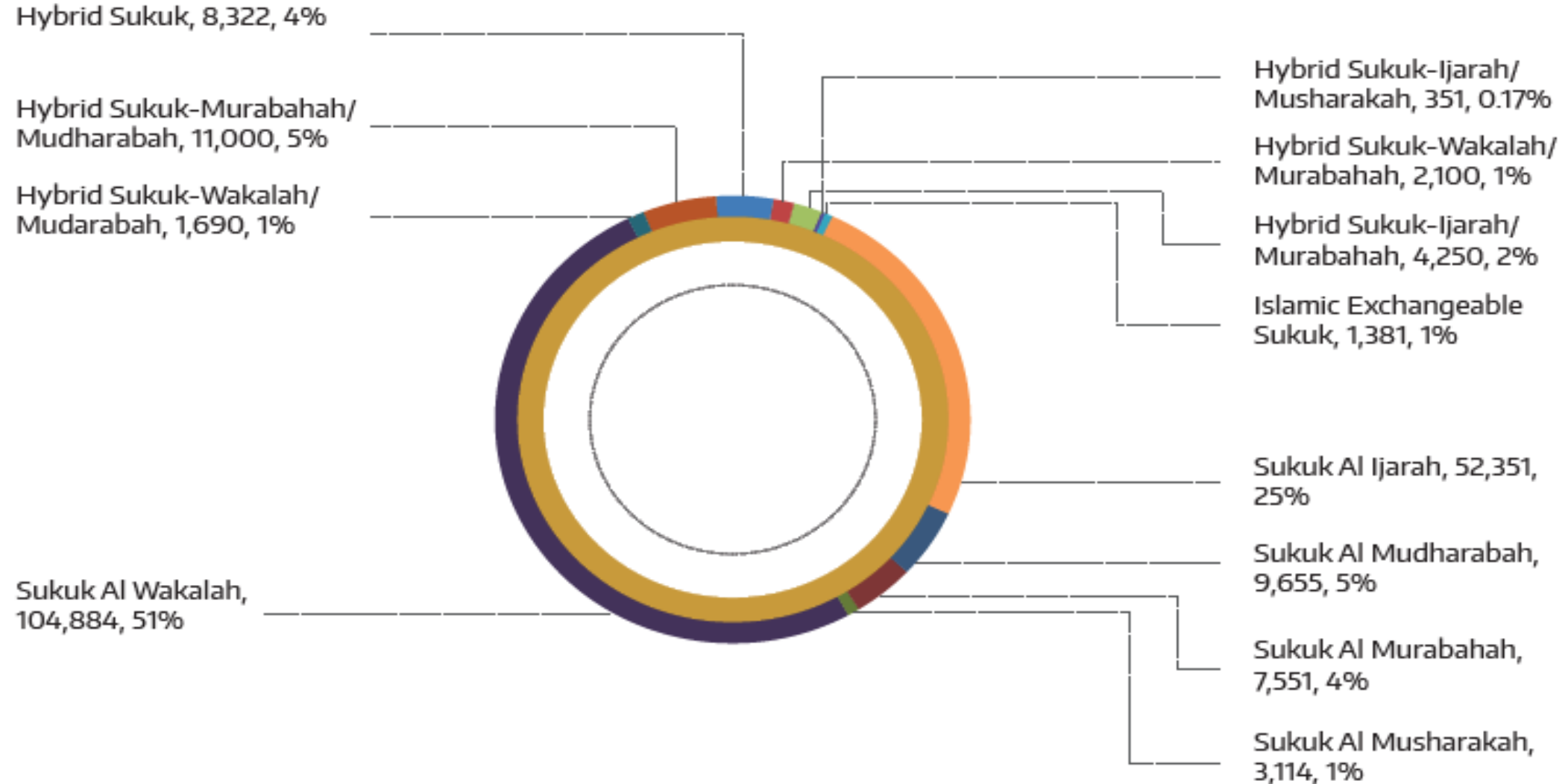
# SUKUK STRUCTURES: FROM DEBT...

- There is a transition in market understanding of sukuk
- Initially – understood as debt / fixed income instrument (alternatives to conventional interest-bearing bonds)
- This explained the “Islamic Debt Securities” introduced in Malaysia in the early phases of the 1990s – securitization of debts created via credit sale contracts (murabahah & bay` bithaman ajil (BBA) contracts)
- Even when the first sukuk al ijarah was introduced (Segari Energy Ventures, 2001) – it was still understood as debt securities, representing ijarah rental obligations

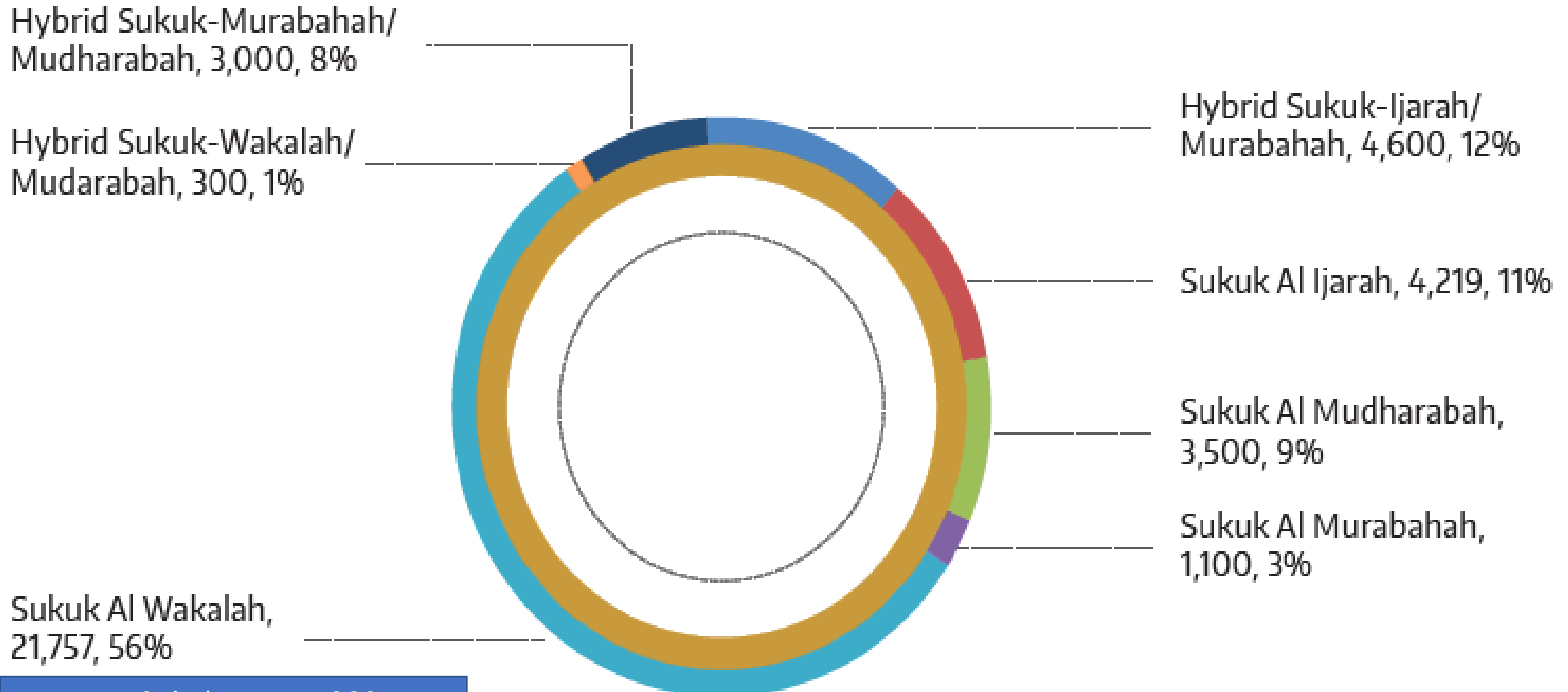
# SUKUK STRUCTURES: TO NON-DEBT...

