

Securities & Exchange Organization

Iran Experience in Diversification of Islamic Financial Instruments

Majid Pireh

Islamic Finance Supervisory Expert
Securities and Exchange Organization (SEO)

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General Overview

After the Islamic revolution in 1979, financial system in Iran had a great tendency to implement Islamic laws and reform the structures to comply with Shariah principles.

According to article 43 of chapter 4 of Iranian constitution, the financial system does not permit any financial instrument which contradicts Shariah Principles neither to be issued nor to be traded.

Iranian Constitution Framework on Financial System

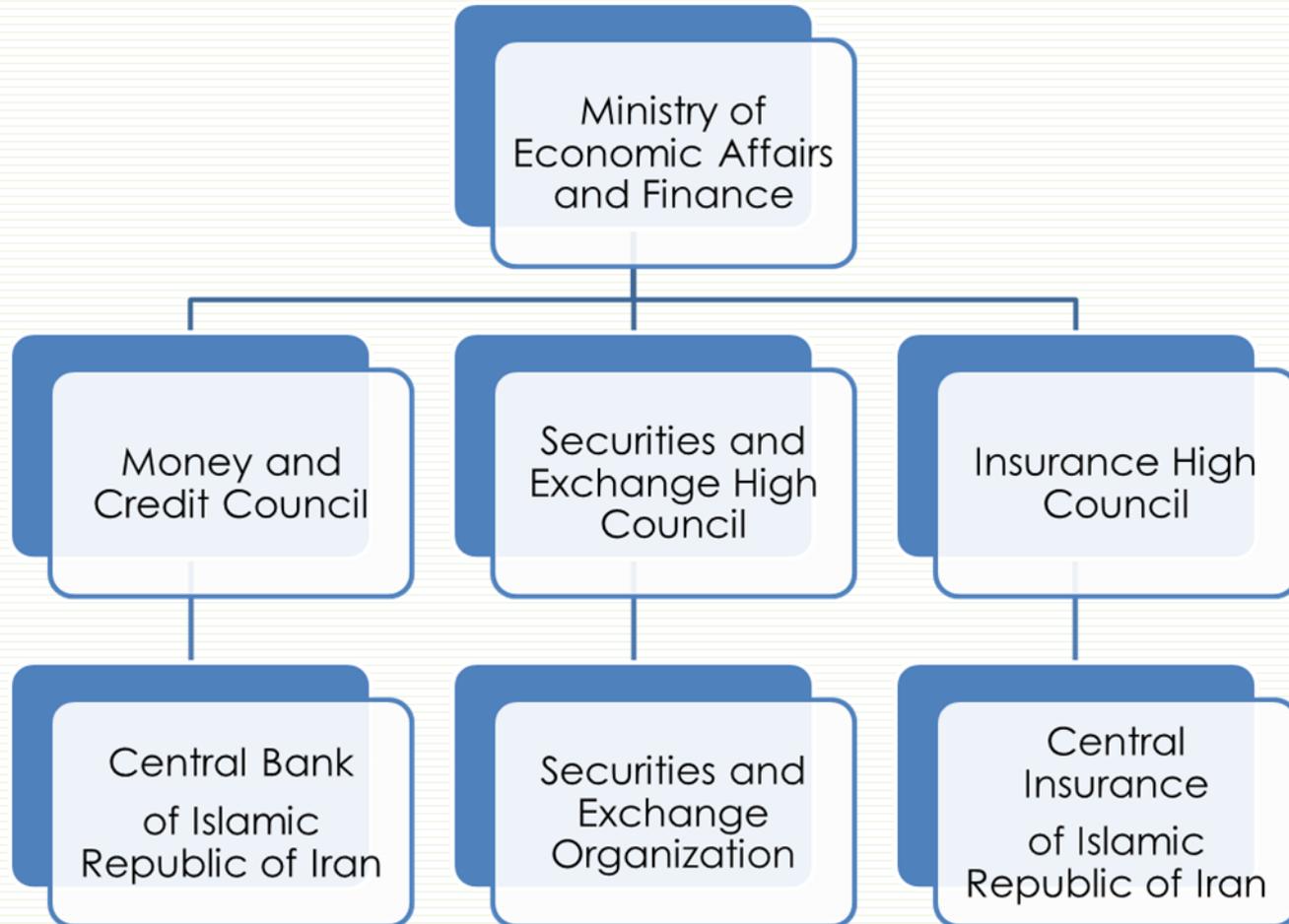
Islamic republic of Iran Constitution

Chapter 4: Economy and Financial Affairs

Article 43: Principles

- ❑ The economy of the Islamic Republic of Iran, with its objectives of achieving the economic independence of the society, uprooting poverty and deprivation, and fulfilling human needs in the process of development while preserving human liberty, is based on the following criteria:
- ❑ ...
- ❑ 5: *the prohibition of infliction of harm and loss upon others, monopoly, hoarding, usury, and other illegitimate and evil practices;*

