

# Latest Development in Sukuk Structures, Shari'ah Issues & Risk Management Techniques

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Chairman of Bursa Malaysia's Shariah Committee,  
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Chairman, Shariah Committee, BASIL REIT, Singapore,  
Chairman, Shariah Committee, Noor Takaful, Nigeria,  
Chairman, Muamalat Panels, JAKIM  
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Member, Shariah Committee, Islamic Bank of Australia (Project)



# Points of Discussion

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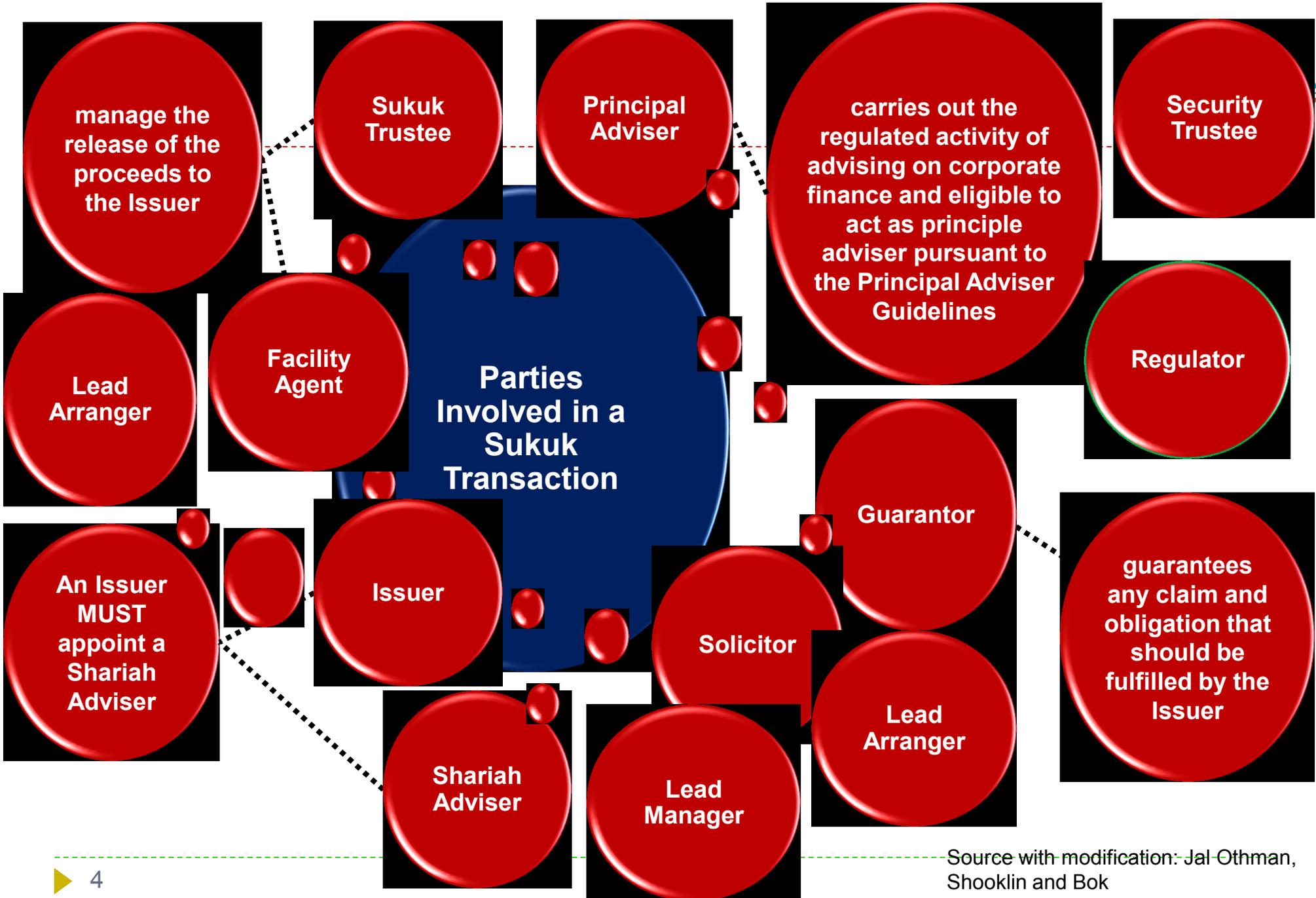
- a. Why Sukuk?
- b. Sukuk and Bond
- c. Sukuk Market
- d. Sukuk Structures
- e. Recent Developments
  - Perpetual Sukuk
  - SRI
  - Retail
  - Waqf – Temporary Cash Waqf

# Why Sukuk? لماذا الصكوك؟

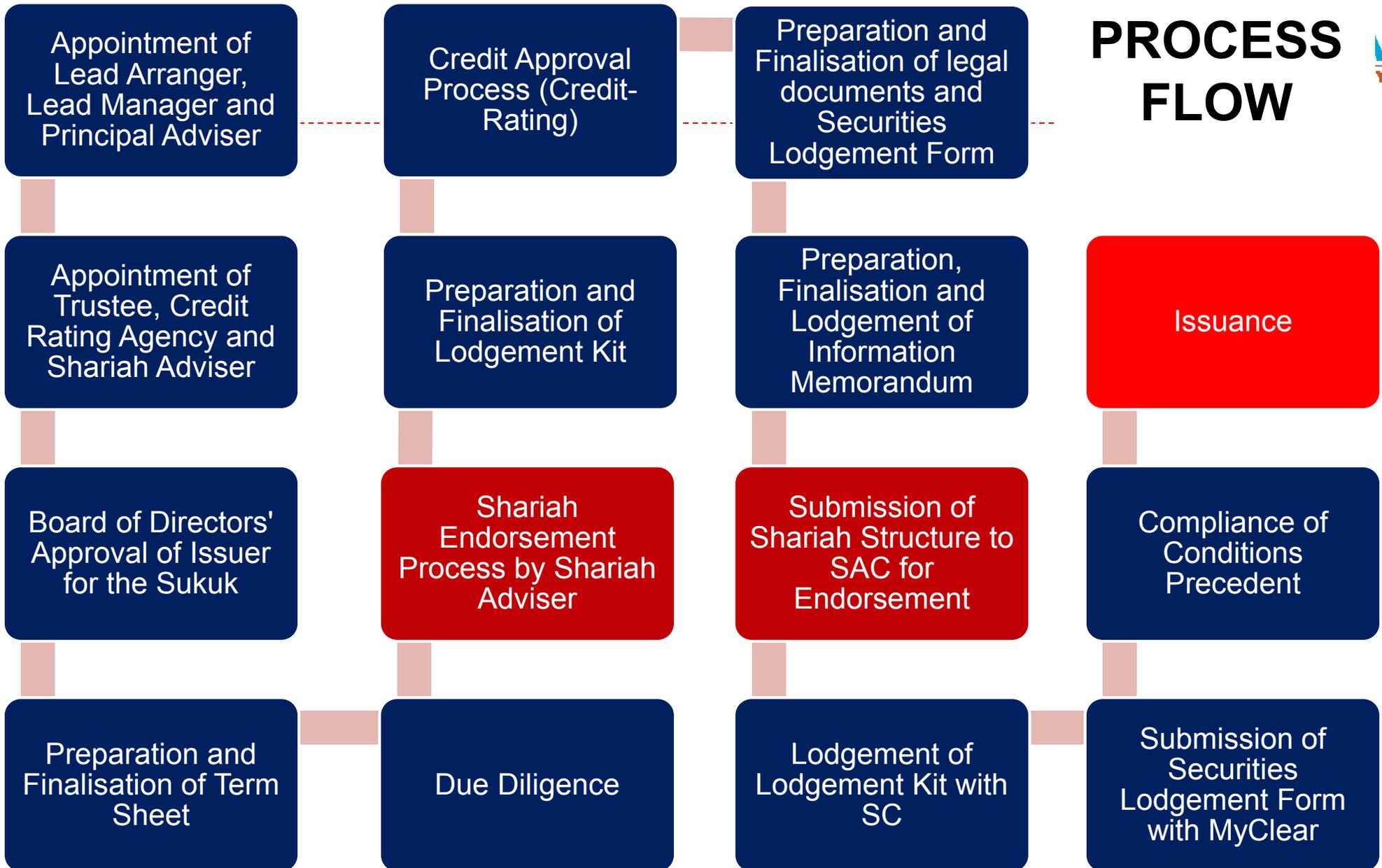
- ▶ **TRUST – integrity and governance**
  - ▶ Strict regulations for Sukuk issuance requires rigorous due diligence (business, legal, governance, etc.) giving significant comfort to subscribers
  - ▶ Sukuk are high-profile and require high-quality disclosure, therefore, rights, liabilities and responsibilities are clearly defined and safeguarded.
  - ▶ Cheaper compared to Bank financing
- ▶ **LIQUIDITY**
  - ▶ Sukuk can be listed on an exchange and have in-built market-standard provisions facilitating liquidity for subscribers

- ✓ الثقة – النزاهة والحوكمة – تتطلب التنظيمات المشددة على إصدار الصكوك حذرا مضاعفا (من النواحي العملية والقانونية والإدارية وغيرها)
  - تقديم الطمأنينة الكافية للمشاركين
  - تعتبر الصكوك من الأمور الحساسة وتتطلب افصاحا عالي الجودة ولذلك يجب تحديد وحماية الحقوق والواجبات والمسؤوليات بشكل واضح
  - أرخص مقارنة بالتمويل البنكي

- ✓ السيولة: يمكن إدراج الصكوك في سوق الأسهم وتمتلك قوانين ومعايير خاصة لتسهيل السيولة للمشاركين