- Only when subsequent global sukuk al ijarah were issued – the market realized that the sukuk represent securitization of the “tangible asset” under lease, thus not strictly debt securities
- This marked an important phase in sukuk structures development – sukuk is no longer understood as limited to debt securitization
- This allows for more diversified & innovative structures of sukuk – using equity-biased or equity contracts where there is no direct creation of debt obligations for securitization, e.g.:
  - Sukuk al mudarabah
  - Sukuk al musharakah
  - Sukuk al-wakalah bi al-istithmar
- At present, the most issued structures are:
  - Wakalah bi al-Istithmar
  - Mudarabah
  - Ijarah

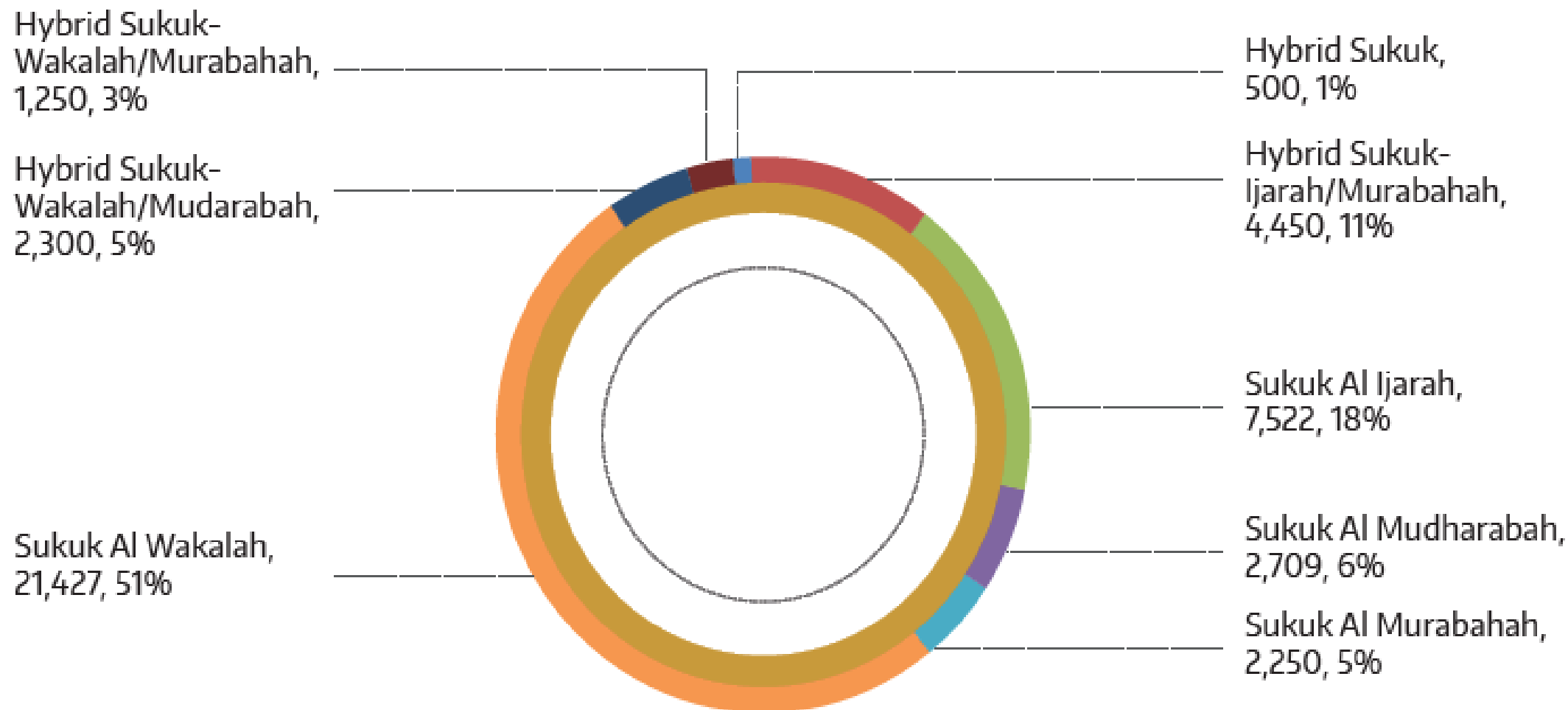
# International Sukuk Issuance Jan 2010-Dec 2018



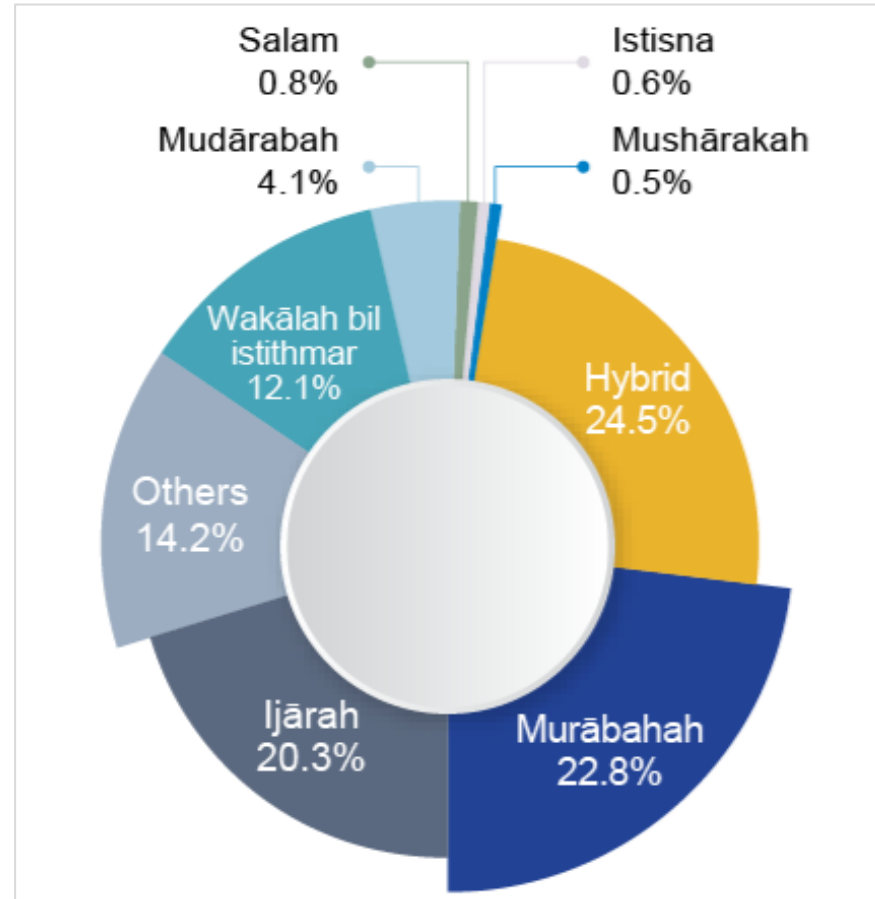
# International Sukuk Issuance For Year 2019




# International Sukuk Issuance For Year 2020




# Şukūk Issuance by Structure (2023)



Adopted from: Islamic Financial Services Industry Stability Report 2024



The discussion will focus on these three main structures:

- ✓ Sukuk Ijarah
  - ✓ Sukuk Mudarabah
  - ✓ Sukuk Wakalah bi al-Istithmar
- 



# SUKUK IJARAH

# Definition of Ijarah Sukuk



**SC Malaysia** – *Guidelines on Unlisted Capital Market Products under the LOLA Framework (2015)*

- “Certificates of equal value evidencing the certificate holder’s undivided ownership of the leased asset and/or usufruct and/or services and rights to the rental receivables from the said leased asset and/or usufruct and/or services.”



**AAOIFI**

- Sukuk ijarah is applicable to tangible assets, usufructs and services. Definitions of various types of ijarah sukuk are provided in *Shariah Standard No. 17 (3/1 & 3/1)*



