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هيئة الأوراق المالية والسلع
SECURITIES & COMMODITIES AUTHORITY



White paper on ESCA-DIEDC Roundtable on Retail & AED Sukuk

Organised by Dubai Islamic Economy Development
Centre and the Securities & Commodities Authority

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Introduction

On the sidelines of the inaugural Islamic Economy Week, the 1st ESCA-DIEDC Round-table on Retail & AED Sukuk was organised by the Dubai Islamic Economy Development Centre and the Emirates Securities & Commodities Authority and hosted at Nasdaq Dubai.

The objective behind this series of round-tables is to promote all facets of Islamic capital market and Islamic money market instruments and products in the UAE.

This 1st round-table was dedicated to ascertaining the causes for the lack of issuance of local currency Sukuk in the UAE and the recommendations to promote the same. It also discussed the need to bring the entry barrier for Sukuk investment to the retail level in order to enable households to invest in AED Sukuk as a fixed income instrument.

This white paper will elaborate on the key recommendations and takeaways to come out of the round-table and what the future holds for AED Sukuk.





H.E. Dr. Obaid Al Za'abi
Chief Executive Officer (CEO)
Emirates Securities and
Commodities Authority (ESCA)

In the opening address of the roundtable, H.E. Dr. Obaid Al Za'abi, CEO-ESCA said that the Authority shall undertake revision of its Sukuk regulation in the year 2019 in order to include new developments in Sukuk industry, mainly to encourage securitization and define the role of the special purpose vehicle (SPV).

He also emphasized on the importance of standardisation saying that it is the need of the hour if Islamic finance has to grow in the non-traditional jurisdictions. On the subject of promoting AED Sukuk as the most effective Islamic capital market instrument, Dr. Al Za'abi stressed the need for UAE to have the local rating agencies.

Referring to the default in redemption of Sukuk by a private sector entity on the pretext of non-compliant Sharia structure, Dr. Al Za'abi said that such undesirable situation should not recur if the Sharia risk is properly managed at the outset. Dr. Al Za'abi also raised concern about the conflict between conventional law and Sharia law and emphasized the need to redress the situation.

Concluding his address, Dr. Al Za'abi stated that ESCA would like to see the introduction of local currency retail Sukuk through public and private sector issuances of smaller amounts with entry barrier brought down to retail level. He also mentioned that ESCA is also considering plan to regulate over the counter (OTC) capital market transactions.



Abdulla Al Awar
Chief Executive Officer (CEO)
Dubai Islamic Economy
Development Centre (DIEDC)

In his keynote address, H.E. Abdulla Al Awar said that ESCA and DIEDC share the vision to develop the domestic Islamic capital market in the UAE. This will also help DIEDC to promote the UAE Islamic capital market model to various jurisdictions where the Centre has entered in to arrangement to assist them

in rolling out Islamic finance solutions. He said that the roundtable in collaboration with ESCA is an important starting point for the dialogue on AED Sukuk with representation from various segments of the industry.

He emphasized the importance to create an enabling environment for the development of a deeper Islamic capital market based on the industry feedback, recommendations and suggestions and that holding the roundtable at Nasdaq Dubai signifies that the stakeholders are working together towards the goal of positioning Dubai and the UAE as the global capital of the Islamic economy.



Acknowledgement

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ED Sukuk

RoundTable Discussion



Roundtable Takeaways

Local currency and Retail Sukuk

The participants observed that there are blueprints available globally on how to create and kindle local currency capital market and that there should be no shortage of buyers of AED Sukuk if offered on wholesale or retail investment level or a combination thereof.

In this connection, Singapore model could be examined by the UAE stakeholders where local currency capital market grew after creating central provident fund (CPF) for all employees, including expatriates. Some participants also felt that due to no CPF equivalent in the UAE, there is huge leakage of funds by way of unlimited repatriation to home countries and to the other investment jurisdictions by the expatriate workforce and households.



A section of the participants recommended doing away with the unfunded gratuity schemes and to replace it with some sort of CPF in UAE in order to brighten the prospects of local currency Sukuk issuances where CPF could invest the funds in buying such Sukuk..

