Beyond Sovereign Issuers: Strategies to Facilitate the Sukuk Market to a Broader Pool of Issuers

- The Malaysian Experience

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The Malaysian Bond Market
Overview of the Malaysian Bond Market

Malaysian Total Bond Outstanding vs Sukuk Outstanding
(Source: BNM as at Dec 2014 & RAM Ratings)

Malaysian Total Bond Outstanding by Public and Private Sector
(Source: Asian Bonds Online as at Dec 2014 & RAM Ratings)

USD billion

Note: Differences in amounts due to different sources
Sukuk Issuance by Region and Type of Issuer

3-year Global Sukuk Issuance Trend by Region
(Source: Zawya & RAM Ratings)

<table>
<thead>
<tr>
<th></th>
<th>Sukuk from Malaysia</th>
<th>Sukuk from GCC</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>103.02</td>
<td>24.89</td>
<td>11.14</td>
<td>139.05</td>
</tr>
<tr>
<td>2013</td>
<td>80.94</td>
<td>26.44</td>
<td>10.93</td>
<td>118.31</td>
</tr>
<tr>
<td>2014</td>
<td>77.27</td>
<td>23.31</td>
<td>15.65</td>
<td>116.23</td>
</tr>
<tr>
<td>As at end-April 2015</td>
<td>13.76</td>
<td>6.45</td>
<td>4.79</td>
<td>25.01</td>
</tr>
</tbody>
</table>

3-year Global Sukuk Issuance by Type of Issuer
(Source: Zawya & RAM Ratings)

<table>
<thead>
<tr>
<th></th>
<th>Sovereign</th>
<th>Quasi Sovereign</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>94.77</td>
<td>19.89</td>
<td>24.39</td>
<td>139.05</td>
</tr>
<tr>
<td>2013</td>
<td>77.35</td>
<td>8.53</td>
<td>32.44</td>
<td>118.31</td>
</tr>
<tr>
<td>2014</td>
<td>73.22</td>
<td>17.70</td>
<td>25.31</td>
<td>116.23</td>
</tr>
<tr>
<td>As at end-April 2015</td>
<td>12.63</td>
<td>7.66</td>
<td>4.72</td>
<td>25.01</td>
</tr>
</tbody>
</table>

3-year Corporate Sukuk Issuance by Region
(Source: Zawya & RAM Ratings)

<table>
<thead>
<tr>
<th></th>
<th>Malaysia</th>
<th>GCC</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>16.46</td>
<td>13.01</td>
<td>2.73</td>
</tr>
<tr>
<td>2013</td>
<td>14.68</td>
<td>9.57</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>-21%</td>
<td>-35%</td>
</tr>
<tr>
<td>As at end-April 2015</td>
<td>1.30</td>
<td>2.73</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Zawya & RAM Ratings)
“Relative to GDP, Malaysia’s outstanding debt securities is ranked the third largest in Asia valuing at USD315.5 billion”
Facilitative Strategies for Market Development
- Malaysia’s Game Changer
Facilitative Strategies for Market Development

1. Tax Neutrality And Attractive Fiscal Incentives
   - Tax neutrality for Islamic finance transactions that require sale or lease of assets.
   - Liberal Foreign Exchange Rules in promoting Malaysia as an investment destination.

2. Broad Investor Base - Competitive Pricing

![Graphs showing Market Indicative Yield - 5YR Corp-AAA and 10YR Corp-AAA (Source: RAM Ratings as at Apr-2015)]
3 Shariah Governance Framework - Product Innovation

- The Shariah Advisory Council of the Securities Commission (“SC”) together with the Shariah Advisory Council of BNM, serve to ensure compliance with Shariah principles, while supporting **product innovation** through pronouncements on the Shariah-compatibility of the Sukuk structures.

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**LCY Sukuk Structures by Shariah Principles (Jan 2000 – Apr 2015)**
(Source: SC, Zawya & RAM Ratings)
4 Adoption of Legal and Regulatory Best Practices

- The Capital Markets Services Act 2007 governs the parameters for permitted capital market activities, while reinforcing protection framework and promoting international best practices.
- The legal and regulatory framework is constantly reviewed taking into account latest market, products and Shariah issues to ensure continuous development in the Sukuk market.