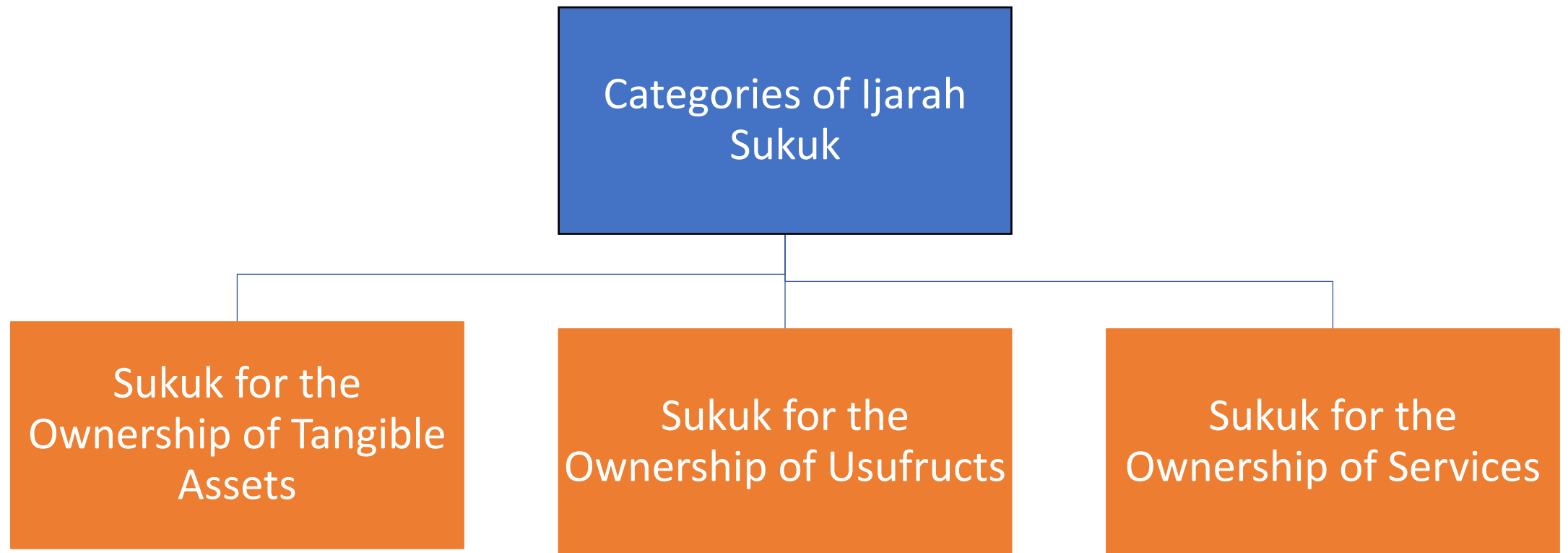
**Islamic Fiqh Academy of OIC** – *Resolution No. 137 (3/15) (2004)*

- Leasing bonds can be defined as “bonds of equal values representing common shares in the ownership of income-producing assets or usufructs”

# Classifications of Ijarah Sukuk by



**AAOIFI**  
ACCOUNTING AND AUDITING ORGANIZATION  
FOR ISLAMIC FINANCIAL INSTITUTIONS



# In practice:

Types of  
Ijarah Sukuk

Sale and lease back structures

Head lease and sublease

Selling of Ijarah portfolio

Sukuk Manfaah

Sukuk for the ownership of Services

Oman  
Sovereign  
Sukuk S. A.  
O. C

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**Issue Size:** OMR250 million

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**Currency:** OMR

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**Maturity:** 22 October 2020

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**Tenor:** 5 Years

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**Issue Date:** 22 October 2015

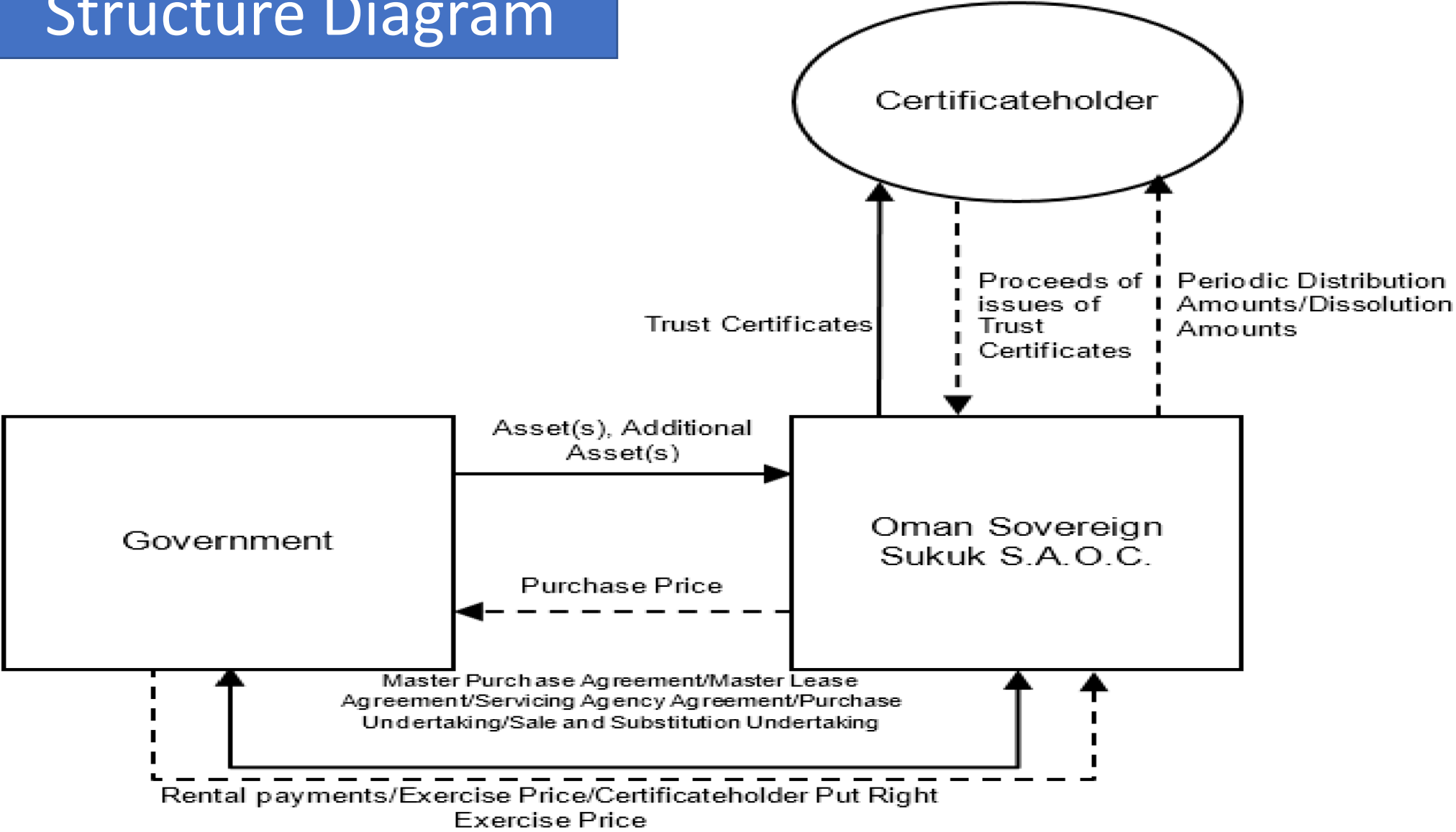
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**Sukuk Rating:** Moody's : A1

