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Global Trends in Sukuk Issuances

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Paper presented at the webinar on Sukuk as an Alternative for Infrastructural Development in Nigeria

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- Analysis of Sukuk Issuance (2011 – Q3 2020)
- Sukuk Market Growth Drivers in Malaysia
- Tax Incentives for Sukuk Issuance in Malaysia
- Recent Developments in Sukuk Issuance

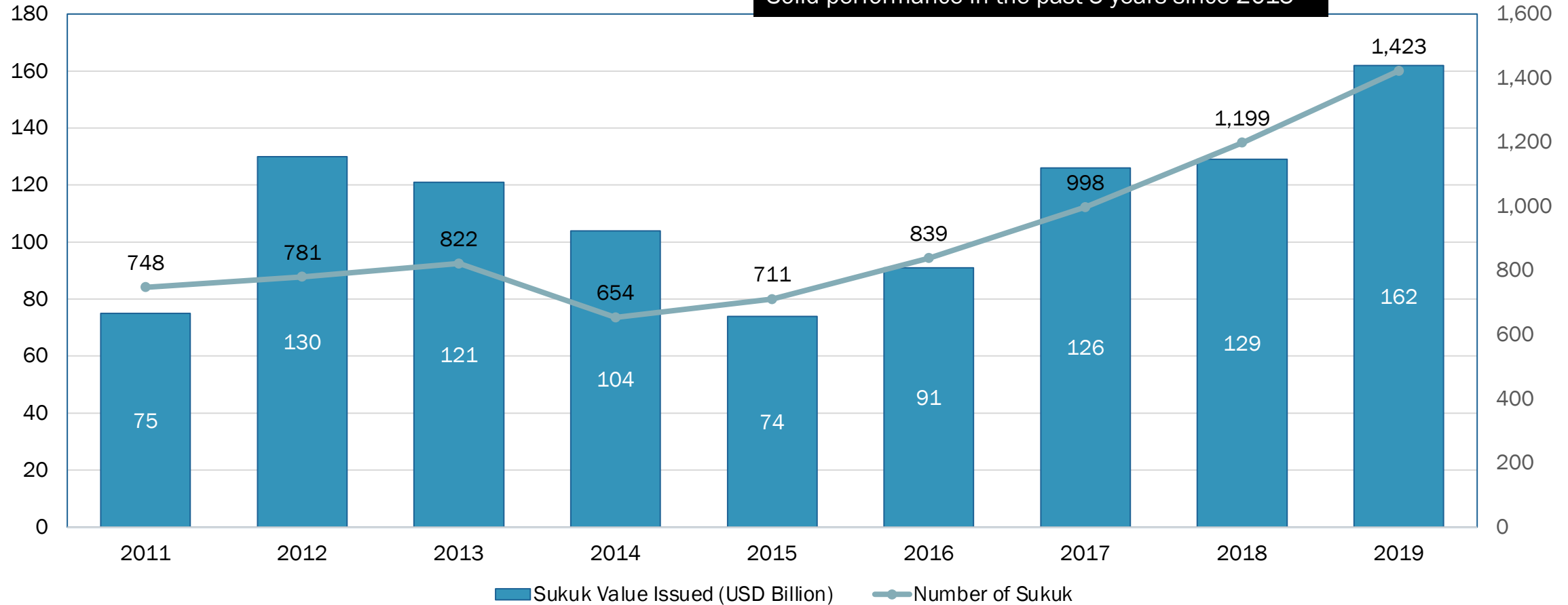
References: materials are adapted from Maybank, 2014 and CIMB, 2016

Over \$1.35 trillion worth of sukuk have been issued since the first sukuk in 1990 in Malaysia

- Sukuk continued its momentum that started in 2015, however actual growth was in 2014 when a number of non-Muslim countries issued for the first time

Sukuk Historical Issuance 2011 – Q3 2020

Solid performance in the past 5 years since 2015



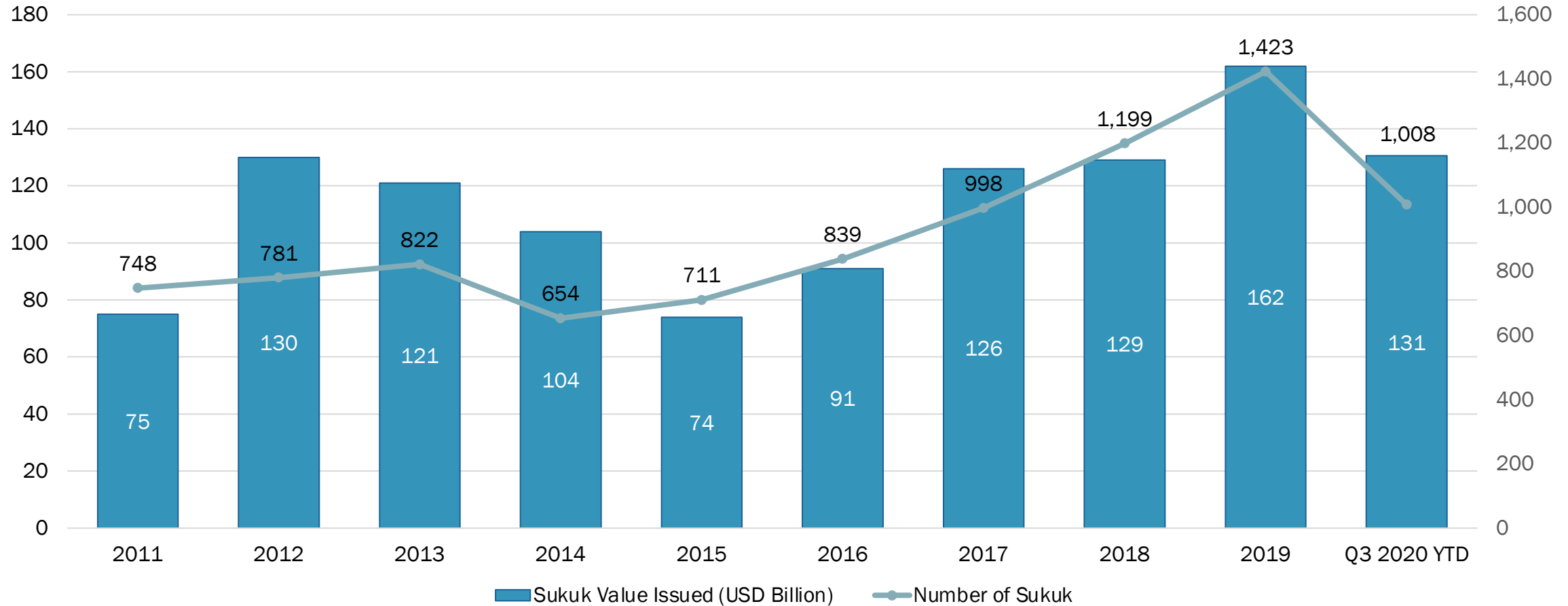
Source: Refinitiv, 2020

Sukuk Picked up in Q3 after a slow start at the beginning of the year

- During the first 3 quarters of 2020, total sukuk issuance reached US\$130.5 billion, up 2.5% from the US\$127.3 billion issued up to Q3 2019

