



# Genesis of Global Sukuk

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Prepared by Barwa Bank Q.S.C. for the Kazan Sukuk Conference 2015

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*the future has a bank ... للمستقبل بنك*



RESTRICTED

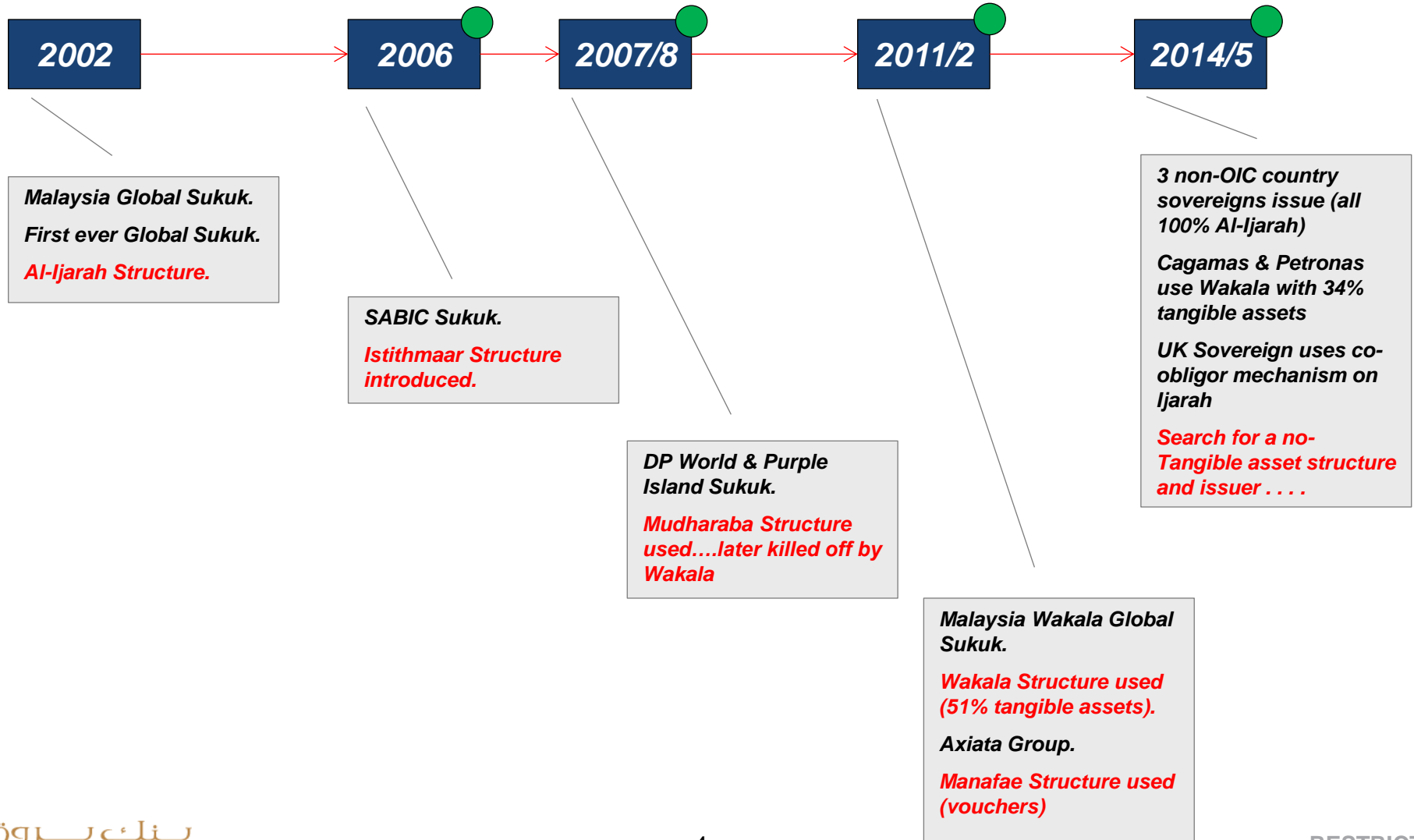
## What we will cover

- A brief time line
- High level overview of the structures
- Change in structure impact to Issuers & Investors