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**Profit Rate:** 3.5%

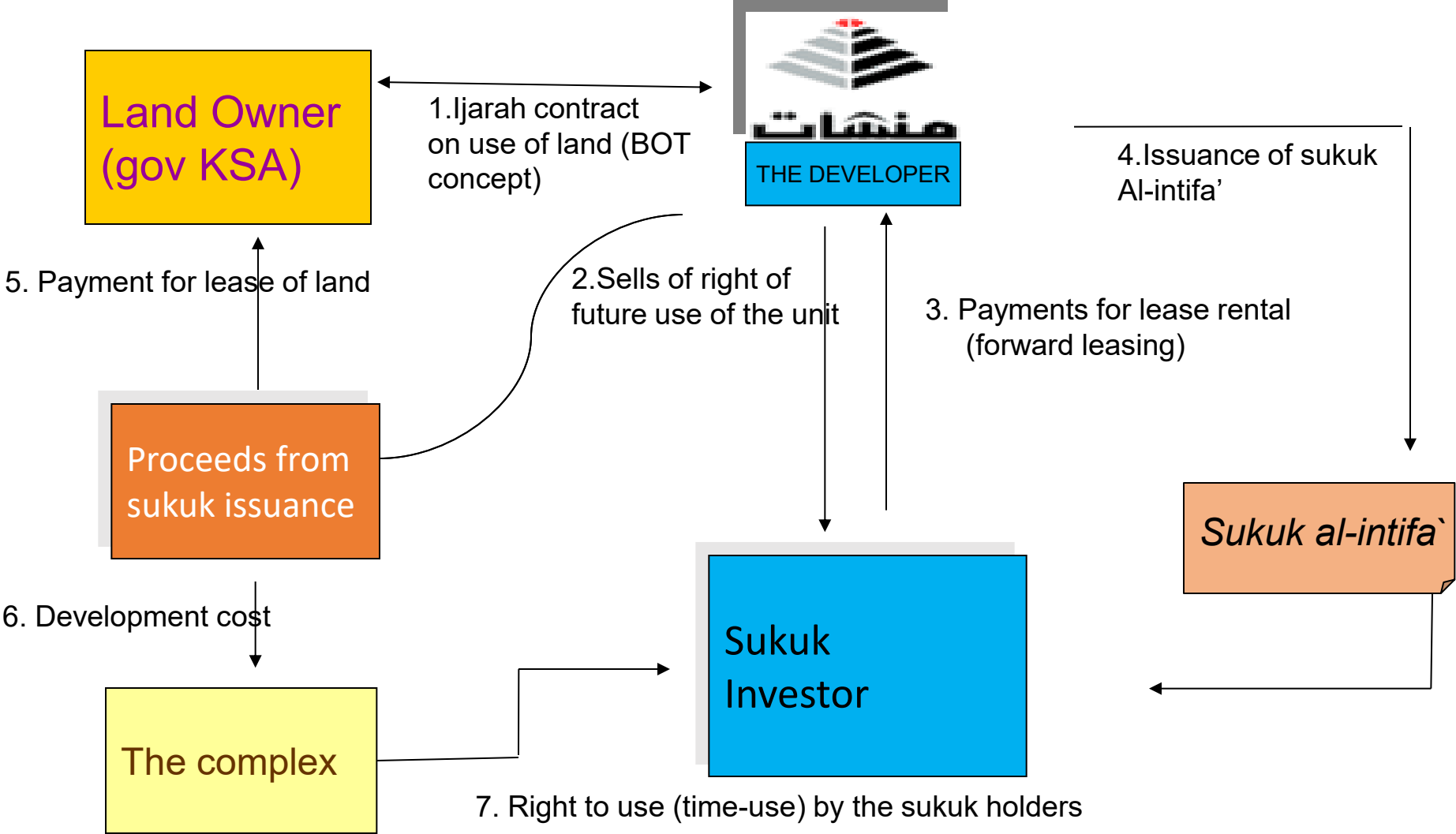
# Structure Diagram



# Sukuk al-Intifa' (Zam-zam Tower)

- Sukuk Al-Intifa' is a certificate that entitles its holder the right to utilise a specific real estate property for a specific duration of time per year over a determined number of years. This right is wholly owned by the Sukuk holder who is entitled to either sell, grant, inherit or invest the sukuk
- To finance the construction of an apartment complex in the centre of Makkah known as Zam-Zam Tower.
- Problem: Saudi laws do not allow foreign ownership of real estate in the holy site. So, normal sukuk ijarah was not possible.
- Alternatively, the sukuk are issued against the right to use the apartment complex (time sharing concept).
- The sukuk holders who purchase time at Zam Zam Tower, would only occupy their properties for the duration of their contract lasting up to 24 years
- But they will pay the issuance price in advance before the commencement of the real utilisation under the concept of forward leasing (ijarah mawsufah fi al-zimmah)

# Process Flow



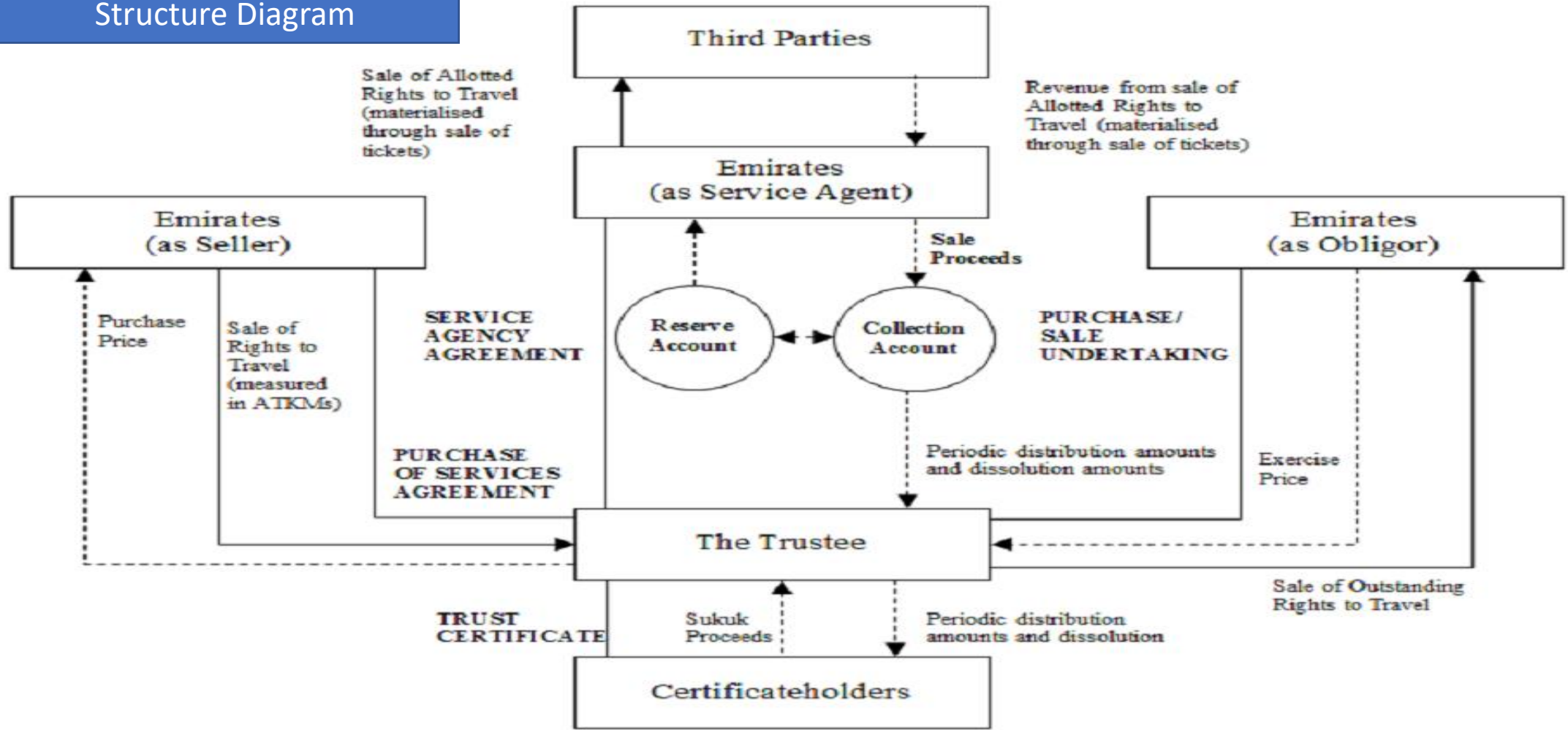
# Sukuk Milkiyyat al-Khadamat (Ownership of Services)

- These are certificates of equal value issued for the purpose of providing services through a specified provider (e.g. educational benefits in a nominated university) and obtaining the service charges (in the form of subscription income) so that the holders of the certificates become owners of these services.
- This type of Sukuk is used in services based sukuk, e.g.:
  - Etisalat Sukuk 2010
  - Garuda Sukuk 2015
  - Emirates Sukuk

# Emirates Sukuk

- In March 2018, Emirates Airlines had issued 600 Sukuk
- Issuer: Zahidi Limited (Emirates Airlines) with the rates 4.50%. Maturing on 22-Mar-2028
- Proceeds from Zahidi Limited Sukuk will be paid by the Trustee to Emirates (as Seller) as the purchase price for the Rights to Travel pursuant to the Purchase of Services Agreement.
- Use of Proceed: Emirates shall use the net proceeds of the issue of the Certificates for general corporate purposes including, but not limited to, the financing of aircraft and working capital requirements.

# Structure Diagram



Key:

-----▶ = Cash flows (or non-cash debits and/or credits, as applicable)

————▶ = Sale

----- = Contract or agreement

# Issues in Sukuk Milkiyyat al-Khadamat

- Purchase Undertaking → tantamount to guarantee of capital/ profit?
- Difference between Investment Manager and Service Agent
- AAOIFI Shariah Standard:
- Investment Manager: “Investment manager: everyone who invests the funds of others with their permission”
- Service Agent: “In this standard, a service agent is the provider of services not relating to investing/ investment, such as asset leasing, asset insurance, asset maintenance or collection of revenues generated by assets, and so on. A service agent shall neither assume the role of Mudarib, managing partner, or investment agent, nor shall implement investment plans and shall not either take decision on investment”.