Sukuk Historical Issuance 2011 – Q3 2020

2020 total issuance is expected to reach \$173.9 billion

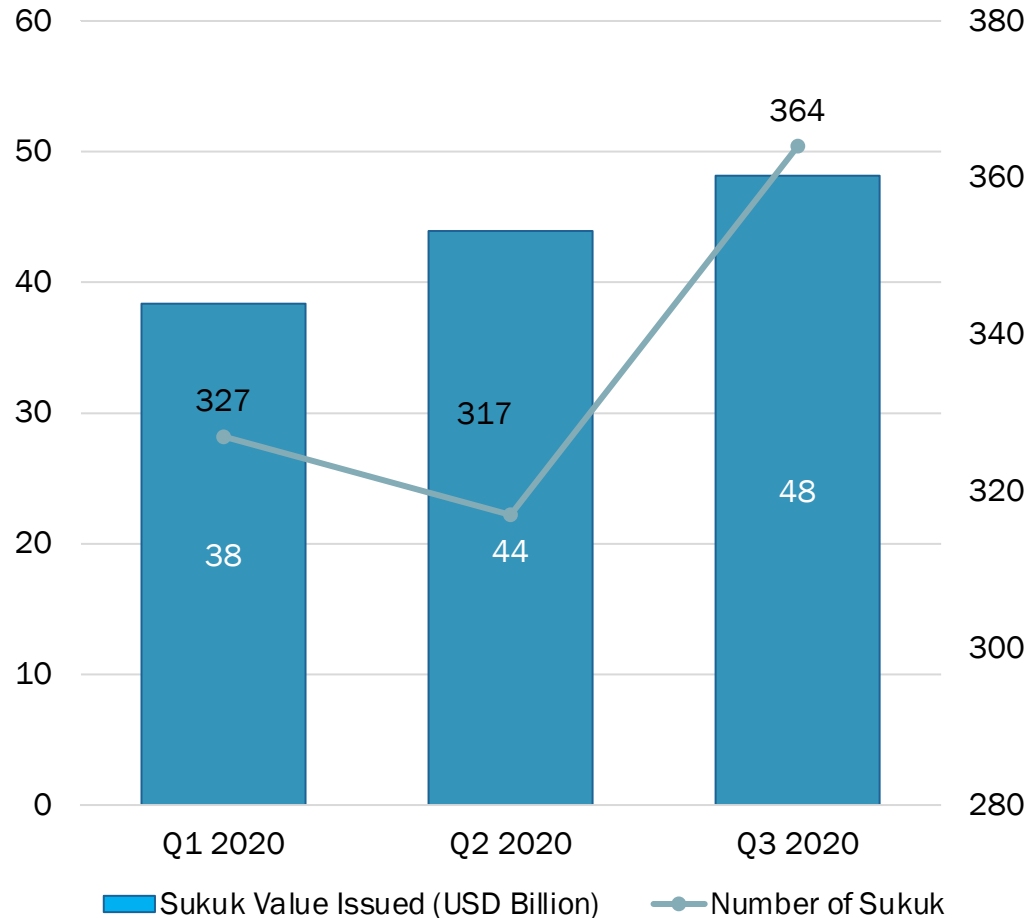


Source: Refinitiv, 2020

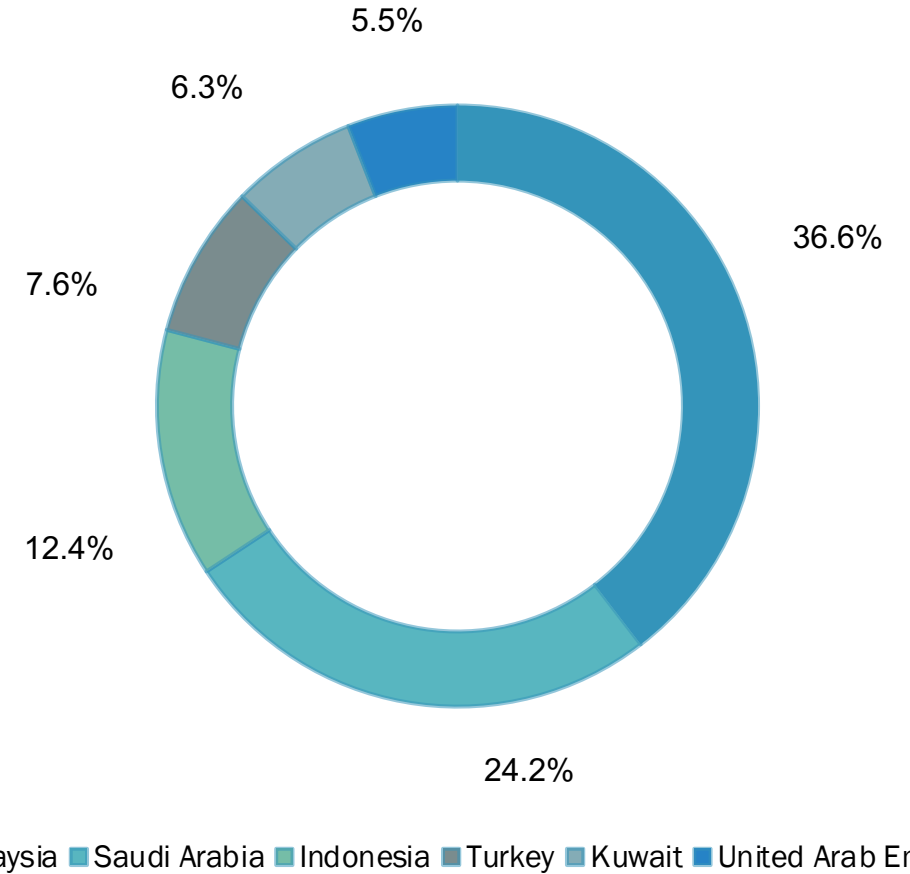
Governments have been the main sukuk drivers in the first 3 quarters of 2020

- Q3 witnessed \$48 billion worth of sukuk, making it the 2nd highest quarter in the history of sukuk

Sukuk Issuance in Q3 2020 YTD



Sukuk Market Share as of Q3 2020 YTD



Source: Refinitiv, 2020

Top sukuk issuers in the first 3 quarters of 2020 are governments and GREs

- Saudi Arabia passed Malaysia and has become the top single issuers in Q3 2020 YTD; IILM and CBK continue to issue short-term sukuk