It was also felt that the Malaysian pilgrim fund (Tabung Haji) and the General Pension and Social Security Authority (GPSSA) of Abu Dhabi (which is only open to Emiratis) are also good reference points on how to create local currency capital market.

Challenges for promoting the AED Sukuk

Some roundtable participants opined that the practice of Islamic and conventional banks and financial institutions to buy and hold the Sukuk is not helping to deepen the Islamic capital market in the current situation. In addition, the fact that AED is pegged to US Dollar is also proving less attractive to develop local currency capital market due to insignificant difference and no exchange risk between the two currencies. As such, the Sukuk originators prefer US\$ issuances so as to broaden the investor base to include foreign investors. Also, they are unsure of how the investor shall respond to AED Sukuk issuance.



It was discussed that the sovereign and sub-sovereign bodies and entities should take initiative to set up the local market framework and also be the issuer of regular EMTN program in AED which shall provide the yield curve for short and long term instruments for domestic market.

Participants agreed with H.E. Dr. Obaid Al Za'abi's observation that the local rating agencies similar to Malaysia need to be formed in the UAE which will help spur the issuance of local currency retail Sukuk by the corporate sector.

A discussion on demand and supply took place and majority of participants felt that the demand is there but there has to be the supply and that the first supplier of AED Sukuk should be the sovereign or sub-sovereign issuer from federal or Emirate level. It was strongly felt that it is about time the sovereigns and sub-sovereigns need to move away from bank borrowings in to the capital market. This is also important because Basel III requires that the sovereigns reduce the borrowing from commercial banks.

It was felt that there should be emphasis on increasing supply side rather than focusing on demand from investors since the investors currently do not have the AED Sukuk as a product to measure the demand in real sense.

As such, creating the enabling regulatory environment for insurance companies and pension funds to invest in LCY Sukuk is crucial since these two sectors shall provide large liquidity for subscription. It was also indicated that large funds with UAE Awqaf may be another source of investment in AED Sukuk till these are deployed in various social projects.

Participants pondered as to why the Sukuk issuers prefer USD issuances in the international markets despite presence of ESCA regulation 2014/16 which covers issuance, listing and continuous obligations within UAE?

As to the market brokers, the group agreed that they are equipped to host retail Sukuk trading but we will need to be trained on settlement solutions, including subscription, profit payment and redemption of Sukuk.

Regulation

A discussion on regulatory landscape raised the issue of providing legal cover to the insurance companies, pension and mutual funds to make sure they have under their charter the ability to invest if a local currency Sukuk product is created and brought to the market.

The participants were of the view that the regulators have to take a pro-active view and not a protective one since the protective regulations do not help develop a vibrant capital market. They felt that the market develops itself with trial and error i.e. without over protecting the investors.



One of the participants commented that clarity is also needed on Sharia structures and a promising start is the Higher Sharia Authority's adoption of the AAOIFI Sharia Standard, which will go a long way towards increased transparency to the UAE Islamic banking and finance industry practices, including the Islamic capital market. In this connection an example cited was the common use of hybrid Sharia structures currently where two or more contracts are utilized and if there is no clear legal separation between them, one contract may eat up the positive return of the other. In view of the foregoing it was felt that there should be external audit of the affairs of Sukuk, particularly of those which are equity based whether single of hybrid structure.

Settlement and Trading

A section of the group representing the settlement and trading of instruments observed that the key issue is not how the settlement of AED Sukuk shall be carried out, it is the absence of local trust law which is important to complete the entire eco-system within the UAE on-shore jurisdiction.

As for the UAE off-shore jurisdictions i.e. DIFC and ADGM, there are investment trust laws in both. So therefore, any AED Sukuk governed by DIFC and ADGM trust laws will need to be listed at Nasdaq Dubai, being the only off-shore bourse in the UAE if the intention is to attract foreign investment in local currency issuances. In this connection, Euroclear and Clearstream may facilitate participation by the foreign investors to the domestic UAE issuance.



Another set of participants viewed that Bonds and Sukuk have always been traded over the counter and that the market based settlement globally is hardly 15-17% of the entire DCM. Majority of them are traded on OTC basis. Hence, the mention by the CEO-ESCA of regulating the OTC activity was appropriate and timely in order to eliminate any loopholes.