# PROCESS FLOW

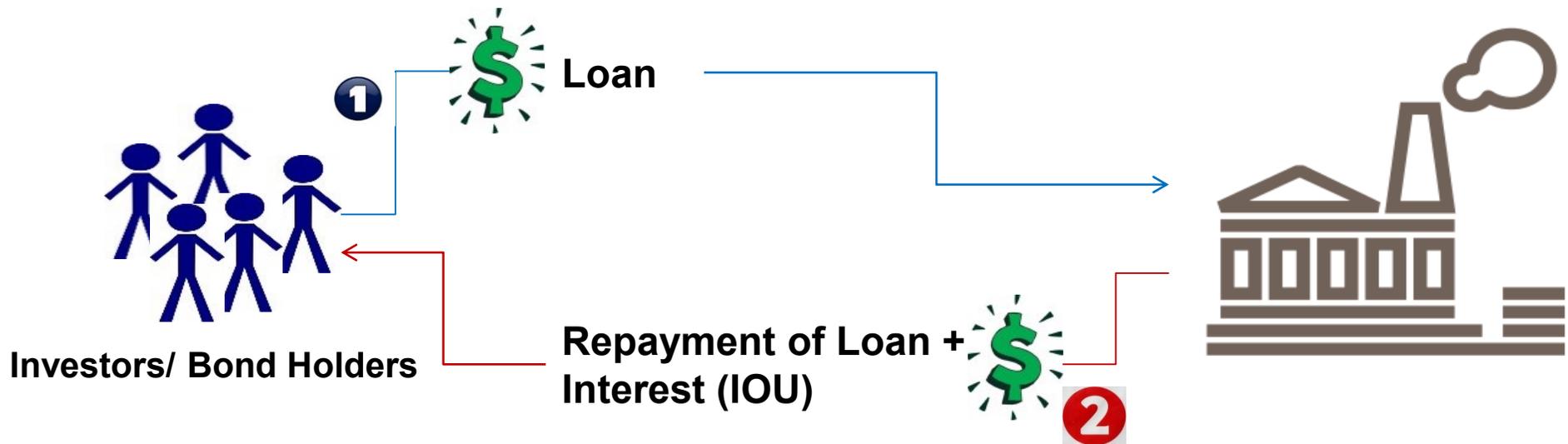


## Does Sukuk Similar to Bond?



# Bond: A definition

A bond is a [debt investment](#) in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or [fixed interest rate](#). Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or [creditors](#), of the issuer (Source: Investopedia)



# Simple Exercise: Comparing SUKUK to BONDS

Sukuk	Bonds
<p><b>1. Holder owns assets, receivables, partnership</b></p>	<p><b>1. Holder owns cash flow only</b></p>
<p><b>2. Use a variety of contracts to create financial obligations between issuer and investors; e.g. Sale, lease, equity partnership, joint-venture etc.</b></p>	<p><b>2. Simply use a loan contract to create indebtedness</b></p>
<p><b>3. Return linked to profit elements in-built in the sale, lease or partnership</b></p>	<p><b>3. Return linked to interest charged out of the loan contract</b></p>
<p><b>4. Instrument may be equity or debt depending on underlying contract</b></p>	<p><b>4. It is a Debt instrument</b></p>
<p><b>5. Tradability of the sukuk depends on the nature of the underlying asset</b></p>	<p><b>5. No restriction on the tradability</b></p>
<p><b>6. Investment in Shari`ah-compliant activities</b></p>	<p><b>6. Proceeds are invested in any business without restrictions</b></p>

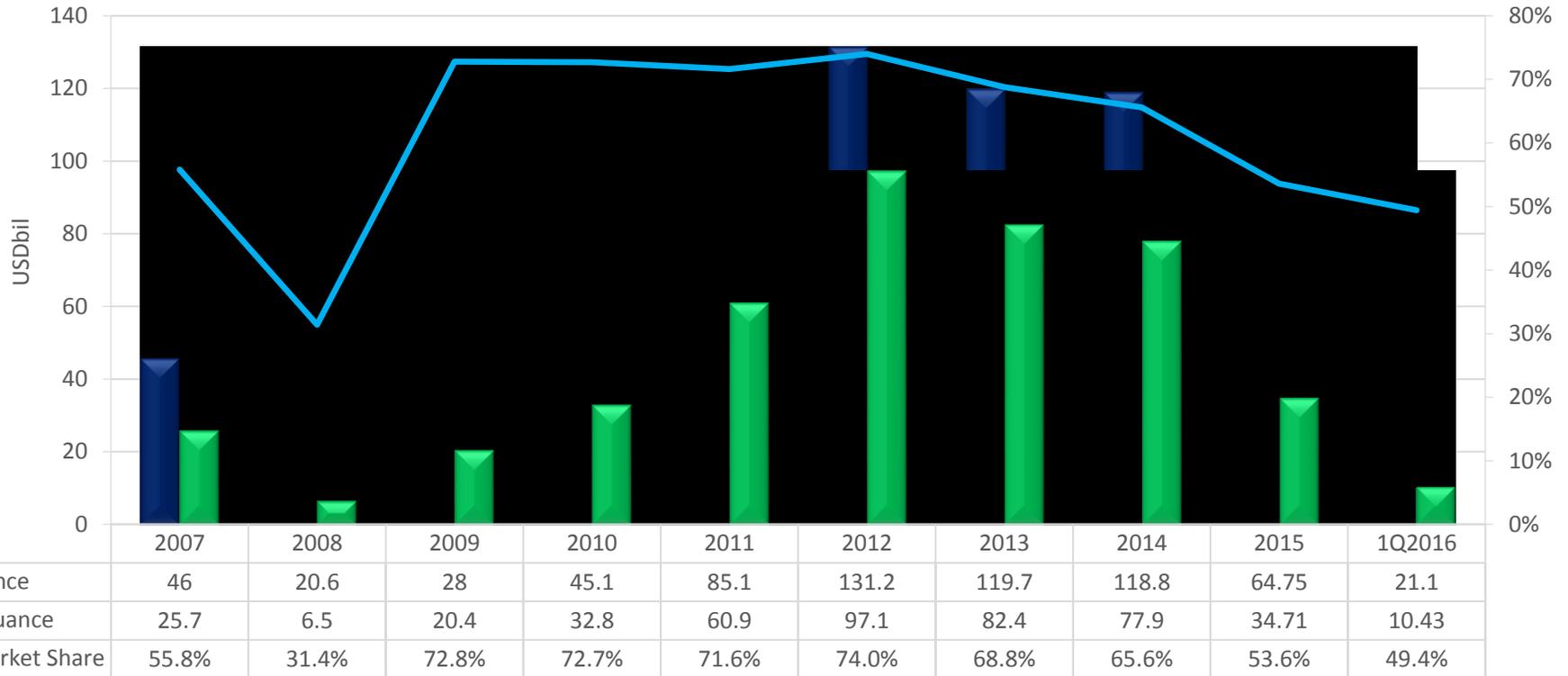
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- ▶ *Sukuk* represents the proportionate ownership of Sharī‘ah-compliant assets.
  - ▶ *Sukuk* is structured using Sharī‘ah-compliant contracts.
  - ▶ *Sukuk* can be structured as both long-term and short-term instruments.
  - ▶ *Sukuk* pays regular returns to *Sukuk* holders in the form of profits and rents.
  - ▶ The *Sukuk* proceeds should be utilised in Sharī‘ah-compliant activities.
  - ▶ The trading of *Sukuk* in the secondary market need to comply with Sharī‘ah requirements.

# Sukuk Market



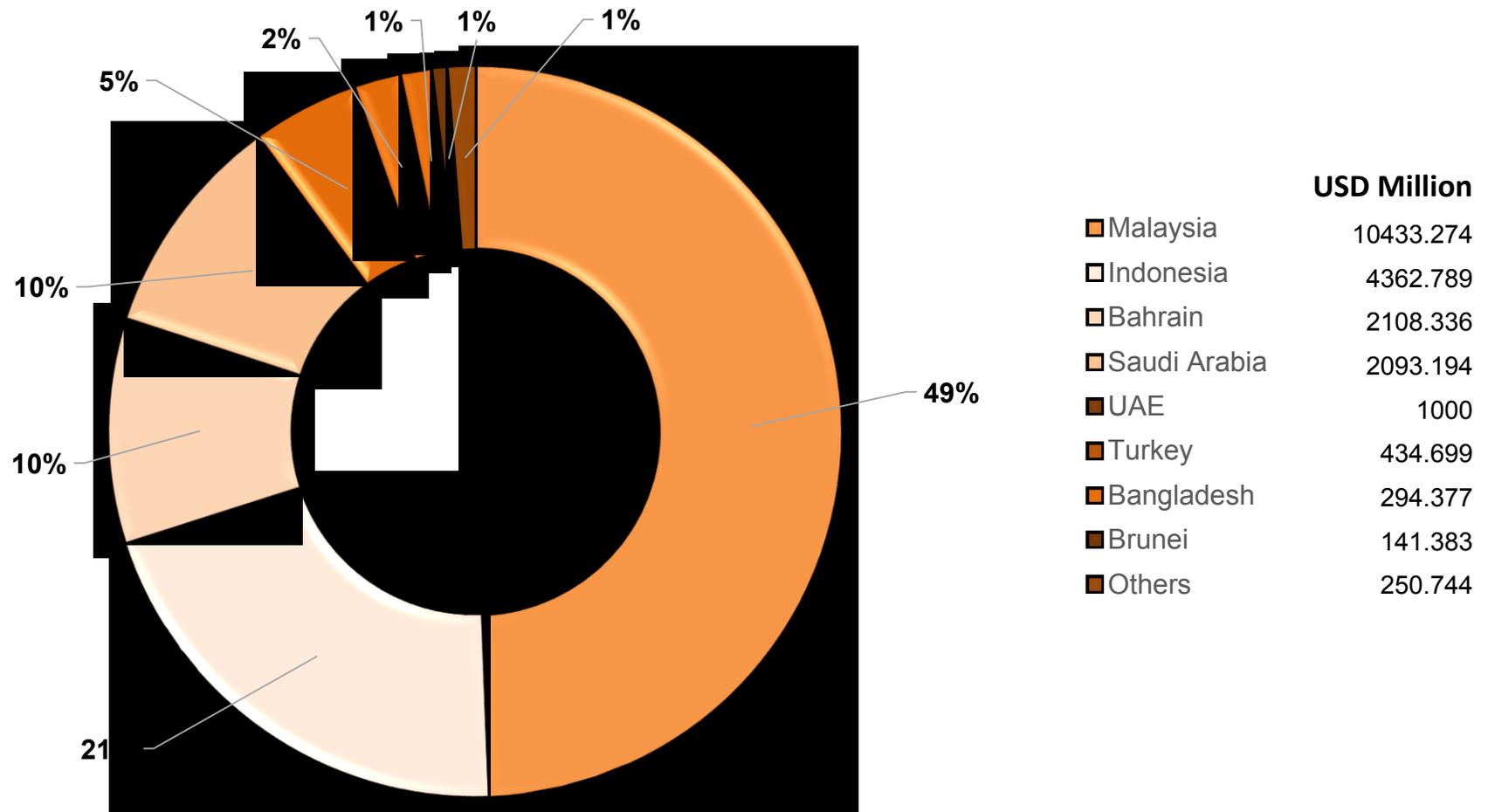
# GLOBAL SUKUK ISSUANCE TREND

*In 1Q 2016, a total of USD21.1 billion worth of sukuk were issued, a 13% increase compared to the 1Q 2015 issuances value of USD 18.7 billion.*



