

**HYBRID SUKUK STRUCTURES AND
ITS IMPORTANCE FOR DEVELOPING ISLAMIC CAPITAL
MARKET**

**ZIHAN MOHAMED JAILABDEEN
09B0108**

**Faculty Of Business And Management Sciences
Sultan Sharif Ali Islamic University
Brunei Darussalam**

Jumaada Al-awal 1433/ April 2012

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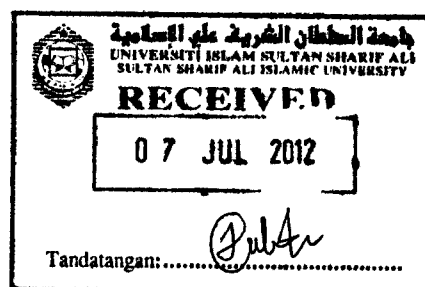
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An academic exercise submitted in partial fulfillment
Of the requirements for the degree of
BACHELOR OF SCIENCE IN ISLAMIC FINANCE

**Faculty Of Business And Management Sciences
Sultan Sharif Ali Islamic University
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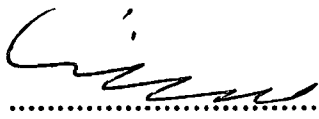


SUPERVISION

**HYBRID SUKUK STRUCTURES AND
ITS IMPORTANCE FOR DEVELOPING ISLAMIC CAPITAL MARKET**


**ZIHAN MOHAMED JAILABDEEN
09B0108**

Supervisor: DR MOHAMED SHARIF BASHIR

Signature: 

Date: 10/07/2012


Faculty Dean: DR...FADZULWATI...MOMIDDIN

Signature: 

Date: 07/07/12

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I hereby declare that the work in this academic exercise is my own except for quotations and summaries which have need duly acknowledged.

Signature : 
Name : Zihan Mohamed Jailabdeen
Registration Number : 09B0108
Date of submission : 24 Jumaada Al-awal 1433/ 16 April 2012

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ABSTRACT

HYBRID SUKUK STRUCTURES AND IT'S IMPORTANCE FOR DEVELOPING ISLAMIC CAPITAL MARKET

This study is about *Sukuk* which is an alternative for conventional bond and have a big demand in capital market all over the world. Study focuses on basic structures of *Sukuk*, which are available in Islamic financial system and its process in particular, as well as examines how strong hybrid *Sukuk* structures are, its process and *Shari'ah* compliant contracts which give a successful hybrid *Sukuk* structures and its recent development. This study helps to those are interesting on in *Sukuk* and willing to invest in *Sukuk*, this will give a full knowledge about basic *Sukuk* structure and Hybrid *Sukuk*. This study utilized previous studies on this topic and AAOIFI (Accounting and Auditing for Islamic Financial Institutions) guideline and Dubai International Financial Centre *Sukuk* Guidebook for adding more value to the Study. It also explains each *Shari'ah* compliant contracts which are being used in Islamic finance and its related structures to understand more about the process and cash flow of the *Sukuk* and Use current market statistics and market scholar's opinion on Hybrid *Sukuk* to explain the importance of Hybrid *sukuk* and its need for future market to compute with conventional bonds. Debt based *Sukuks* cannot trade in secondary market, but we need it, hybrid *Sukuk* helps to make it as tradable via combine those contracts together with tradable contracts. Convertible and exchangeable hybrids *Sukuks* give an opportunity for investors to exchange their *Sukuk* to Shares. So the market needs more hybrid *Sukuks* for its active market and future development.

