



Republic of Turkey
Undersecretariat of Treasury

Turkey's Sukuk Experience

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OUTLINE

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- Types of Sukuk
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Case Study - Gold Denominated Ijara Sukuk

Corporate Sukuk – Legal Framework

2010

- First Sukuk Regulation introduced Communique No: III/43 (Ijarah Sukuk)
- Asset Lease Company (ALC) introduced as an SPV

2011

- Tax inequalities compared to conventional products solved (Law No:6111)

2012

- New Capital Market Law (Law No:6362) put into effect regulating the ALC and lease certificates

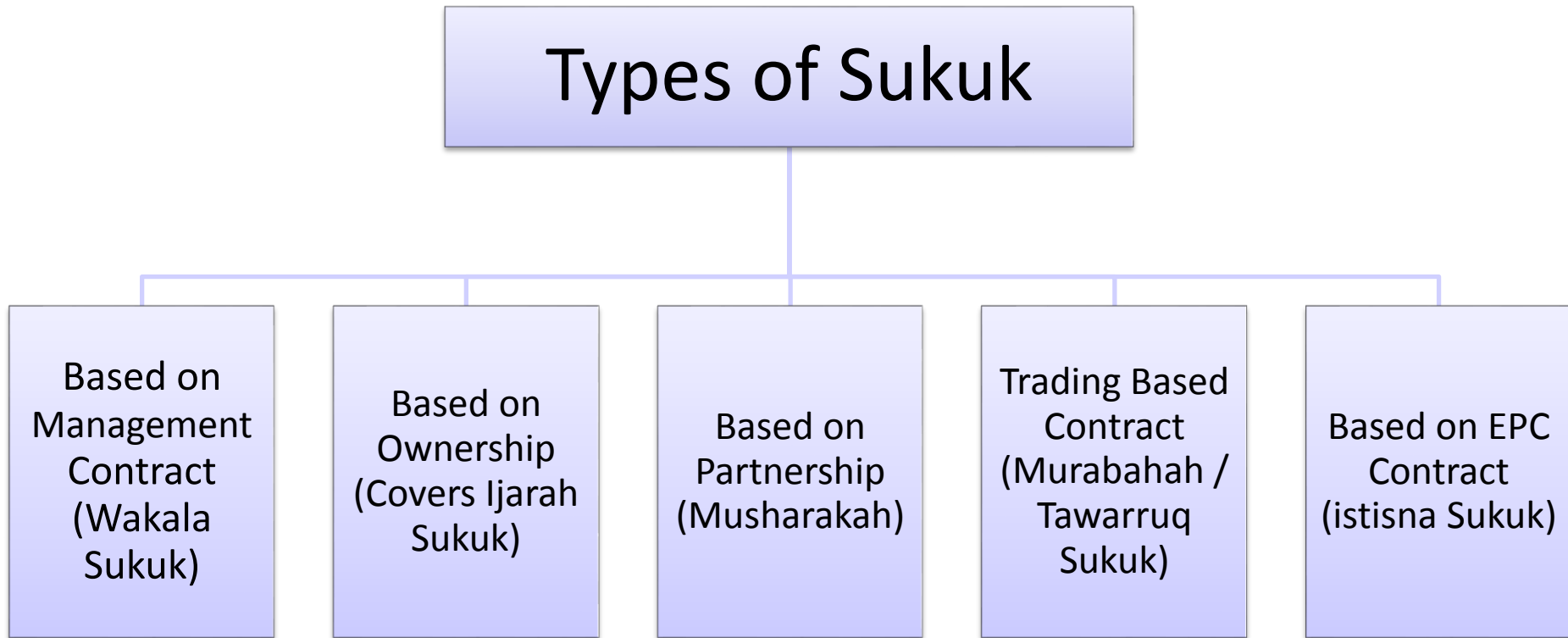
2013

- New CMB Sukuk Regulation introduced: Communique No: III-61/1 (new sukuk structures)

2016

- Tax inequalities between Sukuk types solved and tax advantages provided (Law No:6728)

Corporate Sukuk – Types of Sukuk



- ❑ Nonetheless, these contracts are not restrictive and upon the approval of Capital Market Board of Turkey (CMB), issuance of Sukuk underlined by different contracts is granted due to capital market legislation.

Corporate Sukuk – Issuances

(Million USD)	2011	2013	2014	2015	2016	2017	Total	%
Wakalah		279	1.153	849	792	1.921	4.993	64.8
Covered Ijarah	350	565	672	176	57	13	1.833	23.8
Musharakah						118	118	1.53
Murabahah/Tawarruq			250	226	125	132	733	9.51
Hybrid						26	26	0.33
Total	350	844	2.075	1.251	974	2.211	7.704	100

Corporate Sukuk – Outstanding Sukuk

(As of 2017)

Cross Border Sukuk Issuers	Sale Proceeds (million USD)	%	Maturity (Years)
Cross Border Sukuk Issuers	2.958	70	5,51
Domestic Sukuk Issuers	1.252	30	1,03
TOTAL	4.210	100	

Sovereign Sukuk – Legal Framework

- **June 2012: The Public Finance and Debt Management Law was amended to enable the Sovereign to access the Sukuk markets**
 - Allows for the establishment of public Asset Leasing Companies (SPV).
 - The Sovereign is able to transfer public assets to the Asset Leasing Company in the sale-and-lease-back model.
 - Assets held by the central government, state-owned enterprises and local administrations can be used.
 - Allows the Asset Leasing Company to issue lease certificates both in local and international capital markets.
 - Tax regime was set in a similar fashion to conventional sovereign issuances.