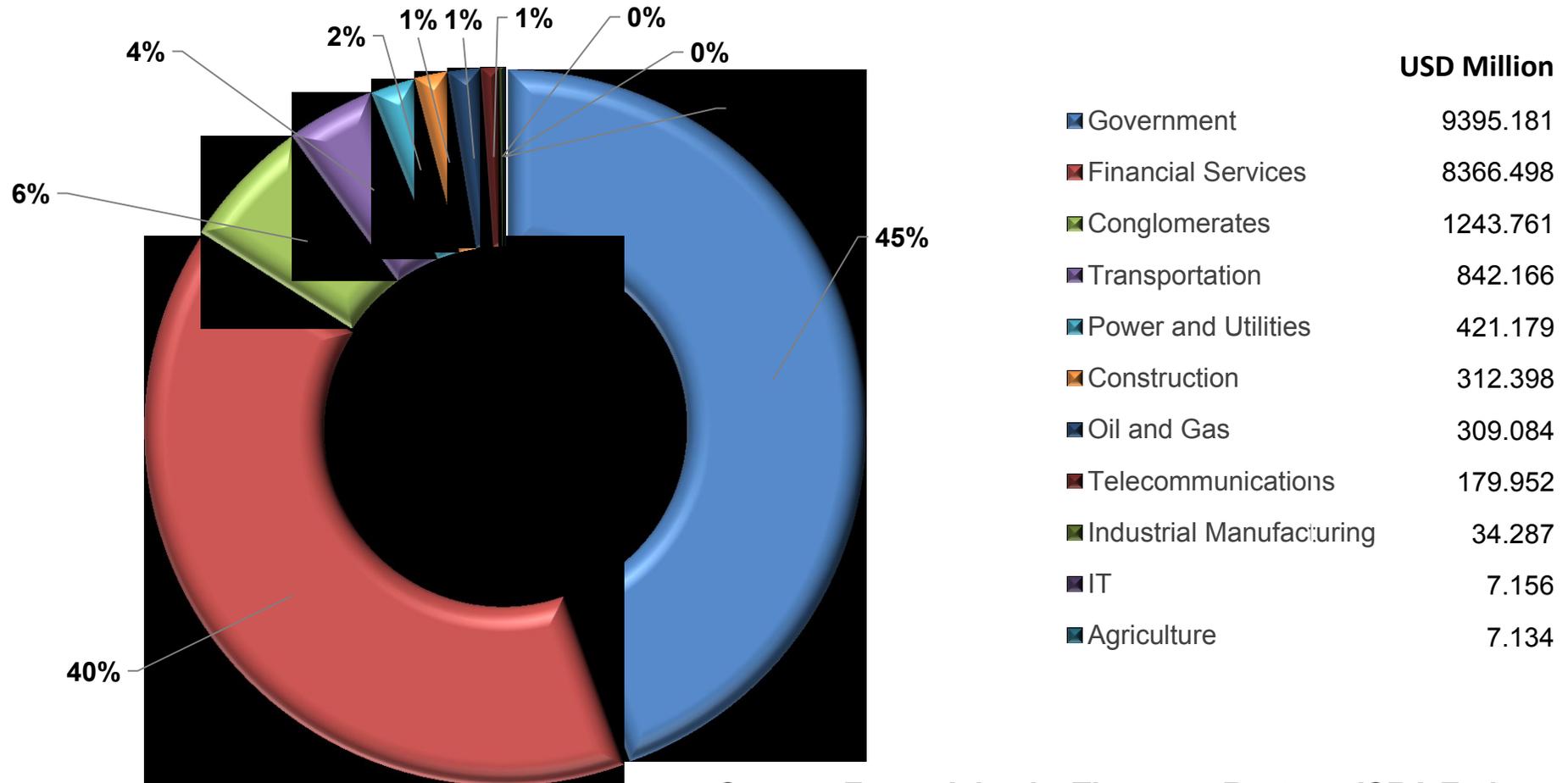
**Source: Zawya Islamic, Thomson Reuters, ISRA Estimates**

# Global New Sukuk Issuance by Domicile and Share (1Q 2016, USD 21.2bln)



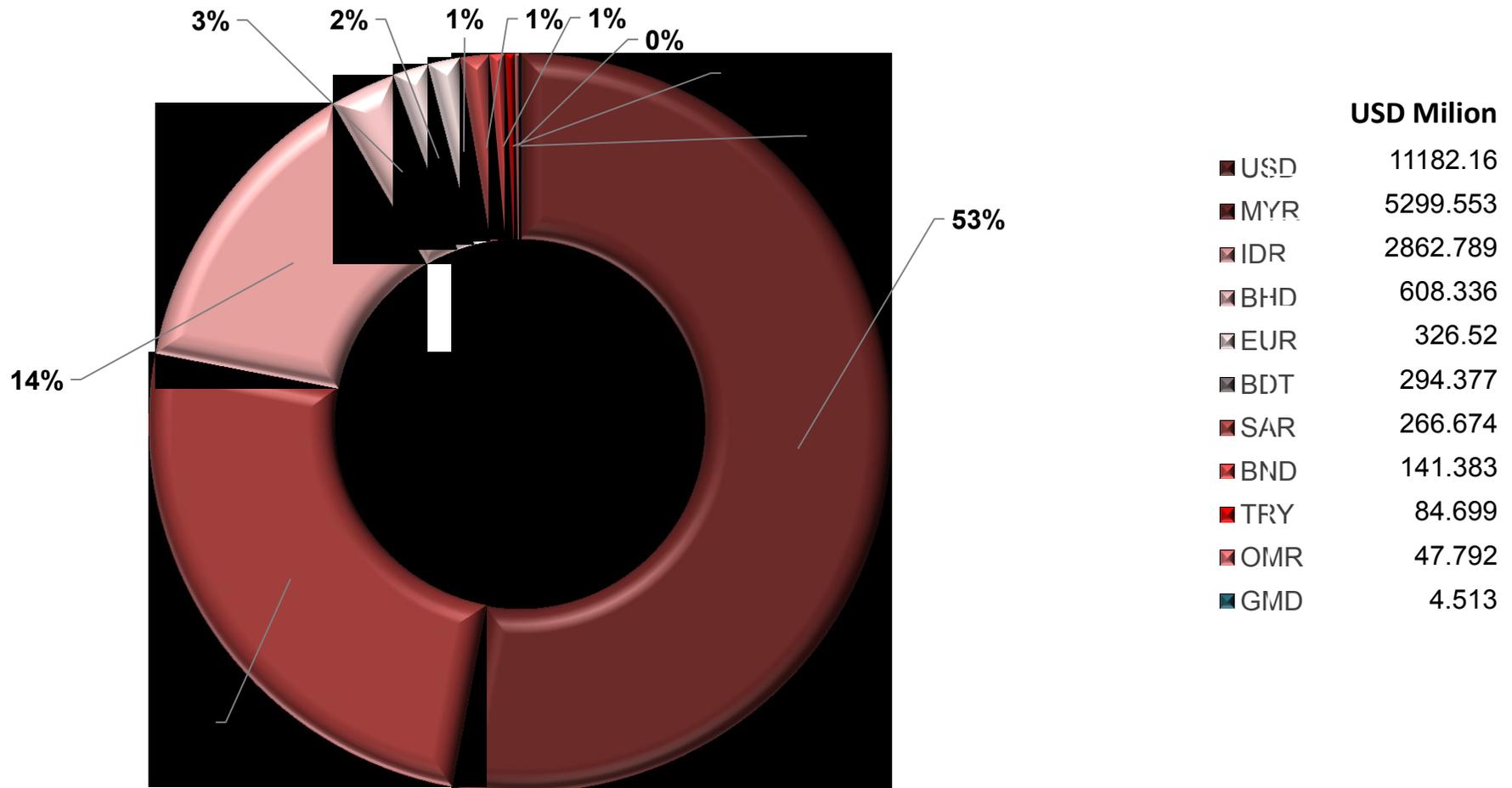
Source: Zawya Islamic, Thomson Reuters, ISRA Estimates

# Sukuk Issuance by Sector (1Q 2016)



Source: Zawya Islamic, Thomson Reuters, ISRA Estimates

# Sukuk Issuance by Currency (1Q 2016)



Source: Zawya Islamic, Thomson Reuters, ISRA Estimates

# Why Sukuk?

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- ✓ Competitive source of funding
- ✓ Larger pool of investors (Shari'ah, ESG and conventional in
- ✓ New asset class
- ✓ Wide investor base
- ✓ Attractive and competitive pricing
- ✓ Facilitative issuance framework
- ✓ Tax incentive on issuance cost (some countries including Malaysia)
- ✓ Liberal foreign exchange rules
- ✓ Diversified and more globally accepted Shari'ah contracts
- ✓ Cheaper profit rate compared to direct financing from IFIs



# Oversubscription of Sukuk

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## Some examples:

- 2009 Bahrain Government Sukuk (USD750m) - 8 times
- 2013 MAHB (MYR500m) - 3.4 times
- 2013 Cagamas ICP (MYR500m) - 3 times
- 2014 Dubai Government Sukuk (USD750m) - 3 times
- 2014 Danainfra (MYR2.4b) - 5.38 times

**Bigger pool of investors**

# Market Trend

## Towards Shari'ah Compliant/Ethical Businesses

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- ▶ KWSP-I
- ▶ KWAP
- ▶ PNB (ASN - ASNB)
- ▶ Tabung Haji
- ▶ SSM (Interest Scheme)