ABSTRAK

SUKUK GABUNGAN DAN KEPENTINGANNYA DALAM MEMBANGUNKAN PASARAN MODAL ISLAM

Kajian ini adalah mengenai Sukuk yang merupakan alternatif bagi bon konvensional dan merupakan permintaan yang besar dalam pasaran modal di seluruh dunia. Kajian ini tertumpu kepada struktur asas Sukuk, yang terdapat di dalam sistem kewangan Islam dan prosesnya. Kajian ini juga mengkaji secara khusus bagaimana struktur Sukuk gabungan (hibrid), proses dan kontrak yang mematuhi hukum syariah supaya mampu membawa kejayaan bagi struktur Sukuk gabungan (hibrid) ini. Di samping menumpukan juga terhadap perkembangannya yang terkini. Kajian ini boleh membantu mereka yang berminat untuk mengetahui lebih mendalam tentang Sukuk dan bagi yang ingin membuat pelaburan Sukuk. Artikel ini akan memberi maklumat yang menyeluruh mengenai struktur asas Sukuk dan Sukuk gabungan (hibrid). Bagi menjadikan kajian ini lebih relevan penulis telah menggunakan kajian-kajian lepas terhadap topik ini dalam AAOIFI (Perakaunan dan Pengauditan bagi Institusi Kewangan Islam) dan Buku Garis Panduan Pusat Kewangan Antarabangsa Dubai sebagai rujukan. Kajian ini juga menjelaskan hukum Syariah yang digunakan berkaitan dengan akad dalam kewangan Islam dan yang berkaitan dengannya untuk memahami lebih lanjut mengenai proses dan aliran tunai Sukuk dan statistik pasaran semasa. Kajian ini juga membincangkan pandangan ulama tentang pasaran Sukuk gabungan (hibrid) ini, bagi menerangkan kepentingan pembangunannya untuk bersaing dalam pasaran masa depan bon konvensional. Sukuk berasaskan hutang tidak boleh didagang dalam pasaran kedua, walaupun kita memerlukannya. Walau bagaimanapun dengan Sukuk gabungan ini ia boleh memberi peluang kepada pelabur untuk menukar Sukuk mereka kepada Saham. Oleh yang demikian pasaran masa kini memerlukan lebih banyak sukuk gabungan (hibrid) bagi menjadikan pasaran lebih aktif untuk pembangunan masa depan.

ملخص البحث

السكوك المزدوج وأهميته في تطوير سوق المال الإسلامي

إن هذا البحث يدور حول السكوك الذي يعتبر بديلا للعقد المالي العام، وله إقبال كبير في سوق المال العالمي و يتركز البحث على دراسة الأسس التي تعتمد عليه السكوك كما توجد فالنظام المالي الإسلامي، و كيفية مسيرته ، و تطبيقه وبالأخص هيكل السكوك المزدوج من حيث الفوائد وطريقة تطبيقه ، ونظام العقد الشرعي الذي يكمن فيه بنجاح نظام السكوك المزدوج كما يتركز على دراسة تطورات الحديثة. ويكون هذا البحث بحير معين لمن يريد أن يتعرف على نظام السكوك وأن يستثمر فيه. بالإضافة إلى الإستفادة من الدراسات السابقة في هذا الموضوع استطاع البحث ان يستعين بالدليل الخاص بالمحاسبة والمراجعة للمؤسسات المالية الإسلامية وبدليل السكوك في المركز المالي الدولي في دبي. وفي البحث ايضا توضيح عن الحكم الشرعي المتعلق بالتعاقد في النظام المالي الإسلامي وعما يتعلق به لمعرفة كيفية معاملته وتدفق النقد فيه وإحصاءات سوق المال الحالي. والبحث يتناول آراء العلماء المتخصصين عن نظام السكوك المزدوج وضرورة وجوده ونموه للمنافسة مع النظام المالي العام. والجدير بالذكر عدم امكانية التجارة في السوق الثانوي بالإعتماد على السكوك القائمة على القرض على الرغم من حاجتنا إليه. والسكوك المزدوج سواء كان بالتحويل أو بالتغيير يعطى الفرصة للمستثمرين لتغيير سكوكهم إلى الأسهم. فالسوق المالي في حاجة إلى مزيد

من السكوك المزدوج من أجل حركة السوق و تطوره.

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ABBREVIATION

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AATSC	Arabian Armco Total Service Company
ABN AMRO	ABN AMRO Bank
AED	United Arab Emirates Dirham
BBA	Bai Bitaman Ajil
BHD	Bahrain Dinar
CBB	Central Bank of Bahrain
FGB	First Gulf Bank
HSBC	Hongkong and Shangai Banking Corporation
GCC	Gulf Corporation Council
Ibid	ion beam induced deposition
IDB	Islamic Development Bank
IFIS	Islamic Finance Information Service
IIFM	International Islamic Financial Market
i.e.	Example
KFC	Kuwait Finance House
LIBOR	London Inter Bank Offer Rate
MENA	Middle East and North Africa countries
MYR	Malaysian Ringgit
No.	Number
OIC	Organization of Islamic Corporation
p.	Page
pp.	Pages
Pbuh	Peach Be Upon Him
REIT	Real Estate Investment Trust
R & D	Research and Development
SAR	Saudi Arabian Riyal
Sdn. Bhd.	Sendirian Berhad
SEA	South East Asia
SND	Singapore Dollar
SPV	Special Purpose Vehicle
s.w.t.	Subahanahu Wa'a Ta'ala
TFC	Term Financial Certificate
UAE	United Arab Emirates
UK	United Kingdom
USA	United State of America
US\$	United States Dollar
YER	Yemeni Rial
...etc	et cetera