Sovereign Sukuk – Ijara Structure

Sukuk Issuance



Periodical Rental Payments



Redemption



Sovereign Sukuk – Domestic Issuances

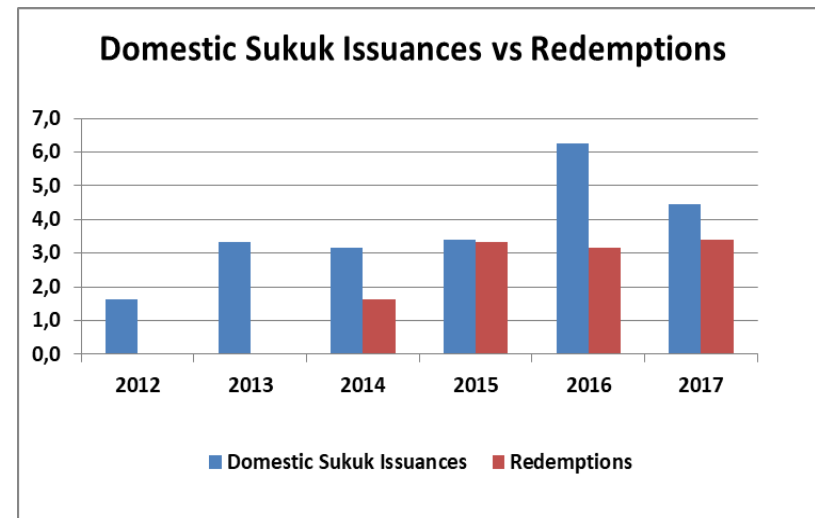
- ❑ Lease certificates are issued through Direct Sale.
- ❑ Lease certificates are issued with the lease period of 6 months.
- ❑ Lease certificates are traded on the Borsa Istanbul Debt Securities Market.
- ❑ Lease certificates are accepted as collateral within the context of Public Procurement Law and may be submitted as collateral in the payments of public property sale.

Sovereign Sukuk – Domestic Issuances

- ❑ Lease certificates are subject to the prevailing tax legislations and will be taxed in accordance with the Income Tax Law.
- ❑ Price of the lease certificates set as a precedent will be published daily on the Official Gazette.
- ❑ HMKVŞ has the right to purchase, sell, or dispose of the leased immovable via exchanging with an asset in equivalent value, as shall be deemed necessary and beneficial.

Sovereign Sukuk – Domestic Issuances

- ❑ First domestic issuance was in 2012.
- ❑ TL issuance on regular basis in local market.
- ❑ Issuance amounts are higher than redemption figures since 2014, demand is increasing.
- ❑ Share of domestic Sukuk issuances in total annual domestic borrowing has increased throughout the years.



Sovereign Sukuk – Domestic Issuances

- ❑ Between 2012-2015, maturity of domestic sukuk issuances was 2 years and only fixed lease rate sukuk
- ❑ After 2016 both 2 years and 5 years sukuk to increase maturity
- ❑ After 2016, both fixed rate and CPI indexed ijara sukuk
- ❑ In 2017, Gold Denominated Ijara Sukuk also started to be issued in domestic market

Sovereign Sukuk – International Issuances

- ❑ Up to now, Turkish Treasury issued five international sukuk with the total amount of 6 billion USD.
- ❑ In 2012, Turkish Treasury made the first international Sukuk issuance, the order book attracted very strong demand with a bid / cover ratio of 5x.
- ❑ A large number of new investors participated who were not seen in the previous conventional Eurobond issuances by the Republic.
- ❑ New investors were primarily from the Middle East and Asia, reflective of the Islamic investor base.

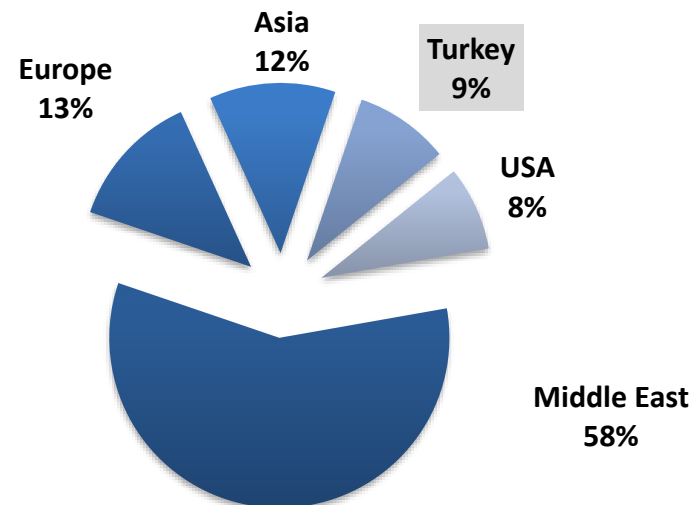
Sovereign Sukuk – International Issuances