# SUKUK STRUCTURES

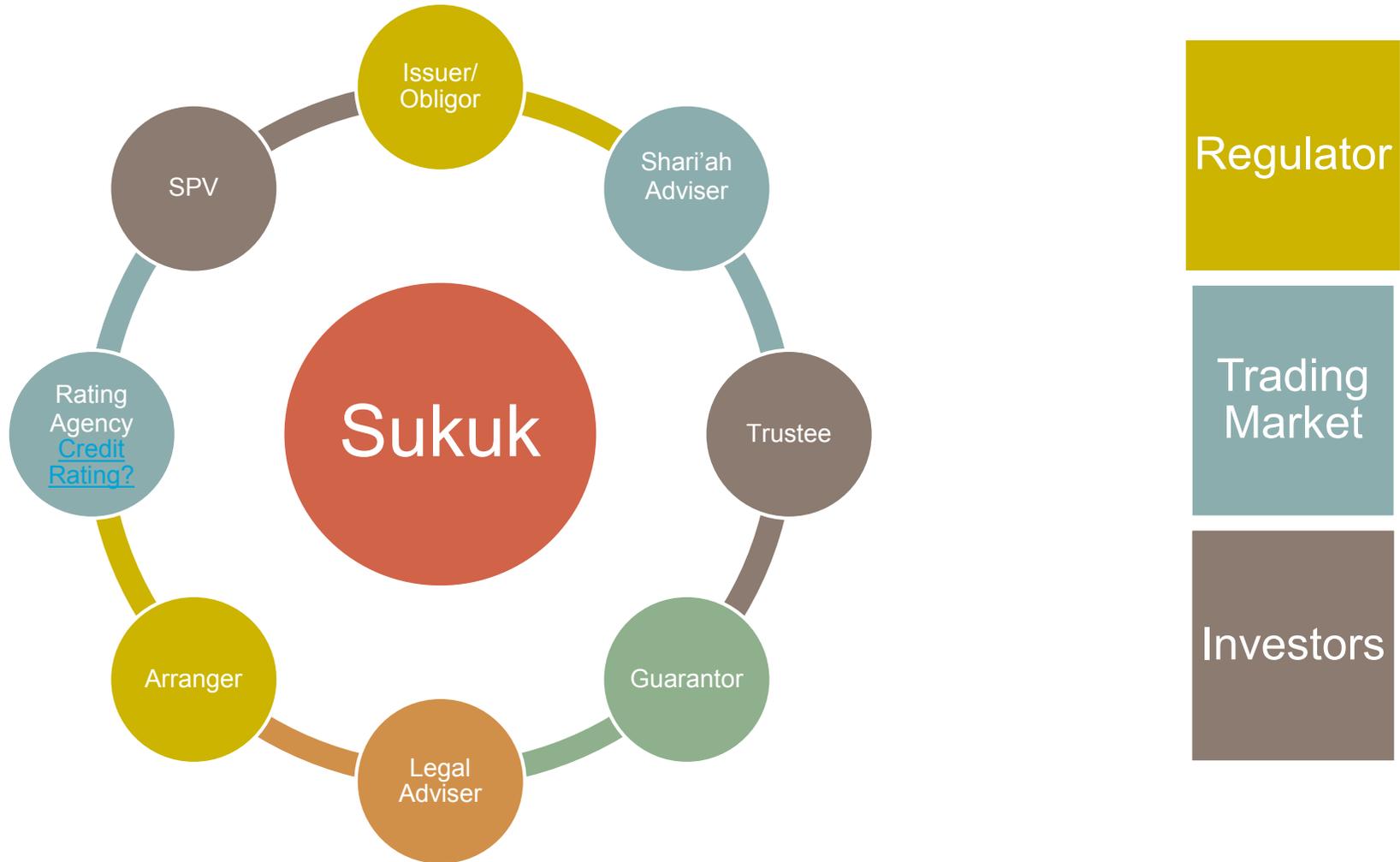


# Content

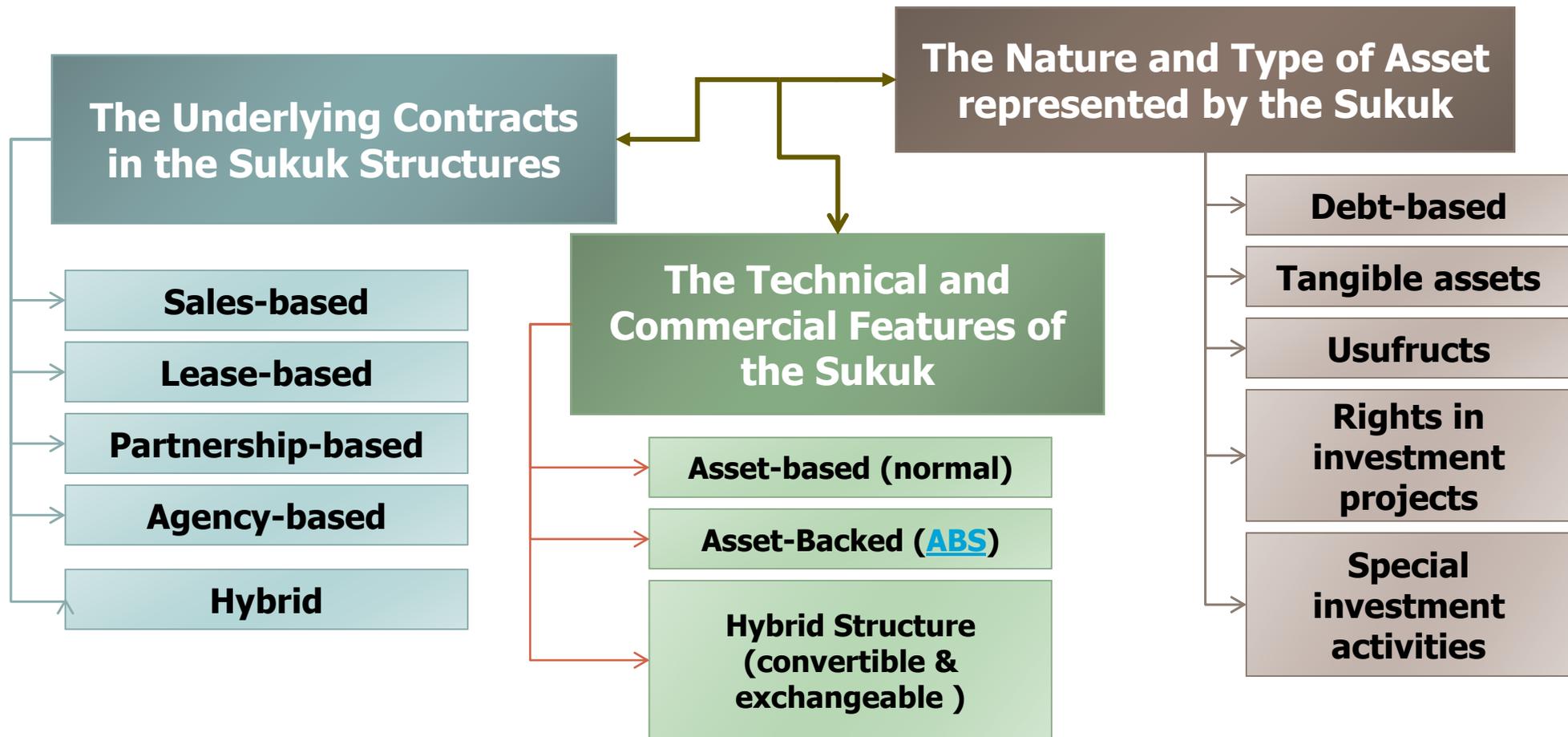
- **Main Players in Sukuk Structuring**
- **Sukuk Structures**
- **Statistics**
- **Sale-based Sukuk**
- **Lease-based Sukuk**
- **Partnership-based Sukuk**
- **Exercises**



# Main Players in Sukuk Structuring



# Bases for Sukuk Classification



# Sukuk Classification based on Commercial Function

## Corporate

Issuers are incorporated Companies which are non-government firms

## Sovereign

Issuers are government or sovereign entities

## Exchangeable and Convertible

Sukuk may be converted into shares (equity) at maturity or other trigger events

## Subordinated

The repayment of the sukuk is subordinated to the creditor or depositor

## Stapled

Two instruments are attached together and cannot be traded separately

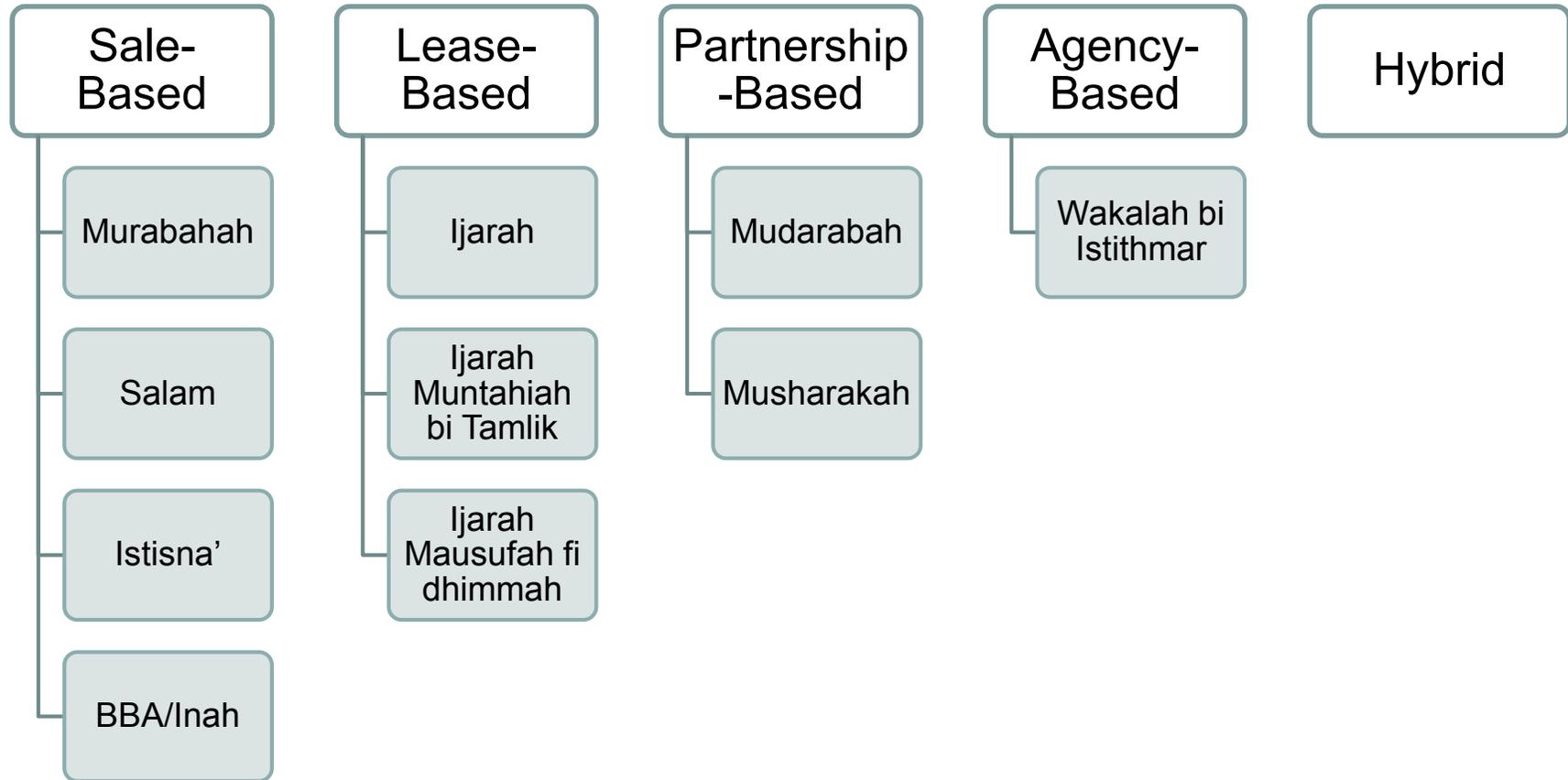
## Asset-Backed

Securities Backed by an income generating asset with stable cash flow. This involves true sale securitisation where the recourse is to the asset and not the originator