CHAPTER I

INTRODUCTION

1.1. Background of the research

1.1.1. History of Islamic Finance

Islam is the religion which is revealed by almighty Allah (s.w.t) to his prophet Muhammad (pbuh). As a religion it is revealed to all the man kind in this world and it is guide and teach about all the actions of human life. We can see that the word of “Islamic Finance” using by many people’s during their financial transactions. The financial system means, it is a common thing and all types of peoples need it and without that they cannot fulfill their needs, then we can ask why we are saying Islamic Finance. Why it is connect with a religion and how it is differ from existing conventional financial system? And so on... it’s true that some of its transactions or elements are different from conventional or traditional financial system but it is not a new system to the world. It is begin during the period of the last prophet in Islam, which is 1434 years ago.

1.1.2. The Modern Islamic Finance

The concept of Islamic Finance is not only for Muslims, but it is for all mankind in this world. It is calling Islamic Finance because its concepts are made based on Islamic Law (*Shari’ah*). The *Shari’ah* or Islamic law is based on two Islamic main sources, which are *Al-Qur’an* (the holly book, revealed by almighty Allah to his Prophet) and *Al-Sunnah* (the traditions of the prophet). As a Muslim he can’t go out of this *Shari’ah* boarder. It is allowed to many types of contracts or transactions but it’s strictly prohibit some elements in financial transaction, which are interest (*Riba*), Gambling (*Maisir*) and uncertain (*Gharar*) (will discuss later on). These prohibited elements are the main elements in conventional financial system, that’s why the Islam introduced an alternative financial system to the world.

As a religion Islam spread until now but the Islamic financial system is dropped by westerners and they introduced interest based financial system to the world, so the world followed that system and its spread to everywhere, after a long time the light of Islamic Finance came to the world during 1960. Mit Ghamr is the first modern Islamic banking institution, which is established in Egypt in 1963 based on the Islamic concept of profit sharing saving bank. Then Malaysia established pilgrim fund board (Tabung Haji) in the same year. The development of Islamic Finance began after 1970, as a result Nasser Social Bank (Cairo) in 1972; Islamic Development Board in 1975, Kuwait Finance House in (KFH) 1977, Faisal Islamic Bank of Sudan in 1977 and Dar Al-Maal Al-Aslami in 1980 are established.¹

Continuing demand throughout the 1990s the market for Islamic financial products had attracted the attention of several western commercial banks, which started to offer specialized financial services to high net worth individuals and later at retail level through “Islamic Window banking”, western financial market players that were attracted including Citibank, ABN AMRO, HSBC, Standard Chartered and others starts their own Islamic Windows to attract petrodollar deposits from Middle East and Muslim clientele in local markets.

Until 1990 Islamic Financial System mainly focused on banking products and *takaful* products, as a next step it was tried to develop its own capital market products as a alternative for conventional capital market. Islamic bonds (*Sukuk*), Islamic principal protected investment, real estate investment (REIT) are the some example of capital market products, this research going to focus on one of the Islamic capital market instrument *Sukuk*.

1.1.3. Capital Market

In a financial system capital market play an important role, we can see that today business development is very fast, the demand increasing rapidly, same time competition also increasing, technology changes and new innovations making the competition tough. So every firms in the market needs to change its actions according

¹ Muhamed.N.A., Radzi.N.A. “Implication of Sukuk: The Comparison on the Structure of Asset Based and Asset Backed Ijara Sukuk”.2nd International Conference on Business and Economic. (2011) and IIFM.(2010). *Sukuk Report*. Manama, Kingdom of Bahrain. IIFM

to the market changers and its need more financial support for new innovations, research and development (R&D), extant the business and for improve the new facilities. The firm can use its internal sources or external sources for raise its financial position for develop the firm.

