



The Role of Sukuk in Islamic Capital Markets (ICM)

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PART 2: CASE STUDIES & RECOMMENDATIONS

1 SELECTION CRITERIA AND METHODOLOGY

2 DEVELOPMENT STAGE MATRIX

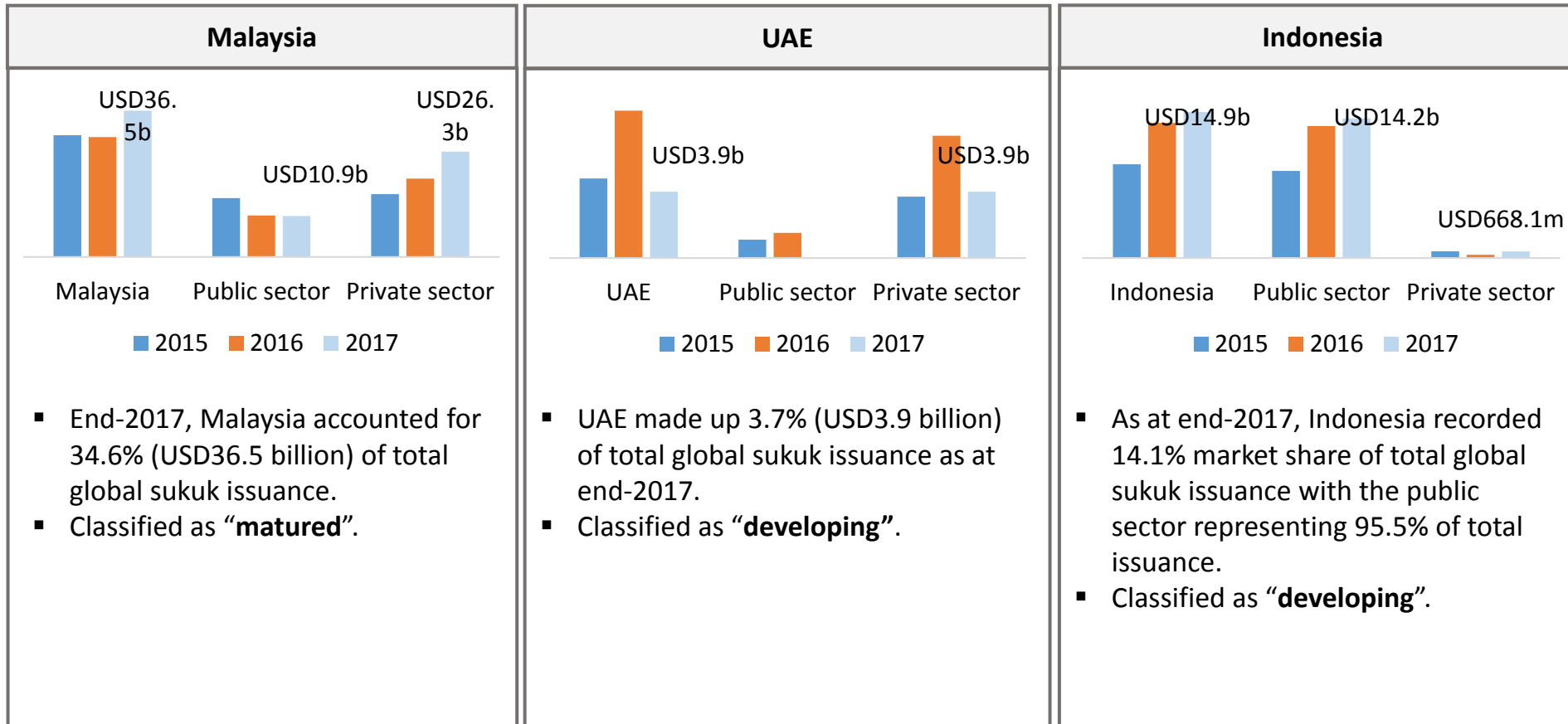
3 KEY FINDINGS, POLICY AND GENERAL RECOMMENDATIONS

In deciding which country to choose the following analysis were undertaken:

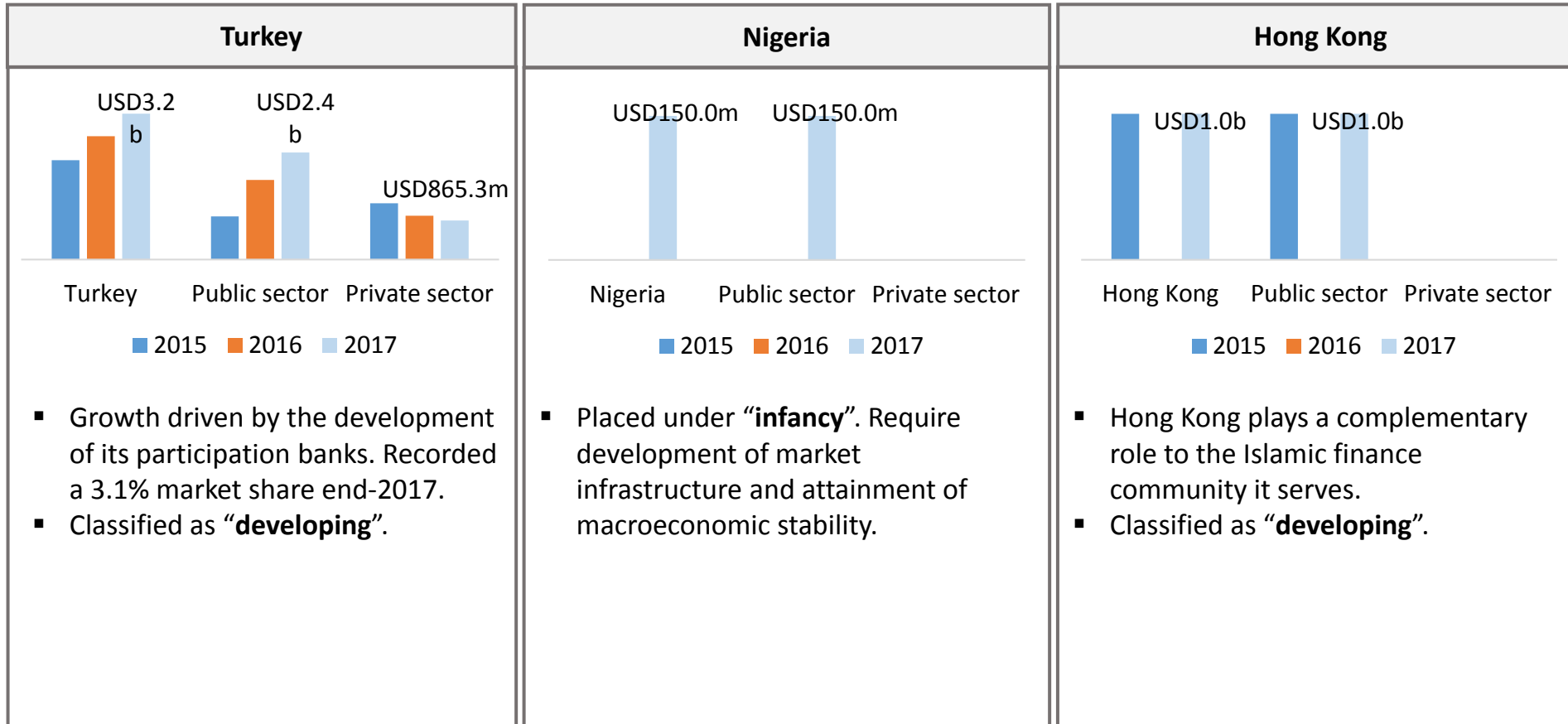
1. Level of sukuk market activity.
2. Country's contribution to global sukuk issuance.
3. Sukuk issuance by type of issuer.

Infancy	Developing	Matured
Nigeria	UAE Indonesia Turkey Hong Kong	Malaysia

Case study countries – Stage of sukuk market development



Case study countries – Stage of sukuk market development



























Development Stage Matrix

High
 Moderate
 Low

	Matured	Developing			Infancy	
	Malaysia	UAE - Advanced	Indonesia - Intermediate	Turkey - Beginner	Hong Kong	Nigeria
Credit ratings	A- (S&P), A3 (Moody's), A- (Fitch), A ₂ (RAM)	A- (S&P), A3 (Moody's), A- (Fitch), A ₂ (RAM)	BBB- (S&P), Baa3 (Moody's), BBB (Fitch), BBB ₂ (RAM)	BB (S&P), Ba1 (Moody's), BB+ (Fitch), BBB ₃ (RAM)	AA+ (S&P), Aa2 (Moody's), AA+ (Fitch)	B (S&P), B2 (Moody's), B+ (Fitch)
Legal framework	Common law 	Civil law 	Civil law 	Civil law 	Common law 	Common law
Shariah governance						
Regulatory framework						
Tax neutrality						
Tax incentives						
Product innovation						
Infrastructure						
Investor diversification						

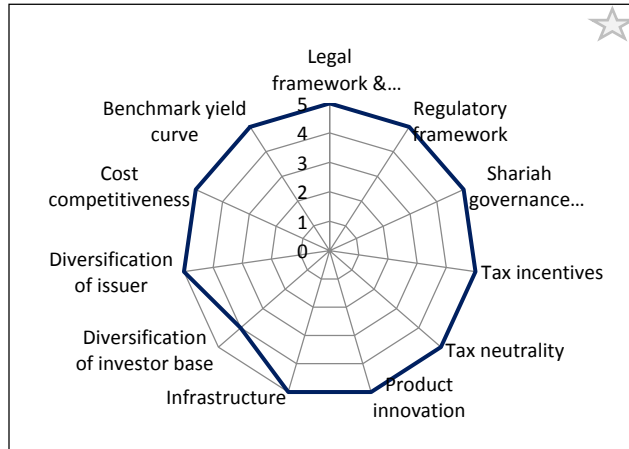
Development Stage Matrix

 High
  Moderate
  Low

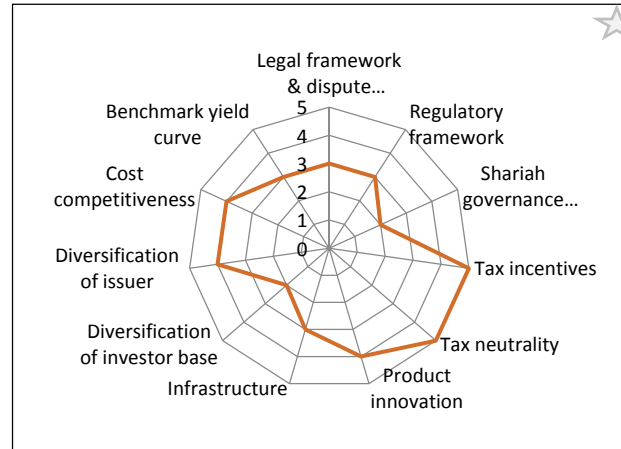
	Matured	Developing				Infancy
	Malaysia	UAE	Indonesia	Turkey	Hong Kong	Nigeria
Diversification and frequency of - Sovereign issuance - Corporate issuance						
Cost competitiveness						
Establishment of sovereign sukuk yield benchmark						
Establishment of corporate sukuk yield benchmark						