## Asset-Based

The asset is present for the purpose of Shariah fulfillment rather than to serve as a source of profit and capital payments. The credit risk assessment will typically be directed towards the entity with the obligation to redeem the sukuk.

# Sukuk Based on Shari'ah Contracts

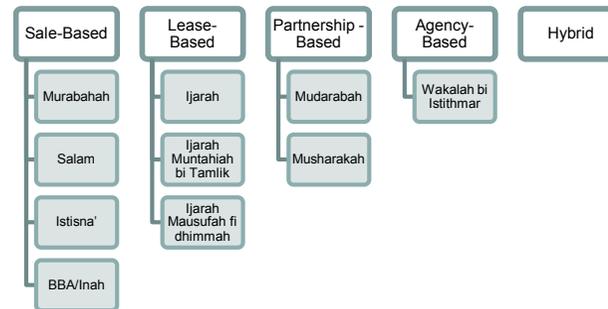


*Source: Securities Commission Malaysia, 2009, p. 48.  
With additional "Hybrid" column from author*

# Sukuk Based on Shari'ah Contracts

## Debt Instrument?

- Credit Risk
- Asset Risk



## Debt Instrument?

- Credit Risk
- Asset Risk

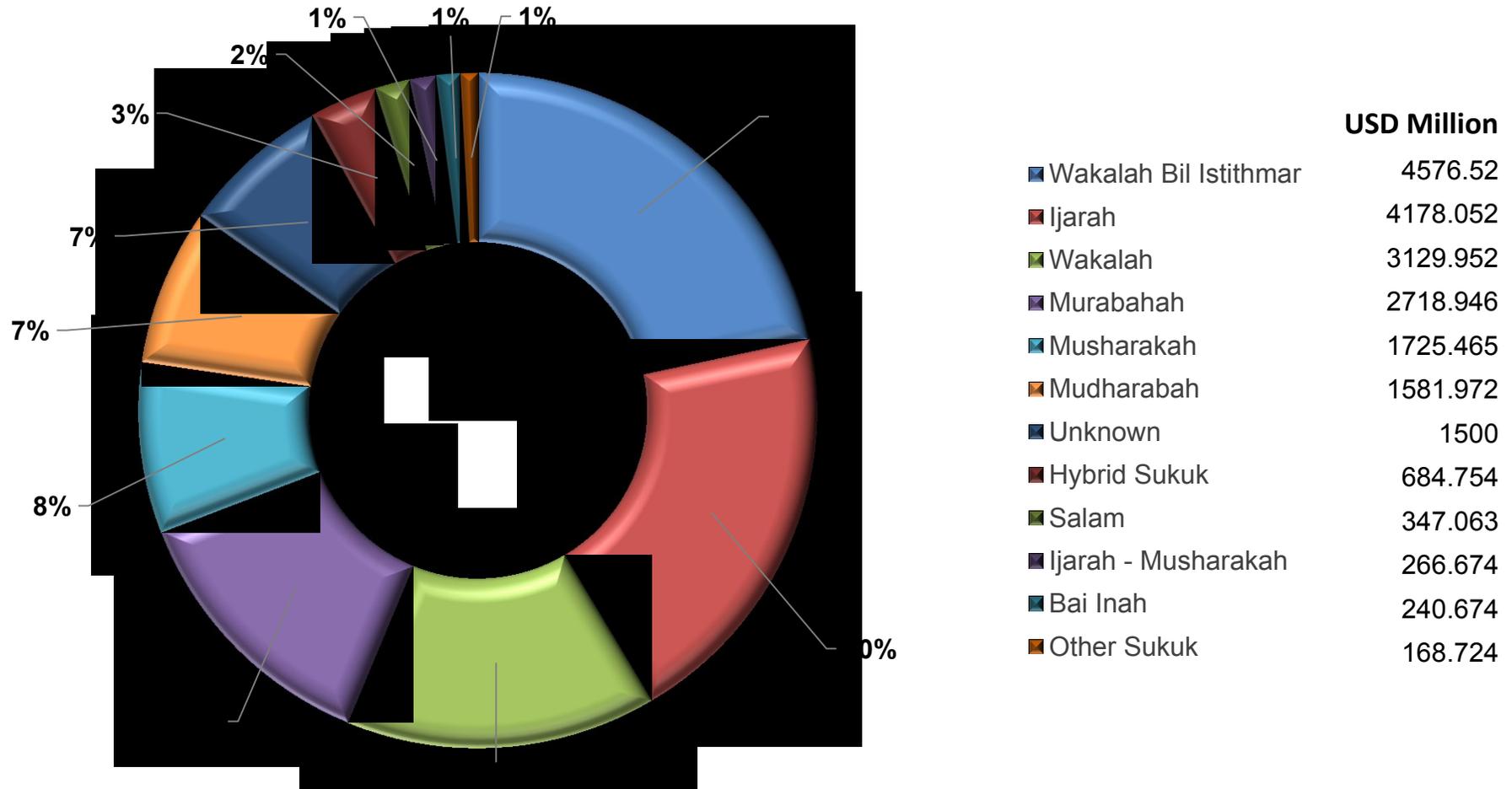
## Equity Instrument?

- Credit Risk
- Business risk
- Asset risk

## Risk Mitigation?

- Purchase undertaking
- Collateral
- Guarantor

# Sukuk Issuance by Structure (1Q 2016)



As *sukuk* are issued based on various transaction contracts, there are differences in what they legally represent:

- a) Asset-based *sukuk* (Debt based *sukuk*): *Sukuk* issued as evidence of indebtedness arising from the sale of asset-based contracts of exchange such as *murabahah*, *salam*, etc.
- b) Asset-backed *sukuk* (ABS); *Sukuk* that represents real ownership of assets such as *ijarah*.
- c) Investment *sukuk*: *Sukuk* that represents the holder's undivided interests in the specific investments such as *musharakah* and *mudharabah*.