A participant commented that DFM and ADX both lack proper system and regulations when it comes to trading the financial instruments other than equities. Hence observed that for Sukuk and bonds, both markets do lack the proper solutions and regulations. This is the reason that the UAE CB is currently revising and developing settlement system to permit domestic and foreign investors to support money market instrument trading.

Sharia Structure: Standardisation Vs. Innovation

A debated occurred on the adoption of most acceptable Sharia structures for AED Sukuk. A participant representing the banking sector suggested that the industry should promote asset-light kind of structure where the asset value is lower than the value of the instrument. However, the challenge will be to keep it tradable by adhering to the AAOIFI threshold of tangibility of the combined portfolio of asset and debt.

Another participant pointed out that the asset light structure based on Musharaka, Mudaraba or Wakala mingled with debt through Murabaha lacks the fixed income element which may not be attractive for investors and may defeat the purpose of Sukuk issuance. A participant advised that the fixed income aspect in the investment and agency structures can be achieved through incentive clause and as such it should not be an issue to adopt them for asset-light Sukuk structure.

On the debate of standardisation versus innovation, a section of the group felt that there are benefits of standardisation but there should be a fine line between standardisation and innovation since the industry cannot afford to curtail innovation at the cost of standardisation. This is because the market is still young and needs to develop through innovation.

In addition, all of the other structures appealing to investors would not have come around if the industry had followed one straight-jacketed structure. Innovation resulted in several structures industry is currently widely using. As such, we need innovation to deliver various solutions on an ongoing basis which meet with the needs of different target issuers as well as investors and the other market stakeholders.

Another participant observed that while standardisation of structures aimed at lowering the cost for small corporate issuers is good for future, currently the market is not hungry for it, reason being that some of the Sharia scholars are still struggling to accept the fact that Sukuk has been adopted by the market as a fixed income instrument. He felt that roundtable discussion like this one is required between the Sharia scholars themselves to sort this out once for all.



Sources of investment in to AED Sukuk

It was generally felt that the Commodity Murabaha transactions are an unhealthy practice in Islamic banking and should be discouraged for which one way could be to promote the AED Sukuk where necessary funding and placement could be made by the Islamic banks and financial institutions in a fully Sharia compliant manner.

On foreign investors, it was felt by a participant that they are unlikely to buy Dirham Sukuk because they would not take currency view in AED, like they do on the established currencies such as Ringgit, Rupee or Turkish Lira. He felt that UAE Dirham is relatively unknown to foreign investors and it will take lots of effort and time to create confidence on AED amongst the international investors. However, it was also felt that it was important to have a start somewhere in this direction.

In order to provide wider investor base for AED Sukuk, one of the participants suggested that the insurance companies and pension funds should be forced through the regulation to invest minimum 10% of their funds in Dirham Sukuk issuances.



A participant provided the investor analysis based on which in US\$ issuances from UAE, more than 80% of regional demand comes from the bank treasuries. In KSA the ratio is 90%. So, for any local currency wholesale issuance, there is need to attract the non-bank treasuries such as funds, FIs and family businesses to buy in to it. Moreover, the local currency retail Sukuk should only be targeted at retail level because there may be no buyers for retail Sukuk from the banks and institutional investors.

On the same point, a participant viewed that the UAE Islamic banks' obligation to maintain statutory reserve with UAE Central Bank allows for certain exposure to federal papers. A local currency federal Sukuk may well meet with the purpose. So there could be certain level of appetite from that angle by the licensed banks. However, this may create tradability issue since the Islamic banks investing in Sukuk would like to hold such investments in order to comply with the liquid asset ratio requirement.

Government to create the yield curve by issuing first AED Sukuk

The participants were unanimous on the point that the government must be the first AED Sukuk issuer. In this connection, various viewpoints were shared which are summed up as follows:

01

There is no sovereign Dirham curve and without having a benchmark sovereign curve, it will be very difficult to have the follow on issuances in Dirham.

02

Federal or emirate government should stimulate the market by issuing first publicly traded AED Sukuk.