Top Sukuk Issuers Q3 2020 YTD



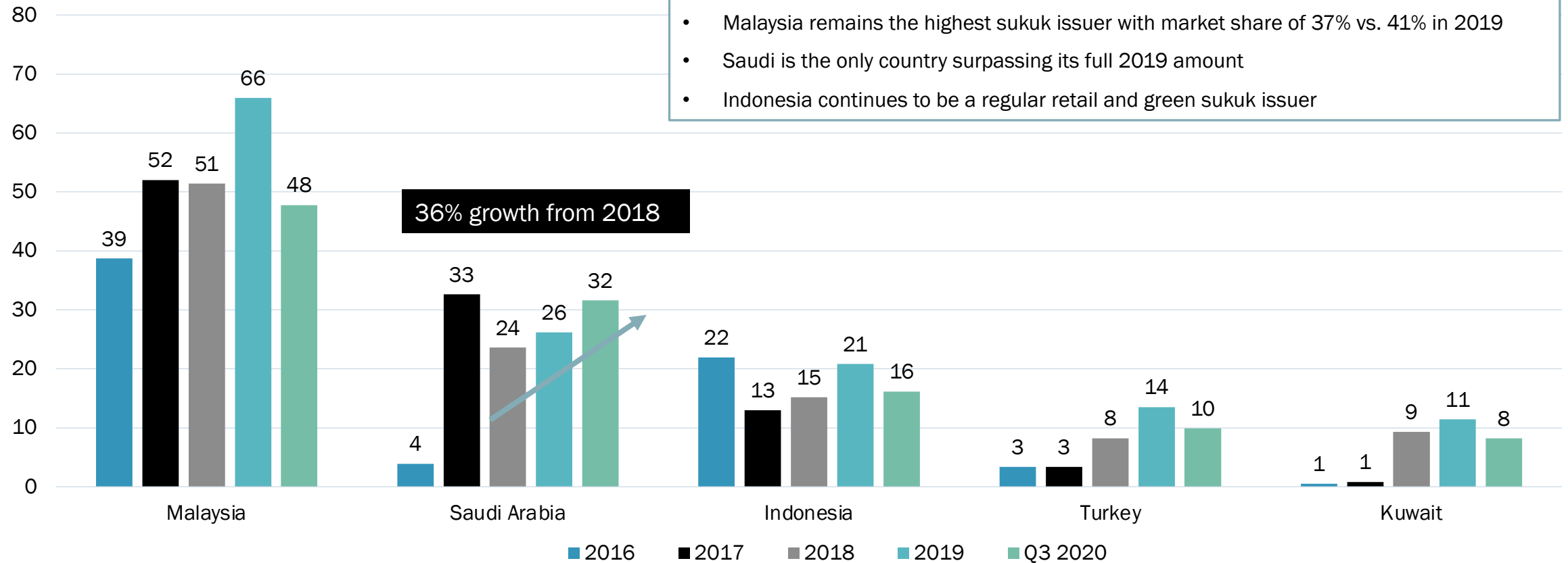
- KSA government issued 24 times this year, largest issuance was approx. \$4 billion; overall government issuance increased by 19%
- Malaysia remains the largest market to issue sukuk, but government sukuk dropped this year from \$24 billion in Q3 2019
- 98% of sukuk in Indonesia were issued by the government and central bank. Corporate sukuk dropped by approx. 60% compared to last year
- IILM sukuk have issued \$43.5 billion since its debut in 2014 with 40% of them in 2019 and 2020
- Since first sukuk issued by CBK in Jan 2018, the central bank issued over \$27 billion to support financial institutions with liquidity

Source: Refinitiv, 2020

Country: Saudi Arabia is the only country to surpass its full 2019 sukuk amount

- Majority of sukuk continue to be issued in Malaysia, with notable issuances coming from Saudi Arabia and Indonesia

Sukuk Issuance by Top Countries 2016 – Q3 2020

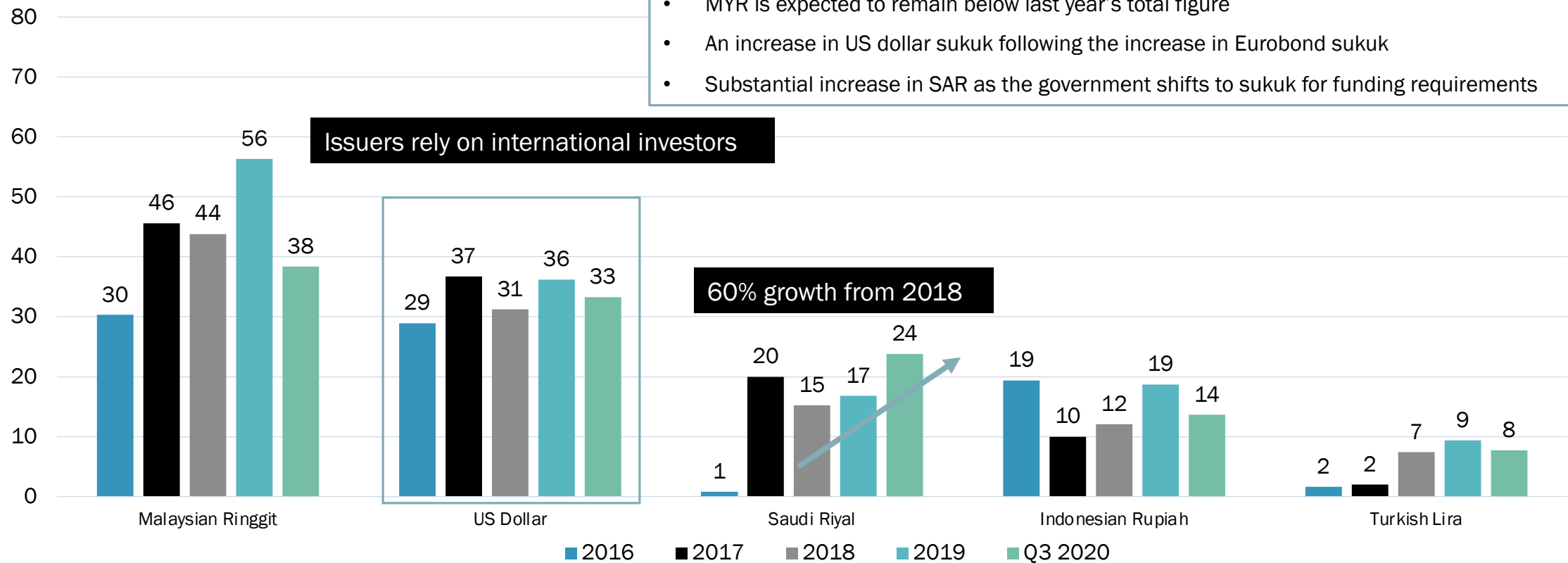


Source: Refinitiv, 2020

Currency: Covid-19 directs Issuers to international markets, targeting foreign investors

- Domestic currency issuances, led by the Malaysian ringgit, continued to dominate; US dollar-denominated issuance made up 25% of the total