**Main risk taken by investors:**

**Credit risk of the issuer**

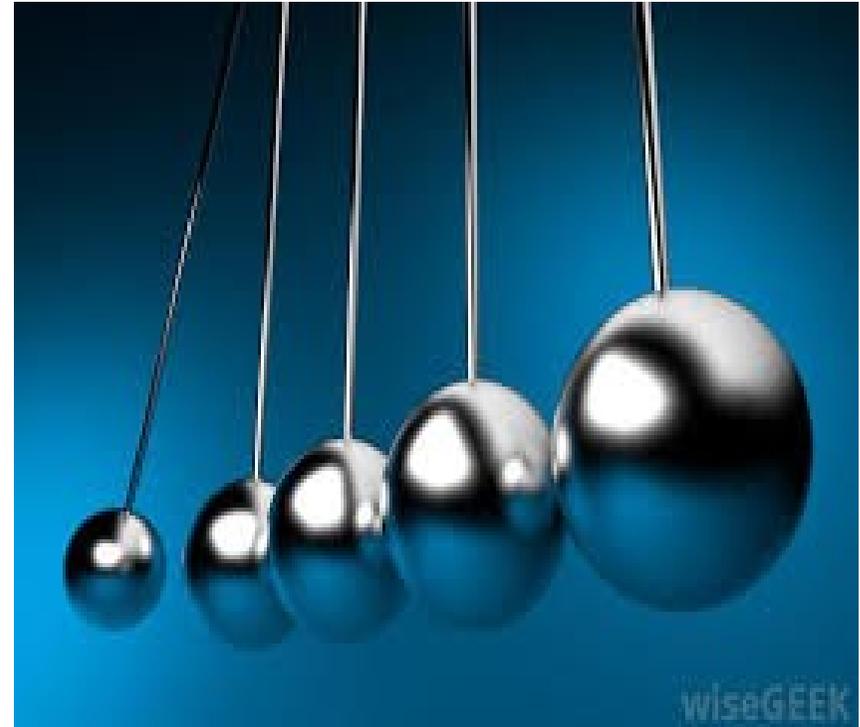
**Asset risk of the issuer**

**Business risk of the issuer**



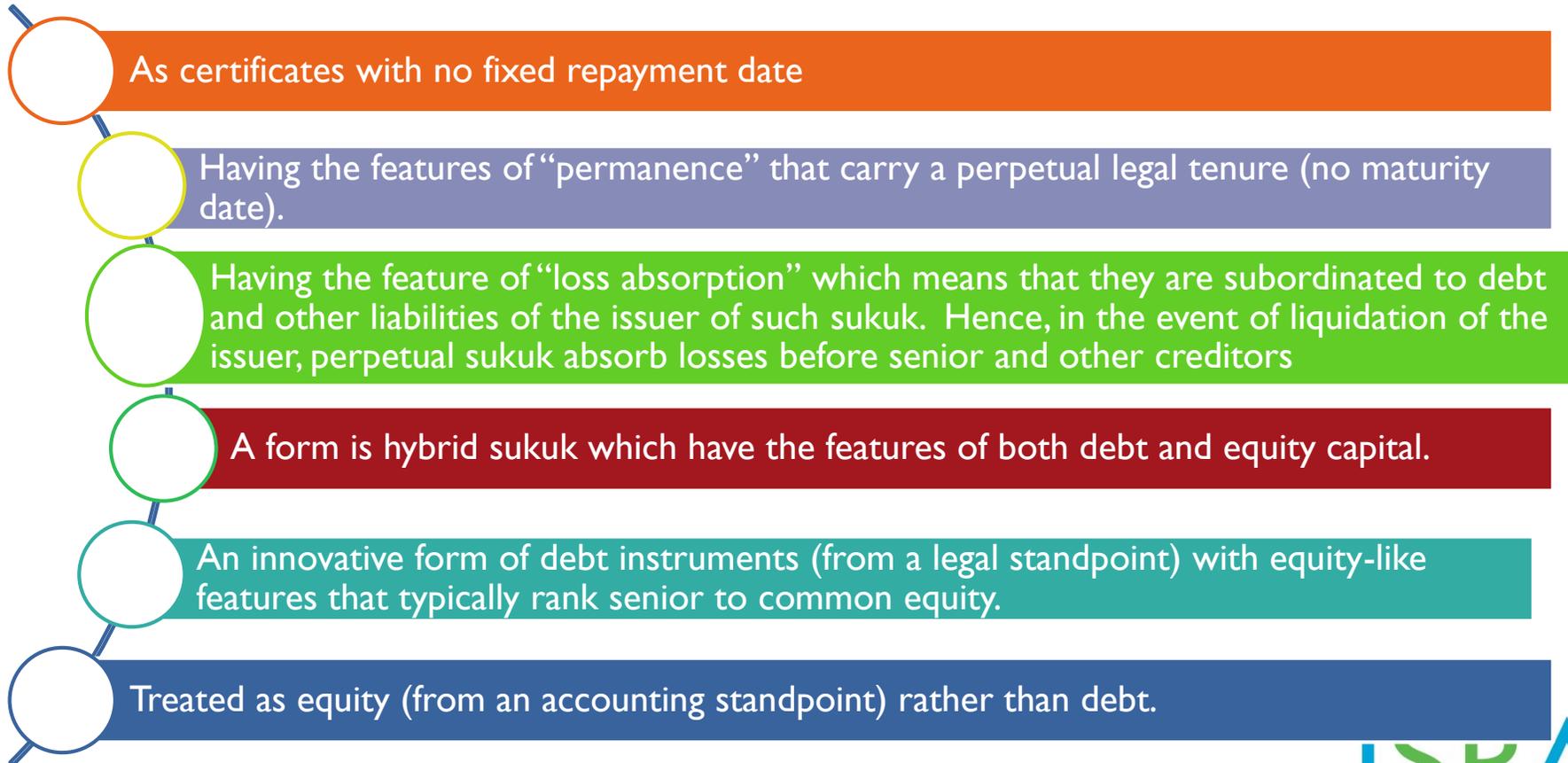
- ▶ Issuance of Perpetual Sukuk
- ▶ Sustainable & Responsible Investment (SRI) Sukuk
- ▶ Retail Sukuk

# Perpetual Sukuk



# Definition of Perpetual Sukuk

- ▶ Perpetual sukuk are commonly defined with reference to their distinctive features:





- ▶ A perpetual sukuk is thus an issuance that does not mature and is accordingly treated as equity rather than debt.
- ▶ These sukuk have no fixed maturity date (final redemption date) and are viewed as part of **Tier I capital (according to Basel III)** or 'going concern' capital or total paid up capital that can absorb losses while the bank is still solvent (more specifically it is issued as Additional Tier I (ATI) capital).
- ▶ Sukuk holders do not redeem their certificates (sukuk) unless a redemption trigger event occurs. In case of redemption, sukuk may be redeemed in whole but not in part.

# Qualifications for AT1 Capital under Basel III

- ▶ In order to qualify as AT1 capital, an instrument :
  - ▶ **must be subordinated** to depositors, general creditors and subordinated debt
  - ▶ **have no maturity date** and may only be callable at the option of the issuer after a minimum of five years.
  - ▶ the issuer must have full discretion to cancel payments and the cancellation of such payments must not impose any restrictions on the issuer except in relation to distributions to the issuer's shareholders.



- ▶ In addition, subsequent to the initial release of Basel III, the Basel Committee on Banking Supervision indicated that AT1 capital instruments must also incorporate either:
  - ▶ a write-down of the principal of the instrument; or
  - ▶ a mandatory conversion of the instrument into common equity, if the financial institution's CET1 falls below a certain threshold.
- ▶ Capital instruments are thus required to absorb losses at the point of non-viability (PONV) by being written off or converted into shares.
- ▶ Perpetual sukuk meet the requirements of AT1 capital instruments and are thus issued by Islamic banking institutions to comply with Basel III.

## Issuance of Islamic Perpetual Sukuk

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- ▶ Perpetual security is a kind of hybrid securities, also known as “Perp”.
- ▶ It has no maturity date, hence may be treated as equity, not as debt.
- ▶ In certain perpetual bonds, the Issuer:
  - 1) May defer the payment of coupons,
  - 2) Shall pay the coupon (in certain circumstances).
- ▶ The Issuer does not have to redeem the bond (except in certain circumstances)
- ▶ It may be callable, after certain period of time.

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Sukuk Programme is structured with a perpetual tenure to allow the issuer to:

- i. manage its cashflow and the repayment profile of the Sukuk Musharakah effectively and efficiently as the Issuer has the option to **defer the periodic distribution amount (PDA)**;
- ii. improve capital structure as the Sukuk Musharakah would be classified as “equity” on the Issuer’s balance sheet in view of its features amongst others, the perpetual nature with no fixed redemption date and the payment to the sukukholders is at the discretion of the Issuer; and
- iii. the Sukuk Musharakah would not affect the Issuer’s ability to access further funding from the financial institutions and issuance of private debt securities as the Sukuk Musharakah would be classified as “equity” on the Issuer’s balance sheet.

## Perpetual Sukuk issued by Islamic Banks

Issuer	Country	Amount	Date	Shari'ah Principle	Call Option
<b>ADIB Capital Invest I Ltd</b>	UAE	USD 1,000 million	Nov 2012	<i>Mudarabah</i>	5 years
<b>DIB Tier I Sukuk Ltd</b>	UAE	USD 1,000 million	Mar 2013	<i>Mudarabah</i>	6 years
<b>AHB Tier I Sukuk Ltd</b>	UAE	USD 500 million	Jun 2014	<i>Mudarabah</i>	5 years
<b>DIB Tier I Sukuk (2) Ltd</b>	UAE	USD 1,000 million	Jan 2015	<i>Mudarabah</i>	6 years
<b>Qatar Islamic Bank Perpetual</b>	Qatar	QAR 2,000 million	Jun 2015	<i>Mudarabah</i>	6 years
<b>Boubyan Tier I Capital SPC Ltd</b>	Kuwait	USD 250 million	May 2016	<i>Mudarabah</i>	5 years
<b>Noor Tier I Sukuk Ltd</b>	UAE	USD 500 million	Jun 2016	<i>Mudarabah</i>	5 years
<b>Ahli United Sukuk Ltd</b>	Kuwait	USD 200 million	Oct 2016	<i>Mudarabah</i>	5 years

# Perpetual Sukuk issued by Corporates

Issuer	Country	Amount	Date	Shari'ah Principle	Call Option
<b>Malaysian Airline System Bhd</b>	Malaysia	MYR 2,500 million	Jun 2012	<i>Musharakah/ Musawamah</i>	10 years
<b>Almarai Co. Ltd</b>	Saudi Arabia	SAR 1,000 million	Sep 2013	<i>Mudarabah/ Murabahah</i>	5 years
<b>GEMS MEA Sukuk Ltd</b>	UAE	USD 200 million	Nov 2013	<i>Mudarabah</i>	5 years
<b>Boustead Holdings Bhd</b>	Malaysia	MYR 1,200 million	Dec 2013	<i>Musharakah/ Musawamah</i>	5 years
<b>S P Setia Bhd</b>	Malaysia	MYR 700 million	Dec 2013	<i>Musharakah/ Musawamah</i>	5 years
<b>DRB-HICOM Bhd</b>	Malaysia	MYR 2,000 million	Dec 2014	<i>Musharakah/ Musawamah</i>	5 years
<b>AEON Credit Service (M) Bhd</b>	Malaysia	MYR 400 million	Dec 2014	<i>Musharakah/ Musawamah</i>	5 years

# Salient Features of Perpetual Sukuk issued by Corporates

## Ranking/Subordination

- Perpetual sukuk are contractually subordinated to the claims of external creditors.

## Permanence/Perpetual

- Perpetual tenure is required for accounting equity treatment.

## Call Option

- In order to preserve the equity-like characteristics of a hybrid instrument, the issuer has a call option, but not the investor.

## Step up Profit

After the first call date Perpetual Sukuk commonly include a step-up profit feature where the prevailing profit rate will be revised to include a post-call spread in order to incentivize the issuer to exercise the Call Option at the first call date

## Profit Deferral

- The issuer must have the ability to defer profit without being in default for the Perpetual Sukuk to be recognised as equity under accounting standards

## Capitalisation of Deferred Profit

- Some Perpetual Sukuk also pay additional profit on the outstanding deferred profit

## Dividend & Capital Stopper

- As protection to investors of the Perpetual Sukuk, should the Issuer opt to defer distribution of profit of the Perpetual Sukuk, the issuer is not permitted to distribute dividends or capital distributions to its shareholders.

## Loss Absorbing

- The Perpetual Sukuk are intended to provide protection for senior and other creditors and to provide a capital cushion to absorb unexpected potential losses arising from the Issuer's operations

## Replacement Capital Covenant

The issuer may be required by rating agencies to commit to issuance of replacement securities of equivalent or lower ranking in order to redeem the Perpetual Sukuk to maintain an appropriate level of permanency on its balance sheet

# Salient Features of Perpetual Sukuk issued as AT1 capital by Islamic Banks

## **No Step-up Profit**

Additional Tier-I instruments must not have step-ups or other incentives to redeem. Other incentives to redeem include a call option combined with a requirement or an investor option to convert the instrument into shares if the call is not exercised.

