

Analysing the reality and importance of issuing Islamic sukuk in Malaysia

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Abstract

The present study aims to shed light on the reality of the issuance of Islamic sukuk in Malaysia, which occupies the forefront in this field. This is achieved by clarifying the process of issuing Islamic sukuk in Malaysia based on identifying the responsible authority for issuing sukuk, and specifying the issuance requirements, as well as its guidelines and regulatory principles. In addition, it is necessary to consider in detail the types of Islamic sukuk issued in Malaysia in the period from 2001 to 2021. The most significant steps and incentives taken by the Malaysian government to expand the Malaysian sukuk market are clarified in the study's conclusion, in an effort to promote Malaysian investment in Islamic sukuk.

Keywords

Islamic sukuk, Malaysia, sukuk issuance, Malaysian Islamic capital market. Islamic government sukuk, Islamic corporate sukuk

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Анализ реальности и важности выпуска исламских сукук в Малайзии

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Аннотация

Настоящая статья посвящена изучению реальности выпуска исламских сукук в Малайзии, которая занимает лидирующие позиции в этой области. Цель достигается путем выяснения процесса выпуска исламских сукук в Малайзии за счет определения ответственного органа за их выпуск, уточнения требований, а также принципов регулирования для эмиссии таких финансовых документов. Кроме того, следует подробно рассмотреть типы исламских сукук, выпущенных в Малайзии в период с 2001 г. по 2021 г. В заключении исследования проведен обзор наиболее значимых действий и мер, предпринятых Правительством Малайзии для расширения малазийского рынка сукук в целях поощрения малазийских инвестиций в исламский сукук.

Ключевые слова

Исламский сукук, Малайзия, выпуск сукук, рынок исламского капитала Малайзии, сукук исламского Правительства, исламский корпоративный сукук

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INTRODUCTION

Islamic sukuk are regarded as one of the most significant products of the Islamic financial sector and have attracted the interest of numerous parties and entities as it is one of the most significant ways to draw real savings and amass the funds required to finance various important development projects that are feasible from an economic and social standpoint. Islamic sukuk have so far been successful in drawing a significant number of investors, from numerous nations.

Furthermore, the Islamic sukuk industry has witnessed a wide spread and remarkable development in recent years, and its size has increased and achieved record levels, as the total issuance of Islamic sukuk globally during the period from 2001 to 2021 amounted to about USD 1.6 trillion, in which many countries participated. Different parts of the world are led by Malaysia which alone acquires a share of more than half of the world's issuances of sukuk, as it is considered the first and leading country in terms of issuing these sukuk globally. It requires the intervention of the Malaysian government to take the necessary measures to encourage investment in Islamic sukuk and develop the Islamic sukuk market to confront various obstacles and challenges that the process of issuing Islamic sukuk in Malaysia may face.

Based on the above, it is necessary to raise the following main research questions:

What is the process of issuing Islamic sukuk in Malaysia? What are the most important measures taken by the Malaysian government to develop the Malaysian sukuk market?

This study is based on the following main hypothesis. The issuance of Islamic sukuk in Malaysia is linked to the need for a proper legal and regulatory framework to ensure the continued development of sukuk of all kinds.

This study aims to:

- clarify the process and requirements for issuing Islamic sukuk in Malaysia;
- identify the reality and development of the Malaysian Islamic sukuk market;
- highlight the most important measures and incentives taken by the Malaysian government to develop the Malaysian sukuk market.

As for the practical research methodology, it follows a descriptive approach by collecting various information and statistics related to the growth and developments of the Islamic sukuk industry in order to present it and stand on its development within the framework of the research objective and the limits of the problem at hand.

THE RESPONSIBLE AUTHORITIES FOR ISSUING ISLAMIC SUKUK IN MALAYSIA

On the one hand, the exclusive and accountable authority that oversees and issues licenses for the issuance of Islamic securities in Malaysia is the Malaysian Securities Commission. On the other hand, this organisation supports the Islamic Money Market Department in the following areas, and with Islamic securities[1–3]:

- issuance of legal “fatwa” on matters relating to Islamic securities;
- documenting all rules and laws related to the issuance of Islamic securities, prior to offering them to the public;
- providing advice and guidance to the Islamic Capital Market Department in relation to Sharia issues.