03

First sovereign issue in AED will create a reference curve in the industry which will encourage the corporate issuers to price their AED Sukuk against that reference curve more confidently. In the absence of such a curve, the private sector may be hesitant to come forward and adventure in the AED Sukuk issuance.

04

Dirham Benchmark Sukuk should first be started by sovereign, then follow up with GREs and banks and financial institutions then lastly may be the private sector. The private sector should not be expected to pioneer such experimentation.

05

Federal government should first establish the AED Sukuk with retail tranche as a precedent for corporate issuers to follow suit. Preferably, every AED Sukuk should have a retail tranche to create meaningful depth in the domestic capital market.

06

We need to effectively attract federal level issuers, government related entities at the start and within those wholesale issuances we need to carve out a portion which may be a retail offering but we are not going to develop this market by just going to retail on a full-scale basis.

07

Sovereign paper in AED shall be risk free yield curve and zero weighted from CB perspective and should appeal to banks and financial institutions for investment.

08

Can the Dirham market give you a billion Dirham capacity for an 'A' rated company? Only a GREs can fit the demanding criteria to set the AED Sukuk ball rolling.

09

Sovereigns go to capital market simply to help build the market, otherwise they can get cash faster from banking channels.

10

Malaysian market is well developed because issuers get tax break when they adopt local currency Sukuk route. In the absence of such need in the UAE due to no corporate income tax, the government should lead by example to create the market and show the way to private sector issuers.

Corporate sector

One of the participants viewed that the corporate sector is habitual borrower from banks in local currency and hence could be persuaded to consider issuing AED Sukuk as a follow up to a sovereign domestic paper. She cited benefits of a commercial paper compared with bank borrowings such as fixed pricing in Sukuk versus the fear of rate increase on bank borrowings. However, on the flip side the need for full disclosure requirement may not be of liking to the corporate sector entities.

Another one supported the stance, adding that the bank funding is relatively easy and faster to obtain but is also payable on demand. As such, there is need to break the cycle by changing the corporate culture and mind-set and in order to do so, there is need to put enablers and provide incentives for the corporate entities to enter local currency capital market. At the same time, the need is to put in place disincentives for the corporate sector on bank borrowing so as to promote issuances of AED Sukuk.

A senior banker was concerned that the retail Sukuk might cannibalize part of funds currently placed with banks, thereby creating liquidity pressure at UAE banking sector. However, another participant advised to keep a good balance between the bank funding and Sukuk issuance by the corporate entities, citing Malaysian market where private sector is active in issuing Sukuk and bonds even for as low as RM 5million but at the same time the bank lending to the sector is also thriving, evidencing that the banking sector always have enough liquidity to fund the customers. This may also be true for UAE.



Standardisation and reduced cost for Sukuk issuance

One of the participants representing the issuers commented that from the issuer's perspective, it would be helpful if there is some form of standardization in terms of what are the requirements for Sukuk issuance. Also, measures should be taken to reduce the cost for Sukuk issuance which is still higher when compared with bond issuance.

Another participant said that the corporate entities are interested in tapping the Sukuk market but the cost and the complexity together put them off. In this connection he cited the prohibitive level of costs to get the Islamic finance documentation and fatwa done. Another participant agreed and suggested for regulators to invest in the template documentation and let corporate entities use them to issue Sukuk at an affordable cost.

It was contested by another participant representing the Sharia advisory field who said that it is actually a myth that Islamic finance transactions cost higher than the conventionally carried out deals. He said that there was a time when this was true but with the industry having repetition of same structures and documentation time and again, the Sharia cost has drastically come down and there is hardly any difference between the costs incurred in an Islamic transaction versus the conventional one. He justified the cost issue by stating that an Islamic Sukuk issuer is able to draw 100% of the market interest including from the conventional investors whereas a bond issuer cannot attract the Islamic investors, hence it is worth paying some Sharia cost to get full market participation.

Another participant expressed that there is still need to make the Sukuk issuance climate better with formal standardisation of documentation and further reduction in Sharia approval cost which should also be relevant to the size of issuance so that it stimulates the small issuers in the corporate sector. Currently, the Sukuk issuance cost seems to be fixed without consideration to the issue size.