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# Time Line

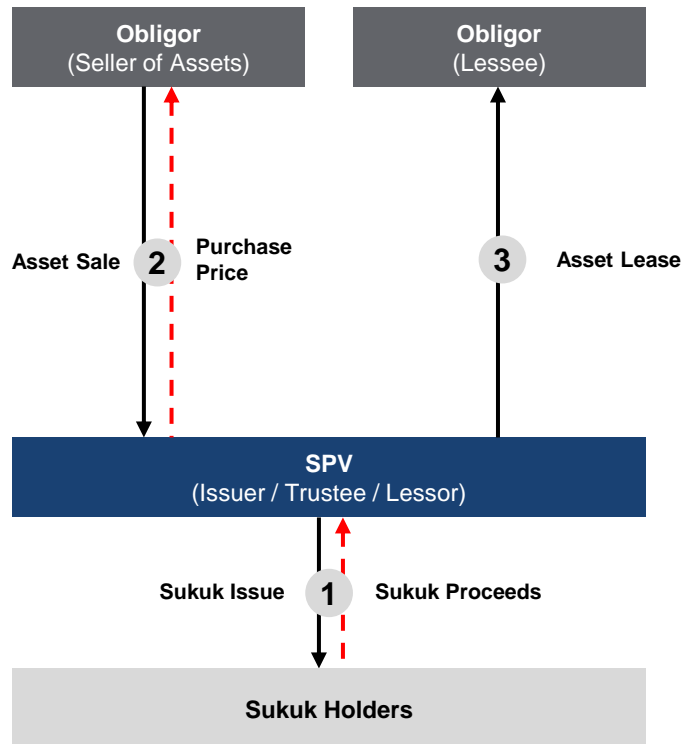


## What we will cover

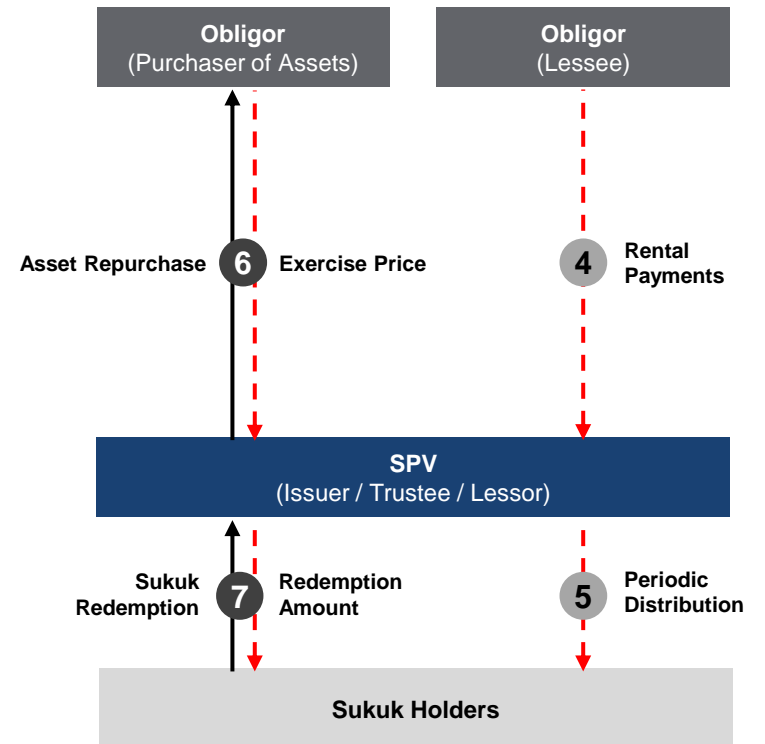
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# Ijara Sukuk : Sale & Leaseback (or Head-Lease & Sub-Lease) Structure Overview