Sukuk Issuance by Top Countries 2016 – Q3 2020

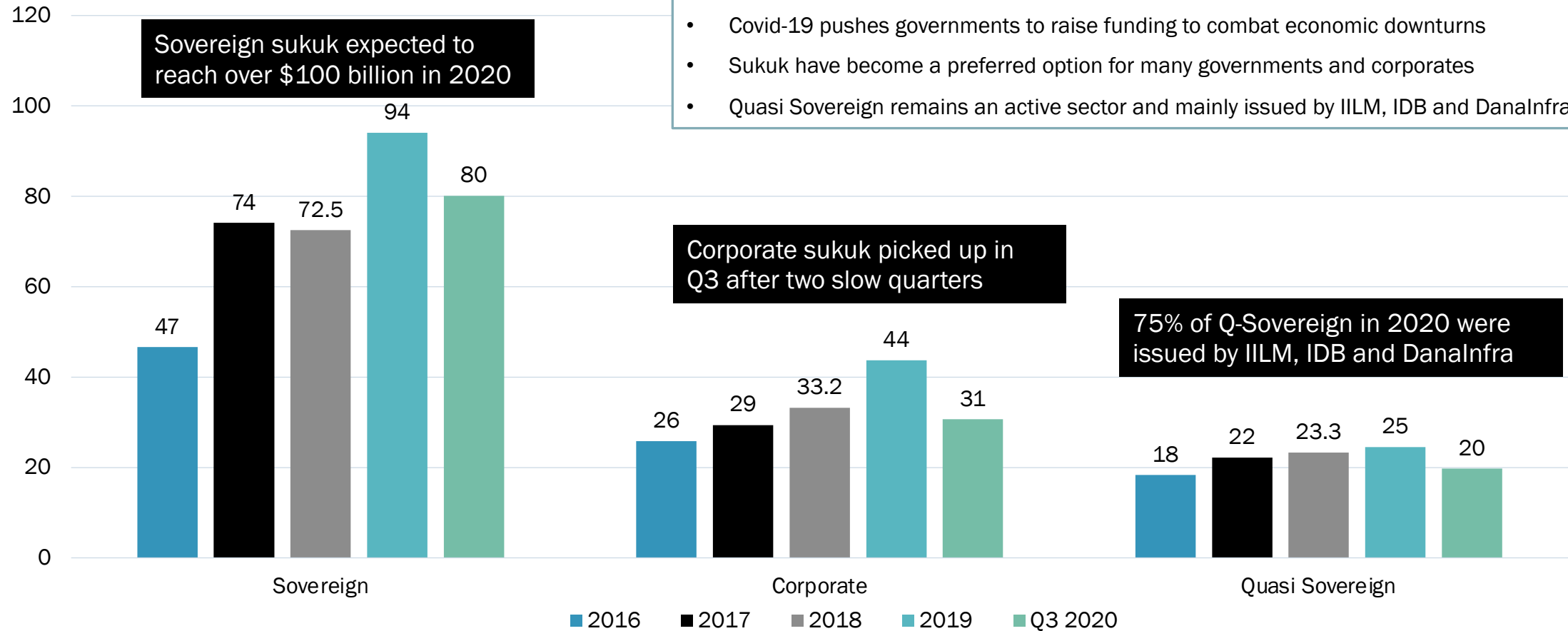


Source: Refinitiv, 2020

Issuer Type: Sovereigns ramp up issuance to fund recovery

- Sovereign sukuk issuance picked up during Q3 as governments returned to the market to bridge their widening budget deficits and finance economic stimulus programs