## **Redemption subject to regulatory approvals**

Any payment of principal, either through repurchase or redemption or exercise of call option, must be with prior regulatory/supervisory approval and Islamic banks should not assume or create market expectations that regulatory/supervisory approval will be given

## **Write-off or conversion mechanisms for achieving principal loss absorption and/or loss absorbency at the point of non-viability**

Principal loss absorption and/or loss absorbency through either (i) conversion to common shares or (ii) a write-off mechanism which allocates losses to the instrument, subject to the regulatory/supervisory requirements

## **Non-payment of profit**

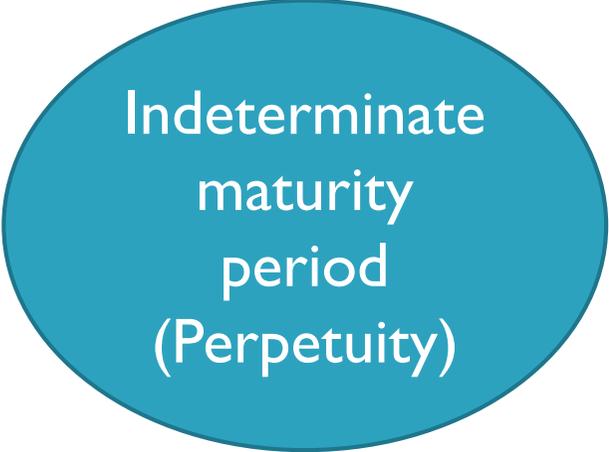
Distributions/payments shall be at the full discretion of the financial institution at all times and as such any waived distributions/payments are non-cumulative i.e. are not required to, and must not, be made up by the financial institution at a later date.

# Shari'ah Issues in Perpetual Sukuk

- ▶ Indeterminate maturity period (Perpetuity)
- ▶ Deferment of periodic distribution amount
- ▶ Issue of bay' wa salaf in perpetual musharakah sukuk
- ▶ Structural subordination (junior status) of perpetual sukuk



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Indeterminate  
maturity  
period  
(Perpetuity)

- Perpetual sukuk have no maturity date and may only be callable at the option of the issuer after a certain period (typically 5 years).
- The question is whether it is a Shari'ah requirement to specify a maturity period for the validity of the contracts underlying perpetual sukuk (mudarabah and musharakah) as it would raise issues in the structuring of perpetual sukuk which are everlasting by definition.

There is no Shari'ah requirement per se to specify a maturity date for mudarabah and musharakah contracts, which suits the perpetuity feature of perpetual sukuk.

## Deferment of periodic distribution amount

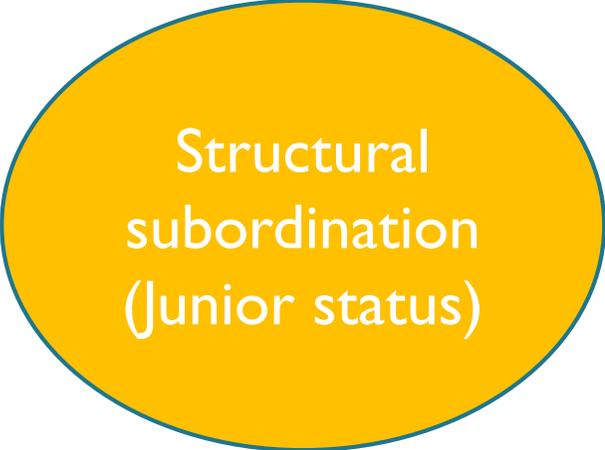
- One of the features in perpetual sukuk that would allow it to be treated like an equity instrument is the deferment of profit or periodic distribution to sukuk holders.
- The issuer may at its sole discretion make payment of all or some of the periodic distribution amounts on the periodic distribution date or defer such payment by giving prior notice to sukuk holders. The deferment on periodic distribution date shall not trigger a dissolution event of the mudarabah or musharakah venture
- The question is whether such deferral of profit poses a Shari'ah concern.

The deferral of realised profit to other partners is not violating the muqtada al-aqd (nature and implication of the contract) if the sukuk holders agreed upon the establishment of the partnership to grant authority to the issuer at its sole discretion to make payment of the realised profit or to defer it

Issue of bay' wa salaf  
(combination  
of sale and  
loan)

The SAC of SC Malaysia resolved that, for any Islamic capital market proposal which includes the structure of a sale contract and a loan contract, there should not be any conditions which indicate any link or connection between these contracts.

- The issue of *bay' wa salaf* may arise in a perpetual musharakah sukuk where the terms and conditions may include the issuer making an advance payment in the form of qard (loan) in the event of a shortfall between the periodic distribution amount and the actual income generated from the musharakah venture.
- When the qard mechanism—for the advance part payment—is interrelated or inter-conditional with the sale contract (i.e. *musawamah* transaction to defer part or all of the profit payment to the next periodic distribution date), it may invoke the issue of *bay' wa salaf*.



## Structural subordination (Junior status)

- The principle of subordination has been applied to most perpetual sukuk deals, where in the event of losses, there is an obligation to pay senior creditors, and hence the perpetual sukuk holders will instead be paid after senior creditors but before the ordinary and preference shareholders.

Subordination of ordinary shareholders vis-à-vis perpetual *musharakah* sukuk holders is not possible. From a Sharī'ah viewpoint, ordinary shareholders should be ranked *pari passu* with the *musharakah* sukuk holders and treated equally in the event of non-viability.

Nonetheless, some scholars have allowed subordination in the *musharakah* contract through the concept of *tanazul* (waiver). The SAC of SC Malaysia, for instance, resolved that non-cumulative preference shares are permissible based on *tanazul*, which refers to 'surrendering the rights to a share of the profits based on partnership, by giving priority to the preference shareholders'.

# Retail Sukuk



## The Introduction of Retail Sukuk

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- ▶ In 2010, the Finance Minister of Malaysia announced in the 2011 budget that Bursa Malaysia would launch a sukuk and conventional bonds **trading platform** to meet retail investors' demand for debt securities.
- ▶ This has led to the launching of the new exchange-traded bond and sukuk (ETBS) framework

## Phases of Retail Bonds and Sukuk Market

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### 1<sup>st</sup> Phase

- The eligible issuers are the Malaysian Government and any company whose issuances are guaranteed by the Malaysian Government.

### 2<sup>nd</sup> Phase

- A public company listed on Bursa Malaysia (PLC);
- A bank licensed under the Banking and Financial Institutions Act 1989 or Islamic Banking Act 1983;
- Cagamas Berhad; and
- An unlisted public company whose bonds and sukuk issuance is guaranteed by Danajamin Nasional Berhad, Credit Guarantee and Investment Facility or any of the eligible issuers above.

## The First Issuance of Retail Sukuk

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- ▶ The total issue by DanaInfra for the current ETBS is RM1.5 billion for the first phase of the MRT Kajang-Sungai Buloh line.
- ▶ RM300 million is allotted for retail investors through ETBS.
- ▶ The balance of RM1.2 billion will be for institutional investors.
- ▶ The profit is to be paid semi annually
- ▶ The Shari'ah concept used is Murabahah (in the form of bay' al-inah)
- ▶ The purpose is to finance the MRT Project (many more will be issued later
- ▶ The minimum subscription amount is RM1,000 (10 unit x RM100 each), with no limit on the maximum amount.
- ▶ Subscriptions are in multiples of RM1,000.
- ▶ It was listed on Bursa Malaysia on 8 February 2013

SUSTAINABLE &  
RESPONSIBLE  
INVESTMENT (SRI) SUKUK



# SRI: Definition and Components

SRI is a generic terminology which includes any type of investment process that combines investors' financial objectives together with their concerns towards environmental, social and governance (ESG) issues.



For such investors, the ethical and social aspects of their investments are as important as returns.

# SRI Sukuk Framework in Malaysia

- ▶ Securities Commission Malaysia launched the **Sustainable and Responsible Investment (SRI) Sukuk framework** on 28 Aug 2014 to facilitate the financing of SRI initiatives.
- ▶ The SRI Framework is now embedded within the **Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (LOLA Framework)**, issued 9 March 2015.

## GUIDELINES ON UNLISTED CAPITAL MARKET PRODUCTS UNDER THE LODGE AND LAUNCH FRAMEWORK

SC-GL/4-2015

1<sup>st</sup> issued: 9 March 2015

### Chapter 7 SUSTAINABLE AND RESPONSIBLE INVESTMENT (SRI) SUKUK

- 7.01 This chapter sets out the additional requirements for an issuance of SRI sukuk.
- 7.02 For an SRI sukuk, an issuer must ensure that proceeds raised from the issuance of the SRI sukuk are utilised for the purpose of funding Eligible SRI projects as described in paragraph 7.04 below.

#### Eligible SRI projects

- 7.03 Eligible SRI projects refer to projects that aim to:
- (a) Preserve and protect the environment and natural resources;
  - (b) Conserve the use of energy;
  - (c) Promote the use of renewable energy;
  - (d) Reduce greenhouse gas emissions; or
  - (e) Improve the quality of life for the society.
- 7.04 Only a project or physical assets/activities relating to an existing project in any of the following sectors is deemed to be an Eligible SRI project:
- (a) Natural resources – projects relating to:
    - (i) Sustainable land use;
    - (ii) Sustainable forestry and agriculture;
    - (iii) Biodiversity conservation;
    - (iv) Remediation and redevelopment of polluted or contaminated sites;
    - (v) Water infrastructure, treatment and recycling; or
    - (vi) Sustainable waste management projects;
  - (b) Renewable energy and energy efficiency – projects relating to:
    - (i) New or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal);
    - (ii) Efficient power generation and transmission systems; or

## Objective: Facilitate financing of SRI initiatives

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- ▶ Meet demand of retail and sophisticated investors for access to a wider range of investment products and facilitate greater participation in the sukuk market
- ▶ Growing concerns over environmental and social impact of business and greater demand for stronger governance and ethics from businesses
- ▶ Facilitate the creation of an eco-system conducive for SRI investors and issuers
- ▶ Is an extension of the existing sukuk framework; therefore all other requirements for sukuk issuance continue to apply

## Areas addressed in SRI sukuk framework

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**Utilisation  
of  
Proceeds**

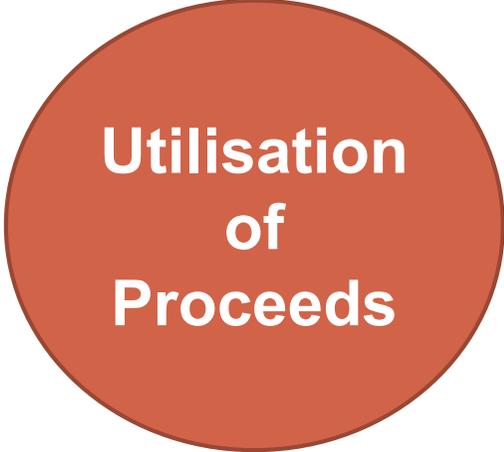
**Eligible  
SRI  
Projects**

**Appointment  
of  
Independent  
Expert**

**Disclosure  
Requirements**

**Reporting  
Requirements**

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**Utilisation  
of  
Proceeds**

**An issuer must ensure that proceeds raised from the issuance of the SRI sukuk are utilised for the purpose of funding Eligible SRI projects**



## Eligible SRI Projects

Eligible SRI projects refer to projects that aim to:

1. Preserve and protect the environment and natural resources;
2. Conserve the use of energy;
3. Promote the use of renewable energy;
4. Reduce greenhouse gas emission; or
5. Improve the quality of life for the society.