Treasury's First USD Sukuk Issuance

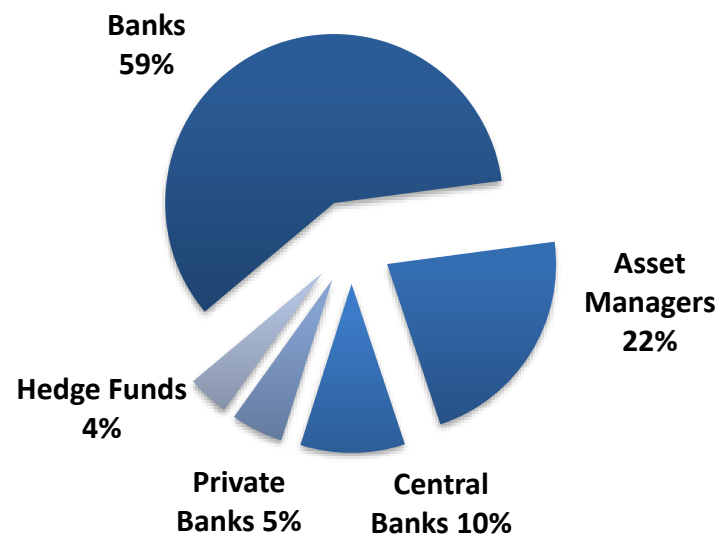
Summary of Terms and Conditions

Issuer	Hazine Müstesarlığı Varlik Kiralama Anonim Sirketi
Obligor	The Republic of Turkey
Currency	USD
Structure	Ijarah
Obligor Ratings	Ba1 (Positive) (Moody's) / BB (Fitch)
Amount	USD 1,500 million
Issuance Date	18 September 2012
Maturity Date	26 March 2018
Lease Rate	2.803% per annum

Regional Breakdown of Investors



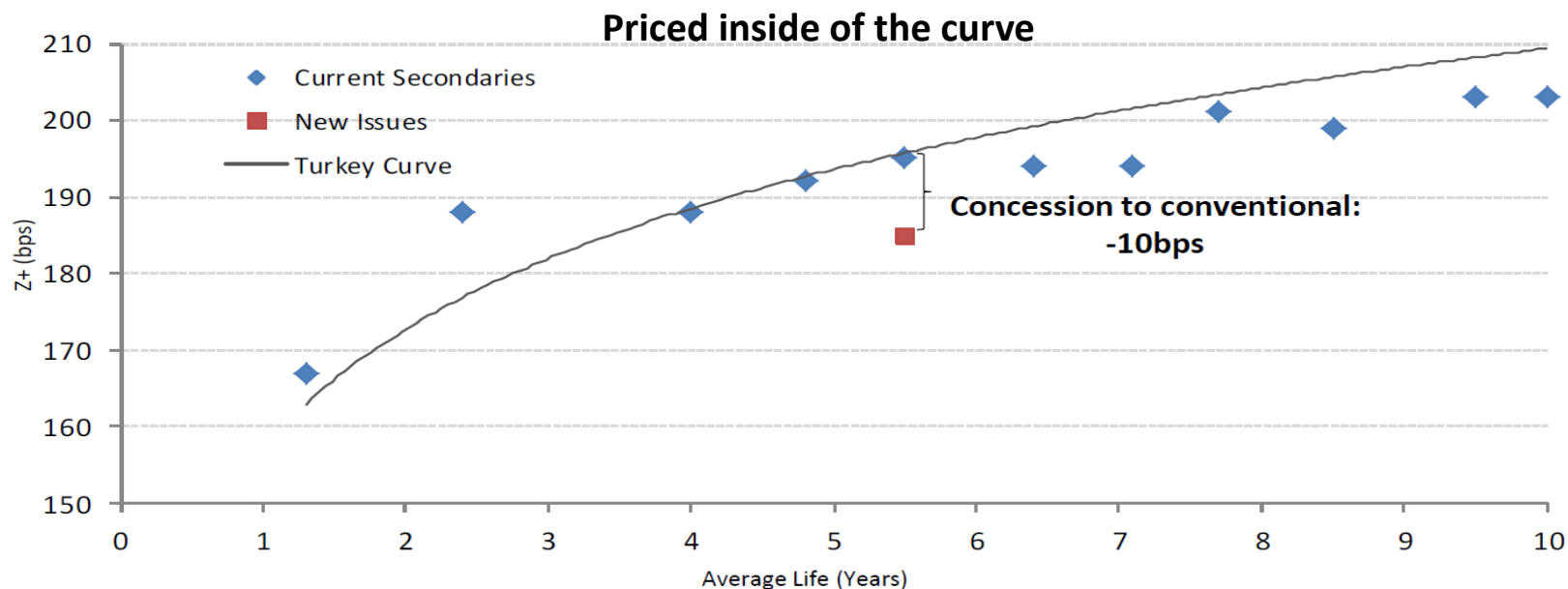
Subscription by Investor Type



Sovereign Sukuk – International Issuances

Deal Highlights

- ❖ Although it was the first Sovereign Sukuk issuance by Turkey, the order book attracted very strong demand with a bid / cover ratio of 5x
- ❖ A large number of new investors participated who were not seen in the previous conventional Eurobond issuances by the Republic
- ❖ New investors were primarily from the Middle East and Asia, reflective of the Islamic investor base
- ❖ Issuance represented a negative concession to conventional of 10bps