Sukuk Issuance by Issuer Type 2016 – Q3 2020

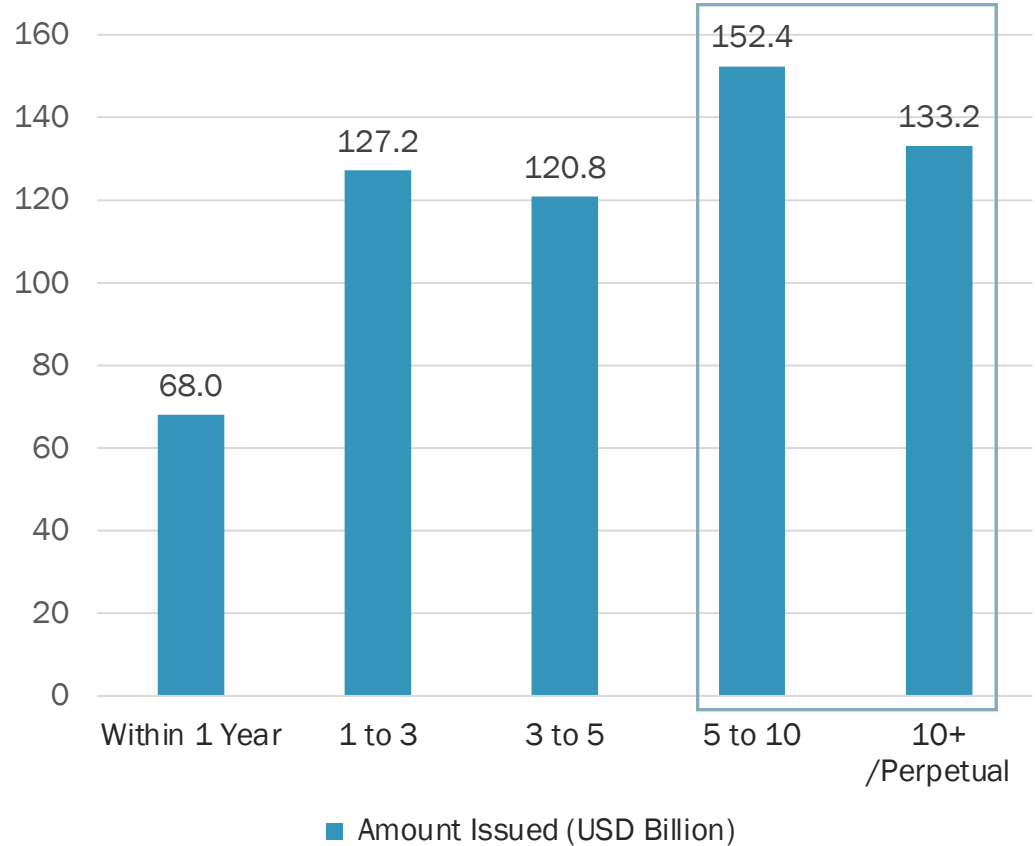


Source: Refinitiv, 2020

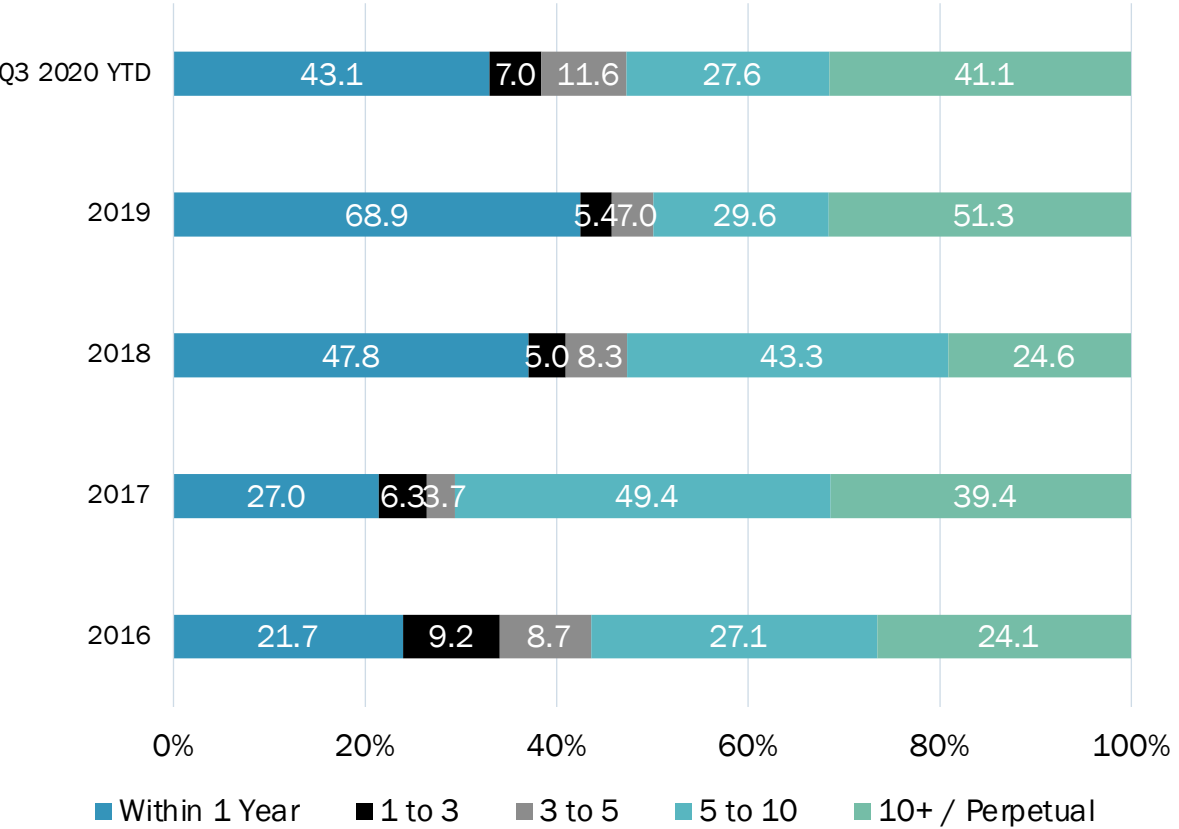
Over \$600bil in sukuk outstanding, providing ample liquidity and investments for investors

- A gradual shift from short term to long term as sovereign begin increasingly tapping the sukuk market, mainly by Saudi Arabia, Indonesia and Malaysia

Sukuk Issuance by Outstanding as of Q3 2020

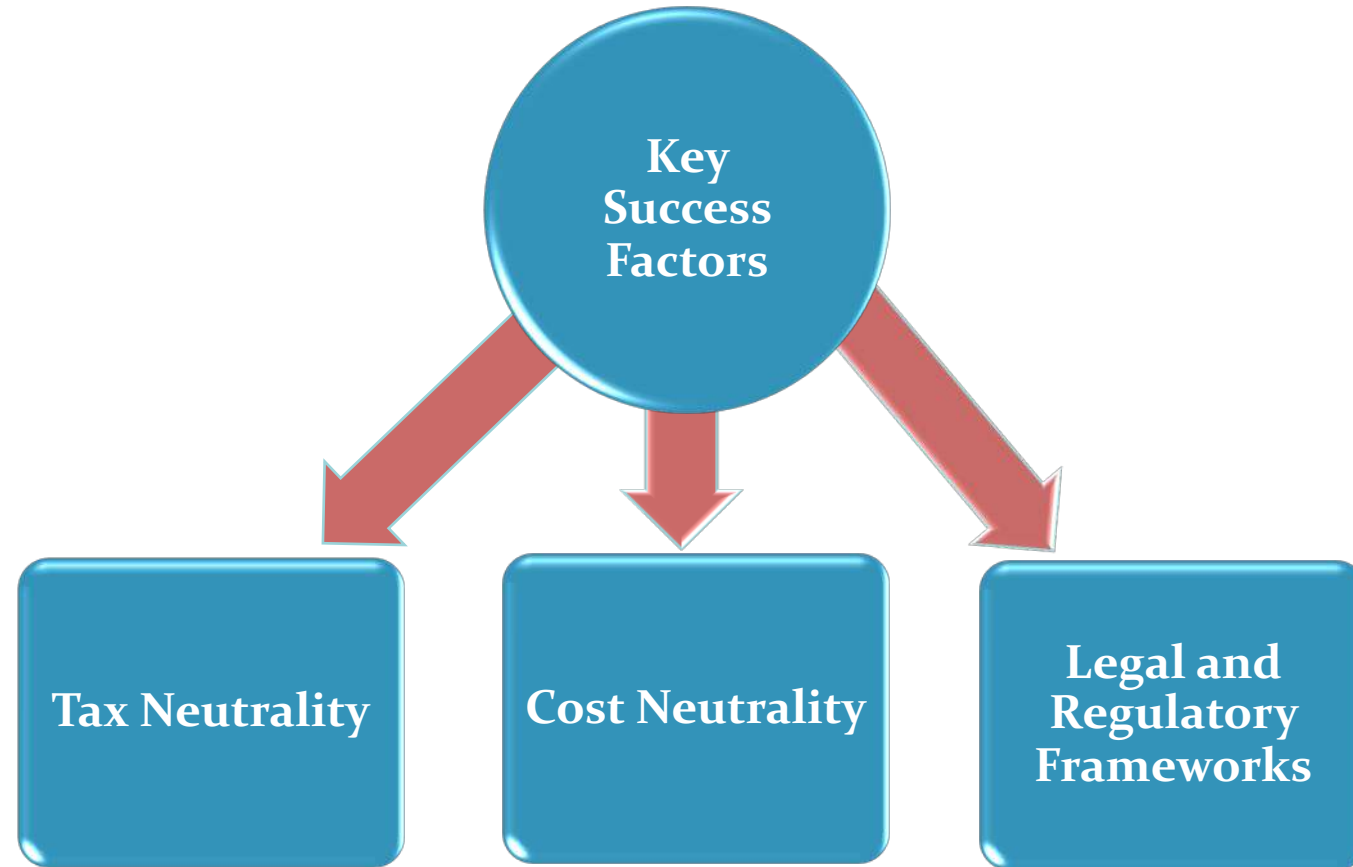


Sukuk Issuance by Tenor 2016 – Q3 2020



Source: Refinitiv, 2020

Sukuk Market Growth Drivers in Malaysia



Sukuk Market Growth Drivers in Malaysia(contd.)