## Projects that can be deemed an ‘Eligible SRI Project’

Natural Resources	Renewable Energy and Energy efficiency	Community and Economic Development	Waqf Properties/ Assets
Sustainable land use	New or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal)	Public hospital/medical services	Development of waqf properties/ assets.
Sustainable forestry and agriculture	Efficient power generation and transmission systems	Public educational services	
Biodiversity conservation	Energy efficiency which results in the reduction of greenhouse gas emissions or energy consumption per unit output	Community services;	
Remediation and redevelopment of polluted or contaminated sites		Urban revitalisation	
Water infrastructure, treatment and recycling		Sustainable building projects;	
Sustainable waste management projects		Affordable housing	

**Appointment  
of  
Independent  
Expert**

**The issuer may appoint an independent expert to undertake an assessment of the Eligible SRI**



## Disclosure Requirements

Where an issuer issues a disclosure document in relation to the SRI sukuk, the disclosure document must include:

1. Details of the Eligible SRI project and, to the extent possible, impact objectives from the Eligible SRI project; and
2. A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI project.



## Reporting Requirements

The issuer or, where the issuer is a special purpose vehicle, the obligor must provide annual reporting, via newsletters, website updates, annual report or any other communication channels, to sukukholders on the following:

1. The original amount earmarked for the Eligible SRI project;
2. The amount utilised for the Eligible SRI project;
3. The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and
4. where feasible and to the extent possible, the impact objectives from the Eligible SRI project.

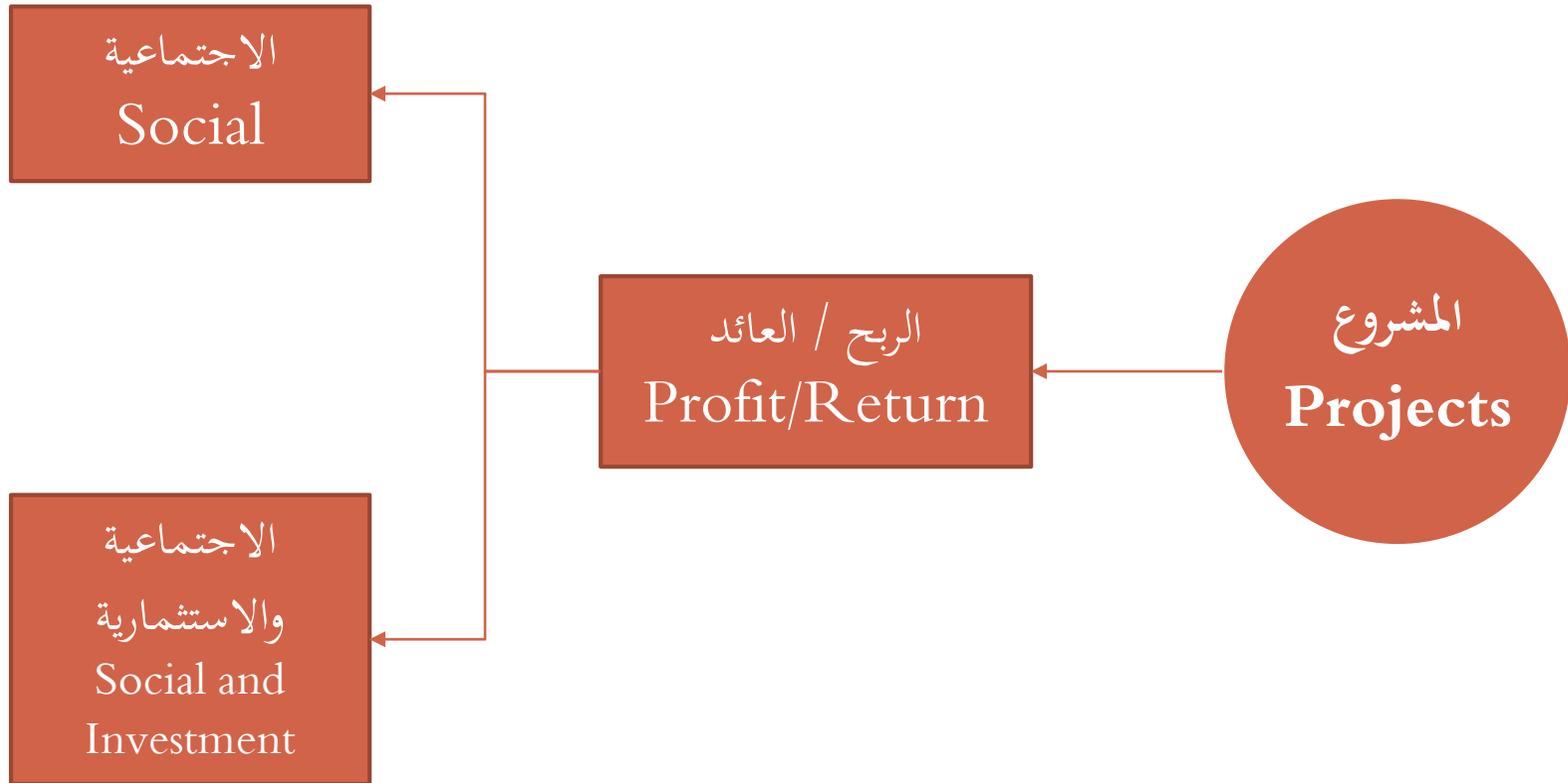
## Malaysian Government Support for SRI Sukuk

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- ▶ Tax incentives under the 2016 Budget proposing tax deduction to be given for five years on issuance costs of SRI sukuk.
- ▶ The step is hoped to encourage investors and issuers to pursue sustainability and responsibility in business.
- ▶ It will also bridge the gap between corporates and the public, especially the less privileged ones.
- ▶ Such tax cut can be the push factor for corporates to participate in it.
- ▶ SRI sukuk can also be the avenue for financial inclusion which has been strongly championed by the Islamic finance industry as a whole.
- ▶ Malaysia has been at the forefront of innovation in Islamic finance and such steps evidence its leadership claims.

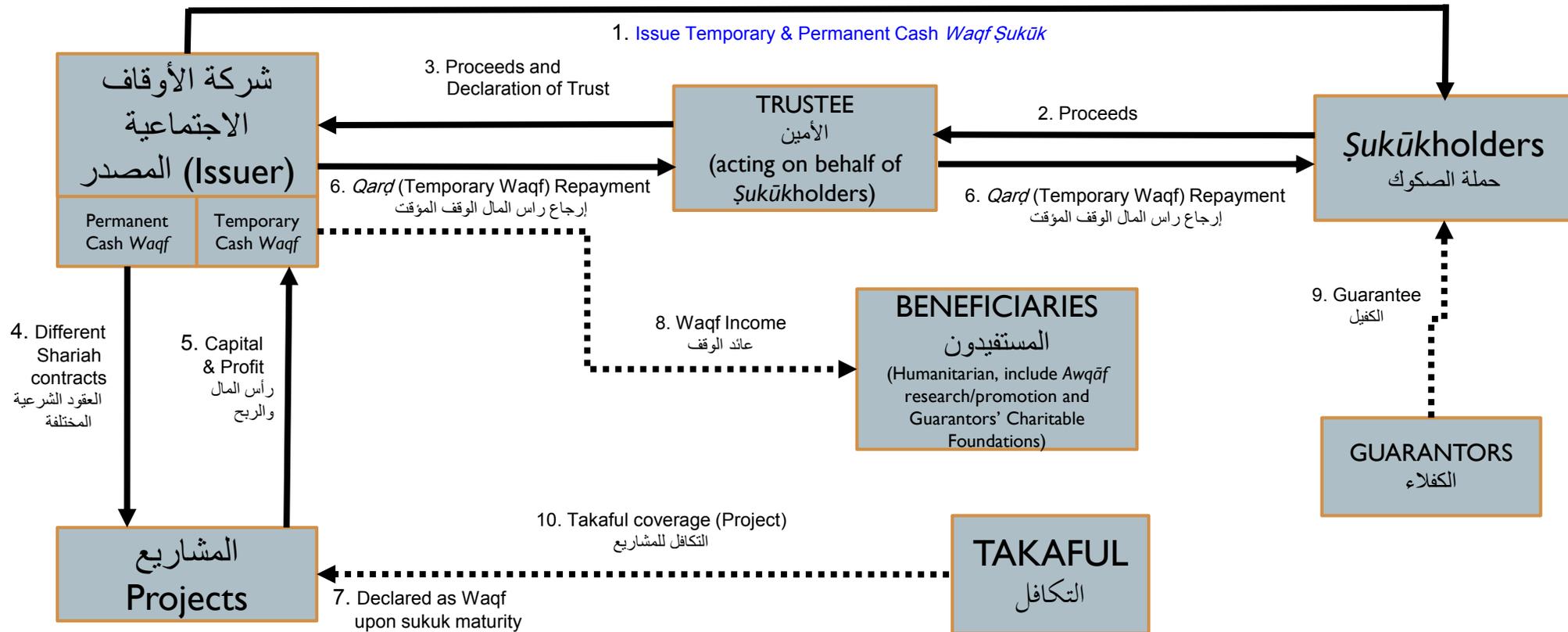
# Permanent & Temporary Cash Waqf





# الهيكل المقترح The Proposed Structure

## Temporary & Permanent Cash Waqf Structure



**THANK YOU  
& WASSALAM**  
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