# Investment manager vs. Service Agent

Investment Manager	Service Agent
<p>3/5 Forms of impermissible guarantees include:</p> <p>3/5/1 Undertaking by an investment manager to purchase the assets from Rab al-Mal (provider of funds), such as the case of undertaking to purchase the assets from holders of Mudarabah Sukuk, Musharakah Sukuk, and Wakalah Sukuk, or from their agents/ representatives at a price specified at contract date. However, it is permissible that the purchase undertaking is effected at net asset value, market value or fair value or at a price agreed on at the time of purchase, subject to item (3/1/6/2) of Shari'ah Standard No. (12) on Partnerships and Modern Corporations and items (2/2/1) and (2/2/2) of Shari'ah Standard No. (5) on Guarantees.</p> <p>3/5/2.....</p>	<p>4/3/2 Subject to the prerequisites set out in item (4/1), <u>a service agent shall be deemed a third party for whom it is permissible to undertake to make up capital loss or profit shortage</u> in accordance with the following prerequisites:</p> <p>4/3/2/1 That the service agent shall not be the receiver of funds in the operation or the investment manager in his capacity as principal. A service agent who implements an investment plan or takes investment decision shall be considered as such [i.e., an investment manager].</p> <p>4/3/2/2 That the undertaking shall be effected by way of a separate contract, independent of the service agency contract, so that invalidation or nullification of one contract shall not render the other contract invalidated or nullified.</p> <p>4/3/2/3 That the remuneration (Ajr) of a service agent, in case of a paid Wakalah, shall not exceed prevailing remuneration for comparable works, lest that remuneration is charged in return for an undertaking, which is impermissible as set out in item (4/1/3).</p>



# SUKUK MUDARABAH



# Definition of Mudarabah Sukuk



**SC Malaysia** – *Guidelines on Unlisted Capital Market Products under the LOLA Framework (2015)*

- Mudarabah sukuk refers to “certificates of equal value evidencing the certificate holder’s undivided ownership in the mudarabah venture”.



**AAOIFI** — *Shariah Standard No. 17 (5/1/5/7)*

- Mudarabah sukuk is defined as “certificates that represent projects or activities managed on the basis of mudarabah by appointing one of the partners or another person as the mudarib for the management of the operation”.

# Basel III and Issuance of Sukuk

## Basel III

- ✓ The components of regulatory capital have been reclassified as:
  - Tier 1 (T1), consisting of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) instruments and;
  - Tier 2 (T2).
  
- ✓ T1 capital instruments will absorb losses under a going concern scenario while the T2 instruments will absorb further losses when the bank reaches the point of non-viability or gone concern.
  
- ✓ Banks are required to hold 10.5% of their total capital expressed in risk-weighted assets by 1st of January 2019.

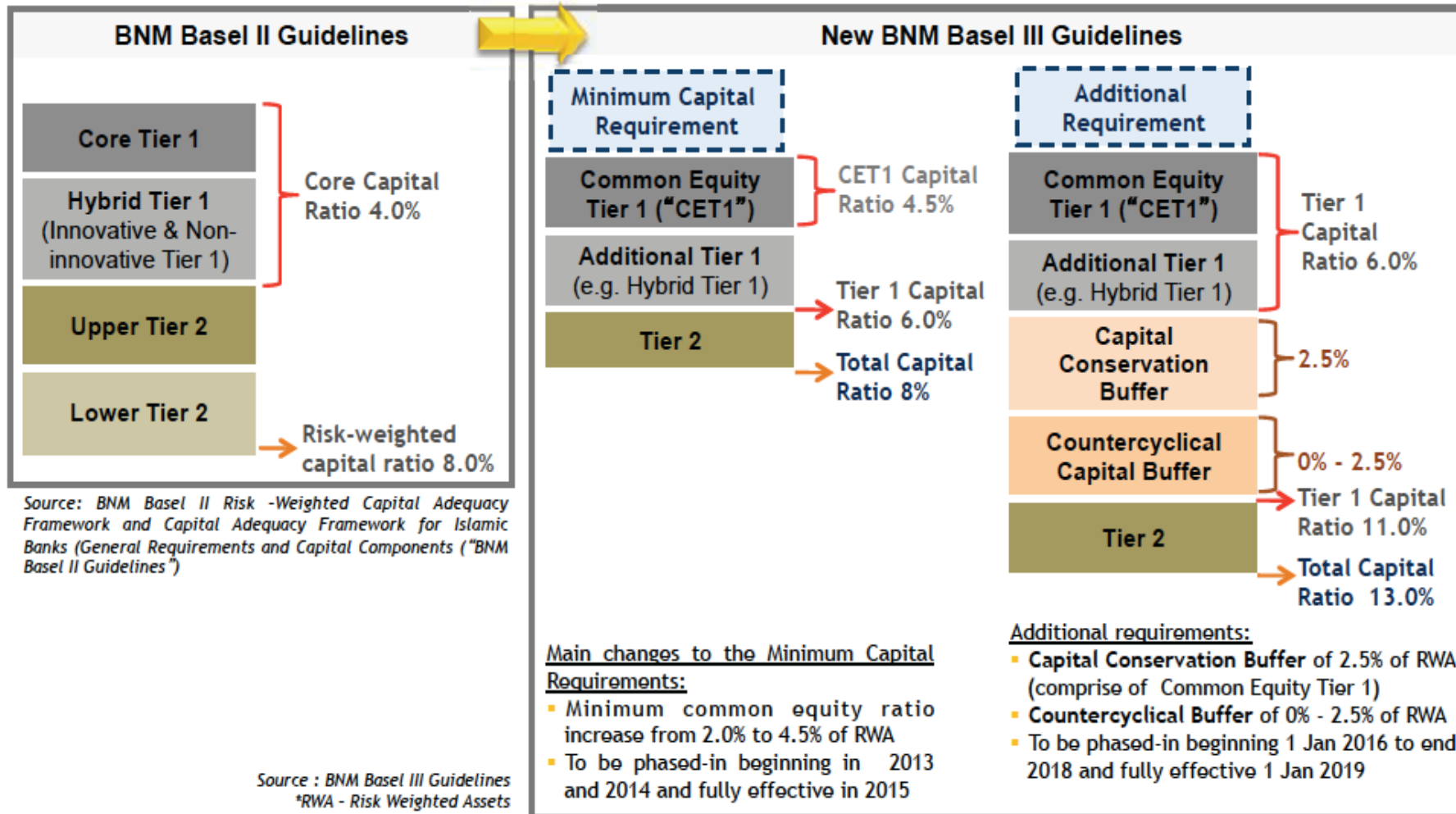
# Basel III and Issuance of Sukuk (2)

## Basel III phase-in arrangements (All dates are as of January)

Phases	2013	2014	2015	2016	2017	2018	2019
Leverage Ratio	Parallel run 1 Jan 2013 - 1 Jan 2017. Disclosure starts 1 Jan 2015					Migrate to Pillar 1	9.0
Minimum Common Equity Capital Ratio	3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer				0.625%	1.25%	1.875%	2.5%
Minimum Common Equity plus capital conservation buffer	3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of Deduction from CET1*		20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital	4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer	8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 2013						