Tax Neutrality

- Globally acceptable Sukuk structures, namely Ijara and Wakala, typically involve the transfer of beneficial interest in assets such as land and buildings
- Such transfers tend to attract taxes and/or stamp duty under national land laws/regulations
- To provide a level-playing field for Sukuk transactions, such transfers should be viewed as part of financing and therefore exempted from taxes and/or stamp duty that would otherwise be applicable

Cost Neutrality

- Having a level-playing field from a tax angle, so that a Sukuk issuer does not have to bear extra costs when compared to issuing conventional bonds
- Transaction advisers, including legal, tax and accounting advisors, do not charge a premium for advising on Sukuk transactions - this would take place when Sukuk transactions become a norm in particular jurisdictions and advisors become familiar with the workings and documentation involved

Legal and Regulatory Frameworks

- The existence of frameworks that recognize and facilitate the issuance of Sukuk from a local perspective
- This should extend to remedies available for Sukuk investors in the event of default, which should be as comprehensive as that available for investors in conventional bonds

Tax Incentives for Sukuk Issuance in Malaysia

➤ Extension of period of tax incentive for issuance of Sukuk Wakalah

- Effective from years of assessment 2019 to 2020, expenses incurred in issuing Sukuk under the principles of Ijarah and Wakalah are eligible for income tax deduction. A further deduction is also eligible to be claimed on the following additional costs incurred on the issuance of Sukuk under the principles of Ijarah and Wakalah:
 - Professional fees relating to due diligence, drafting and preparation of prospectus;
 - Securities Commission prospectus registration fee;
 - Bursa Malaysia processing fee and initial listing fee;
 - Bursa Malaysia new issue crediting fee;
 - Primary distribution fee;
 - Printing costs of prospectus; and
 - Advertisement cost of prospectus.

➤ It is proposed that the above tax incentives on the issuance of Sukuk under the principle of Wakalah be extended for another 5 years. No extension of incentives is accorded on the issuance of Sukuk under the principle of Ijarah.

➤ Effective: Years of assessment 2021 to 2025

Tax Incentives for Sukuk Issuance in (Malaysia)

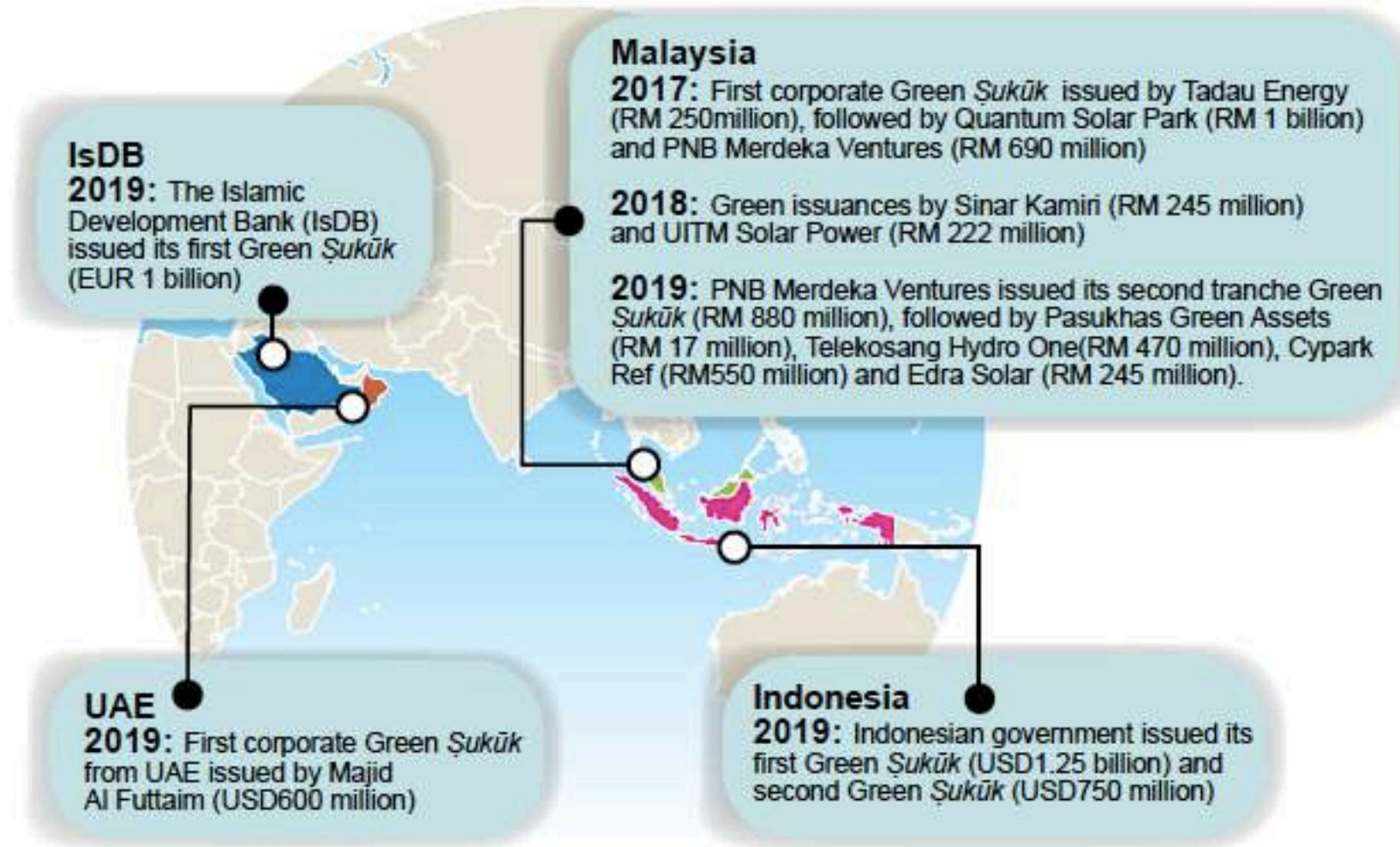
- **Extension of period of tax incentive on issuance of Sustainable and Responsible Investments Sukuk**
 - Effective from years of assessment 2016 to 2020, a tax deduction is given on the issuance cost of Sustainable and Responsible Investments (SRI) *Sukuk** either approved by, authorised by, or lodged with the Securities Commission of Malaysia.
 - It is proposed that the above tax incentive be extended for another 3 years.
- **Effective: Years of assessment 2021 to 2023**

**SRI Sukuk refers to the financing of projects with the objectives to preserve and protect the environment and natural resources; conserve the use of energy; promote the use of renewable energy; reduce greenhouse gas emission; or improve the quality of life of society.*

Recent Developments in Sukuk Issuance

- Green Sukuk
- Retail Sukuk on Blockchain
- Cash Waqf Linked Sukuk
- Sukuk Waqf for (Infrastructure Development)