## Inception



## Ongoing & Maturity



— Transaction  
- - - Fund flow

1 ~ 3 Steps at inception  
4 ~ 5 Steps during ongoing  
6 ~ 7 Steps at maturity

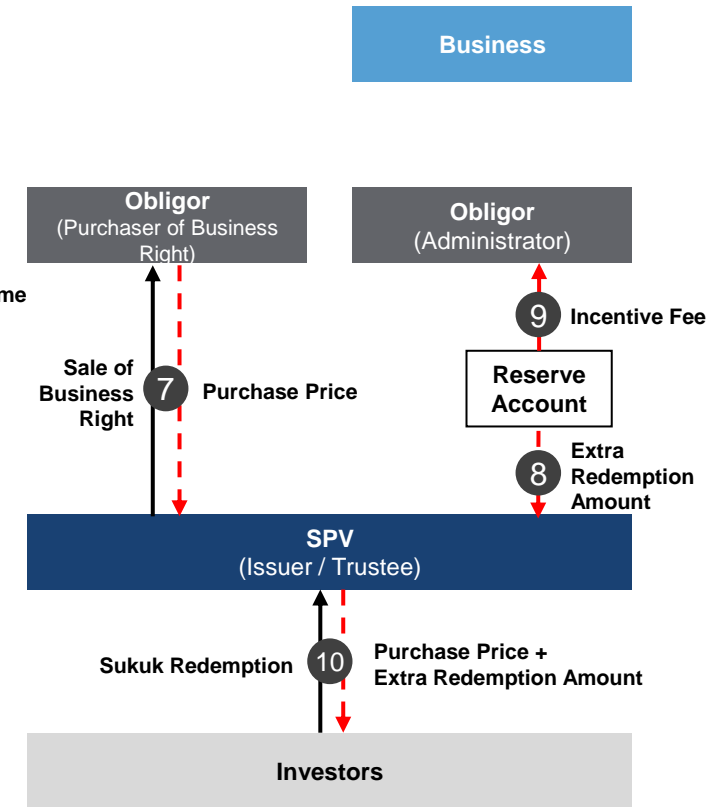
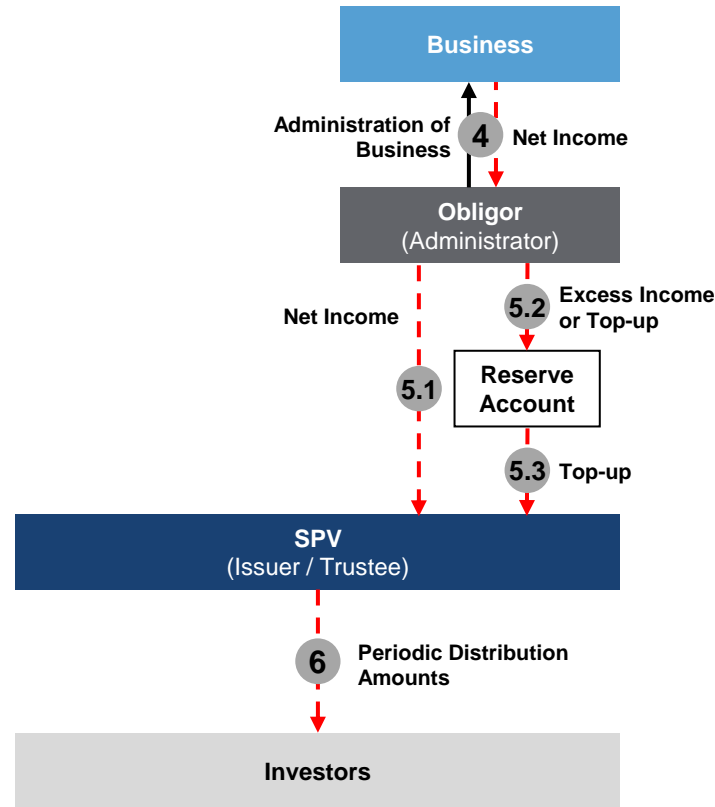
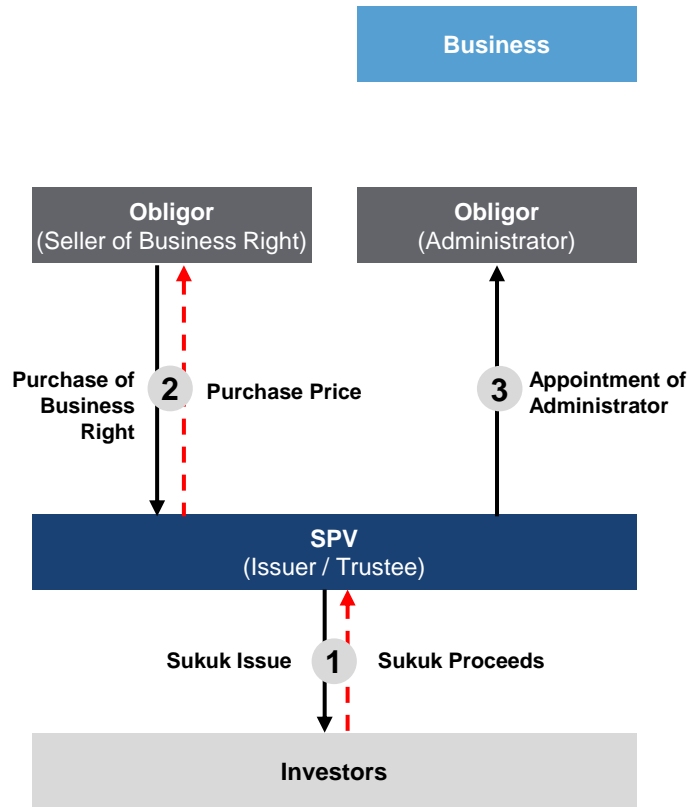
# Istithmaar Structure

