



Issuance of sukuk al-ijarah



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Sukuk al-ijarah is one of the products in Malaysian capital market which is rapidly growing as an alternative to Islamic private debt securities structured under the concepts of bai' bithaman ajil and murabahah. Sukuk al-ijarah has also gained acceptance among Shari'ah scholars, particularly from Middle East countries.

Definitions:

Sukuk (plural of sakk)

A sakk (singular) is usually referred to as an 'Islamic bond' sukuk (plural) are actually more akin to 'pass-through certificates', 'equipment trust certificates', or 'investment certificates', due to ownership attributes, with each sakk representing a proportional or undivided ownership interest in an asset or pool of assets.

Al-Ijarah (al-ajr) (sale of usufruct)

Literal meaning: To compensate.

Technical meaning: A contract of proposed and known usufruct (manfaat) with a specified and lawful return or compensation for the effort or work which has been expended.

Under the securitisation process, sukuk al-ijarah refers to an Islamic bond for the buying and leasing of assets by the investors to the issuer and such sukuk shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.

Commonly adopted structure of sukuk al-ijarah

The common structure of sukuk al-ijarah duly adopted in Malaysian debt market may be summarised as follows:

Step 1 Under the ijarah structure, the seller will sell its assets to the issuer in consideration of a purchase price being

paid based on the value of the respective assets.

Step 2 To finance the purchase, the Issuer shall raise sukuk of equivalent amount and in combination of both senior sukuk and junior sukuk. The senior sukuk shall be subscribed by the investors whilst the junior sukuk shall be solely subscribed by the seller.

The sukuk shall represent the beneficial rights in the assets whereby the sukuk holders shall have an undivided proportionate beneficial interest in the assets.

The issuer shall declare a trust via a trust declaration over the assets for the benefit of the sukuk investors. The sukuk investors will therefore have a pro-rata undivided beneficial ownership of the assets.

Step 3 Subsequent to the purchase, the issuer shall lease the acquired assets to the lessee under ijarah agreement(s) for an ijarah term of up to, e.g. eight (8) years.

Step 4 The lessee, shall make ijarah rental payments to the Issuer from the income it will receive from the off-takers arising from the license agreement.

Step 5 The ijarah rental payments for the assets received by the Issuer from the lessor will then be distributed to the sukuk holders as periodic income distribution payment in proportion to their holdings in the sukuk.

Step 6 The seller, in its capacity as service agent, will enter into service agency agreement with the issuer to provide major maintenance services and maintaining insurances for the respective assets.

Sukuk al-ijarah is now accepted globally. In fact, the first global corporate sukuk issuance is introduced by Malaysia through the issuance of the Guthrie sukuk.

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