Financial Structure in Iran



Sukuk Diversification in Iran



Musharakah Sukuk

First issuance in 1994

Sovereign and private Sukuk



Ijarah Sukuk

First issuance in 2009

Sovereign and private Sukuk



Murabaha Sukuk

First issuance in 2011

Sovereign and private Sukuk



Salam Sukuk

First issuance in 2013

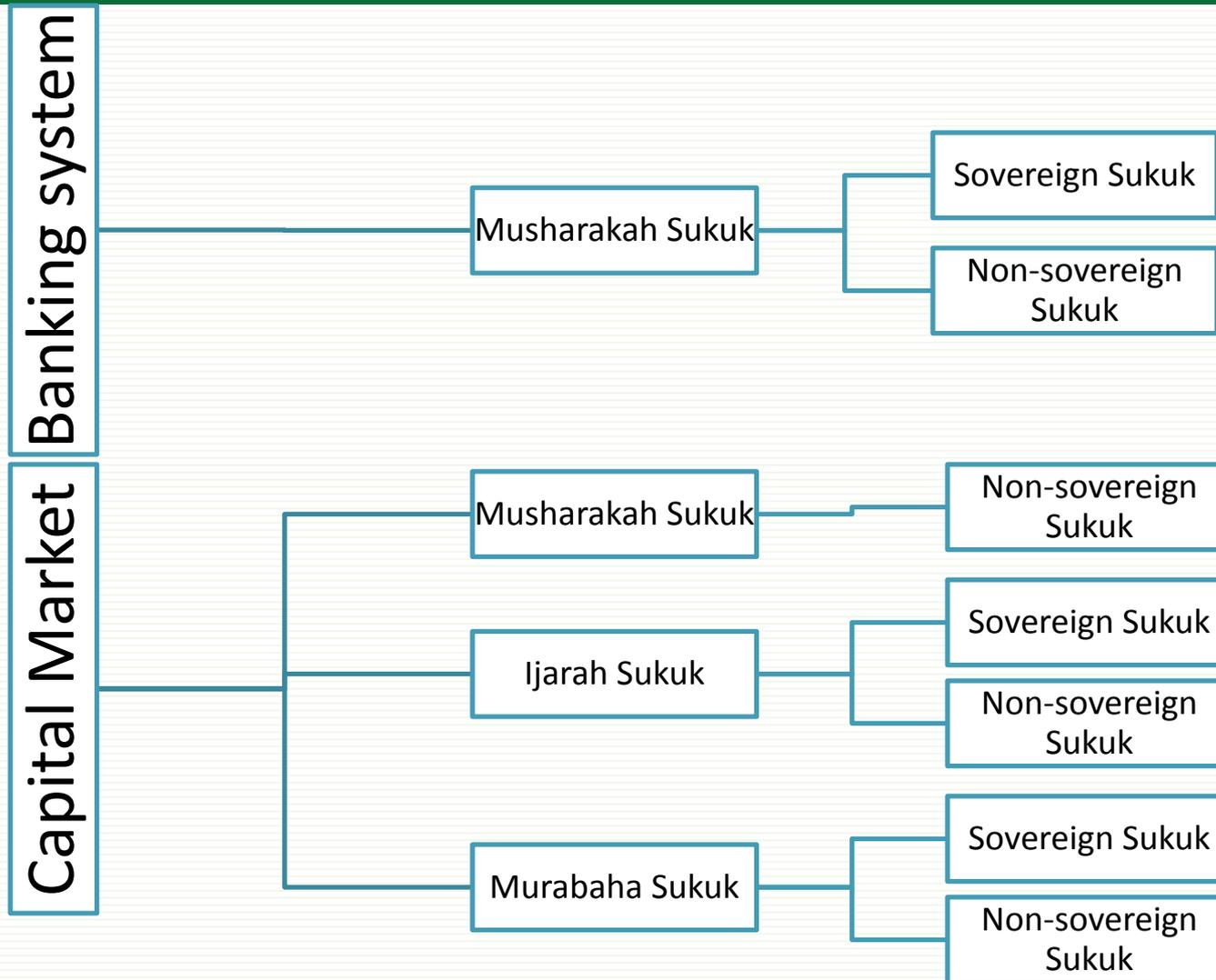
Private Sukuk

Sukuk in Iran; Banking system or capital market?