Source: Bank of International Settlements

# Basel III and Issuance of Sukuk (3)



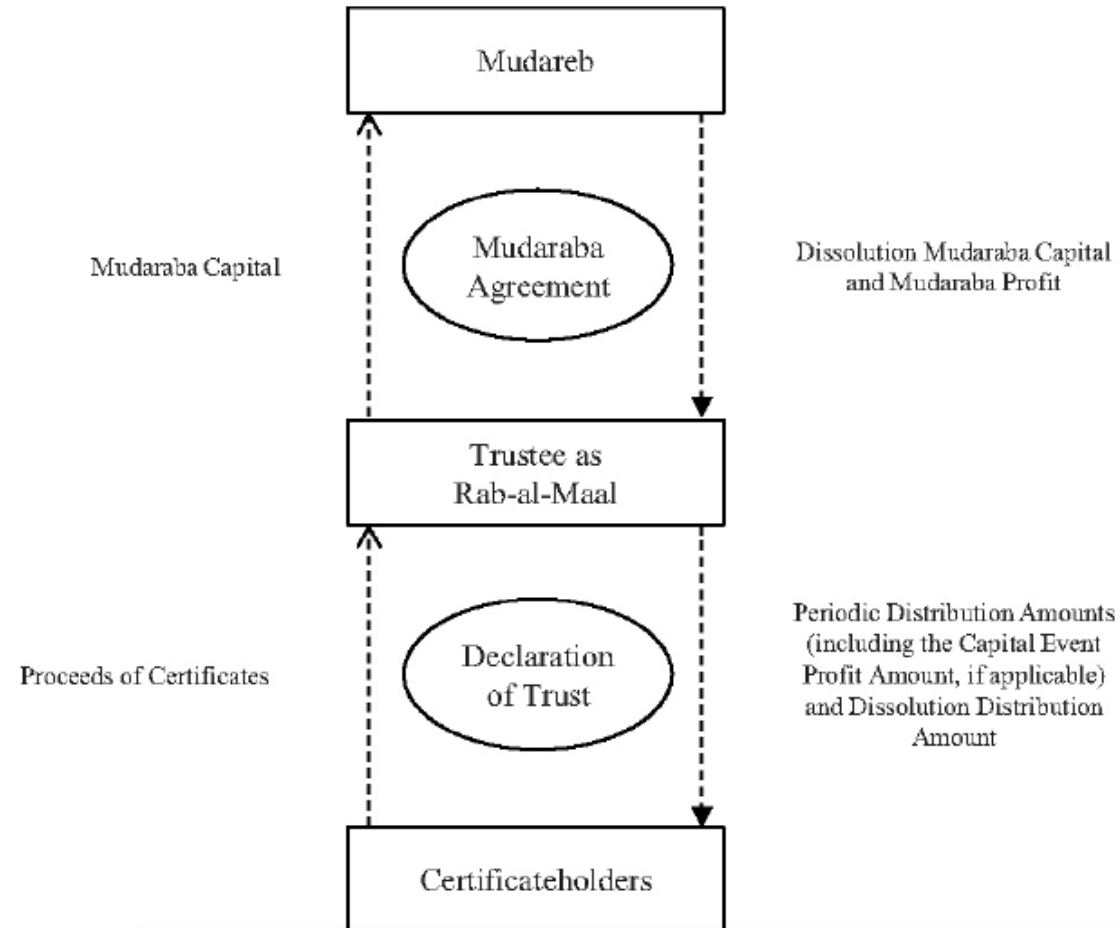
# Example Tier 1 Sukuk – Ahli United Sukuk Limited (Sukuk Mudarabah)

## U.S.\$ 200,000,000 Tier 1 Capital Certificates

• Issue Date	18 October 2016
• Rating Agency	Fitch : A+ Moody's : A2 CI : A+
• Arrangers	Citi, Credit Agricole, Credit Suisse
• Issue Size	USD 200,000,000
• Coupon rate	5.5%
• Par value/amount	USD 1000
• Structure	Mudarabah

# Example Tier 1 Sukuk – Ahli United Sukuk Limited (2)

## U.S.\$ 200,000,000 Tier 1 Capital Certificates



# Issues in Tier 1

- Tier 1 sukuk issued by conventional banks with window? Ta'awun for the sin? Repayment of conventional depositors. Should we allow?. Ringfencing the proceeds. Can it be done?
- Loss absorbency at the point of non-viability → how about musharakah?



# **SUKUK WAKALAH BI AL-ISTITHMAR**



# Definition of Wakalah bi al-Istithmar Sukuk



**SC Malaysia** – *Guidelines on Unlisted Capital Market Products under the LOLA Framework (2015)*

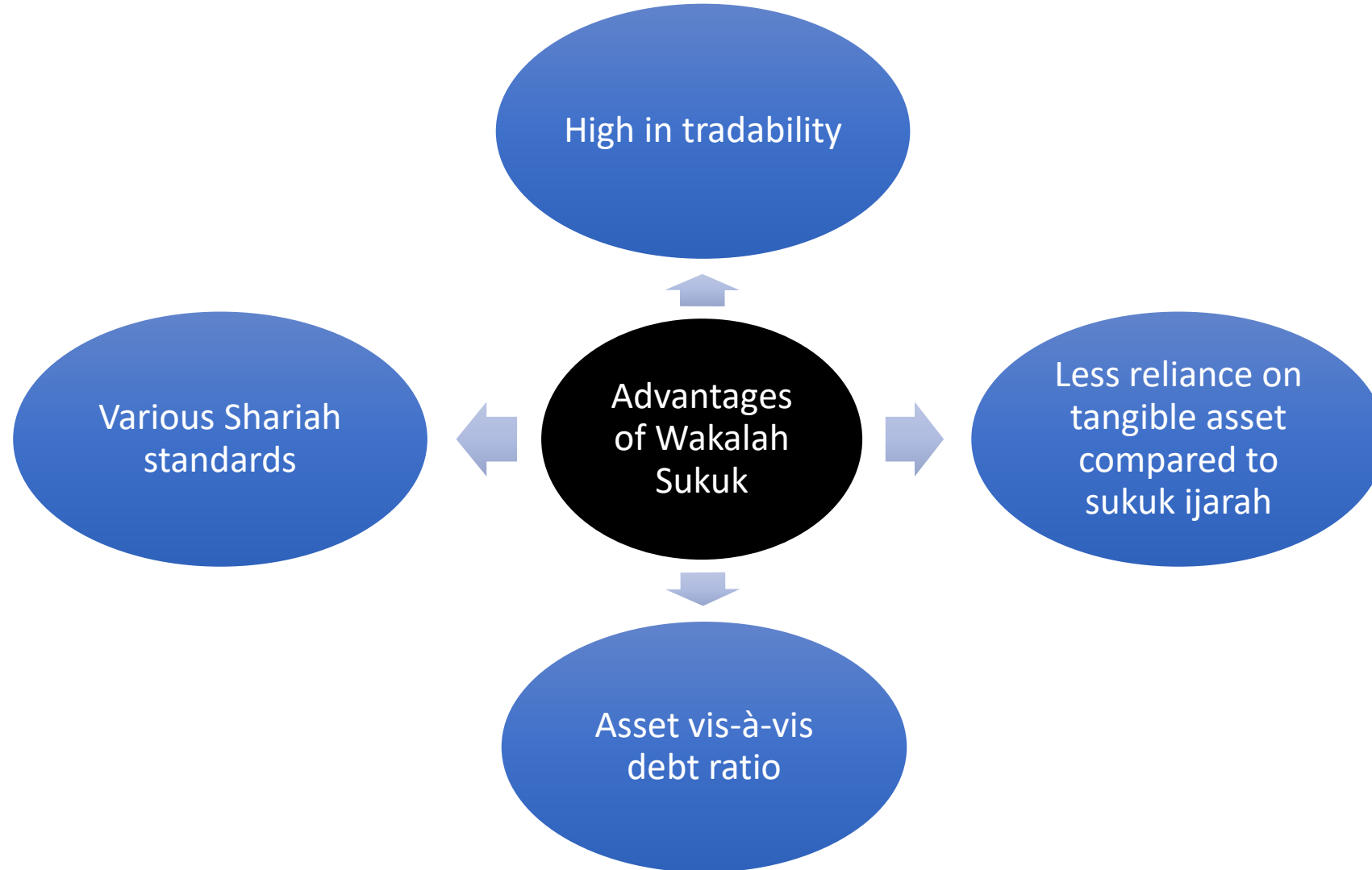
- Wakalah bi al-Istithmar sukuk refers to “certificates of equal value evidencing the certificate holder’s undivided ownership in the investment assets pursuant to their investment through the investment agent”.



**AAOIFI** — *Shariah Standard No. 17 (3/6/2)*

- Wakalah bi al-Istithmar sukuk is defined as “certificates that represent a project or activities managed on the basis of an investment agency by appointing an agent to manage the operation on behalf of the certificate holders”.

# Advantages of Issuing Wakalah bi al-Istithmar Sukuk



# Variations

- ▶ The issuance of sukuk wakalah bi al-Istithmar has taken prominence
- ▶ Variations in the Issuance of Sukuk al-wakalah bi al-Istithmar
  - Combination of ijarah + existing debts (IDB Sukuk)
  - Combination of ijarah + newly created debt (Emirates REITs, Golden Sukuk LLC)
  - Combination of mudarabah + newly created debt (GIC)
  - Combination of ijarah + musharakah + newly created debt (GOM)
  - Combination of lease and lease back + murabahah (Gov of Bahrain)