On this basis, the Malaysian Securities Commission issues various guidelines to regulate the process of issuing Islamic securities, including Islamic sukuk, which are traded in the secondary market for liquidity and are supervised by the Central Bank of Malaysia. The secondary market, and in general, the Malaysian Securities Commission, is the one that is unique in the process of regulating and licensing all Islamic securities issues, including Islamic sukuk.

The Sharia Advisory Board, on the other hand, is in charge of policing the issuing of Islamic securities, such as Islamic sukuk. The Islamic Capital Market Department also supports the issuance of directions and instructions with regard to matters of Sharia. Additionally, for the purpose of analyzing the issuing of these sukuk, all

applications for the issuance of Islamic sukuk are submitted to a prominent Sharia advisor who specializes in Islamic Sukuk Affairs and Transactional Jurisprudence.

Accordingly, the Malaysian Securities Commission is the only authority in Malaysia that is unique in regulating and licensing all securities issuances of both traditional and Islamic types. Issuances fulfill all procedures, requirements, legal conditions, and Sharia controls.

It is worth noting that the Malaysian Securities Authority obligates the issuer to submit a request for the approval of the Sharia advisor in all issues, and announcing the approved issues on the Internet will increase investor confidence and facilitate the monitoring process.

The Central Bank of Malaysia plays an important role in the process of registration, control, trading, and transfer of ownership of sukuk, especially in the secondary market, and this process takes place in the central bank through the following two systems:

- Fully Automated System for Issuing and Tendering (FAST)
- Real Time Electronic Transfer of Fund and Securities (RENTAS)

REQUIREMENTS FOR ISSUING ISLAMIC SUKUK IN MALAYSIA

A company that intends to issue Islamic securities must appoint to two insances [4].

1. Sharia Advisor. He has received approval from the Malaysian Securities Commission and is independent of the Sharia Advisory Council. He was chosen in concert and parallel with the Sharia Advisory Council and the Malaysian Securities Commission. He is tasked with determining the degree to which Islamic securities are issued comply with Sharia law and its guiding Islamic principles [5].

It features the following things:

- he must not have declared bankruptcy before;
- he has not committed any criminal offense;
- he has good morals and a good reputation;
- he has academic qualifications in the field of transactional jurisprudence and fundamentals of jurisprudence, with no less than three years of experience in the field of Islamic financial industry.

The Sharia advisor's most important tasks and responsibilities are to review the draft of the sukuk issuance prepared by the sukuk issuing authority and to express his opinion and provide his advice with regard to the structure in which the issuance process will take place, the documents and the prospectus. In addition, he is to express his appropriate Sharia opinion on this issuance, and it is imperative that the structuring of sukuk and its issuance mechanism comply with the provisions of Sharia. The Sharia advisor must ensure the extent of disclosure and validity of the Sharia information contained in the prospectus [6].

2. Specific Islamic bank or any conventional bank licensed by the Central Bank of Malaysia. In order to deal with the transactions of Islamic banks through the opening of Islamic windows, the purpose of this appointment is to provide advice and guidance to the issuing company in everything related to the issuance of Islamic securities, such as:

- required documents and files;
- issuance instructions;
- all administrative and executive procedures related to issuance;
- confidence that all procedures are in compliance with the provisions of Sharia.

It is worth noting that the determination of the legality of the issue is one of the tasks of the Sharia advisor only, while the Sharia Advisory Board does not intervene, except for the case of issuing Islamic securities with a new contract that did not exist before, or if there are some outstanding problems that need a final decision by the Commission.

The Malaysian Securities Commission has worked to put all issuance proposals on its website for viewing by all interested parties so that it can benefit from all their observations and suggestions in this regard.

TYPES OF THE SUKUK ISSUED IN MALAYSIA

Malaysian Islamic sukuk are certificates of equal value issued in accordance with Sharia principles and provisions, that are permitted and approved by the Malaysian Securities Commission's Sharia Advisory Committee. These sukuk are issued on the basis of legal contracts and controls that regulate their issuance. The investment formulas on the basis of which the sukuk was issued, and their trading are subject to the legal conditions related to the nature of the assets they represent when trading. It can be classified according to the authority issuing it as follows.