	History	Sukuk Types	Issuer?	Structure
Banking System	Since 1994	Musharakah	Public and Private Sector	Less Organs
Capital Market	Since 2005	Musharakah Ijarah Murabaha	Public and Private Sector	More Organs

Diversification of Sukuk Market



Structure of Sovereign Sukuk in Iran (Ijarah-Based Model)



- ❑ The government's creditor sells his own asset to the government on-credit, by five year installments,
- ❑ The government could issue Ijarah Sukuk as the owner of the asset. So, the government refers to SPV to have the securities issued,
- ❑ The SPV pools the funds after offering of securities,
- ❑ The SPV pays the asset price on behalf of the investors and buy the asset in cash from the government

Structure of Sovereign Sukuk in Iran (Ijarah-Based Model)



- ❑ The government settles the claims by the funds of the selling of assets.
- ❑ The SPV transfers the asset, on behalf of the investors, to the creditor, in form of a buy-back lease contract (ex. a 5 year period) and receives the rentals and pay to the investors
- ❑ The creditor which has a claim for the selling of assets by installments to the government assigns (Hawalah) the SPV to the government to receive the rentals from the government.

Structure of Sovereign Sukuk in Iran (Murabaha-Based Model)

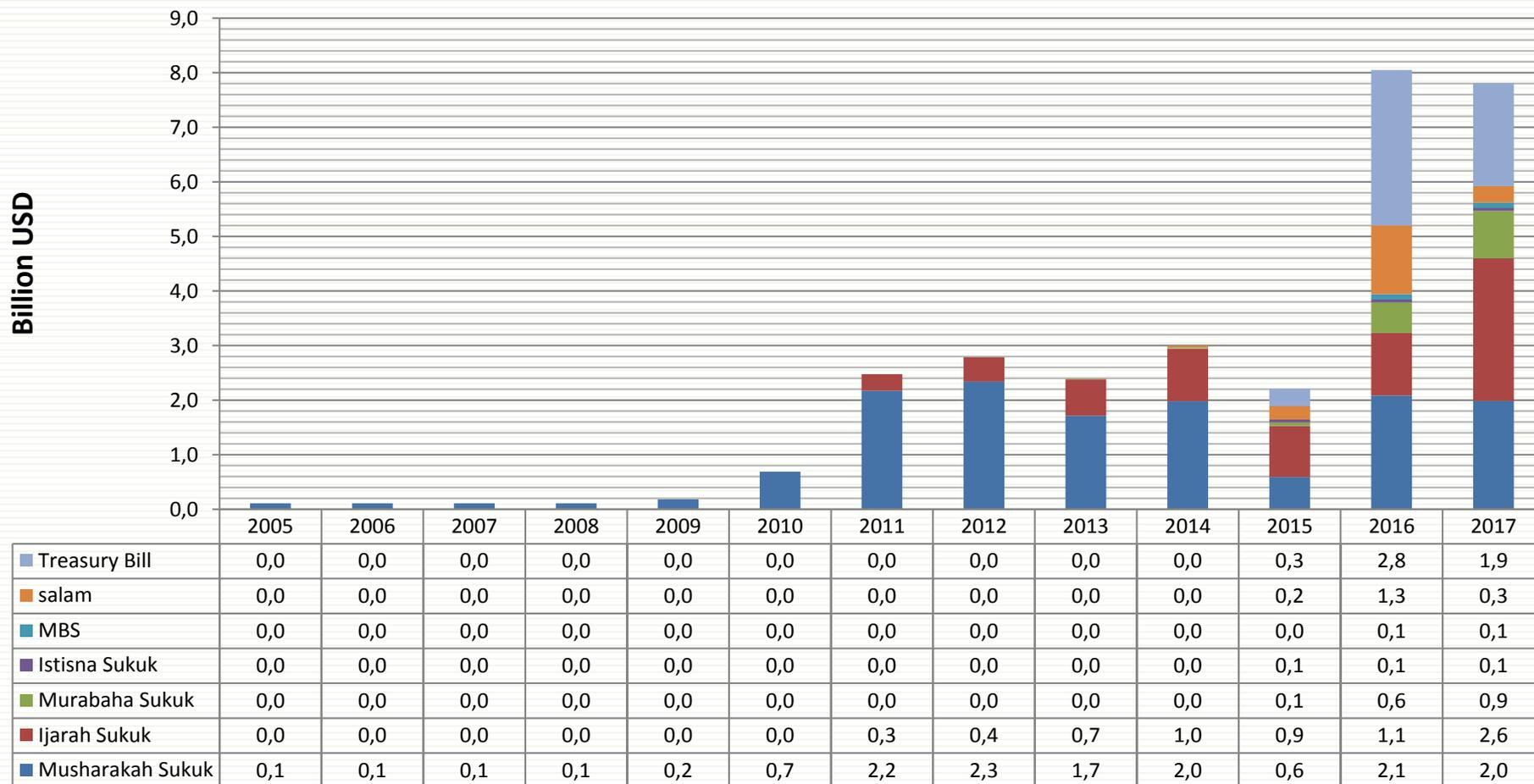


- ❑ The structure follows normal Murabaha Sukuk issuance Model.
- ❑ The SPV issues Sukuk to raise funds.
- ❑ The SPV gives the collected money to the government to purchase in cash specific asset as his agent.
- ❑ SPV sells the assets to the government in Murabaha Sale.
- ❑ The government pays the installments at due times till maturity date.

Value of Outstanding Islamic Financial Instruments as end of June 2017



Value of Outstanding Islamic Financial Instruments in Iran Capital Market as end of June 2017

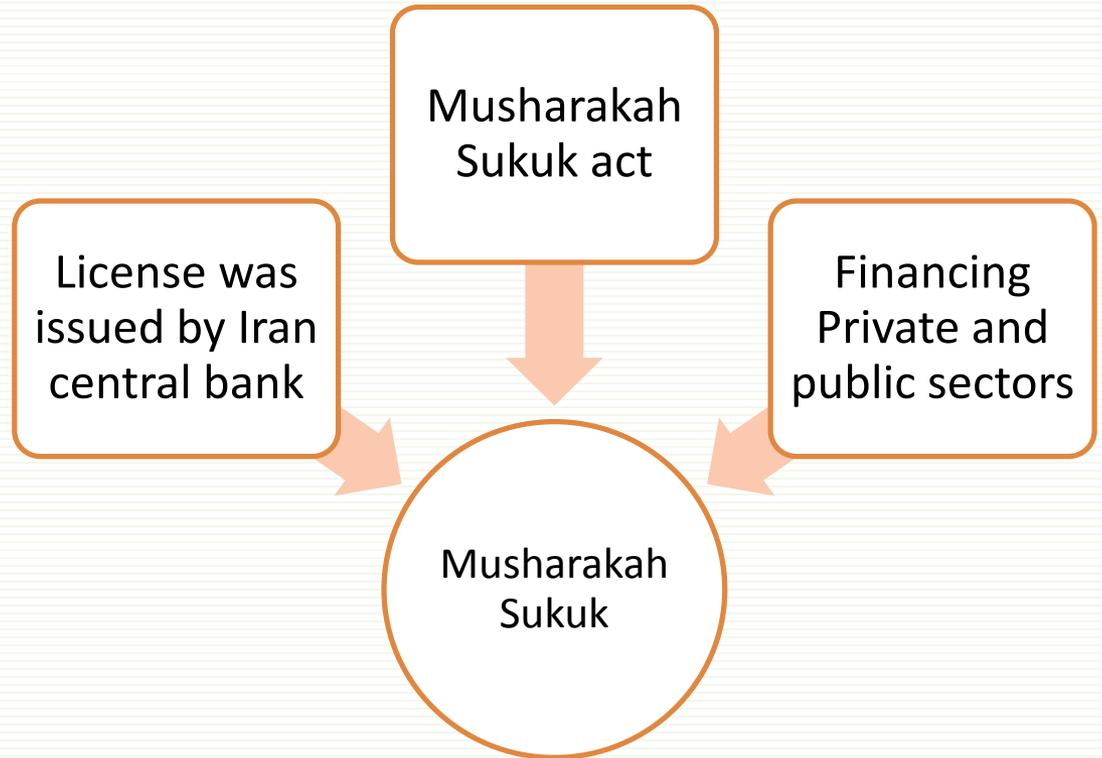


Sukuk issuers in Iran (before 2005)

Before 2005, there was only one act for Sukuk issuance in Iran.