Key building blocks in developing the sukuk market – Spider chart

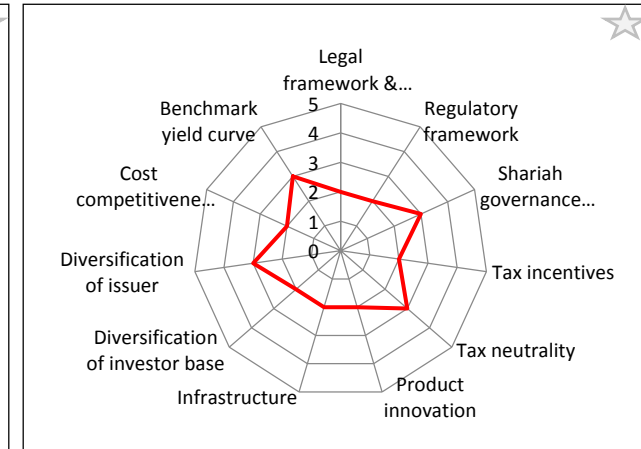
Malaysia – “matured”



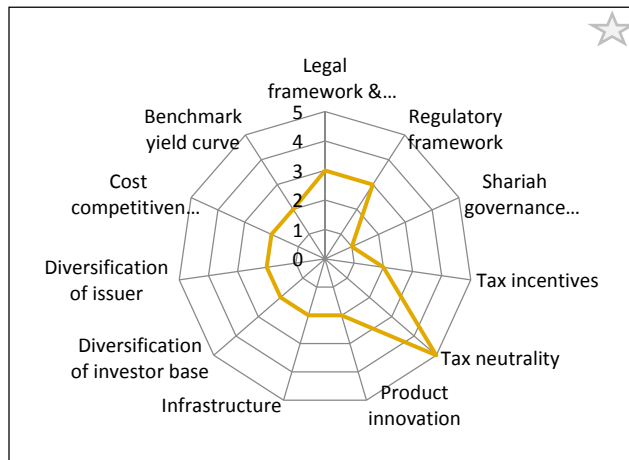
UAE – “developing (advance)”



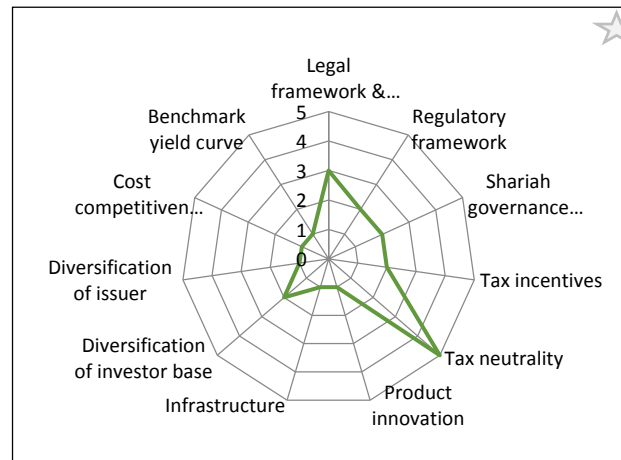
Indonesia - “developing (intermediate)”



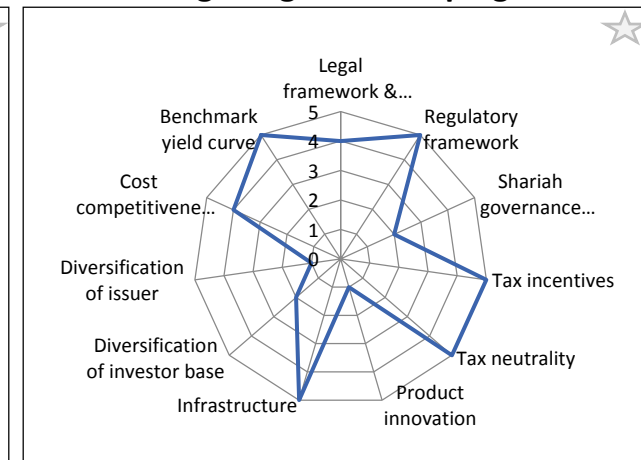
Turkey - “developing (beginner)”



Nigeria – “infancy”

