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Annual Sukuk Report 2018 Publication

Speech by

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Excellences, distinguished guests, ladies and gentlemen

I am thankful to the organizers and the AIFC for inviting IIFM to launch its annual publication; the IIFM Sukuk Report 2018 at this prestigious Astana Islamic Economy Forum.

I am indeed honored to be invited to this auspicious occasion.

BACKGROUND
The annual publication, which is in its 7th year, has over the years established itself as a benchmark publication and is being used by industry stakeholders and decision makers in the assessment of trends in issuance of Sukuk worldwide.

The annual report has a wide readership with over 6,300 downloads recorded for the 2017 edition. Besides retrieval from the website, 700 printed copies of the last edition were circulated to IIFM member institutions, participants at IIFM specialized seminars and to delegates at major international conferences.

ANNOUNCEMENT OF PUBLICATION
The soft version of the latest edition of the IIFM Sukuk Report was made available on the IIFM website in May this year and within a short span of 2 months has already been downloaded more than 1,500 times.

It is with great pleasure that I announce the launch and distribution of the printed version of the IIFM Sukuk Report 2018 today at this important gathering.

PURPOSE OF THE REPORT
This research report examines the development, structure preferences and drivers of the international and domestic Sukuk market in recent years based on a comprehensive and verified IIFM Sukuk Issuance Database.
The report aims to provide in depth analysis to create deeper understanding of Sukuk which remains the most important financial instrument of the Islamic finance industry.

**CONTENTS OF THE REPORT**
Chapter One of the report is an overview of Sukuk issuances worldwide over the period from January 2001 till December 2017. The report also contains “case study and article contributions” from market practitioners and “country focus contributions” from established Sukuk issuing jurisdictions. Moreover, this year we are introducing a new chapter on “Shariah Rulings and Regulations on Sukuk” which we are confident will be a valuable addition to the report.

**FINDINGS OF THE REPORT**
I will now take a few minutes to brief you on the contents and findings of the report which covers the year 2017.

The Sukuk market continues to grow and a few new jurisdictions have issued sovereign Sukuk in 2017. As in last few years, the bulk of issuances in 2017 have been by sovereign and quasi-sovereign entities, which has kept the Sukuk market on a steady growth path.

Sukuk remained attractive for both issuers and investors and the demand for Sukuk from GCC countries namely Bahrain, Saudi Arabia, UAE, Oman, Qatar and other Islamic jurisdictions including Malaysia, Indonesia, Turkey, Pakistan, Sudan, Brunei Darussalam as well as the Islamic Development Bank and the African region remains the main force in maintaining the appeal and growth of the Sukuk market.

In recent years, several of the Islamic jurisdictions mentioned above have been regularly issuing benchmark Sukuk in domestic as well as international markets. Moreover, some jurisdictions, including African countries, have adopted Bahrain’s strategy of regularly issuing short-term Sukuk to support the liquidity and investment requirements of Islamic financial institutions based in its jurisdiction. Bahrain, Brunei Darussalam, Indonesia, Malaysia, Sudan and Turkey were the most frequent issuers of short-term Sukuk in 2016.

At the international level we have seen increased issuance of short term Sukuk by the International Islamic Liquidity Management Corporation (IILM).
The Sukuk market witnessed a number of milestone Sukuk issuances including SRI & Green Sukuk such as Sukuk issued by Quantum Solar Park, Equate Petroleum Company, Gold Indexed Ijarah Sukuk (Turkish Treasury), Saudi Aramco and many others in 2017.

The issuance of more debut Sukuk and the refinancing of maturing Sukuk has contributed in maintaining the positive Sukuk volume trajectory. Moreover, stable to rising commodity prices including oil, a gradual rise in the reference rates and the budgetary and development requirements of certain Islamic jurisdictions are expected to contribute to Sukuk issuance volumes in 2018 and 2019.

The use of gold in Sukuk issuance by the Turkish Treasury is also an interesting development and it is likely that more issuances involving gold will be made in the coming year.

The trend of issuing Sukuk on a fixed profit rate also is expected to continue as it provides more trading opportunities and help the development of the secondary Sukuk market.

Sukuk issuances in non-local currency, for example, an issuer based in GCC floating a Malaysian Ringgit Sukuk or a Malaysian Sukuk issuance in Singapore Dollar or Chinese Yuan etc., did not take place in 2017; however, 2018 may see some issuance of non-local currency Sukuk.

Here it is worth noting that Development Bank of Kazakhstan issued MYR 240 million (USD 71 million) Sukuk in 2012 with 5 years tenor @ 5.5% profit rate based on Mudarabah structure.

In terms of new entrants there is a likelihood of Sukuk issuance by Chinese companies through Hong Kong or Malaysia, where the legal framework to issue Sukuk is already in place.

2017 was a very good year in terms of international Sukuk issuances and the year closed at USD 37.6 billion Sukuk issuances as compared to USD 31.2 billion in 2016. On the domestic front, Sukuk issuances during 2017 were USD 79 billion as compared to USD 57 billion in 2016.

The international outstanding Sukuk increased to around USD 125 billion, which is an improvement over last year while the total outstanding Domestic
Sukuk stood at around USD 309.8 billion, which is around 50 billion higher than the previous year; though the supply and demand gap still remains.

The US Dollar continues to be the favored currency for attracting international investors around the globe. Local currency Sukuk will develop in the coming years as more OIC countries develop their domestic Sukuk markets. This trend is taking shape with Indonesia, Turkey, Pakistan and the GCC countries issuing local currency Sukuk. Sovereign or sovereign linked entities currently dominate issuance in these countries and this flow will continue as the sovereign needs to fund its budget while also setting up the local benchmark curves and funding huge infrastructure projects.

Another important aspect, which is critical to the development of the Sukuk market, is the role of the corporate sector. The volume of corporate issuances in most of the Sukuk issuing jurisdictions (except Malaysia) is lower than expected. There are several reasons for a subpar performance by the corporate sector in issuing Sukuk such as economic conditions, government policies towards a particular sector, cash flow issues, tax incentives etc.

**CONCLUSION**
The Sukuk market continues to evolve, and in recent years, it has witnessed over-reliance on certain Sukuk structures such as Wakalah, Mudarabah, and Murabahah. This development in particular needs to be monitored, as a structurally diversified global Sukuk market is recommended.

The key drivers of the Sukuk market during the year 2017 were:

- entry of new jurisdictions and issuers,

- issuance of Tier 1 and Tier 2 Sukuk (Basel III compliant Sukuk),

- longer tenor Sukuk (30 years) including perpetual Sukuk issuances by sovereign, quasi-sovereign and financial institutions as well as infrastructure Sukuk and relatively larger volume of Retail Sukuk issuances particularly from Indonesia.

There is a growing interest, both in conventional industry and Islamic industry on socially responsible and environmentally friendly green issuance and investing.
Finally, IIFM risk mitigation/hedging documentation as well as Foreign Exchange and Rate of Return product standard templates are providing further certainty to investors in Sukuk by hedging their profit rate or currency risk. The publication of ISDA/IIFM Credit Support Deed for Cash Collateral (Variation Margin) during 2017 also helped Islamic financial institutions to meet new regulatory margin requirements. Sukuk are recommended to be used in IIFM Unrestricted Wakalah and Collateralized Murabaha liquidity management standards.

I hope the readers will find the report useful and we look forward to your feedback.

Thank you for your attention.

والسلام عليكم ورحمة الله وبركاته،،،

End of Speech