# Real Example of Wakalah bi al-Istithmar Sukuk

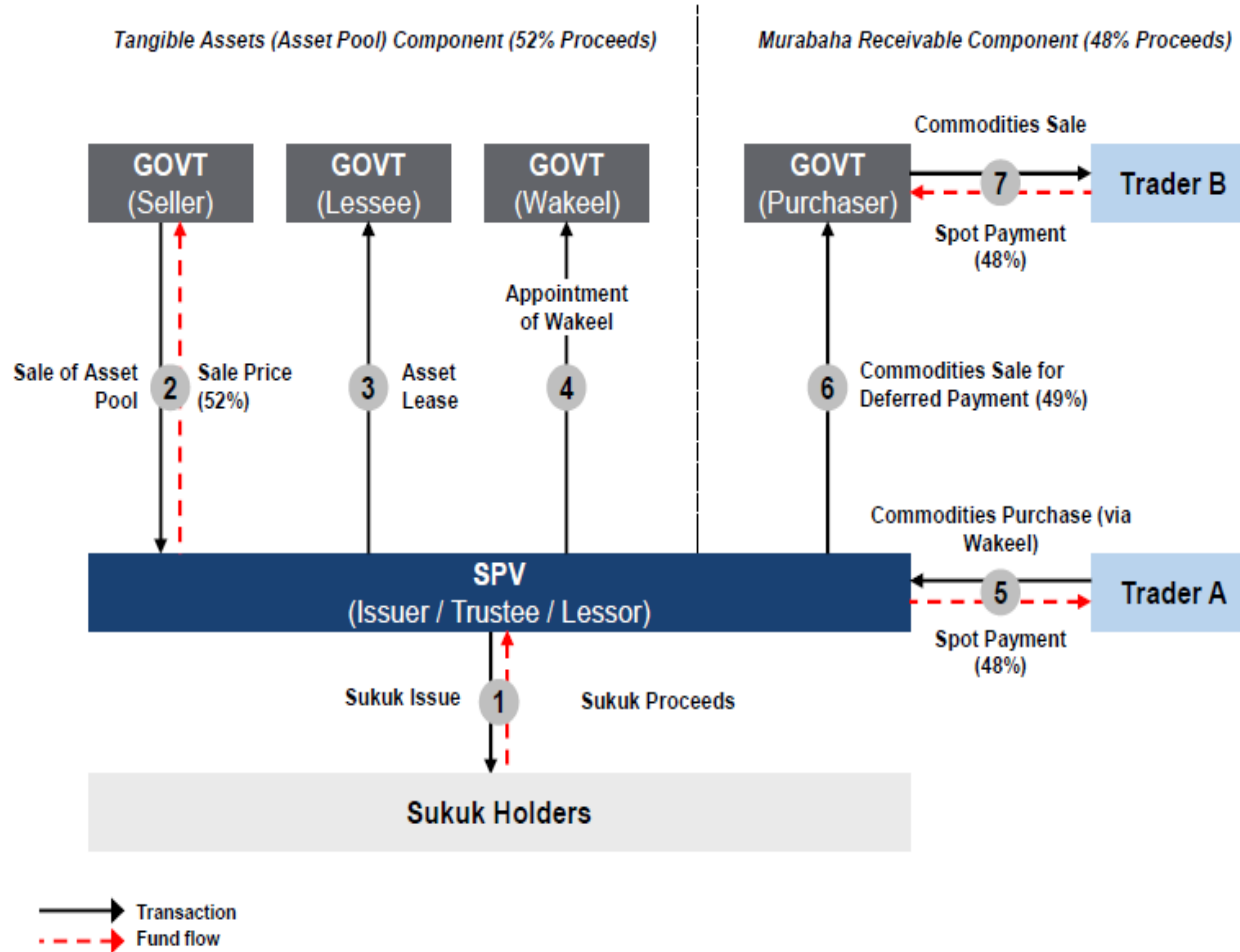
## Government of Malaysia's USD2 Billion Wakalah Sukuk 2011

- ❖ Dual Tranches:
  - USD 1.2 Billion, Due 2016
  - USD 8 Million, Due 2021
- ❖ The Sukuk Proceeds are managed by the Wakeel as follows:
  - 52 % tangible assets: min 26% lease asset, max 26% shares (following the DJIMI screening criteria)
  - 48% (commodity murabahah) → the Selling price is 49% of the portfolio

# Real Example of Wakalah bi al-Istithmar Sukuk (2)

Government of Malaysia's USD 2 Billion Wakalah Sukuk 2011

## Inception



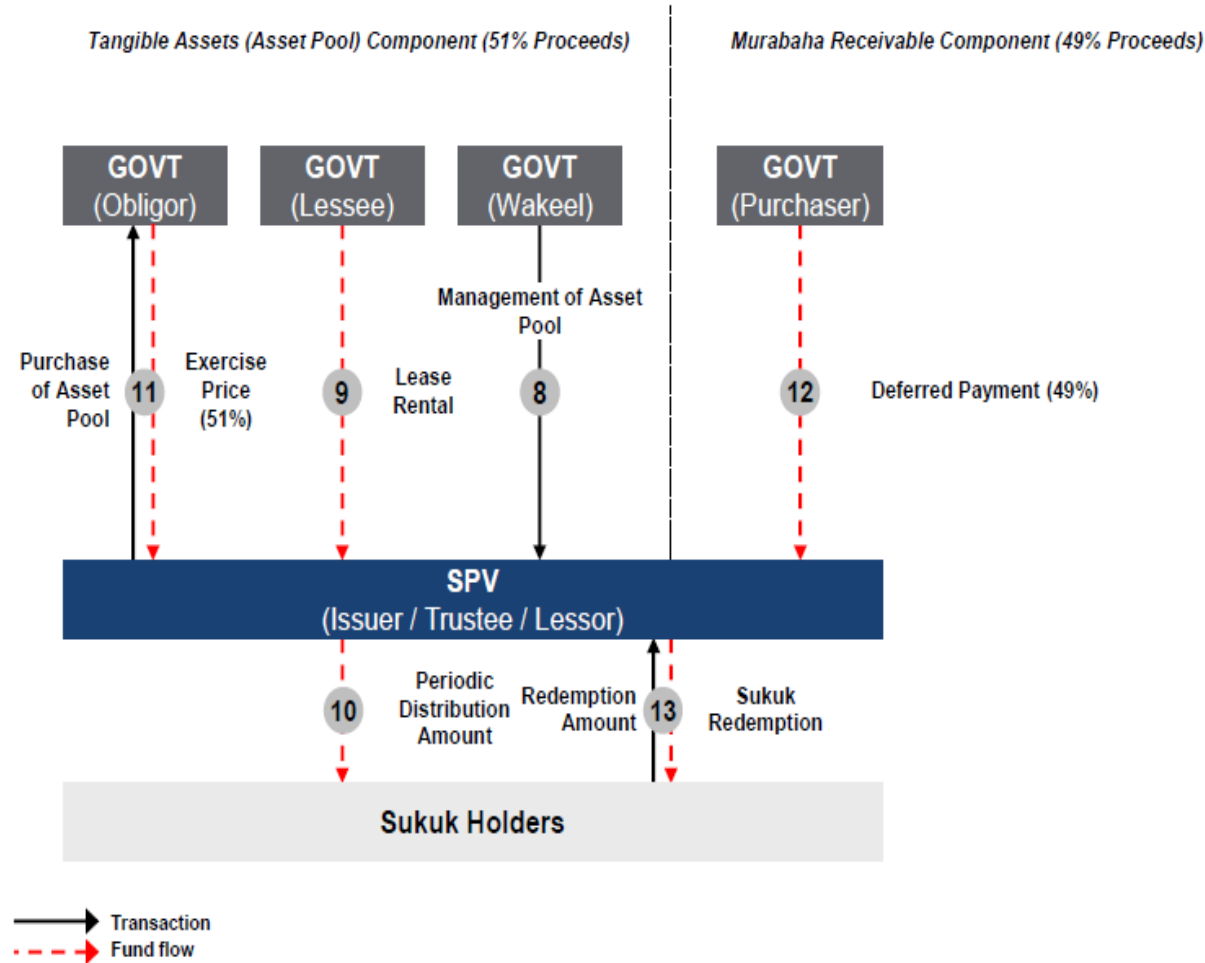
### Main Documentation:

- The Issuance of Certificate
  - Offer Memo (general)
  - Declaration of Trust
  - Agency Agreement
- Lease Asset
  - SPA (Asset Purchase)
  - SPA (Share Purchase)
  - Lease Agreement
  - Substitution Undertaking
- Murabahah
  - Transaction Agency Agreement
  - Murabahah Agreement
- Relating to Trust Asset
  - Purchase Undertaking
  - Redemption Undertaking
  - Wakalah Agreement

# Real Example of Wakalah bi al-Istithmar Sukuk (3)

Government of Malaysia's USD 2 Billion Wakalah Sukuk 2011

## Ongoing & Maturity



- During the Tenure (no default)
    - Govt will pay rental
    - The total income from the Trust Asset shall be in accordance to the expected profit rate.
    - Any excess above the rate shall be retained by Govt as incentive fees.
  - Default / maturity
    - Exercise of PU (Notice etc)
    - Sale Agreement & Payment of EP
  - Exercise of Redemption Undertaking
    - Redemption Notice
    - Redemption Sale Agreement & payment of RP
- [Dissolution of Trust]**

# Government of Sharjah Sukuk

---

Issuer: Sharjah Sukuk Programme Limited

---

**Notes:** Obligor: The Government of the Emirate of Sharjah, acting through Sharjah Finance Department.

---

Issue Size: USD 1b.