## Structure Overview

### Inception

### Ongoing

### Dissolution



— Transaction      1 ~ 3 Steps at inception  
 - - - Fund flow      4 ~ 6 Steps during ongoing

— Transaction      7 ~ 10 Steps at dissolution  
 - - - Fund flow

# Mudharaba & Wakala

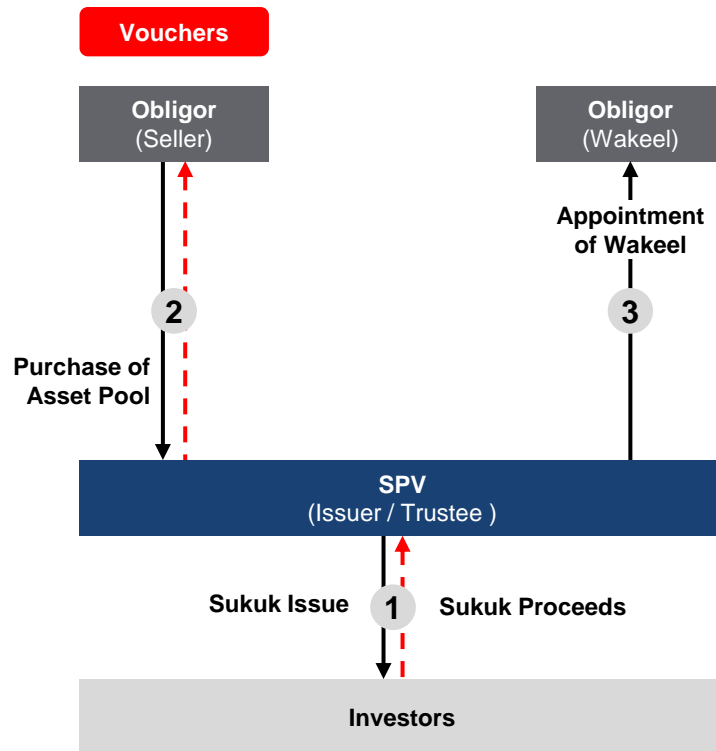
- Mudharaba:
  - Did not live long, was taken out by Wakala structure
  
- Wakala:
  - 1) Name for a Sukuk that mixes tangible assets (like Ijarah) with commodity Murabaha Assets. Note **51% tangible assets** was typically market practice till 2015
  - 2) Actual agency investment into Shariah compliant assets. Easier than Mudharaba hence the effective demise of Mudharaba based sukuk