The act was ratified by Iran parliament and described main elements in Musharakah Sukuk issuance process.

According to the mentioned act, the central bank of Iran was the authority to issue to required licenses for demanding companies.

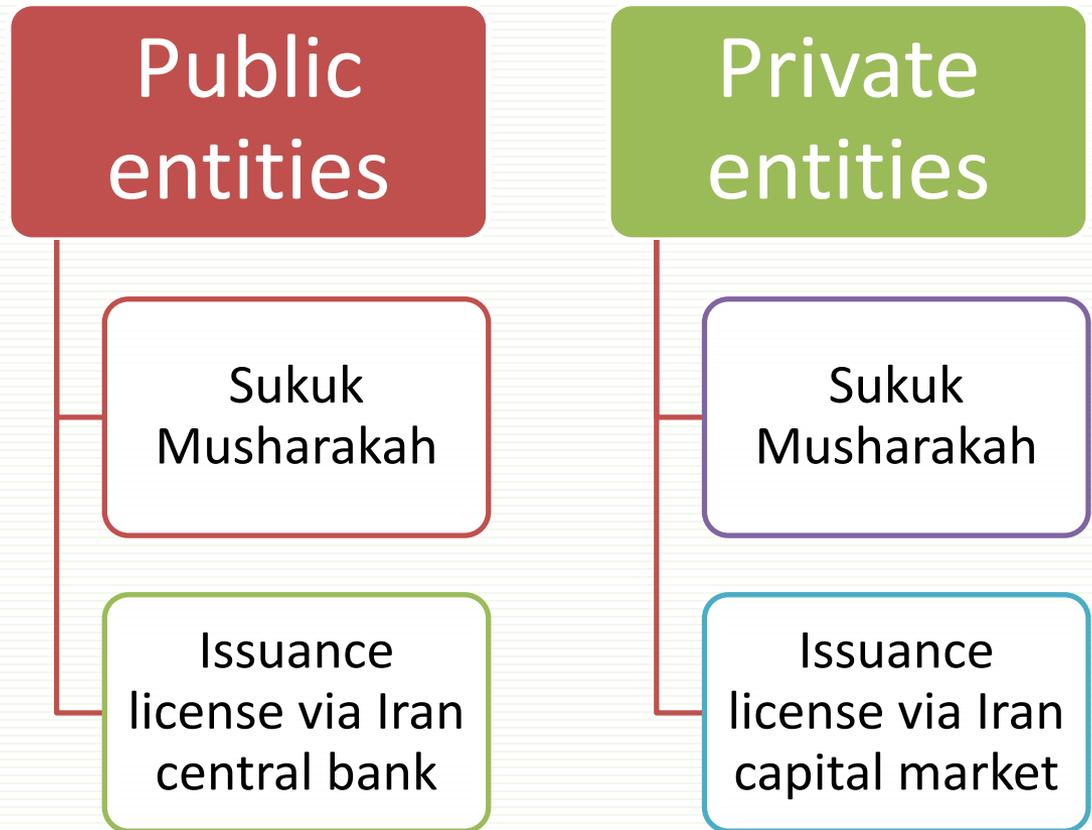


Sukuk issuers in Iran (during 2005-2009)

In 2005, there was another act for Iran Sukuk market that emphasized on dedicating some issuance licenses to Iran capital market.

Still, the only Sukuk form was Musharakah.