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**Maturity:** 08 March 2028

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**Tenor:** 10 years

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**Issue Date:** 08 March 2018

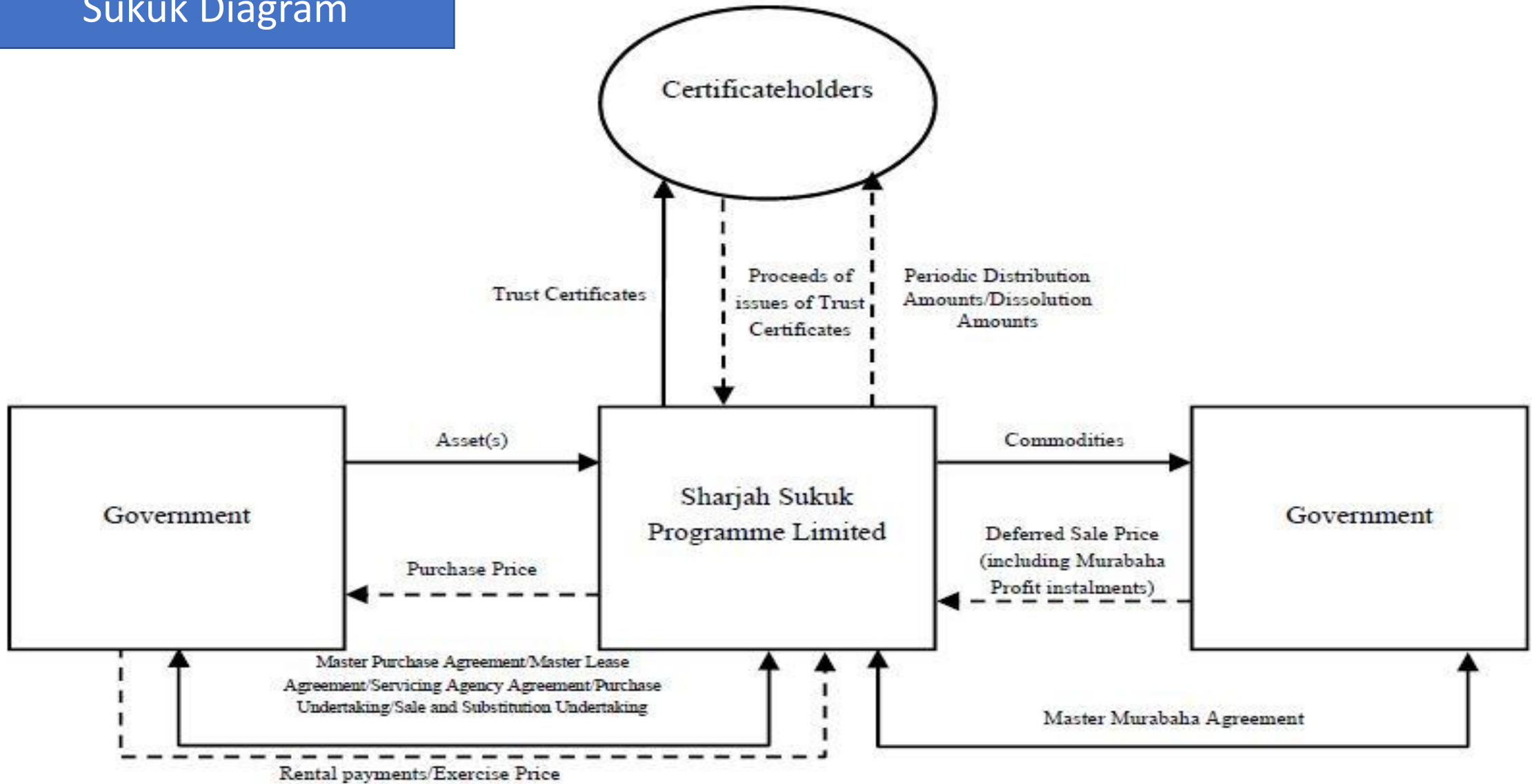
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**Sukuk Rating:** Moodys: A3

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Asset Tangibility: At least 55%

# Sukuk Diagram



# Shariah Issues Related to Agency-Based Sukuk

## Ownership of underlying assets

- Sukuk, to be tradable, must be owned by sukuk holders, with all rights and obligations of ownership, in real assets, whether tangible, usufructs or services, capable of being owned and sold legally - [AAOIFI \(2008\)](#)

## Tradability of mixed-assets sukuk

- The determination of the portion that should represent tangible assets out of the portfolio.
- 51:49, 33: 67
- Malaysia → 33: 67 only at the beginning

## Capital and/or profit guarantee

- "if a guarantee is not stipulated in the agency contract and the agent voluntarily provides a guarantee to his principals independently of the wakalah contract, the agent becomes a guarantor in a different capacity from that of agent. In this case, such an agent will remain liable as guarantor even if he is discharged from acting as agent." - [AAOIFI Shariah Standard No. 23 \(5/2\)](#)

# Shariah Issues Related to Agency-Based Sukuk (2)

## Liquidity Facility

- “It is permissible for the agent, with the principal’s consent, to set aside a portion of the profit to create a PER for the benefit of the principal”- [AAOIFI Shariah Standard No. 46 \(6/6\)](#)
- SC Malaysia allows issuer to seek liquidity facility, e.g. advance payment facility based on loan from 3<sup>rd</sup> party.
- Else where - Liquidity Facility, but not on compulsory basis – “may” & not “shall”

## Incentive Fee

- “sukuk holders may waive their rights to the profit payment from the wakalah arrangement” - [SC Malaysia Guidelines on Unlisted Capital Market Products under the LOLA \(2015\)](#)

## Purchase Undertaking

- “It is not permissible for the investment manager, partners or agent to undertake now to repurchase the assets from sukuk holders for its nominal value, when the sukuk are extinguished at the end of its maturity.” – [AAOIFI \(2008\)](#)

## Fictitious?

- Murabahah covering face value of the sukuk + all profit
- Buying musharakah portfolio at a very low price
- How to deal with that?

# Solutions on Liquidity Facility

## *Shortfalls and Liquidity Facilities*

If on a Periodic Distribution Determination Date (after (a) payment of the relevant amounts standing to the credit of the Profit Collection Account into the Transaction Account and (b) taking into account any other payments made or to be made into the Transaction Account pursuant to any other Transaction Document) there is a shortfall between (A) the amounts standing to the credit of the Transaction Account and (B) the Required Amount payable on the immediately following Periodic Distribution Date (each a **Shortfall**), the Wakeel shall pay into the Transaction Account on that Periodic Distribution Determination Date from the On Account Incentive Payment (if any) an amount equal to the Shortfall (or such lesser amount as is then available from the On Account Incentive Payment).

The Wakeel will be entitled to utilise the On Account Incentive Payment at any time during the Wakala Period and use such amounts for its own account, provided that any such portion of the On Account Incentive Payment shall be returned by it if so required to fund a Shortfall or upon the occurrence of a Dissolution Event.

After taking into account any amount of the On Account Incentive Payment returned by the Wakeel as described above and after payment to the Transaction Account of all other amounts payable pursuant to any other Transaction Document, there is still a Shortfall, the Wakeel may, on behalf of the Trustee, arrange or provide a non-interest bearing or otherwise a Shari'a compliant funding on terms that such funding is repayable by the Trustee on the Final Maturity Date (or any earlier Dissolution Date on which all of the Certificates are to be redeemed), to ensure that the Trustee receives on each Periodic Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date (such funding in relation to a Series, a "**Liquidity Facility**").

# Observation

- Latest AAOIFI Shariah Standard on bay' al-dayn (sale of debt) and its impact on sukuk wakalah:
- The Standard deliberates on some issues:
  - Differentiation between on-going business entity, which deals with debt and an entity which purchases a financing portfolio which consists of assets and debts.
  - In the case of an entity purchasing portfolio, it must follow certain procedure and conditions
    - ✓ The entity which wants to sell the financing portfolio shall transfer the portfolio to another entity
    - ✓ Then the investors will purchase the entity
  - Can this work in sukuk?

# Thank You & Wassalam

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## Q & A