Sovereign Sukuk – International Issuances

Treasury's Most Recent USD Sukuk Issuance

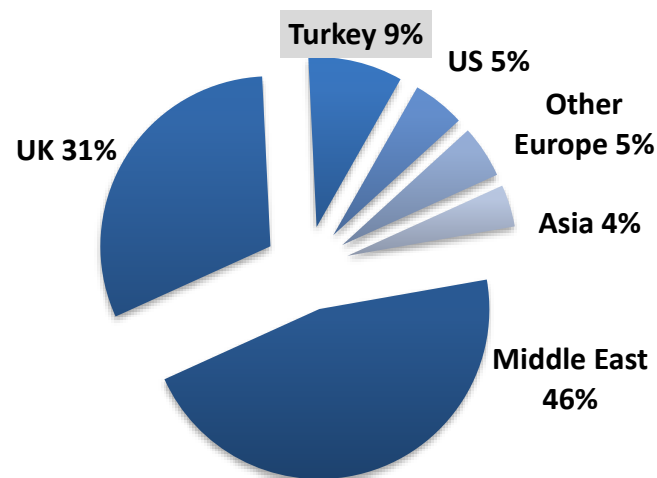
Summary of Terms and Conditions

Date	: 3/30/2017
Amount	: USD 1,25 Billions
Tenor	: 6 Years
Lease Rate	: 5%
Currency	: US Dollar
Structure	: Ijarah

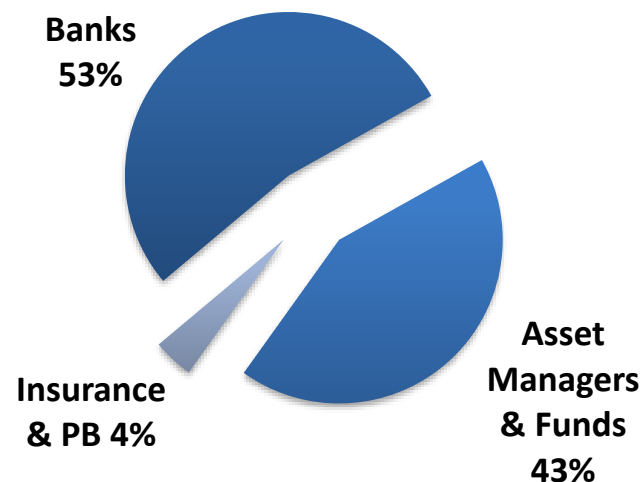
The order book attracted a strong demand with a bid / cover ratio of **3x**.