1.1.3.1. Use Internal Sources

This is a type of financing where company using its balance sheet items, such as retained earnings, selling the assets. The cost of this finance method is low, but sometimes the companies not willing to these sources. At this time it can choose other option.

1.1.3.2. Use External Sources

The company can use external sources for its finance needs, which are borrow from banks as a loan, Issue new shares, issue bonds (*Sukuk*) and so on... among these types most of the time the company not preferred to issue shares, because it can raise the ownership problems (dividend). So the company preferred to issue bonds (*Sukuk*), which is a type of debt instrument.

“A bond is a debt instrument requiring the issuer (also called debtor or borrower) to repay to the lender/investor the amount borrowed plus interest over a specific period of time”.²

It is clear from above statement that the conventional bond designed based on interest, which is strictly prohibited in Islam. So the Islamic finance introduced *Sukuk* as an alternative for bond, which is developed based on Islamic law.

1.1.4. Al-Sukuk

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) *Sukuk* means, “Investment *Sukuk* are certificates of equal value

² Fabozzi, F.J. (2010). *Bond Markets Analysis and Strategies*. ed.7. Pearson prentice hall. p. 3

representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity”³

Sukuk has some specific characteristic or elements it’s self, which make it away from conventional bond, those elements are prohibition of *riba* (interest), prohibition of *Maisir* (Gambling), and prohibition of *Gharar* (uncertain). *Sukuk* structures and transactions should away from these elements, according to the rule of *Shari’ah* if found one of these in the contract then the contract will be void.

1.1.5. Types of Investment *Sukuk*

According to the AAOIFI (2010), which is issuing standards on accounting, auditing, governance, ethical and *Shari’ah* standards for Islamic financial institutions, has laid down 14 different types of *Sukuk* structures⁴, which are

1. Certificates of ownership in leased assets
2. Certificate of ownership of usufruct
 - i. Certificate of ownership of usufruct of existing assets
 - ii. Certificate of ownership of usufructs of described future assets
 - iii. Certificate of ownership of services of a specified party
 - iv. Certificate of ownership of described future services
3. *Salam* certificate
4. *Istisna* certificate
5. *Murabaha* certificate
6. *Musharaka* certificate
 - i. Participation certificates

³ AAOIFI.(2010). *Shari’a Standards for Islamic Financial Institutions*. Manama,Bahrain. p307.

⁴ *Ibid.* pp 307-309

- ii. *Mudaraba* certificates
 - iii. Investment agency *Sukuk*
7. *Muzara'a* (sharecropping) certificates
 8. *Musaqa* (irrigation) certificates
 9. *Mugharasa* (agricultural) certificate

Among these types of structures only seven types are currently practicing in the market, which are *Al-Ijara*, *Al-Salam*, *Al-Murabaha*, *Al-Musharakah*, *Al-Mudaraba*, *Al-Istisna* and *wakala* other than these Hybrid *Sukuk* enter to the market recently, this paper going to focus more on hybrid *Sukuk*, its structures and its importance for developing Islamic capital market.

1.1.6. Development of *Sukuk* Market

The concept of *Sukuk* legitimized by the *fiqh* academy of the OIC in February 1988 by ruling that subject o proper legal documentation, it's saying that: "Any collection of assets can be represented in a written note or bond; and "That this bond or note can be sold at a market price provided that the composition of the group of assets, represented by the security, consists of a majority of physical assets and financial rights, with only a minority being cash and interpersonal debts"⁵

Soon after the concept of *Sukuk*, it's began to develop in Islamic financial system. The first *Sukuk* introduced in 1990 by a one of the Non-Islamic company Shell MDS, in Malaysia. As a as a domestic *Sukuk* it's developed based on Malaysian local currency of ringgit. The issue is with a size of RM125 million (equivalent to approximately US\$ 30 million) and it's based on the principle of *BBA- Bai Bithamin Ajil* (Deferred payment sale).