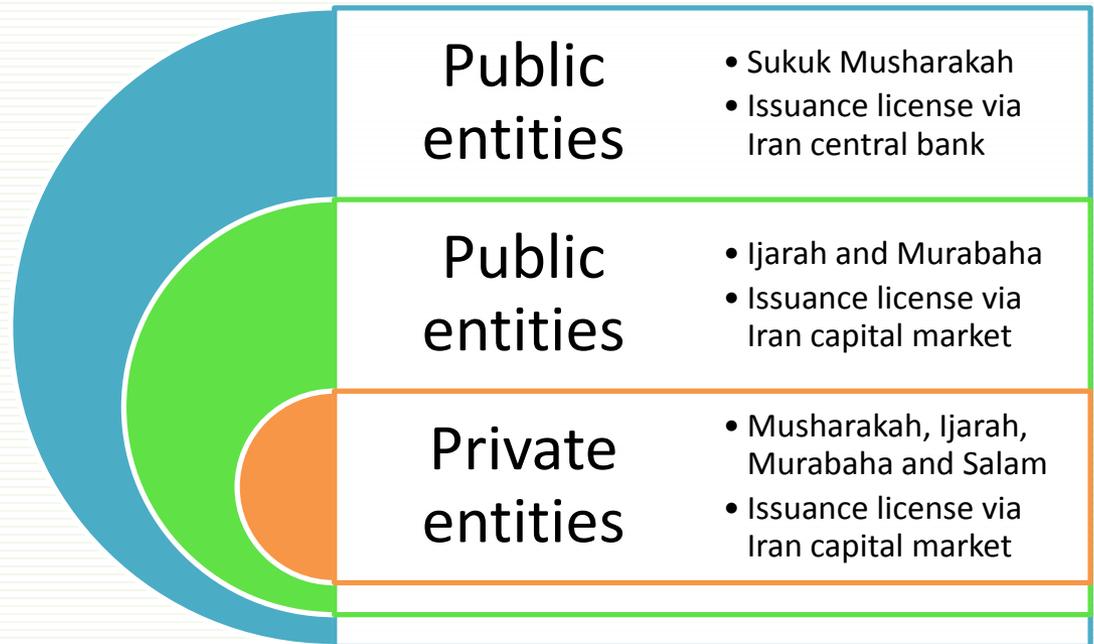
The new act was assigning private sector Sukuk issuance license to the capital market and public sector Sukuk issuance license remained to Iran central bank.



Sukuk issuers in Iran (after 2009)

In 2009, there was another act for Iran Sukuk market that on the role of Iran capital market for Sukuk issuance.

The new act was facilitating Sukuk development and its different types.



Sovereign vs. non-sovereign Sukuk (legal Aspects)



Issuer	Purposes	Supervising body	Legislative requirements
Sovereign	Resource mobilizing	Central bank + Securities and Exchange Organization (for secondary market)	Annual budget permission by the parliament
Non-sovereign	Resource mobilizing	Securities and Exchange Organization	Board of Directors Permission

Regulatory considerations



Sukuk Type	Available Regulation?	Ratifying Entity?
Musharakah	Musharakah Sukuk issuance Act	Iran Parliament
Ijarah	Ijarah Sukuk issuance Regulation	Securities and Exchange High Council
Murabaha	Ijarah Sukuk issuance Regulation	Board of Directors, Securities and Exchange Organization
Salam	Salam Sukuk issuance Regulation	Board of Directors, Securities and Exchange Organization



- ❑ Institutional VS. Real Investors?
- ❑ Why institutional investors play a more important role?
 - ❖ More financial sources available
 - ❖ Importance of risk hedging
 - ❖ Capital adequacy requirements
 - ❖ Accessing to a wider range of financial intermediaries

Tax Regimes For Sukuk in Iran

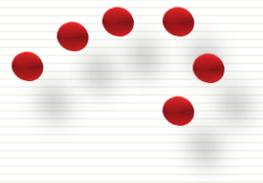


❑ Musharakah Sukuk

- Following the Musharakah Sukuk act, the Sukuk profit is exempted from tax payment by investors
- Moreover, the companies who raised funds via Musharakah Sukuk may consider the payments as an acceptable tax reducing factor

❑ Ijarah and Murabaha Sukuk

- Following the 2009 Act, if Ijarah Sukuk is issued via an Special Purpose Vehicle (SPV), the Sukuk profit is exempted from tax payment by investors
- Moreover, following the above precondition, the companies who raised funds via those Sukuk may consider the payments as an acceptable tax reducing factor.



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Thank You

T (+98 21) 88679458
E m.pireh@seo.ir
13 Mollasadra St, Vanak Sq
Tehran, 19919 – 15814
Iran