Source: Bloomberg

Regional Breakdown of Investors

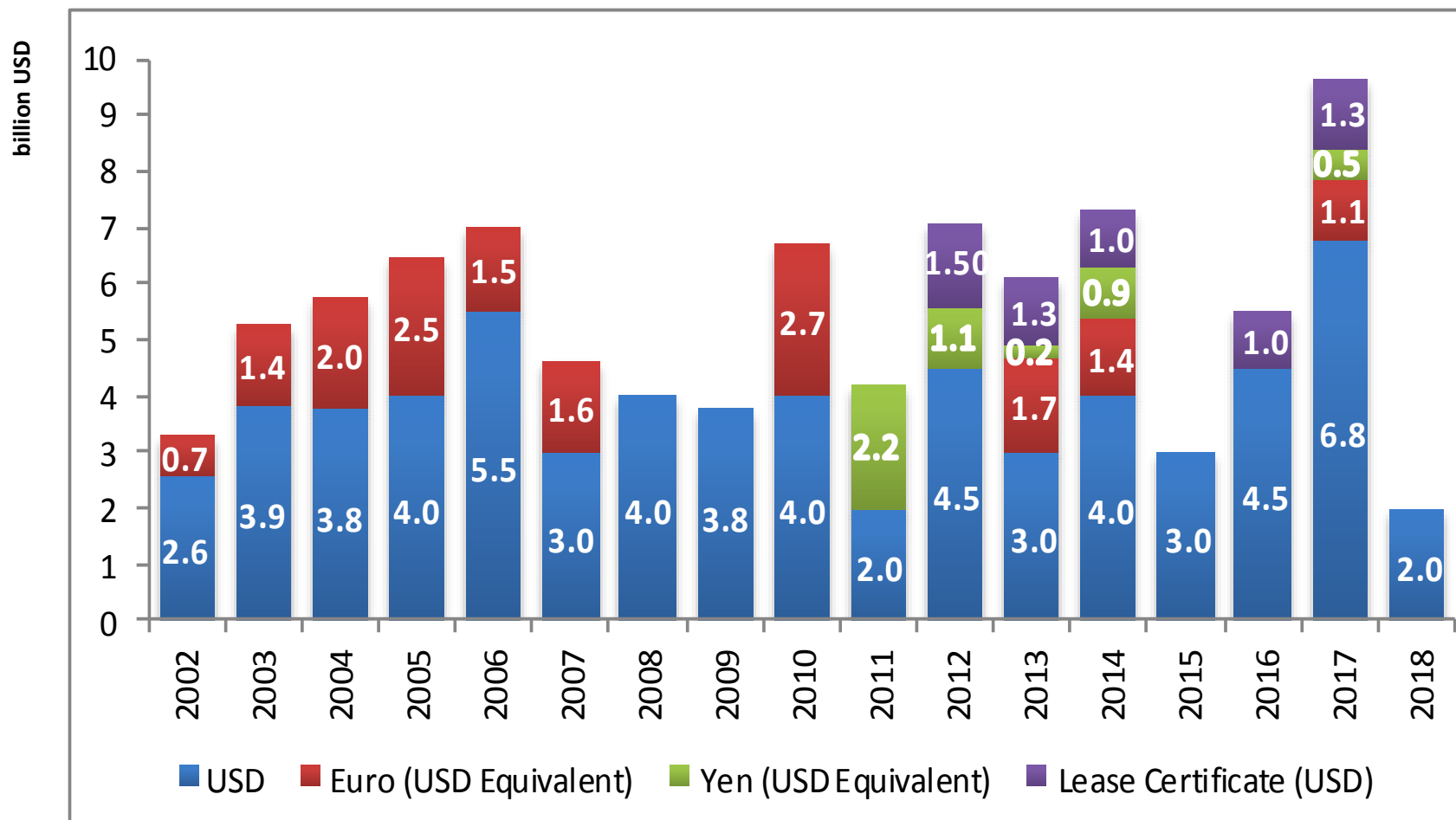


Subscription by Investor Type



Sovereign Sukuk – International Issuances

Sukuk Issuances in External Finance Program (billion USD)



Sovereign Sukuk- Total Issuances

Global Sukuk Issuances

Currency	Issuance Date	Maturity	Annual Lease Rate (%)	Amount (million USD)	Structure
USD	9/29/2012	5 Years	2,803	\$1,500.00	Al-Ijara
USD	10/10/2013	5 Years	4,557	\$1,250.00	Al-Ijara
USD	11/17/2014	10 Years	4,489	\$1,000.00	Al-Ijara
USD	6/1/2016	5 Years	4.251	\$1,000.00	Al-Ijara
USD	3/30/2017	6 Years	5.00	\$1,250.00	Al-Ijara
TOTAL :				\$6,000.00	

Domestic Sukuk Issuances

Currency	Issuance Date	Maturity	Annual Lease Rate (%)	Amount (million TL)	Structure
TRY	02.10.2012	2 years	7.40	TRY 1,624.48	Al-Ijara
TRY	20.02.2013	2 years	5.70	TRY 1,515.33	Al-Ijara
TRY	20.08.2013	2 years	9.00	TRY 1,817.30	Al-Ijara
TRY	18.02.2014	2 years	10.60	TRY 1,332.82	Al-Ijara
TRY	29.09.2014	2 years	9.68	TRY 1,839.96	Al-Ijara
TRY	18.02.2015	2 years	7.80	TRY 1,801.52	Al-Ijara
TRY	18.08.2015	2 years	9.96	TRY 1,588.78	Al-Ijara
TRY	16.02.2016	2 years	10.64	TRY 1,900.35	Al-Ijara
TRY	18.07.2016	5 years	9.40	TRY 907.50	Al-Ijara
TRY*	26.09.2016	5 years	2.24	TRY 1,066.57	Al-Ijara
TRY	26.09.2016	2 years	8.80	TRY 1,102.84	Al-Ijara
TRY	21.11.2016	2 years	10.16	TRY 1,285.00	Al-Ijara
TRY	13.02.2017	2 years	11.04	TRY 2,023.44	Al-Ijara
TRY	20.06.2017	2 years	10.72	TRY 503.00	Al-Ijara
TRY	14.08.2017	5 years	10.76	TRY 1,183.52	Al-Ijara
TRY*	18.10.2017	5 years	2.80	TRY 550.00	Al-Ijara
TRY	14.02.2018	2 years	12.72	TRY 1,876.20	Al-Ijara
TOTAL :				TRY 23,918.62	
TRY**	27.10.2017	2 years	2.40	1,318 kgs	Al-Ijara

(*) Inflation Indexed Lease Certificates

(**) Gold Lease Certificates

Actions of the CBRT to facilitate Liquidity Management for PBs: Timeline

Action	Time
Establishment of IILM as a founding member and shareholder	October 2010
Membership of PBs to CBRT Liquidity Facilities	May 2011
Acceptance of Lease Certificates issued by Treasury as collateral	October 2012
Amendments in CBRT OMO Contract to ensure the compliance with participation banking principles	May 2013
Repo facility at marginal lending rate of the CBRT under markets department against Treasury TRY lease certificates	December 2013
Acceptance of IILM Sukuk as collateral	October 2014
Simplification and reduction in discount/haircut rates of collaterals	August 2015
Reduction of minimum compulsory share of TRY-denominated government securities in a certain amount of collateral pool for deposit facilities from 50% to 30%	January 2016
Late Liquidity Facility with Repo	August 2016
Intraday Liquidity Facility commission rate is reduced to zero	July 2016