The market didn't take any international issuance until 2001. The first international sovereign *Sukuk* issue by Government of Bahrain in September 2001, it was US\$ 100 million *Sukuk* under the principle of *Al-Ijara* with a fixed rate of 5.25%

⁵ IIFM.(2010). *Sukuk Report*. ed.1. Manama, Kingdom of Bahrain. IIFM. p.7

and its tenor in 5 years. This was the first milestone for international or global *Sukuk* market. Then the *Sukuk* market began to develop internationally and domestically as well. After the Bahrain Government *Sukuk* the first quasi- government sovereign *Sukuk* was issued by a Malaysian corporation of Kumpulan Guthrie Bhd in same year, it was an Al-Ijara based US\$ 150 million serial *Sukuk* with 5 years maturity and the rate of return 6 month LIBOR + 1.5%. The Malaysia issues its first sovereign *Sukuk* in 2002 with the worth of US\$ 600 million. The Bahrain *Sukuk* issuance tend to develop the GCC (Gulf Corporation Council) based Islamic capital market, it's impressed other GCC countries also to more *Sukuk* issuance, as a result many *Sukuk* issuance came to market between July 2003 – March 2004, which are the IDB *Sukuk* arising from Saudi Arabia, the Qatari government sovereign *Sukuk* and the Tabreed *Sukuk* arising from the UAE in that order. In 2009 UAE reach 55% of the total global market share its self.⁶ Securities Commission of Malaysia, 2009. Since 2001 the *Sukuk* market growing rapidly in both, International *Sukuk* market and Domestic *Sukuk* market.

1.1.6.1. Global *Sukuk* Market

Global *Sukuk* issuance market has grown from US\$ 100 million in 2001 and its reached US\$ 197.2 billion in end of 2010. The GCC (Gulf Corporation Countries) and SEA (South East Asia) countries are the main players in global *Sukuk* market. Among the GCC countries UAE, Saudi Arabia, Bahrain, Qatar, Kuwait are important countries in issuing *Sukuks*, meanwhile the Malaysia playing a main role in the region of SEA, other than Malaysia, Indonesia, Singapore also contributing to the global *Sukuk* market from this region. Today it is not limited to these region only, its developing in other countries as well, Pakistan, Japan from other part of Asia other than Asian countries USA, UK, Germany, Turkey, Egypt, Gambia also contributing to the market.⁷

⁶ See: IIFM.(2010). *Sukuk Report*. ed.1. Manama, Kingdom of Bahrain. IIFM. p.8

⁷ *Ibid.* see. pp.8-9

Compare to the global bond market the *Sukuk* market has to develop more and more, where the global bond market valued its size of the market in 2010 as US\$ 95 trillion compare to US\$ 197.2 billion of global *Sukuk* market in the same year. But the bond market is well established market and its popular worldwide as well, where the *Sukuk* market has an experienced only for 11 years. But the performance of the *Sukuk* market grooving very fast, because the demand for the *Sukuk* increases and the issuance of the *Sukuk* also increasing rapidly. The table 1 showing that the *Sukuk* issuance from 2001-to-2010 globally, it's includes sovereign, quasi-sovereign and corporate issue. (All currency issuance during the period).

Table 1:

The summary of overall *Sukuk* issuance globally from 2001-2010

Country	Number of Issues	Volume (US \$ Million)	% of Total Value
Malaysia	1592	115393.76	58.51%
UAE	41	32201	16.33%
Saudi Arabia	22	15351.88	7.78%
Sudan	22	13057.713	6.62%
Bahrain	125	6291.69	3.19%
Indonesia	70	4658.5	2.36%
Pakistan	35	3447.207	1.75%
Qatar	6	2500.79	1.27%
Kuwait	9	1575	0.80%
Brunei Darussalam	21	1175.91	0.60%
USA	3	767	0.39%
UK	2	271	0.14%
Singapore	5	191.96	0.10%
Germany	1	123	0.06%
Turkey	1	100	0.05%
Japan	1	100	0.05%
Gambia	7	2.086	0.00%
Grand Total	1963	197208.496	100.00%

Source: IIFM: *The International Islamic Financial Market's Organization* (2010).

Table 1 showing that the SEA region leading the global *Sukuk* market, where 61.57% of total market issuance from SEA region compare to 29.37% from GCC region and 9.06% from other countries. The Malaysia playing a main role in the global market, where its participation is 58.51% out of total global *Sukuk* market, which is more than half of the market, the UAE is in the second place with 16.33% of the market and so on.. The Malaysia contribution in the market is very high, because of its increase the domestic *Sukuk* issuance.