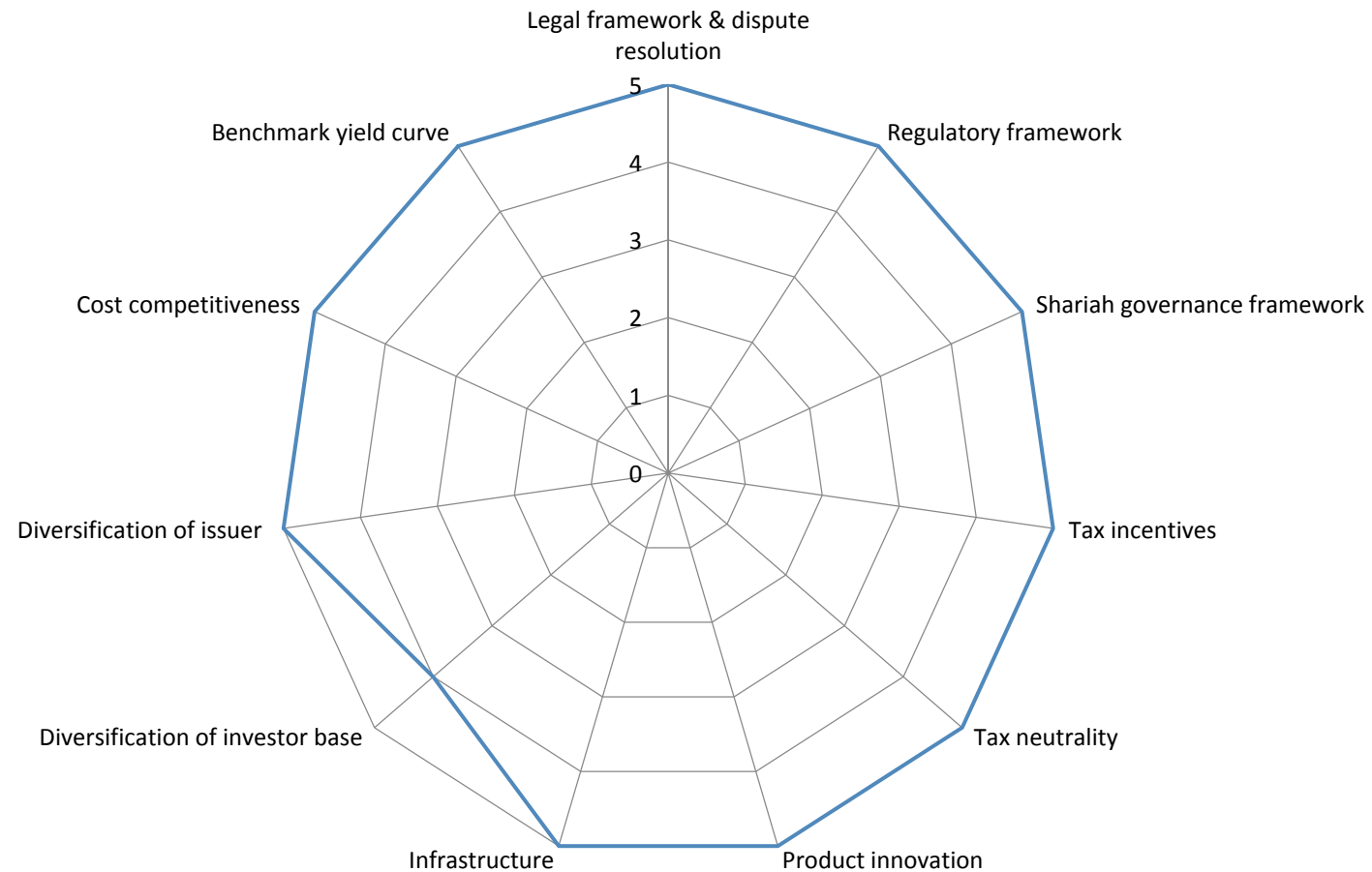


Hong Kong – “developing”







“Malaysia’s distinct ICM puts sukuk at an advantage compared to conventional bonds”