A participant was of the opinion that the Higher Sharia Authority and banks should get together to set up the guidelines for 4 or 5 mostly used Sharia structures with detailed guidelines, template documentation and Fatwa for quick adoption by the corporate sector interested to issue the small to mid-cap Sukuk. For that exercise, he suggested to also involve IIFM who have developed sets of standard documentation. He added that the standardisation could free the time for the scholars and bankers who should than work together to come up with new industry products.

Another participant commented that the standardization is not going to happen so easily since there are just too many differences between different regions and scholars. He believed it is also not in the best commercial interest of the legal fraternity to have the standardized transaction documentation.

Demand and Supply / Creating the AED Sukuk Product

A senior market player opined that the product offering will certainly create the demand for AED Sukuk, similar to the demand for Islamic banking which gradually grew once it was introduced. Based on his experience, he believed that the demand side is much stronger than the supply side.

Another participant supported the point by stating that the demand out there is definitely quite large and that it is the supply side which needs to be augmented and which is where the UAE federal law for issuing a federal level Sukuk should come in handy. He cited that the surge of corporate Ringgit Sukuk in Malaysia is mainly due to regulations requiring the commercial and investment banks to first underwrite the issue before taking it to the market.



A participant observed that a foreign bank did the same for Pakistan local currency bonds and Sukuk which were underwritten first by the bank and later were offloaded to the retail market. In this case, the bank worked with the State Bank of Pakistan (central bank) to first develop the local currency government issuance market by underwriting them and then the bank approached the institutional investors, primary market dealers, and finally to the retail investor market for on-selling the issuances.

Commenting on the aspect of demand, a participant chipped in by saying that while we are discussing whether the demand is there or not, actually the demand is undeniably found here in the UAE and that is why we are sitting here and discussing the importance of issuing the AED Sukuk. He felt that we need to focus on developing the Islamic capital market by going the extra mile for Islamic finance since that is where the future lies. He concluded that local currency Sukuk is a supply issue and not a demand issue especially for the UAE.

A suggestion was made by a participant that another roundtable discussion should be arranged exclusively for the issuers and the investors of Sukuk so as to have more targeted discussion aimed at coming to the conclusion on the demand and supply debate on AED Sukuk once for all.

Experience of the other countries

Following observations were made in the roundtable on the subject of taking a leaf from the book of the other sovereign experiences:

01

Singapore model could be examined where local currency capital market grew after creating central provident fund (CPF) for all employees, including expatriates

02

Saudi Arabia has established a dealer program for sovereign issuances for local currency Sukuk to ensure there is lot of liquidity in the domestic market.

03

Also, Saudi Arabia has established the Saudi Arabia Real Estate Company (SAREC) which is going to issue SR Sukuk and the funds collected will be used for housing scheme.

04

Some form of a capital market institute will establish a good foundation for creating a proper disciplined market in UAE.

05

For Omani Riyal Sukuk, the government provided exemption from perfection of legal title for Sukuk holders.

06

In the Australian transaction, the concept of equitable mortgage (and not registered mortgage) over the property was used in order to protect the interest of Sukuk holders.

07

In Malaysia a common structure is Sukuk Al Murabaha, secondary trading of which is allowed by the scholars there. GCC scholars don't agree with that structure from a secondary market trading perspective as debt is not tradable in Sharia.

08

In Saudi Arabia, the hybrid structure of Murabaha – Mudaraba is extensively used. However, scholars have criticized it outside of Saudi Arabia since the Mudaraba does not generate any return for Sukuk investors who are exclusively paid from the Murabaha profit element, thus creating a sense of fabrication.

09

In Malaysia, there are bond pricing agents and it is an independent service used by the banks and asset managers to help facilitate secondary trading in the market for the Sukuk and bonds which remain inactive over a period of time.

Importance of local rating agencies

Following emerged from group's discussion on the importance of establishing local rating agency network in the UAE to support private sector's participation in domestic Sukuk market:

01

The big 3 rating agencies could have local franchises where AED Sukuk can be rated within the local framework and investment environment.