1.1.6.1.1. Contribution from SEA Region to *Sukuk* Market

These region countries playing a main role in *Sukuk* market, especially Malaysia, which is one the leading country in Islamic finance and *Sukuk* market. According to the statistics in past years its issued 1592 *Sukuk* issuance in the volume of US\$ 115.39 billion, which is 58.51% out of the total global *Sukuk* market, other than Malaysia Indonesia, Singapore also contributing for *Sukuk* market.

1.1.6.1.2. Contribution From GCC Region to *Sukuk* Market

Due to the lack of large value *Sukuk* issuance, there has been a decline in *Sukuk* market in GCC, but it still holds the second position with total issuances of value reaching USD 1.76 billion in 2nd half of 2010.

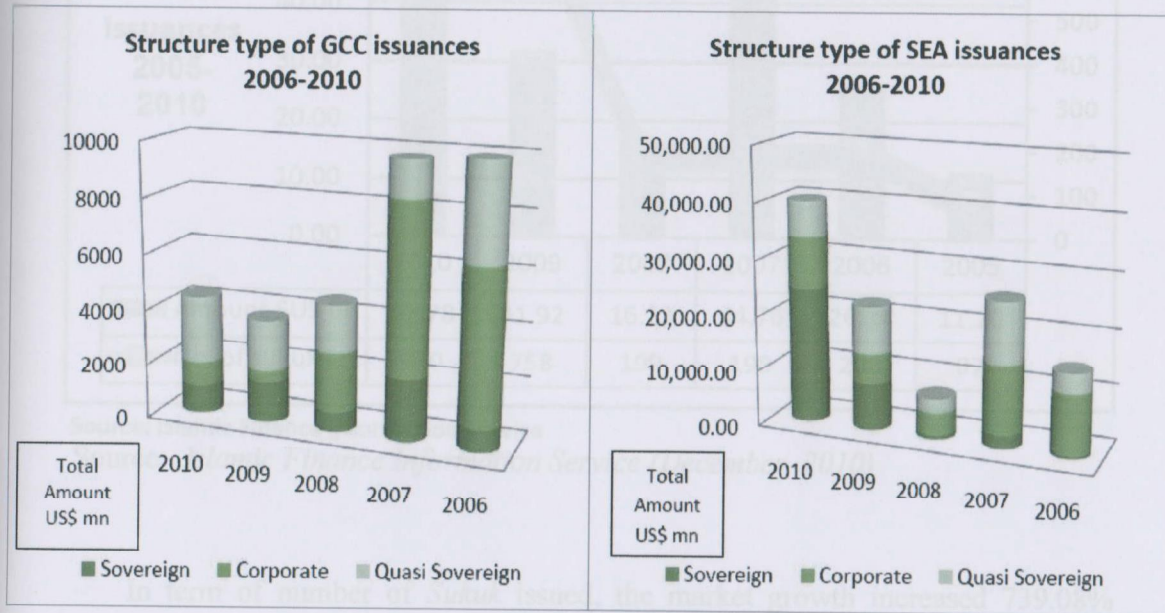
The vast difference between success of *Sukuk* in Malaysia and other Arab countries is attributed to the differences in the interpretation of *Shari'ah* Laws by *Sukuk* Boards in these countries. For example, in Saudi Arabia, which follows the *Wahhabi* form of Islam, the interpretation of *Shari'ah* is strict. Meanwhile, the highly flexible reading of the laws in Malaysia, under the *Shafi* school of Sunni Islam, has helped to create the world's largest Islamic bond market. The Gulf States generally chart a middle course between these two extremes.

1.1.6.1.3. Global *Sukuk* Issuance in GCC and SEA Markets

The following graph showing the participation details in the global market from GCC & SEA region based on sovereign, quasi-sovereign and corporation⁸

Figure 1:

The *Sukuk* Issuance from GCC & SEA Regions According to the Structure



Source: Islamic Finance Information Service

Source: *Islamic Finance Information Service (December, 2010)*

The figure 1 clearly shoeing that, SEA performing higher than GCC in the market, the *Sukuk* issuances from SEA region is growing rapidly, except in 2008, which is showing a least amount in the *Sukuk* market, while the contribution from GCC region decline since 2006 to 2009 and there is a positive growth in 2010. In 2006 corporate is played a main role in issuance of *Sukuk* in both region, but in 2010 its contribution decline in the GCC region meanwhile SEA region corporate still continuing its contribution in same level. Other than these two regions other countries also contribute to the *Sukuk* market, such as United Kingdom, Sudan, MENA countries, Egypt and other many countries starts to issue new *Sukuk* to the market.⁹ Refer to Appendix A for more *Sukuk* Issues from various other countries.