Liquidity Facilities: Actively or Potentially Used and Usage of Sukuk in OMO

Liquidity Facility	Conventional	Participation	Usage of Sukuk in CBRT OMOs		
			Turkish Sovereign**	Turkish International Sovereign***	IILM***
Outright Purchase	√	√	√		
Repo	√	√	√	√	√
Deposit Lending	√	*	√	√	√
Intraday Liquidity	√	√	√	√	√
Late Overnight Liquidity- Depo	√	*	√	√	√
Late Overnight Liquidity-Repo	√	√	√	√	√
* In case of necessity. ** In Repo facilities it is used as both underlying asset and additional collateral. *** Used as only additional collateral.					



CASE STUDY

Gold Denominated Ijara Sukuk

Gold Denominated Ijara Sukuk – 2017

- ❑ Gold is an important traditional investment instrument in Turkey.
- ❑ Also, gold is used as a gift among people.
- ❑ However, physical gold is held out of financial system by individual investors.

- The aim is to provide a new investment instrument to the individual investors and to bring idle gold into the financial system.

Gold Denominated Ijara Sukuk – 2017

- ❑ Gold Denominated Ijara Sukuk started to be issued to individual investors in October 2017
- ❑ Demand is collected in different rounds across Turkey through the designated branches of Ziraat Bank (via 344 branches spread among country)
- ❑ Securities will be transferred to the investors' bank accounts on Wednesdays following the demand collection period of the related round
- ❑ The investors will be paid TRY denominated 1,20% semi-annual (2,40% per annum) lease returns indexed to gold price
- ❑ The general information about the Securities are as follows:
 - ❑ Maturity: 728 days (2 years)
 - ❑ Lease Period: 6 months
 - ❑ Lease Rate: 1,20%
 - ❑ Annual Lease Rate: 2,40%
- ❑ On maturity, investors may request the final payment as 1 kilogram of gold bar (produced by refineries) or Republic Gold Quarter Coins printed by Turkish State Mint

Gold Denominated Ijara Sukuk – 2017

Gold Lease Certificates

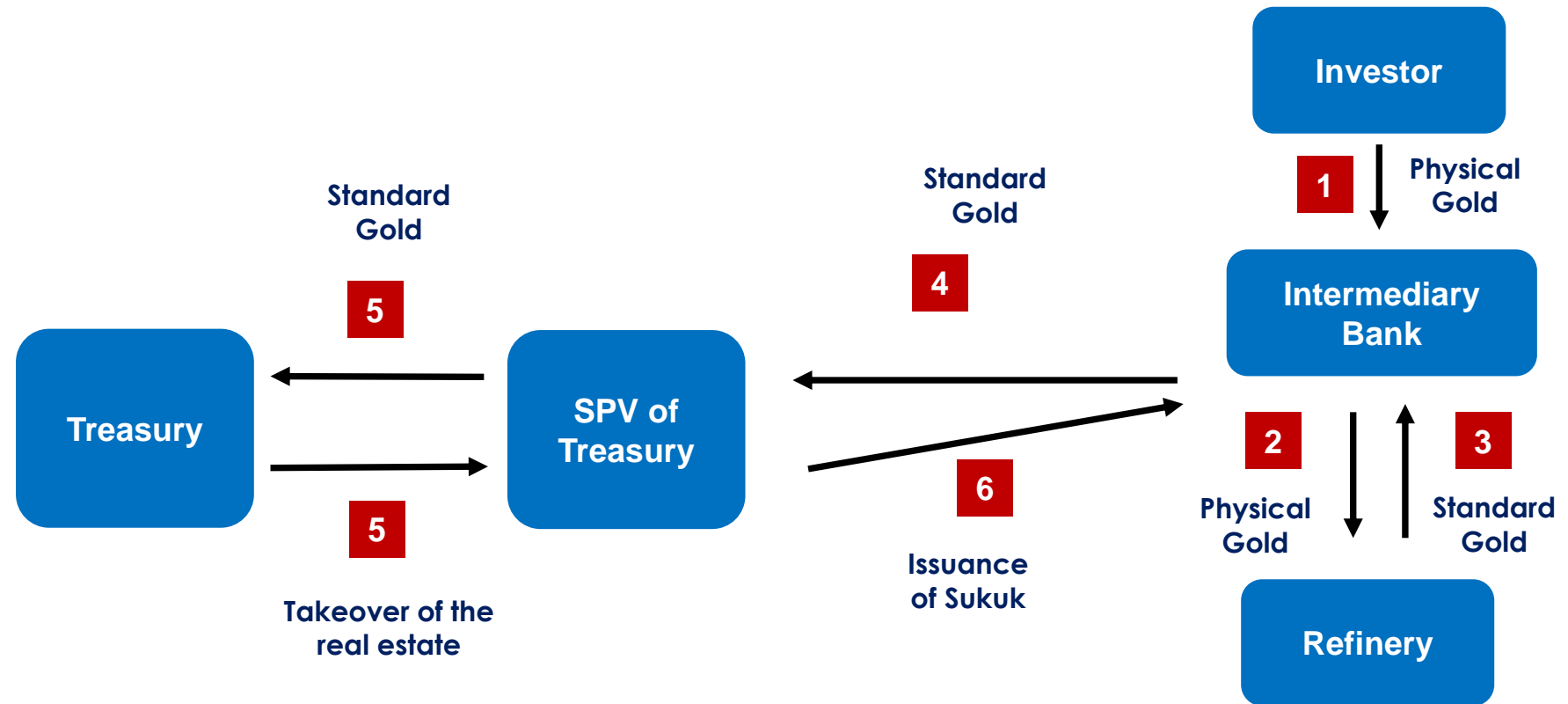
	Security	Round	ISIN	Initial Day of Demand	Last Day of Demand	Settlement Date	Maturity Date	Physical Gold Demand	Maturity	Lease Period	Lease Rate	Collected Gold	Amount of the Gold Lease
2017 - 1st Issuance Period	Gold Lease Certificates	1	TRD091019T14	02.10.2017	06.10.2017	11.10.2017	9.10.2019	30.09.2019 - 04.10.2019	728 days	6 months	1,20	171.854,055	171.854.055
	Gold Lease Certificates	2	TRD161019T15	09.10.2017	13.10.2017	18.10.2017	16.10.2019	07.10.2019 - 11.10.2019	728 days	6 months	1,20	297.892,267	297.892.267
	Gold Lease Certificates	3	TRD231019T16	16.10.2017	20.10.2017	25.10.2017	23.10.2019	14.10.2019 - 18.10.2019	728 days	6 months	1,20	322.772,912	322.772.912
	Gold Lease Certificates	4	TRD301019T17	23.10.2017	27.10.2017	01.11.2017	30.10.2019	21.10.2019 - 25.10.2019	728 days	6 months	1,20	526.022,386	526.022.386