02

There is a risk that the corporate entities wanting to issue Sukuk in AED may get considerably lower rating than their expectation and potential, thereby affecting their pricing model and discouraging them from entering the capital market.

03

A leading rating agency having strong presence in UAE has developed regional scale rating model which can be used for rating local currency instruments. However, it was felt that such model also needs to incorporate the asset based and asset backed aspect of Islamic instruments which may provide for improvement in the rating.

04

Main reasons for lack of corporate issuances (Islamic or conventional) is the lack of full disclosure and transparency which are core elements of any rating exercise.

Conservative and supportive thoughts

The participants had open discussion, which was core purpose of holding the roundtable, in order to diagnose the cause of the absence of domestic capital market in UAE. In the process, following conservative and supportive thoughts emerged:

Conservative thoughts

- We have never seen a local currency debt instrument that is led by the retail sector.
- Retail Sukuk cannot be the goal for a deep local currency capital market.
- You cannot rely just purely on banks to provide the demand. You got to create the non-bank demand equally well.
- There is a deep local currency Sukuk market in Malaysia since Ringgit is quite volatile as compared to Dirham which is fixed against US Dollar which provides no attraction for AED Sukuk issuance.
- Ringgit Sukuk are heavily invested by the institutional investors including pension funds and conventional insurance companies. It is not sure whether the UAE issuer will be able to secure similar support.
- Ticket size matters for arrangers. There is more appetite for large ticket issuances and hence retail issue will take long time to be fully subscribed. Do the investors of retail AED Sukuk have patience for long close up?
- Developing the investor base, developing corporate issuers etc. is a long term fix. It will take some time.
- Sovereigns and GREs need money fast when they go to market and cannot experiment taking out retail Sukuk which takes time to subscribe.
- There is no seamless transfer of asset possible in Sukuk market here currently. Even in USD Sukuk, we do not rely on very legally robust mechanism. There is need to first fix the asset transfer mechanism.
- What about those corporates who don't have assets or don't have enough assets. What can be done for them? What kind of asset-light structure can we have for them?
- Fundamentally the economic structure of Dubai and UAE is entirely different then the economies of Malaysia, Hong Kong, Singapore and others that we often set our benchmark to. Such an approach is not relevant to UAE environment.
- Since we do not have corporate taxation in UAE, which means there is level playing field between equity and debt. Who would be interested in AED Sukuk in this scenario?
- Asset backed securitization in UAE using AED Sukuk vehicle will have enforceability issues leading to the recovery issues which is more complex instrument at this point in time for a developing market.
- There is need to find alternative ways to support the Dirham Sukuk, it is doable however, there is need to look at it from a different perspective rather than pushing the retail approach at this point in time.
- There is lack of Islamic Finance Law in UAE. For example, in Sukuk al Ijara there is no title transferring across to an issuer.
- There is reliance upon indemnities and English law undertaking documents to protect issuer.