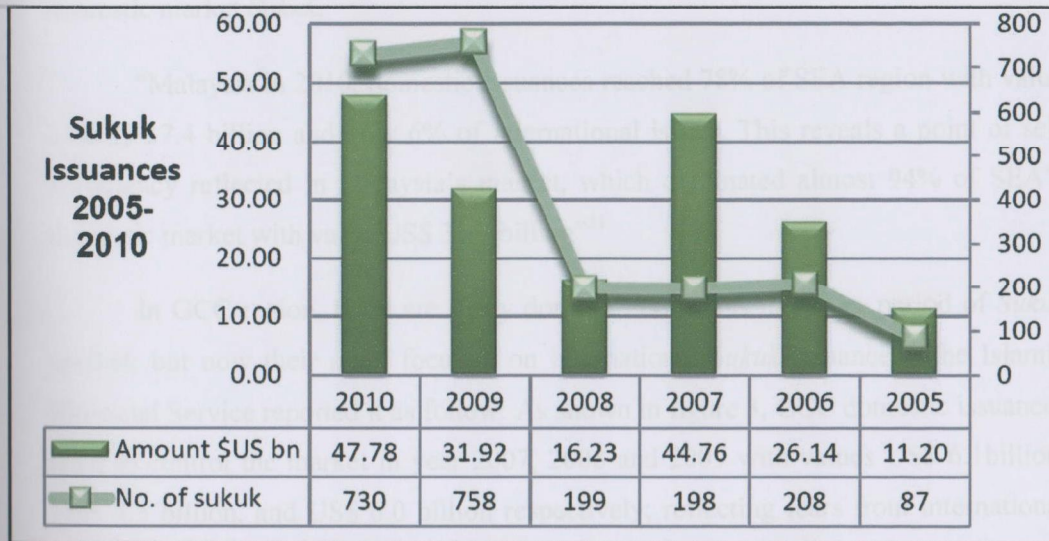
⁸ IFIS.(2010).*IFIS Global Sukuk Market H2-2010 Report*. London. IFIS. p6

⁹ *ibid.* p. 2

Figure 2 showing the total *Sukuk* issuance from 2005 –to- 2010 based on the number of *Sukuk* issued and the volume of those *Sukuk*.

Figure 2:

Total *Sukuk* issuance from 2005 to 2010



Source: Islamic Finance Information Service

Source: *Islamic Finance Information Service (December, 2010)*

In term of number of *Sukuk* issued, the market growth increased 739.08% between 2005 and 2010, where 7 *Sukuk* issued in 2005 and it's increased to 730 of *Sukuk* issuance in 2010. The volume of the *Sukuk* issuance during this period also increased by 326.61%, which is show that only US\$ 11.20 billion in 2005 and US\$ 47.78 billion in 2010. From 2005 to 2007 the market issuance increased rapidly, which are US\$ 11.20 billion, US\$ 26.14 billion and US\$ 44.76 billion respectively in 2005, 2006 and 2007, but its decline in 2008 by US\$ 28.53 billion or 63.74%, which is US\$ 16.23 billion, the reason for this declining can be the affects of financial crisis, which is held during that period of time and affected the most of the country's financial situation badly, after 2008 its again began to growth and there is a decline in number of issuance in 2010 than 2009, which is 758 in 2009 and 730 in 2010, but the volume of the *Sukuk* is not declined, which is US\$ 31.92 billion in 2009 and US\$ 47.78 billion in 2010. It's showing that the volume of the *Sukuk* increased in that year, because of increasing the market demand for the *Sukuk*.¹⁰

¹⁰ See, IFIS.(2010).*IFIS Global Sukuk Market H2-2010 Report*. London. IFIS. p2

1.1.6.2. Domestic *Sukuk* Markets

The domestic *Sukuk* market is very important in Islamic capital market. In the history of *Sukuk* market the first *Sukuk* was issued to domestic market, which was issued by Shell MDS in Malaysia in 1990. Still the Malaysia is in the first place in issuance of domestic market *Sukuk*.