Issuance Results

- ❑ Total amount of gold collected: 1,3 tonnes (50 million USD)
- ❑ Total number of investors 6,700
- ❑ The number of women higher than men
- ❑ 52% of investors between 25-44 years old

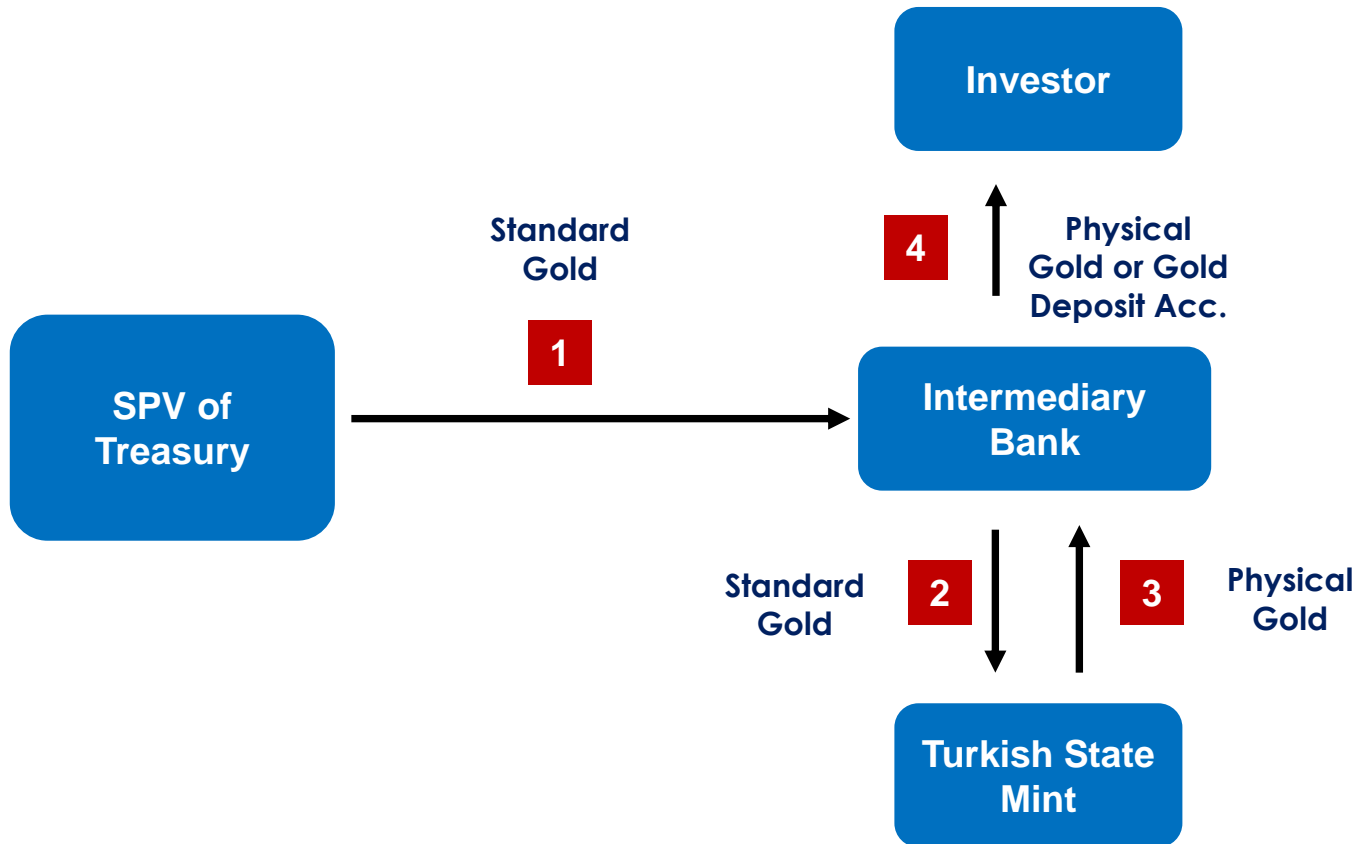
Gold Denominated Ijara Sukuk – 2017

Issuance Procedure



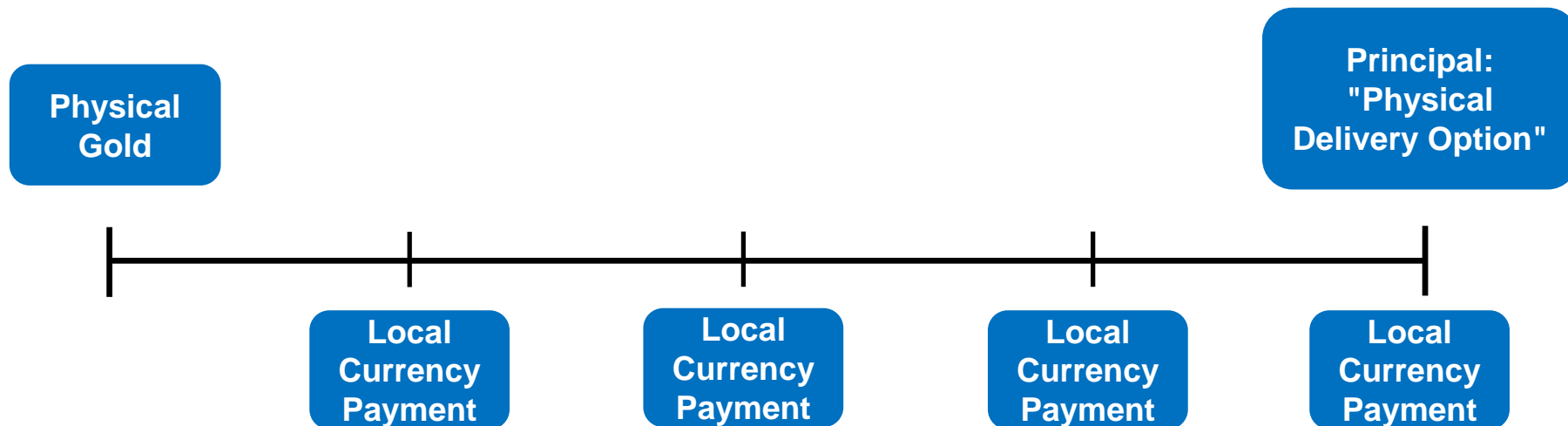
Gold Denominated Ijara Sukuk – 2017

At the Maturity Date



Gold Denominated Ijara Sukuk – 2017

Methodology of Payments



Lease payments are paid in local currency, indexed to gold prices.

Calculation of TRY Lease Payment =

$(\text{Amount of sukuk in the account}) \times (\text{Lease Rate}) \times (\text{TRY Gold Price})$

Calculation of TRY Gold Price =

$(\text{LBMA USD/ounce gold fixing price on the business day before the payment date}) / (31,1035) \times (\text{Benchmark USD/TRY exchange rate announced by the Central Bank of Turkey on the business day before the payment date})$

Gold Denominated Ijara Sukuk Main Features

- ❑ Only individual investors (natural persons) can invest in the Gold Denominated Ijara Sukuk
- ❑ Only 22K and 24K golds will be accepted
- ❑ Gold will be accepted at the rate of its purity without discount
- ❑ These Securities will not be printed or distributed physically. They will be recorded electronically by the Central Registry Agency
- ❑ Investors can sell the securities to the Ziraat Bank at any time and can receive TRY denominated return with the lease income
- ❑ If the investors want to sell the securities during the first three months (including the 90th day after issuance), 1.50% discount rate will be applied

Gold Denominated Ijara Sukuk Main Features

- ❑ Investors can sell or transfer securities to another individual (natural) person before maturity
- ❑ Investors may reinvest to the new issuances which coincide with the maturity of the Securities
- ❑ Collected gold will be converted into standard gold bars by refineries and will be kept in the accounts of the Undersecretariat of Treasury in the Central Bank
- ❑ The Council of Ministers decided the withholding tax rate to be 0% for the Gold Denominated Ijara Sukuk
- ❑ The TRY denominated lease payments will be calculated using the London Bullion Market USD / ounce gold AM fixing price on the business day before the payment date



THANK YOU

For further information

<http://www.treasury.gov.tr>

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