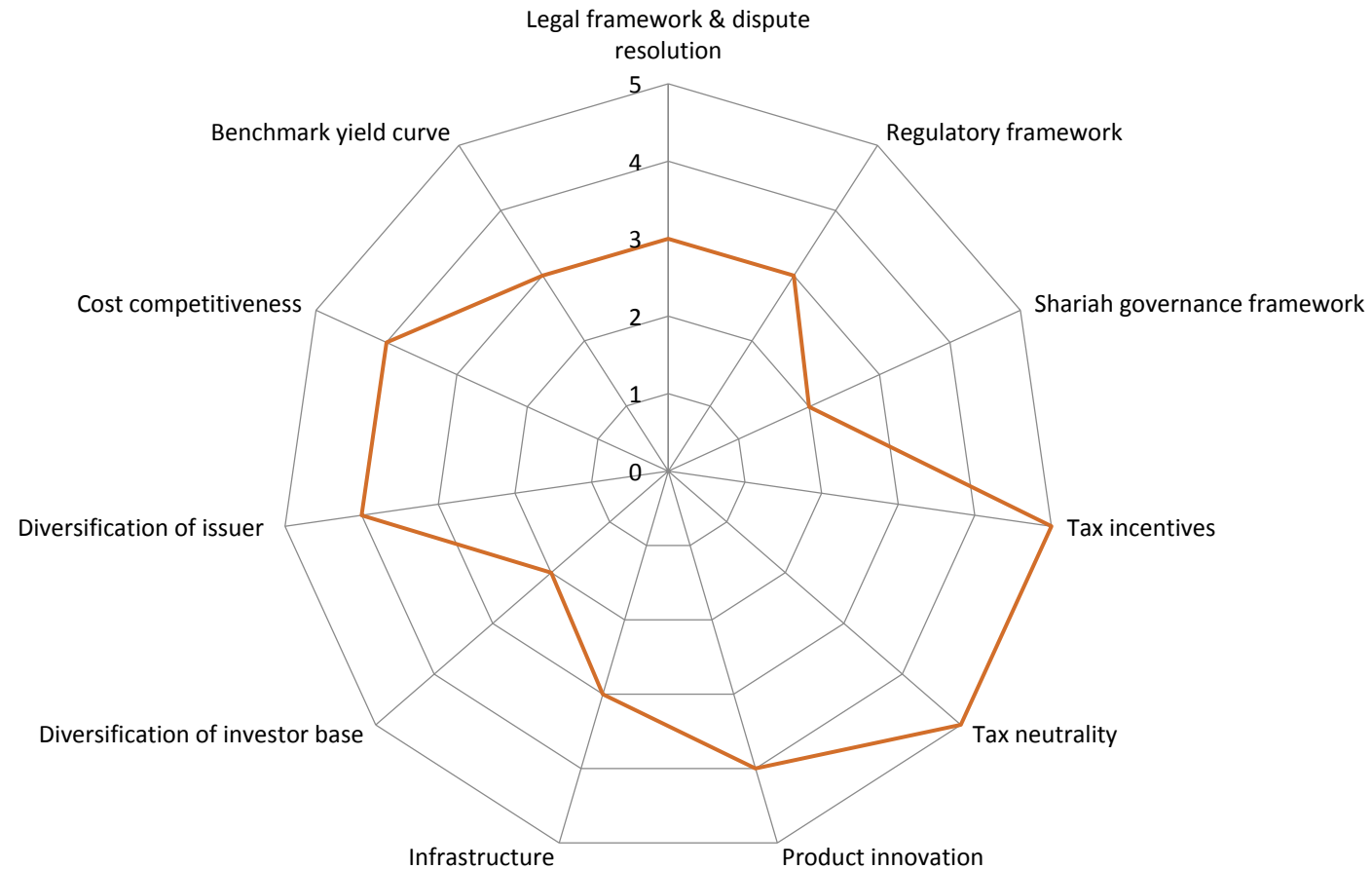


Key findings and policy recommendations – Malaysia










Components ☆	Policy recommendations	
 <p data-bbox="466 482 952 511">Market and infrastructure development</p>	<input checked="" type="checkbox"/>	Promote a shift in mindset to consider social impact objectives.
	<input checked="" type="checkbox"/>	VBI initiatives to achieve social justice in light of UN’s SDGs.
	<input checked="" type="checkbox"/>	Continuous development of liquidity management tools to support the growth of Islamic banks.
 <p data-bbox="453 749 963 811">Diversified market players on demand and supply sides</p>	<input checked="" type="checkbox"/>	Create awareness among Islamic finance community on impact investing.
	<input checked="" type="checkbox"/>	Increase awareness among members of the public to invest in retail sukuk.



“UAE’s healthy pipeline of corporate sukuk supports the market’s level of competitiveness”



Key findings and policy recommendations – UAE





Components ☆	Policy recommendations	
 <p data-bbox="509 506 904 535">Legal and regulatory framework</p>		<p data-bbox="1166 349 2102 414">Greater clarity on investor protection and enforcement of security charges to avoid defaults/disputes.</p>
	<p data-bbox="1166 449 2102 514">Some level of standardization in legal documents, sukuk structures and Shariah rulings will create greater market certainty.</p>	
 <p data-bbox="458 735 955 763">Market and infrastructure development</p>		<p data-bbox="1166 606 2140 671">Greater push by sovereigns and GREs to support issuance of LT sukuk and provide benchmark yield curves for corporates to follow.</p>
	<p data-bbox="1166 721 2051 785">Support for Shariah standards will facilitate product innovation in liquidity management products and help grow the local Islamic banking industry.</p>	
 <p data-bbox="445 1006 968 1071">Diversified market players on demand and supply sides</p>		<p data-bbox="1166 892 2025 928">Improve intermediation of NBFIs to finance local infrastructure projects</p>
	<p data-bbox="1166 992 1783 1013">Heighten public visibility in investing in retail sukuk.</p>	



“Indonesia’s growth potential makes it a market to contend with”



Key findings and policy recommendations – Indonesia




Components ☆	Policy recommendations
 <p data-bbox="512 505 907 536">Legal and regulatory framework</p>	<p data-bbox="1049 396 1123 444">✓</p> <p data-bbox="1166 382 2058 444">Synergistic approach to bring all key stakeholders together will provide the necessary mileage to move the sukuk market forward.</p>
 <p data-bbox="466 739 952 771">Market and infrastructure development</p>	<p data-bbox="1049 601 1123 648">✓</p> <p data-bbox="1166 605 2079 666">Openness of NBFIs to hold LT papers will spur supply of infrastructure-based sukuk.</p> <p data-bbox="1049 694 1123 741">✓</p> <p data-bbox="1166 691 1997 752">Educative forums supported by regulators to increase knowledge and understanding of sukuk structuring, processes, etc.</p> <p data-bbox="1049 768 1123 815">✓</p> <p data-bbox="1166 772 2137 803">Explore product innovation with social welfare benefits (e.g. awqaf-linked sukuk).</p>
 <p data-bbox="652 1001 766 1032">Taxation</p>	<p data-bbox="1049 922 1123 969">✓</p> <p data-bbox="1166 915 2099 976">Expand coverage of fiscal stimulus to include domestic corporate issuance and institutional investors.</p>
 <p data-bbox="448 1250 970 1312">Diversified market players on demand and supply sides</p>	<p data-bbox="1049 1129 1123 1176">✓</p> <p data-bbox="1166 1129 2099 1160">Identify SOEs/corporates to issue retail sukuk linked to infrastructure projects.</p> <p data-bbox="1049 1215 1123 1262">✓</p> <p data-bbox="1166 1215 2117 1276">Continuous awareness by regulators to institutional investors on the benefits of investing in LT papers.</p>



“Turkish regulators’ concerted efforts will help strengthen its ICM landscape”

