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Sukuk: features and structures

In the last years at global level there is a growing interest in Islamic finance, due to a strong surplus liquidity in the countries where it is most developed and for two features of Islamic finance products: ethics and close connection with the underlying reality.

The main funding products are: the *Murabaha* Commodity, *Sukuk*, the *Musharakah* and Mudarabah interbank transactions and the Islamic investment funds. In particular, Sukuk recorded a strong growth at global level, thanks to some government issues[2].

The Islamic finance products can be divided into Profit & Loss Sharing and Non profit & Loss Sharing; to the first group belong the Mudaraba (in which the bank participates as an associate sponsor of the activities managed directly by the customer) and Musharakah (in which bank and customer contribute together to an activity and to its profits and losses).
The second group includes, however, the Murabaha (double sale where the bank purchases a spot good and sells it forward by applying a mark-up), the 'Ijarah (the sponsor doesn't lends money by applying the interest, but it gets a remuneration charging customer of the rental payments for assets leased), Wakala (for example an agency mandate is assigned to a subject in order to manage goods) and Istisna' (purchase contract for goods on specific mandate in which the mediator receives a refund on the basis of the advancement of some activity) that can have as underlying also a project (such as infrastructure).

The Sukuk are trust certificates with characteristics similar to those of a conventional bond.

The main features are:

Returns and cash flows related to the underlying assets rather than an interest rate;

- Underlying contractual structures distinguished: Profit Loss Sharing (risks and benefits are shared according to an agreement that establishes in what proportions they are divided among the investors and the originator) and NonProfit & LossSharing (risks and benefits are not shared between the investors and the originator).
- Segregation of the underlying asset in an SPV (SpecialPurposeVehicle), through its transfer and the establishment of a Trust.
- Unlike a conventional bank, the Islamic bank is not implementing a maturity transformation but try to maintain a balance between the duration of assets and liabilities.

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2 In 2014 Great Britain and Luxembourg have issued a sovereign sukuk .

Looking the conventional bond and Sukuk there are these differences:

Conventional bond:	**Sukuk**
Titoli di debito emessi that give to the holder the right to repayment of the loan to the issuer at maturity, plus interest on that amount. The owner of a conventional bond is proprietor of a financial right on future cash flows separated from the underlying assets. The determination of the price of a bond depends on expectations about the movements of interest rates and the credit quality of the issuer**.** The issuer does not have restrictions on the use of the collected resources and the use of cash	Certicates representing undivided shares of property of material goods, usufruct and serivices, or of property of goods related to particular projects or special investment activity. The right to remuneration of the subscriber depends strictly on the performance of the value of the underlying assets. The determination of the price of a sukuk depends on expected return of the project financed (amount determined ex post in relation to the performance of the underlying assets. The issuer has restrictions on the use of the collected resources; the use of cash is determined, tangible and

What emerges is that in terms of the impact Compliance is high: we must, in fact, consider compliance with Sharia (element not present for conventional bonds); at the level of governance is necessary to understand the Sharia boards. As for regulatory aspects some regulations should be analyzed to understand when it is possible to issue sukuk. Business impacts are less significant, and finally at the level of Operations the impact is high because one of the requirements of Sharia is no contamination of Sharia compliant with those that are not; it follows that it is necessary to assess and manage separate paths.

Although there are about 16 structures of sukuk, most of the emission is due to 5 structures which in 2013 accounted for about 90% of the global market[3].

The main structures are the Murabaha (58%), the Ijara (17%), the Musharakah (7%), the Wakala (5%) and the Istisna'.

In Italy the products of Islamic finance can be interesting not only for the 1.6 million Muslims living in our country, but also for the remaining Italian population, interested on ethical aspect of these products and their close relationship with the 'real economy. Have available products that can make realizable investments may also attract investors and foreign capital and is ultimately necessary to support Italian businesses abroad through innovative tool.

It would, at least, necessary to immediately implement a number of initiatives such as the modification of the regulatory framework, taking tax expedients and regulate the products of Islamic finance in order to make them operational; a comparison of the various stakeholders to facilitate the insertion and diffusion of Islamic finance products; implement a business support, facilitating their inclusion in the Islamists indexes in order to attract capital and promote the internationalization of Italian companies.

3 *2013 Annual Global Sukuk Repor, Rasameel Structured Finance Company,* Kuwait.