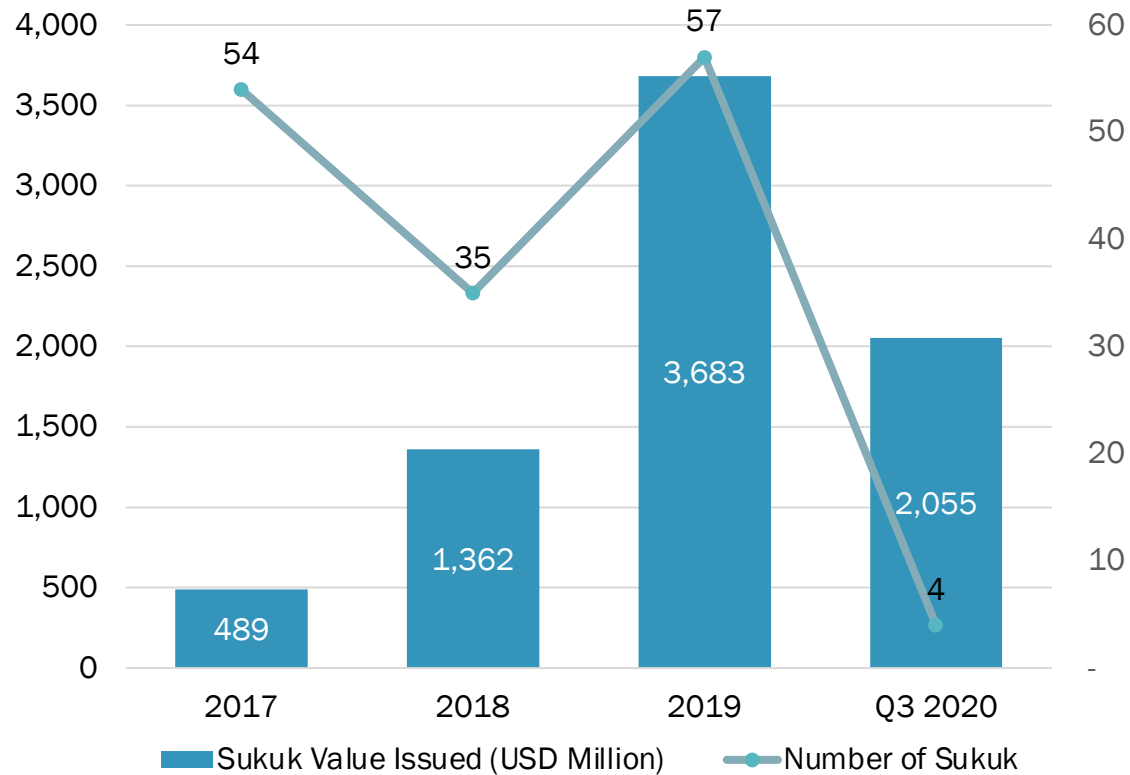
Green Sukuk



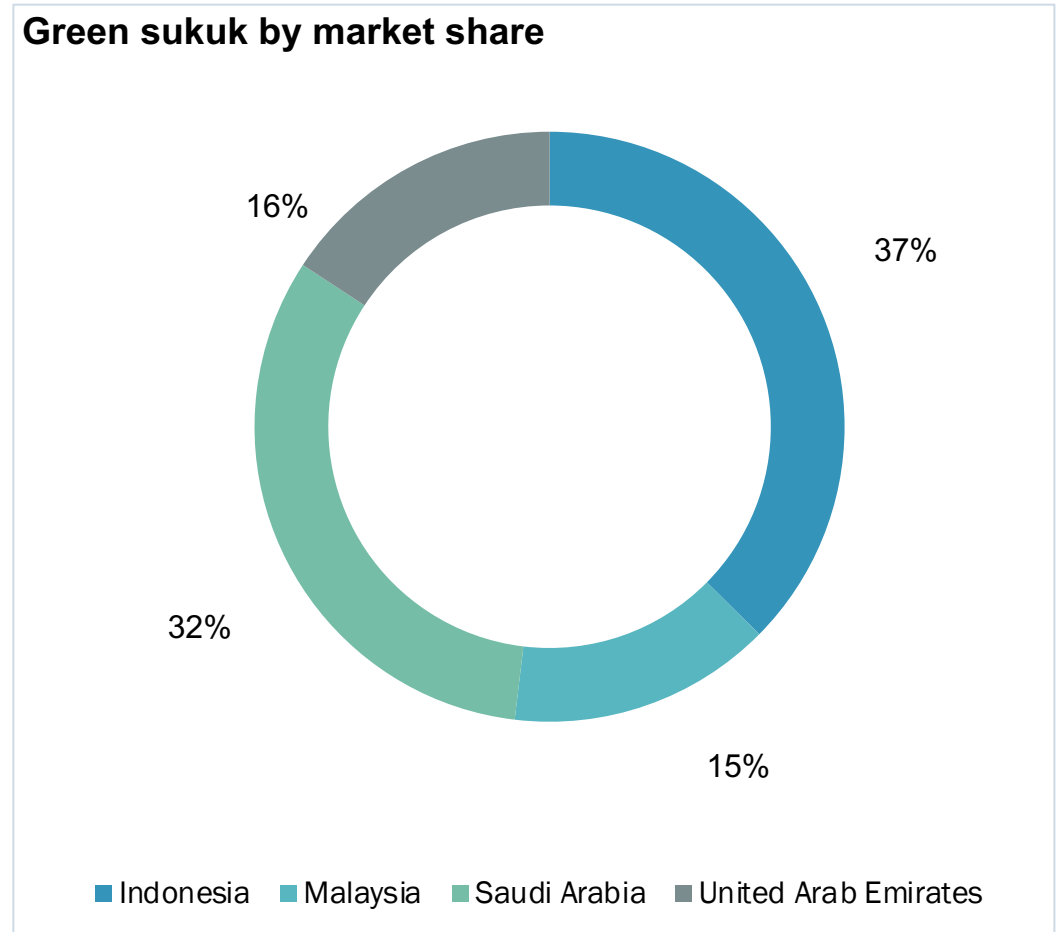
Source: IFSB

- A total of 150 green sukuk were issued worth of \$7.6 billion from 4 jurisdiction