Supportive thoughts

- One way to stimulate the AED Sukuk market is that we should not continue to replicate the questionable structures so far used in US\$ Sukuk issuances and instead explore introducing the equity based Sukuk thus providing a viable investment vehicle to retail investors with possible upside to their investment.
- Singapore and Hong Kong launched local currency debt capital market at sovereign level for the sake of getting it off the ground even though they did not need funds. UAE should follow suit even if it does not need Dirhams.
- Retail investors have limited understanding of rating mechanism. As such, in addition to formal rating, some sort of institutional endorsement or rubber stamping from top UAE banks and financial institutions will help them understand that it is ok to invest.
- There are assets on the books of banks which could be disposed-off through securitization which shall also address loan concentration and risk issues in the context of Basel III. Such securitization shall have better chance to succeed if it is carried out through Dirham instrument since these assets are also in AED.
- Instead of paying 4% transfer fee at both ends by the lessee, Ijara financing transaction fee should be developed around mortgage fee which is nominal and the Ijara Sukuk should be brought under such nominal fee for the sake of investors' satisfaction and improved rating of Sukuk. UAE can take lead in this regard which is bound to be emulated by other jurisdictions and propel Sukuk as a fairly secure instrument internationally compared to bond.
- With the existence of the Higher Sharia Authority now, it should be easier to share industry feedback and develop action plan to resolve several issues, including the ones impacting the Islamic capital market growth.
- Higher Sharia Authority's inception is going to be a game changer because it wants to benchmark the Islamic finance offerings, including Sukuk, in accordance with the principles covered under AAOIFI.
- Back in 2008, GCC stocks traded were valued at US\$ 855B, in 2018 it is only US\$ 304B, i.e. about one third of the trading value.
- In the fixed income space, the issuances in 2008 were US\$ 18B today it is US\$ 123B. The fixed income (Sukuk and Bonds) has done really well compared to the equity market. In this backdrop, why would AED Sukuk not do well?
- If there is any country that has the potential to attract investors from the region for a local currency Sukuk, it is UAE. Foreign investors should be interested in AED Sukuk as they will not carry any exchange risk provided the product is packaged properly.
- Nasdaq Dubai actually has the clearing and settlement system for Sukuk and bonds with direct link to Euroclear and Clearstream. This system can be effectively used for AED Sukuk.
- We have been talking about Islamic finance for the past 30 years now. That is enough time for us to stop talking and just put products in the market without any further delay and one such product which has potential to be popular is the AED Sukuk.
- Market, structure, settlement, investors all is here. It is a matter of a couple of sovereign players to test the market by issuing UAE's domestic paper and let the banks do their job, let them use their respective distribution desk.

- UAE companies, especially family business houses that are not going to explore the equity market through IPO should pitch for retail Sukuk. In addition to (banking) channels, they can also effectively use their strong retail customer base for issuing retail AED Sukuk.
- Every market participant involved in the issuance of Sukuk needs to be on board when it comes to doing both, a Dirham Sukuk and a retail Sukuk owing to extra work involved in such issuance.
- We need to ensure that there is secondary trading market created for AED retail Sukuk. We have got the infrastructure and brokers in place, it is a matter of how can we get the market to start trading in retail Sukuk through an exchange?
- Investors will be able to get much better pricing out of retail AED Sukuk, attracting more investors to the Sukuk market.
- Retail demand has been under stated and under estimated.
- Retail customers snapped up local currency IPOs that came their way by leveraging their position which is an indication of high demand if retail AED Sukuk is launched. So the issue is not demand but supply.
- For settlement we have 3 markets, Nasdaq Dubai, ADX and DFM.



Conclusion

The Sukuk instrument has established itself as the darling of the global capital market and a trusted fixed income instrument. Sukuk issuances have successfully been carried out in different parts of the world in various currencies. However, since commencement of Sukuk issuance in UAE, the emphasis has been on US Dollar denominated instruments whereas the utilization of proceeds has mostly been in AED.

Another aspect is that the Sukuk in UAE has so far been a big league phenomenon with lofty entry barriers which forbids common man from subscribing to new Sukuk issuances or purchase them in the secondary market. In this dual backdrop, ESCA and DIEDC felt the need to gather the experts and stakeholders from the UAE's capital market over a roundtable in order to have a threadbare discussion on the causes of the lack of AED Sukuk issuance as well as the affordable investment threshold.

We believe that the discussion which took place in the over 2-hour session was of very high quality, frank and painted a fairly realistic picture of the current state of affairs and suggested the most viable solutions to the way forward. This report is being published by ESCA and DIEDC as an open document accessible to all stakeholders of the UAE capital market and members of public interested in the promotion of Sukuk as the preferred local currency investment tool with all types of investors.

As a conclusion, we strongly believe that there is need to focus on the supply side of AED and retail Sukuk since the demand side is undoubtedly present, albeit untested so far. In the process of building the supply side, the recommendations from the roundtable participants may provide a valuable tool. We are equally confident that a robust local currency Sukuk issuances will not only deepen the UAE's capital market, it will also play an important role in further enhancing the credibility of UAE Dirham amongst the local and international investors.

At the end, we would like to thank all participants for taking the time out from their busy schedule and make the valuable contributions based on their deep professional background in the capital market arena. We also extend our thanks to H.E. Hamed Ali, CEO-Nasdaq Dubai for hosting the roundtable at the remarkable Nasdaq Dubai MarketSite.

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Photo Gallery