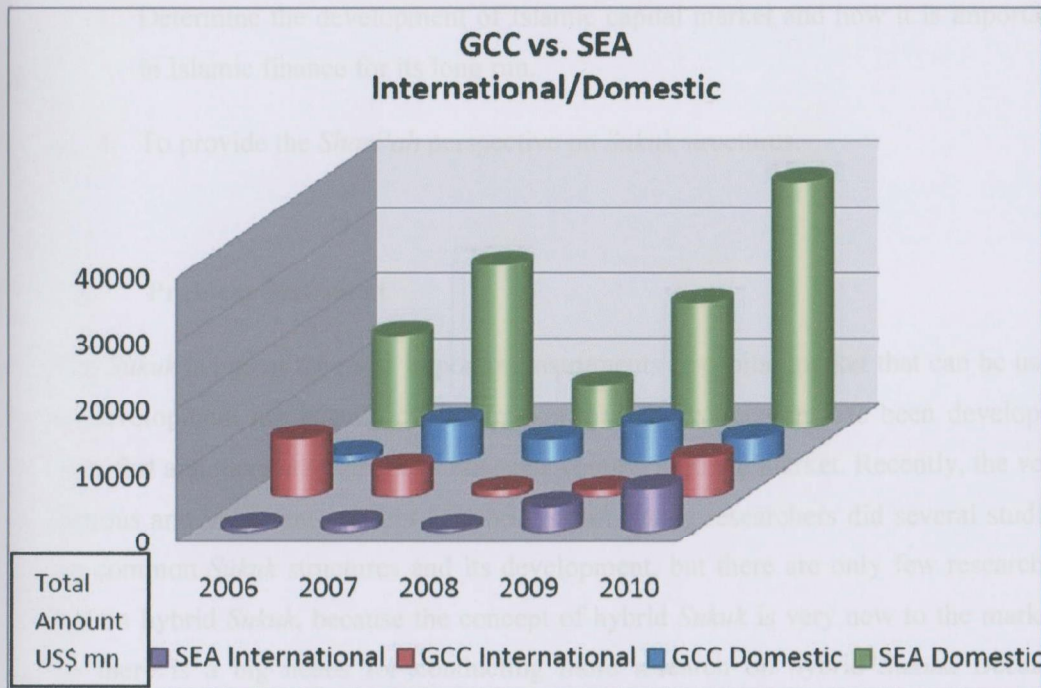
“Malaysia in 2010, domestic issuances reached 78% of SEA region with value of US\$ 37.4 billion and only 6% of international issues. This reveals a point of self sufficiency reflected in Malaysia’s market, which dominated almost 94% of SEA’s domestic market with value US\$ 35.2 billion”¹¹

In GCC region, there are many domestic issuances in earlier period of *Sukuk* market, but now their main focus is on international *Sukuk* issuances. The Islamic Financial Service reported it as follow: As shown in figure 3, GCC domestic issuances used to control the market in year 2007, 2008 and 2009 with values US\$ 6.1 billion, US\$ 3.5 billion, and US\$ 6.0 billion respectively; reflecting fears from international markets during the global financial crisis. In 2010, International issuances exceeded domestic ones reaching US\$ 5.9 billion compared to US\$ 3.77 billion domestically. The missing sovereign *Sukuk* issuances in the region, that might be used to set a pricing benchmark for private issuers, along with the regulatory environment in the GCC which is not considered supportive compared to that of SEA region, might drive some of the issuers outside of the region”

¹¹ IFIS.(2010).*IFIS Global Sukuk Market H2-2010 Report*. London. IFIS. p7

Figure: 3

International and Domestic *Sukuk* Issuance in GCC & SEA



Source: Islamic Finance Information Service

Source: *Islamic Finance Information Service (December, 2010)*

The figure 3 shows that the overall *Sukuk* market based on International and domestic issuance, its show that the most of the *Sukuk* issuances are issued to domestic market than international, the SEA region issued more domestic *Sukuks* than GCC region. Malaysia playing a main role in SEA region in terms of issuing domestic *Sukuk* to the market

1.2. Objectives of the Study

The main objective of this study is to examine the Hybrid *Sukuk* structures and its importance, contribution and performance in the Islamic capital market.

The specific objectives are as follows:

1. To examine Common *Sukuk* structures, which are currently using in the market.

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