

How can we enhance global Sukuk issuance?

There is an urgent need of Sukuk denominated in international currencies such as the dollar which is creating significant pent-up demand for global Sukuk. YAVAR MOINI proposes a radical new solution for how this demand can be met.

In order to estimate the demand for Sukuk, EY has calculated that asset growth in Islamic finance is likely to touch US\$1.3 trillion by 2015 out of which 40% should be in fixed income type instruments. This should create potential demand for US\$500 billion of Sukuk issuance – which is double total outstanding Sukuk currently. We therefore require an institution that not only addresses such excess demand by becoming an ‘engine’ for sustained Sukuk issuance but also acts as a bridge between the regional hubs of Islamic finance in Asia, the Gulf and Europe.

How would such an institution work?

The institution would look to function as an asset depository, acquiring assets globally and then selling them to potential issuers of Sukuk. In such a way, it would provide asset availability for prospective issuers that either do not have unencumbered assets or do not wish to earmark their assets for the tenor of a Sukuk issuance. By acquiring assets globally, the institution will promote the origination of Islamic assets and through the provision of such assets encourage the issuance of Sukuk worldwide. Also, the institution would issue its own Sukuk to acquire assets and thus provide a constant supply of product through its own and third party issuance.

What would be key benefits for the industry of such an institution?

By seeking Islamic assets globally, the proposed institution will encourage the origination of such assets and promote the development of an indigenous Islamic finance industry in new jurisdictions. In addition, by providing a constant supply of Sukuk, it will catalyze product innovation across structures, tenors and geographies.

Also, by adding more depth to Sukuk markets it will facilitate the allocation of greater pools of institutionalized capital towards Sukuk investing which will commence a virtuous cycle in Islamic capital market development. Finally, by providing greater Sukuk supply such an institution can be a source of financial inclusion for Muslim communities around the world.

What would be the key benefits of such an institution for its hosting jurisdiction?

The institution could form a flagship entity to promote Islamic finance in the jurisdiction where it is based. For an established Islamic finance hub such as Malaysia, it would complement the achievements of Malaysia International Islamic Financial Center (MIFC) and be a natural fit with its objectives. Dubai, with its ambition to become a global hub of the Islamic economy, could be another good candidate as a host; as could London and a few other aspiring centers for Islamic finance. Unique in its conception, the institution would attract significant cross-border flows to the host jurisdiction, increase the number of Sukuk listings on domestic stock exchanges and potentially provide liquidity to financial institutions that originate Islamic assets.

In addition, the institution would also act as a vital link between all the regional hubs of Islamic finance and their embedded pools of liquidity as it would acquire assets across jurisdictions and also supply them globally to promote Sukuk issuance.

Would such an institution not compete with Islamic banks and other Shariah compliant institutions?

No, the institution would actually complement the activities of Islamic financial institutions by providing them with liquidity and enabling a monetization of their asset portfolios. Similarly, it could incentivize conventional financial institutions to originate Shariah compliant assets.

How much coordination and cooperation would be needed between countries and entities for this to be successful?

The starting step is to have the support of a key regulator/supervisory authority in one of the existing or prospective hubs of Islamic finance. This will enable the entity to be established in a hospitable legal, regulatory and tax regime. Once operational, the entity will focus on sourcing assets from jurisdictions where such transference is most easily achieved

and will therefore cast its net across Asia, the GCC, Europe and North America. The key therefore is to have support from its regulatory and supervising entity in its home jurisdiction and to have relationships with potential asset originators across territories. Also, it will need a good sales and trading team to both distribute the Sukuk it issues and to syndicate its assets to third party issuers of Sukuk.

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Where (country and asset classes) would you expect early results?

A full feasibility study should be commissioned which will map the potential supply of assets across the jurisdictions that have been mentioned above. It would be natural to assume that the majority of assets will be available in the primary centers of Islamic finance in Southeast Asia and the GCC.

What are the starting steps?

The concept should get a promoter that will commission a detailed feasibility covering all the strategic, operational, legal and financial issues. On the back of such support and the study, I am confident that equity investors can be identified for the project. ⁽⁵⁾

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