5 Facilitative Rules for Issuance Process

- Liberal Foreign Exchange Rules for international players to tap the Malaysian bond market.
"RAM Ratings’ outstanding rated portfolio include 24 foreign entities across 13 countries”

Note: 1) Pending issuance
Source: RAM Ratings

**Supranational (ASEAN): Credit Guarantee & Investment Facility (CGIF)**

**United Arab Emirates:**
1) National Bank of Abu Dhabi
2) Abu Dhabi Islamic Bank PJSC

**Kuwait:**
- Gulf Investment Corp GSC
- Kuwait Turkatlim Bank AS

**Kazakhstan:**
- Development Bank of Kazakhstan Joint-Stock Company

**Japan:**
1) Bank of Tokyo-Mitsubishi UFJ Ltd
2) Mizuho Corp Bank Ltd

**Hong Kong:**
- Noble Group Limited

**Kuwait:**
- Gulf Investment Corp GSC

**South Korea:**
1) Hyundai Capital
2) Industrial Bank of Korea
3) Korea Development Bank

**Bahrain:**
1) Gulf International Bank BSC
2) Bahrain Mumtalakat Holding Company BSC

**France:**
- Societe Generale

**Turkey:**
1) Turkiye Finans Katlim Bankasi AS
2) Kuveyt Turk Katilim Bankasi AS

**Kuwait:**
- Gulf Investment Corp GSC

**Singapore:**
- DBS Bank

**Indonesia:**
1) First Resources Limited
2) Golden Agri-Resources Limited
3) Bumitama Agri Limited

**Kazakhstan:**
- Development Bank of Kazakhstan Joint-Stock Company

**United Arab Emirates:**
1) National Bank of Abu Dhabi
2) Abu Dhabi Islamic Bank PJSC

**Japan:**
1) Bank of Tokyo-Mitsubishi UFJ Ltd
2) Mizuho Corp Bank Ltd

**Hong Kong:**
- Noble Group Limited
Outlook for the Global Sukuk Market
Outlook for the Global Sukuk Market

Total Global Sukuk New Issuance Trends
(Source: Zawya/ RAM Ratings)

Year

- 2012: 139.05
- 2013: 118.31
- 2014: 116.23
- 2015e: 100
- 2015e: 120

Total Global Sukuk New Issuance (Actual) vs. 2015 RAM Estimated Total Global Sukuk New Issuance
Role of Credit Rating Agency
Value of Credit Rating Agency ("CRA")

- Independent credit opinion
- Benchmark for pricing
- Yardstick for credit risk across industries
- Investor portfolio inclusion criteria
- Paves the way for new sectors, new instruments or green field projects
- Surveillance for investors
RAM Ratings’ Rated Portfolio

“As at end-April 2015, RAM Ratings has evaluated in total approximately RM996.0 billion of bond/sukuk issuances over 2,256 issues across 221 issuers”

- **Petronas Dagangan Bhd (1994)**
  - MYR300.0 million Sukuk Murabahah
  - World’s first rated Sukuk

- **Cagamas MBS 2007-1-i (2007)**
  - MYR2.11 billion Sukuk Musyarakah
  - World’s first Islamic RMBS

- **Telekom Malaysia Berhad (2013)**
  - MYR3.0 billion Sukuk Wakalah
  - World’s first export–import bank to issue Sukuk

- **AmIslamic Bank Berhad (2014)**
  - MYR200.0 million Sukuk Murabahah
  - World’s first Basel III-compliant Tier-2 Sukuk Murabahah

- **Malaysian Building Society Bhd (2013)**
  - MYR495 mil Tranche 1 Covered Sukuk
  - Asia’s first Structured Covered Sukuk

- **Ihsan Sukuk Berhad (2015)**
  - MYR1.0 billion Sukuk
  - World’s first Socially Responsible Investment Sukuk

- **PG Municipal Assets Berhad (2004)**
  - MYR80.0 million Sukuk Mudharabah
  - First partnership-based Sukuk

- **Golden Crop Returns Berhad (2005)**
  - MYR442.0 million Sukuk Ijara
  - First and largest ABS Sukuk backed by plantation assets

- **EXIM Sukuk Malaysia Berhad (2013)**
  - USD1.0 billion Multi-currency Sukuk
  - First export–import bank in the world to issue Sukuk
Thank You

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Most Outstanding Rating Agency for Sukuk 2013

Second Most Impressive Rating Agency for Sukuk 2013

Best Islamic Rating Agency 2012

Most Outstanding Rating Agency for Sukuk 2011

Best Research in Islamic Finance 2011

Best Islamic Rating Agency 2011