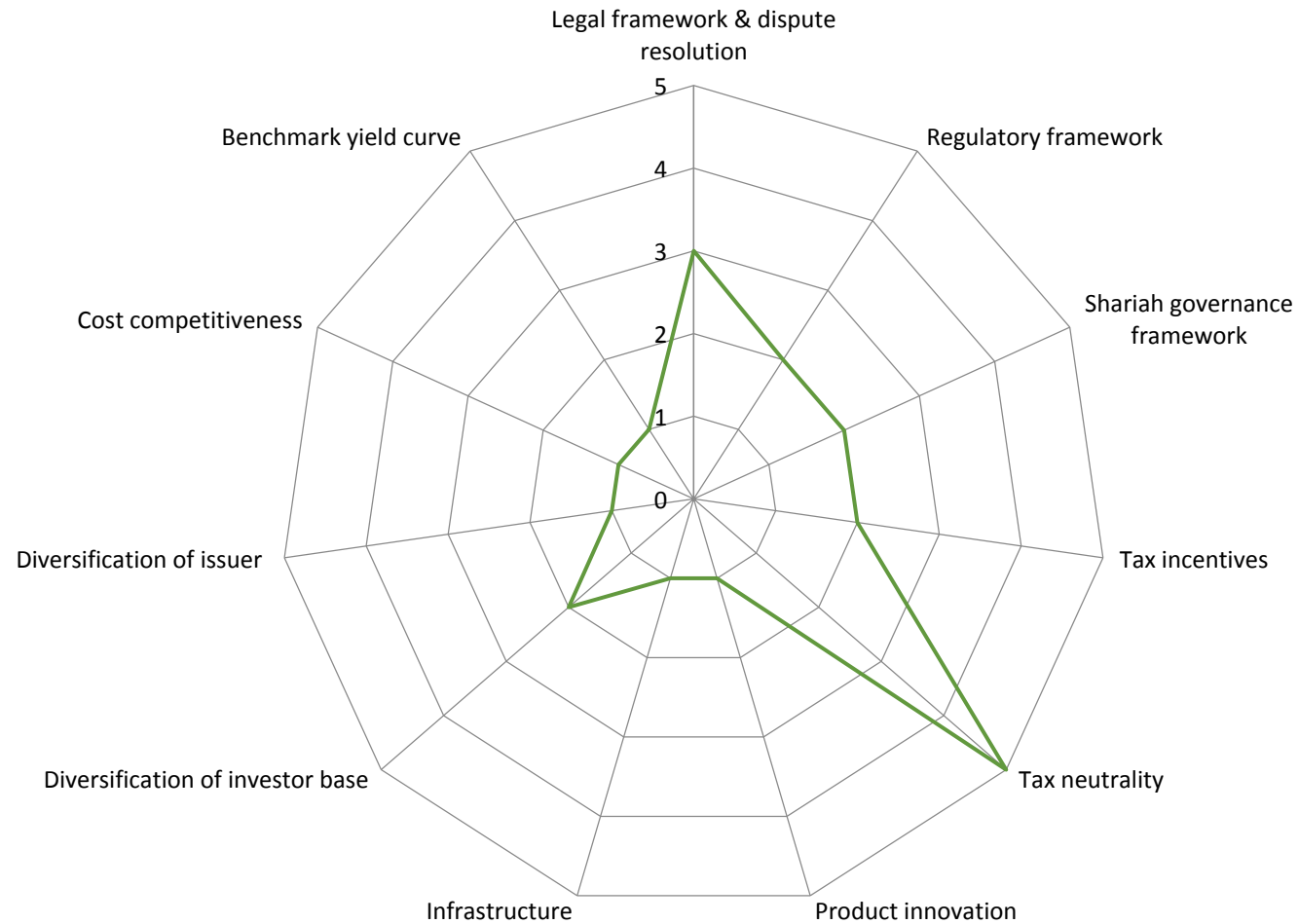


Key findings and policy recommendations – Turkey





Components ☆	Policy recommendations	
 <p data-bbox="512 505 907 536">Legal and regulatory framework</p>	<input checked="" type="checkbox"/>	Provide tax incentives to promote local corporates to raise funding via its capital market.
 <p data-bbox="466 739 955 771">Market and infrastructure development</p>	<input checked="" type="checkbox"/>	Educative forums supported by regulators to increase knowledge and understanding of sukuk structuring, processes, etc.
 <p data-bbox="450 1008 970 1072">Diversified market players on demand and supply sides</p>	<input checked="" type="checkbox"/>	Government to encourage development of institutional funds (e.g. pension, pilgrimage fund, etc) and create demand for <i>Shariah</i> -compliant assets.
	<input checked="" type="checkbox"/>	Encourage the government, SOEs and blue-chip corporates to issue retail sukuk linked to infrastructure projects.



