



**Malaysia sets up grant to help green SRI Sukuk issuers meet cost...6**

**The Philippines looks ahead: Islamic finance bills set the ball rolling...7**

**PODCAST: UK challenger banks shake up the market...8**

**Noorassur throws in the towel ... for now...9**

**COVER STORY**

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## Iranian Sukuk: Are international investors missing a trick?

Iran may fly largely under the radar when not hitting headlines for all the wrong reasons, but capital markets activity is on the up – and the Islamic Republic is eager to attract foreign investment. Its equity market has already captured some overseas interest, but fixed income investors have been slow to follow – despite record profit rates and a robust program of regulatory improvements. This week, LAUREN MCAUGHTRY explores why Iran’s debt capital market has yet to make a splash on the international stage.

Iran has been chasing foreign investment ever since the nuclear deal was struck in 2015 – and to some extent, it has already been successful. According to Meisam Hoseini, an analyst at Iran’s Securities & Exchange Organization (SEO), the amount of foreign investment in the country has quadrupled since the Joint Comprehensive Plan of Action came into force in January 2016. However, it is the equity market that has so far attracted the lion’s share of interest from overseas. In 2017, the Central Securities Depository of Iran issued 200 trading codes for foreign investors

(95 for institutional and 105 for non-institutional), bringing the total number of foreign investors to 979. “Foreign investors are mainly focusing on the equity side at the moment,” confirmed Majid Pireh, a senior expert at the SEO, speaking to IFN.

The fixed income side has seen slower growth – but regulators are now targeting this market with a wealth of updated regulations and new products to try and attract funds into the country.

“The accumulated traded value of Iran’s Sukuk market currently exceeds IRR373.48 trillion (US\$9.84 billion),” Iran Fara Bourse (IFB) CEO Amir Hamooni told IFN. “Last year, foreign investors traded IRR1.56 trillion (US\$41.11 million) of which IRR1.22 trillion (US\$32.15 million), or 78%, was traded in the IFB’s debt market.”

### Increased activity

Iran’s bond market is unique in its structure, and has developed along different lines to the rest of the Islamic world – both in terms of regulation, procedure and product. In recent

years, however, the country has been working to develop new structures to encourage investment and better utilize the Sukuk market for government financing purposes. The government has been issuing regular domestic Sukuk issuances, most recently in February with a four-year batch of Islamic papers carrying a 17% yield and worth a combined IRR10 trillion (US\$271.93 million), sold over the counter on the IFB. The sovereign is also debuting new products – in February 2018, Islamic treasury bills were offered to the public for the first time on the IFB, providing a ‘third pillar’ to the country’s capital markets and offering a new avenue for investment. “We hope this will prove attractive to foreign investors, as these new notes are guaranteed by the government,” explained Majid.

In March, Iran floated IRR30 trillion (US\$799.54 million)-worth of Sukuk Manfa’ah, a new type of instrument based on usufruct – financial deeds that indicate the ownership of the holder on a certain service or future profits of an asset. Also in March, the Social Security Organization of Iran issued the Republic’s first-ever equity-backed Sukuk Ijarah for IRR10 trillion (US\$266.27 million), with a nominal rate of 20% and



*continued on page 3*



## Can Kazakhstan tap Islamic finance to become a regional Islamic finance hub?



KAZAKHSTAN

By Shaimerden Chikanayev

**As the Central Asia's largest and richest country, with a Muslim-majority population of around 18 million people, Kazakhstan wants its local Islamic banking industry, as an alternative source of capital for SMEs, to reach 3-5% of its total banking assets by 2020 from 0.08% in 2015.**

In addition to the development of its local Islamic finance industry, Kazakhstan also plans to tap the global Islamic finance industry whose estimated market size in 2018 is exceeding US\$2 trillion, for the purposes of, among others, financing and the implementation of big infrastructure and public-private partnership projects, including China's Belt and Road initiative-related projects in Kazakhstan.

To achieve this goal, in January 2018 Kazakhstan created a brand new financial center in Astana city called the Astana International Financial Centre

(AIFC), which is modeled on the Dubai International Financial Centre and is envisaged to become a regional hub for, inter alia, Islamic finance not only for Kazakhstan, but for the whole of Central Asia and the Eurasian Economic Union.

The first meeting of the Advisory Council on Islamic Finance (ACIF) under the AIFC was held on the 1<sup>st</sup> March 2018 in Astana. ACIF members are supposed to provide an expert opinion on AIFC legal documents in the field of Islamic finance, assist in attracting the world's leading Islamic financial institutions as well as investors who are gaining interest in becoming part of the AIFC and to provide consultations on the policy and strategy for the development and promotion of the AIFC as a regional hub for Islamic finance.

The AIFC and World Islamic Economic Forum (WIEF) Foundation have agreed on the 14<sup>th</sup> March 2018 that the 14<sup>th</sup> WIEF will be held on the 4<sup>th</sup> July 2018 within the framework of the AIFC international presentation in Astana, Kazakhstan.

The Ministry of Finance of Kazakhstan confirmed that it is considering the issuance of sovereign Sukuk in the first half of 2018 of up to US\$300 million.

The Islamic Corporation for the Development of the Private Sector (ICD) is considering the issuance of Sukuk on the local Kazakhstan Stock Exchange of up to US\$40 million for further on-lending to SMEs through the state-owned national Damu Entrepreneurship Development Fund and local banks.

It seems, therefore, that the Kazakh government is on the right track in attracting, through the AIFC, cross-border Islamic financing from abroad (such as the Arab states of the Persian Gulf and Malaysia) for the purposes of implementation of much-needed infrastructure and public-private partnership projects. ☺

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## Islamic finance in Morocco: Many issues tackled at once



MOROCCO

By Dr Ahmed Tahiri Jouti

**During the last few months, the financial authorities as well as the Higher Council of Ulemas (the central Shariah board in Morocco) have started tackling many issues in order to accompany the development of the industry in Morocco as follows.**

### The models of contracts to be used in financing products

As at the 31<sup>st</sup> March 2018, the Higher Council of Ulemas has approved four models of contracts: current accounts contracts, Murabahah contracts for housing, Murabahah contracts for cars and Murabahah contracts for equipment.

The Islamic banks constituted a specialized commission for the drafting of the models of contracts in the Moroccan Banking Association and the models were submitted to the central bank which forwarded them to the Higher Council of Ulemas.

### The regulatory framework for the Takaful industry

The insurance authority in Morocco, ACAPS, submitted a circular, a decree and three models of contracts to the Higher Council of Ulemas for approval. The process is due to be completed in the next few weeks. Once the regulatory framework is approved and adopted officially, candidates would be able to apply for Takaful licenses.

The Islamic banks in Morocco have started granting Murabahah financing without any insurance coverage in the absence of Takaful products as required by the Higher Council of Ulemas.

### Sovereign Sukuk issuance

The sovereign Sukuk scheme has already been presented to the Higher Council of Ulemas and the securitization law has been upgraded.

The general scheme is due to be approved in the few next weeks in order to start the issuance operation.

### The investment accounts contracts and liquidity management scheme

The market is showing a real appetite for financing products. Nevertheless, Islamic banks need to collect more funds to satisfy the demand. In this context, investment accounts contracts are going to be submitted to the Higher Council of Ulemas for approval. The Wakalah Bi Istithmar contract is also a very urgent issue for banks and the commission has started working on the first draft to be submitted to the Higher Council of Ulemas in order to start interbank operations.

All in all, tackling many issues at once slows down the process of implementing Islamic banking and finance in the country. Nevertheless, the involvement of the Higher Council of Ulemas reinforces the credibility of the industry. ☺

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