Green Sukuk Historical Issuance 2017 – Q3 2020

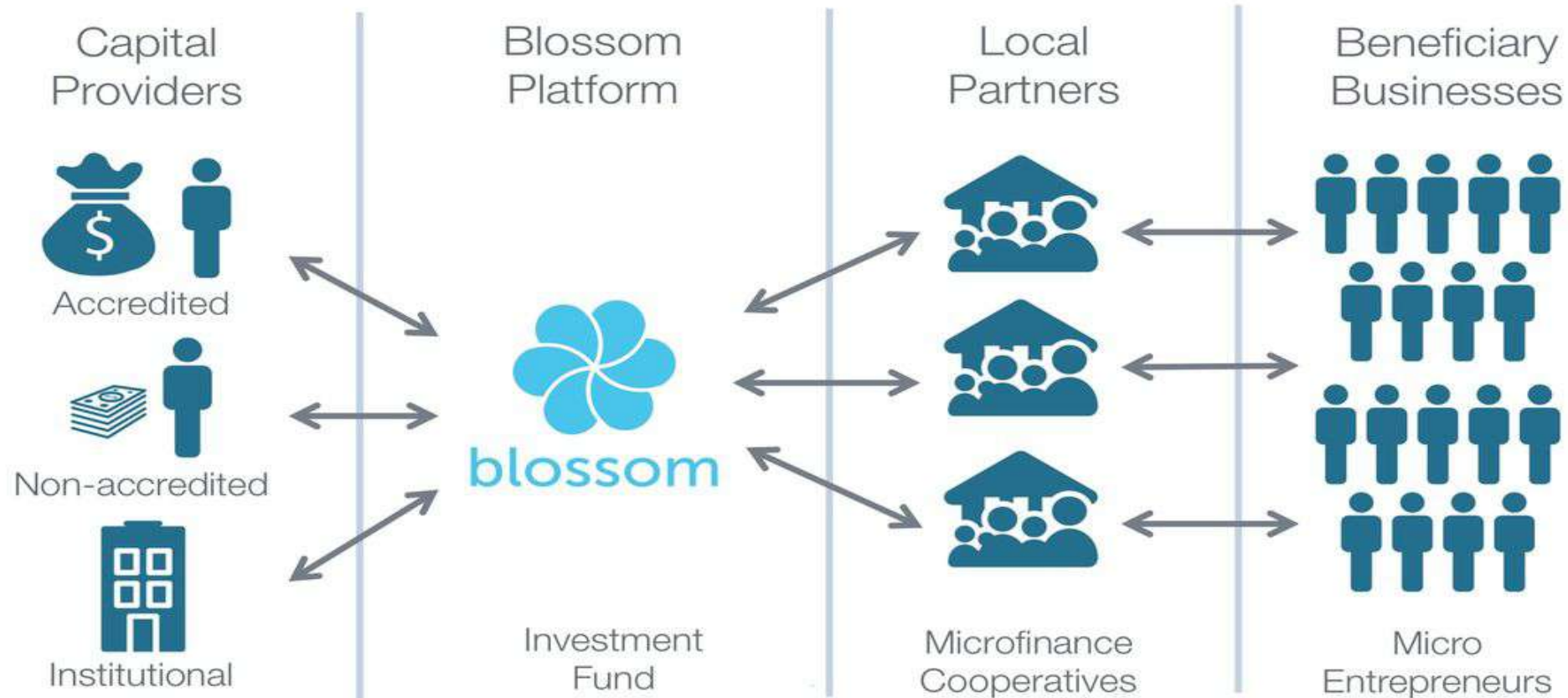


Green sukuk by market share



Source: Refinitiv, 2020

Smart Sukuk al-mudaraba for an Islamic microfinance institution, BMT Bina Ummah (US\$50k) via Blossom Finance – potential use for Waqf development



- Cash Waqf Linked Sukuk to be issued by the Government of Indonesia
 - Government will issue Waqf sukuk to facilitate BWI and waqf donors to invest their cash waqf
 - The cash waqf can be either permanent or temporary
 - Periodic coupons will be used to finance social finance programs for the poor and needy
 - Principal (discounted value of sukuk) will be paid upfront and used to develop waqf assets – mosques, health clinics, religious boarding schools
 - Refer to the illustration from Ministry of Finance, Indonesia in the next slide

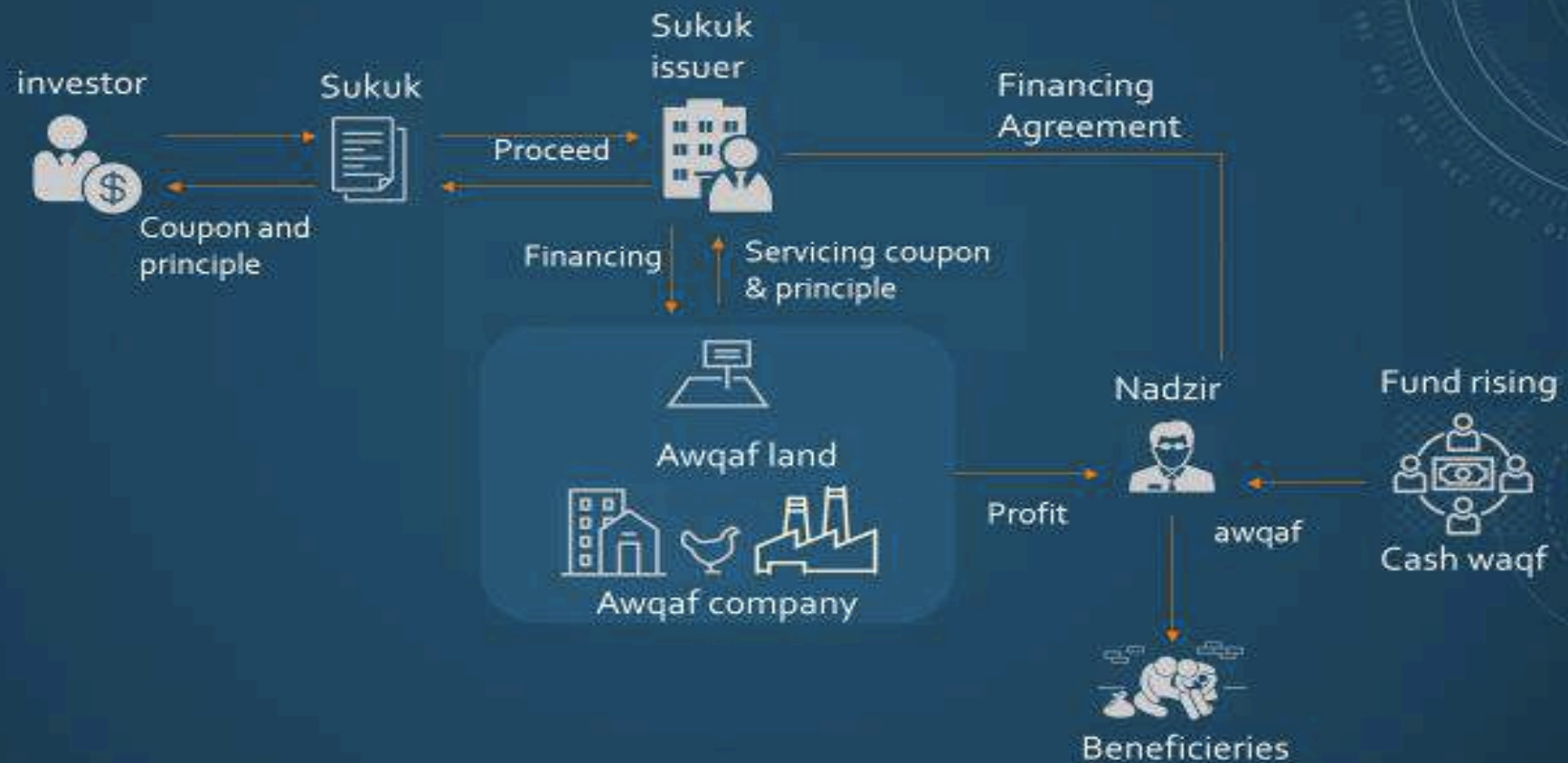
SUMMARY OF THE CASH WAQF LINKED SUKUK SCHEME



Sukuk Waqf for (Infrastructure Development)

- This is a proposed sukuk to be issued in Indonesia.
- However this model is not new, it is a copy of an earlier sukuk structure issued by the Singapore Islamic Religious Council in early 2000.
- S\$25 mil of Sukuk Musharakah was issued to finance the redevelopment of mosque and multi-purpose facilities in Singapore.

SUMMARY OF SUKUK LINK WAQF SCHEME





Q & A

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