“Initial pillars for ICM will set the stage to advance Nigeria’s sukuk market growth”

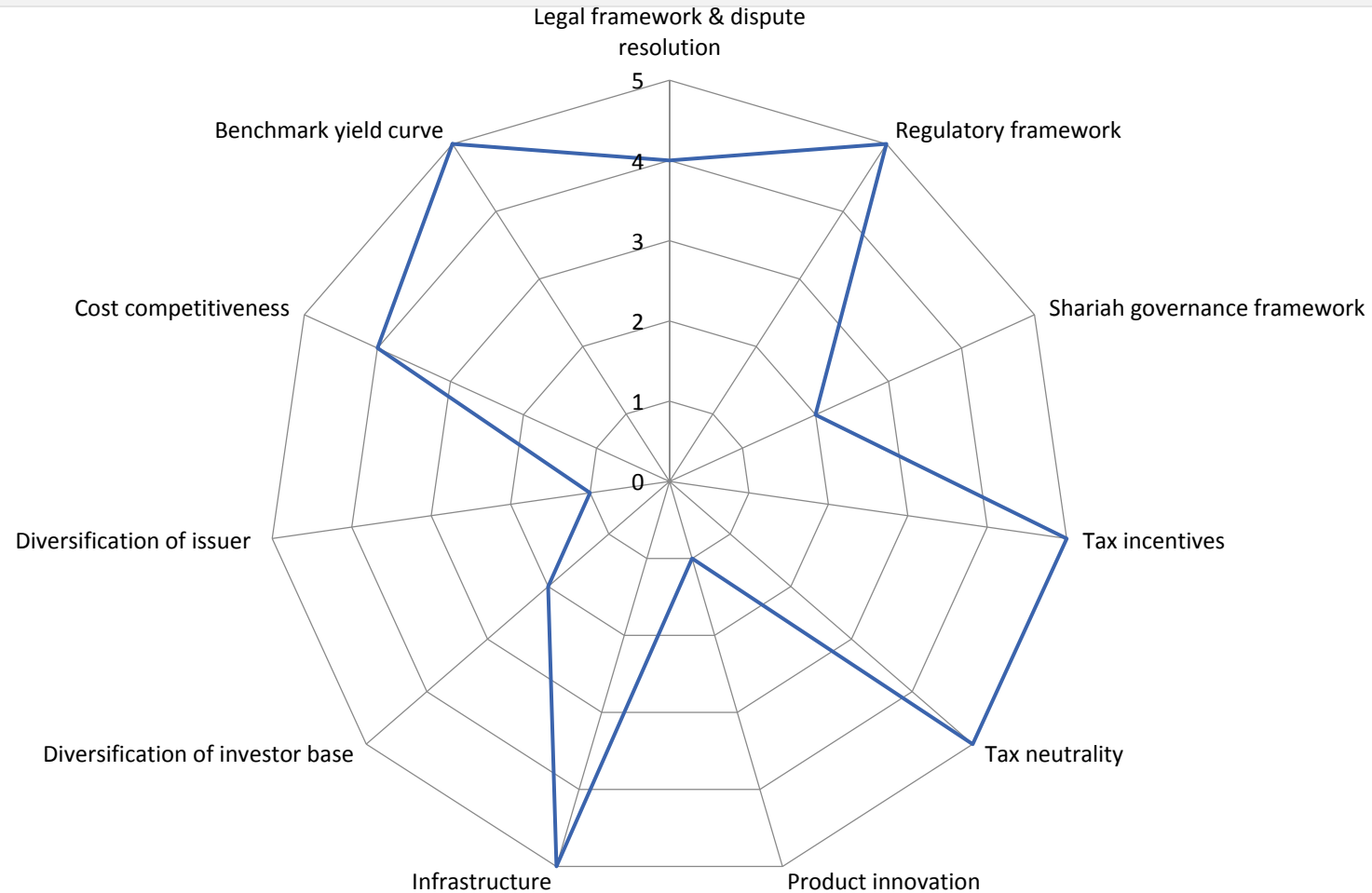


Key findings and policy recommendations – Nigeria








Components ☆	Policy recommendations
 <p>Legal and regulatory framework</p>	<ul style="list-style-type: none"> <li data-bbox="1021 349 2163 454"> <input checked="" type="checkbox"/> Identify gaps in existing guidelines to further strengthen policies and facilitate a robust legal and regulatory framework. <li data-bbox="1021 454 2163 558"> <input checked="" type="checkbox"/> Establish a central shariah authority to oversee the activities of ICM products.
 <p>Market and infrastructure development</p>	<ul style="list-style-type: none"> <li data-bbox="1021 596 2163 679"> <input checked="" type="checkbox"/> Educative forums supported by regulators to increase knowledge and understanding of sukuk structuring, processes, etc. <li data-bbox="1021 679 2163 762"> <input checked="" type="checkbox"/> The government and central bank to issue short-term Shariah-compliant papers and build a base for liquidity management.
 <p>Taxation</p>	<ul style="list-style-type: none"> <li data-bbox="1021 901 2163 1019"> <input checked="" type="checkbox"/> Concerted efforts by the government and regulators to accelerate process of addressing tax provisions that may impinge sukuk issuance or product development.
 <p>Diversified market players on demand and supply sides</p>	<ul style="list-style-type: none"> <li data-bbox="1021 1125 2163 1208"> <input checked="" type="checkbox"/> Reach of takaful products has been successful through usage of fintech. Explore other fintech solutions in educating the public. <li data-bbox="1021 1208 2163 1290"> <input checked="" type="checkbox"/> Through government and regulator led initiatives, heighten awareness on wealth protection and preservation.