# Manafae Structure

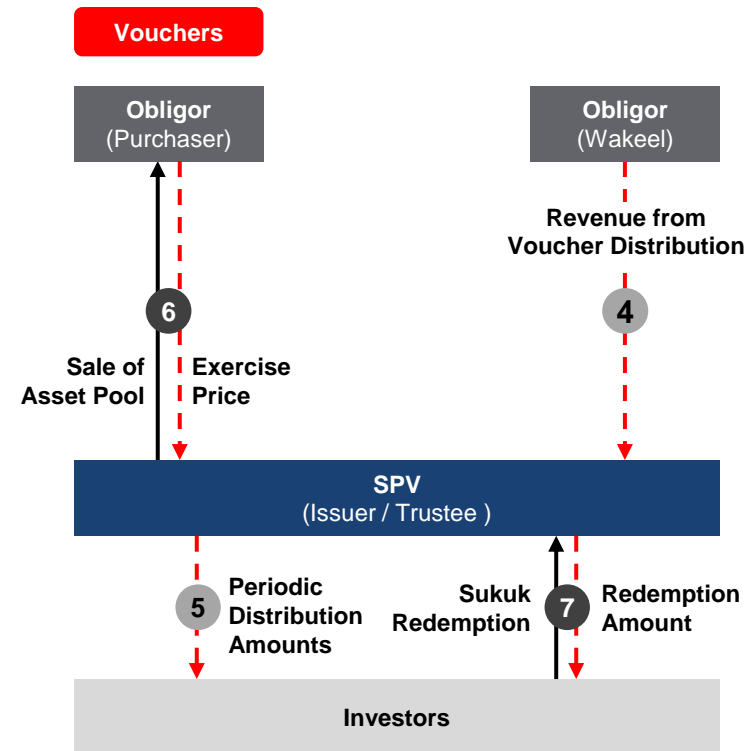
## Structure Overview

### Inception



Transaction  
 Fund flow  
 1 ~ 3 Steps at inception

### Ongoing & Maturity



Transaction  
 Fund flow  
 4 ~ 5 Steps during ongoing  
 6 ~ 7 Steps at maturity

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# Impact of Structure on Issuers

Structure	Asset Type	Description	Benefits	Considerations
Ijara	<ul style="list-style-type: none"> <li>Existing tangible assets such as plant, machinery, buildings etc</li> <li>Usufruct rights pertaining to tangible assets can be considered as well</li> </ul>	<ul style="list-style-type: none"> <li>Involves a sale and leaseback (or headlease and sublease) of tangible assets (or their usufruct rights)</li> </ul>	<ul style="list-style-type: none"> <li>Most commonly-applied and accepted Sukuk structure</li> <li>Tradable on secondary market</li> <li>Wide Shariah acceptability (AAOIFI-compliant)</li> <li>Relatively easy documentation process</li> </ul>	<ul style="list-style-type: none"> <li>Identification of assets</li> <li>100% of assets have to be tangible</li> <li>Assets remain in the beneficial ownership of investors till maturity</li> <li>Assets should be unencumbered at time of sale</li> </ul>
Istithmar	<ul style="list-style-type: none"> <li>Income-generating assets/business (e.g. commercial rights)</li> </ul>	<ul style="list-style-type: none"> <li>Involves appointing the obligor as manager to manage the assets/business for a fee</li> </ul>	<ul style="list-style-type: none"> <li>Easily executable if Shariah compliant income-generating assets/business are available</li> <li>Template documents available</li> </ul>	<ul style="list-style-type: none"> <li>Identification of income-generating assets/business</li> </ul>
Wakala	<ul style="list-style-type: none"> <li>Ijara assets</li> <li>Shariah-compliant equity instruments</li> <li>Sukuk certificates</li> <li>Commodity Murabaha</li> </ul>	<ul style="list-style-type: none"> <li>Involves appointing the obligor as investment agent to manage the assets for a fee</li> </ul>	<ul style="list-style-type: none"> <li>Easily executable if Shariah compliant assets are available</li> <li>Template documents available</li> </ul>	<ul style="list-style-type: none"> <li>Identification of assets and substitution</li> <li>Assets need to have value at or greater than amount raised</li> <li>Minimum 34% (or 51%) physical assets required</li> </ul>
Manafae	<ul style="list-style-type: none"> <li>Shariah-compliant consumables (e.g. seats on flight routes, electricity and water usage, airtime),</li> </ul>	<ul style="list-style-type: none"> <li>Involves appointing the obligor as distribution agent</li> </ul>	<ul style="list-style-type: none"> <li>Tradable yet does not require any tangible assets</li> <li>Acceptable to most Islamic investors</li> <li>Allows the greatest potential amount of issuance, hence suited for a programme</li> </ul>	<ul style="list-style-type: none"> <li>Due diligence around the assets to ensure regulation/regulators allows for such sale</li> <li>Slightly more complex from a documentation perspective</li> <li>Investor education required</li> </ul>

## What about the Investors

Structure	GCC Islamic	GCC Windows	Asia Sukuk Investors	Conventional
Ijara	Preferred & Widely Accepted	Wide Acceptance	Wide Acceptance	Well understood
Istithmar	Widely Acceptance	Wide Acceptance	Wide Acceptance	Not well understood
Wakala	Depends	Wide Acceptance	Wide Acceptance	Familiarity increasing
Manafae	Depends	Wide Acceptance	Wide Acceptance	Not well understood

Questions?

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