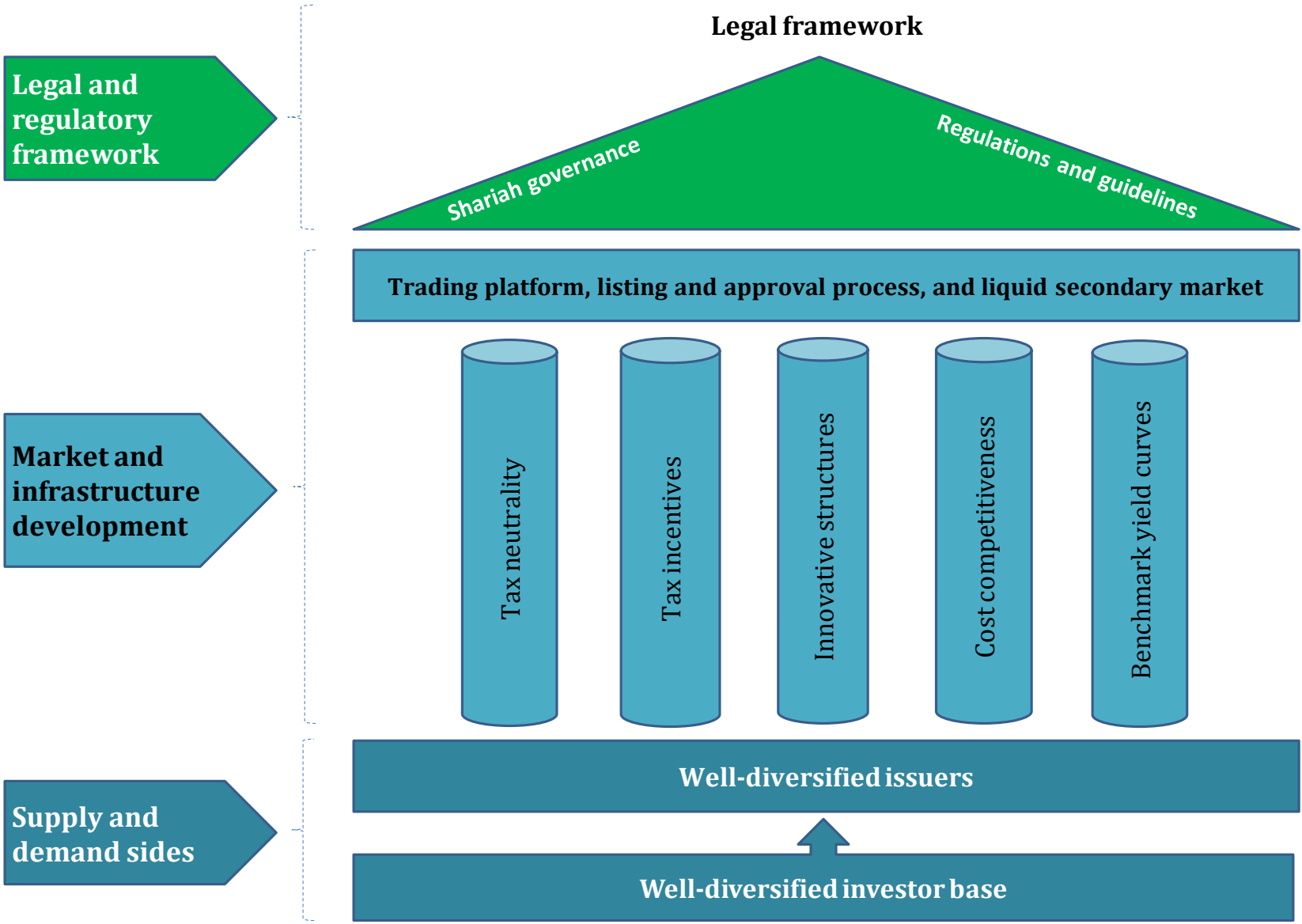
“Inclusiveness of sukuk adds value to Hong Kong’s status as an International Financial Centre”



Key findings and policy recommendations – Hong Kong

Components ☆	Policy recommendations
 <p data-bbox="512 505 907 535">Legal and regulatory framework</p>	<div data-bbox="1021 339 2155 444">  <p data-bbox="1166 351 2020 415">Expand guidelines to include SOEs and provide the necessary regulatory incentives to promote sukuk issuance from the corporate sector.</p> </div>
 <p data-bbox="466 741 952 771">Market and infrastructure development</p>	<div data-bbox="1021 596 2155 701">  <p data-bbox="1166 608 1995 672">Educative forums supported by regulators to increase knowledge and understanding of sukuk structuring, processes, etc.</p> </div>
 <p data-bbox="450 1008 965 1072">Diversified market players on demand and supply sides</p>	<div data-bbox="1021 865 2155 953">  <p data-bbox="1166 879 2097 943">Identify suitable SOEs to finance project-based sukuk and create a benchmark yield curve for other corporates to follow.</p> </div> <div data-bbox="1021 953 2155 1039">  <p data-bbox="1166 968 2071 1032">Government to encourage development of institutional funds (e.g. pension, pilgrimage fund, etc) and create demand for <i>Shariah</i>-compliant assets.</p> </div>

General recommendations in developing a vibrant sukuk market



General policy recommendations

Policy	General recommendations
1	Developing an enabling legal and regulatory framework for ICM and promote solid collaboration among key market stakeholders to improve the ecosystem for sukuk issuance.
2	Improving market infrastructure and the existing tax framework for enhancing sukuk issuance.
3	Developing a sustainable liquidity base to support demand for Shariah-compliant assets, and facilitating diversification of market players on the demand side of the sukuk market.
4	Promoting a sustainable supply of sukuk issuance from the private sector in order to foster diversification of industry participants on the supply side and expand the benchmark yield curve.
5	Developing a seamless Shariah governance process for facilitating faster turnaround time for sukuk issuance, improving clarity of sukuk structures, promoting product innovation, building market confidence and increasing market awareness among the industry practitioners.

Thank you



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