1. Islamic government sukuk. These are the sukuk issued by the Malaysian government to obtain the necessary financing for development projects. These sukuk are subject to the supervision of the Malaysian Central Bank.

They are like government investment certificates that were developed according to the principle of a good loan, and they are considered the first certificates issued by the Malaysian government without prior interest in 1983. They were known as government investment issues, and they were issued for the purpose of obtaining the necessary financing for the Malaysian government's development projects; the value of the return on these certificates is not specified in advance. Moreover, the maturity period ranges from one year to five years, and the Central Bank of Malaysia has issued government investment certificates based on profit according to the principle of selling at the deferred price as an additional tool.

2. Islamic corporate sukuk. It is the sukuk issued by private Malaysian companies, and these sukuk are issued according to the principles of deferred sale, Istisna', Mudarabah, Musharaka, Murabaha, and Ijarah, and are considered among the best-known Islamic financial instruments in Malaysia. They are also subject to the supervision of the Sharia Advisory Board of the Malaysian Securities Commission.

Next, we should consider in more detail the types of sukuk.

BAI' BITHAMAN AJIL AND MURABAHA SUKUK

They are defined as documents or certificates representing the value of assets issued by the issuing authority to prove indebtedness to other parties, and their issuance is based on deferred sale and murabaha.

The bai' bithaman ajil sukuk differs from the murabaha sukuk with regard to investment terms. The issuance of the sukuk for the deferred price is for long-term investments, while the issuance of murabaha sukuk for investments is medium- and short term. The steps for issuing the sukuk for the term and murabaha sale in Malaysia can be clarified as follows:

- the sukuk issuing authority determines the assets that will be acquired by the sukuk subscribers;
- the sukuk issuing authority issues sukuk and sells them to subscribers, sukuk holders, at the deferred value of the sukuk;
- subscribers and sukuk holders pay the price of the assets in cash to the issuer;
- the subscribers undertake to sell these assets again to the issuer who owns the first assets, at a price higher than the first price, in deferred instalments or in one payment, on the basis of selling on credit or Murabaha;
- the issuer buys back the instruments traded in the secondary market at the higher selling price.

It is noted in the Malaysian experience that no Mohatra contract sukuk are issued. Rather, the principle of Mohatra contract is applied in the issuance of sale sukuk on deferred price and Murabaha, so that these sukuk are built on the basis of Mohatra contract. The issuance of these sukuk is considered legally permissible in Malaysia, when it is based on the assets that result from the sukuk process. The assets that have been denominated are based on sale on deferred price or Murabaha, and all information about them is recorded in these sukuk, such as: maturity period, profit margin, and sale price.

LEASING (IJARA) SUKUK

Ijarah sukuk, which are documents of equal value issued by the owner of the leased asset or the person who was contracted to rent it, or issued by a financial intermediary on the owner's behalf, refers to the ownership

of the leased assets and gives its holder the chance to receive rental income and recoup their investment from the leased asset in the Malaysian financial market. In addition to bearing the risk of loss and damage to the leased property, these sukuks are issued for the purpose of selling them and collecting their price from the proceeds of subscription, and the sukuk becomes owned by the sukuk holders.

The steps for issuing lease sukuk in Malaysia can be clarified as follows:

- the issuer sells its assets to a special purpose company created for this aim for a certain value;
- the special purpose company leases back its assets to the issuer for a specific period;
- to finance the purchase of assets by the special purpose company from the issuer, who issues lease sukuk to meet the purchase price of those assets, and these sukuk represent a common share in the ownership of the leased assets;
- the process of issuing leasing sukuk is carried out in accordance with the necessary standards for investment sukuk approved by the Sharia Advisory Committee;
- investors holding sukuk pay the value of purchasing the sukuk to the special purpose company at a current price to obtain the sukuk, so that the special purpose company pays the value of the assets to the issuer;
- the issuing party pays the rent to the special purpose company periodically according to the lease contract, then the rent proceeds are distributed to the investors who hold the sukuk periodically according to the agreed date;
- the special purpose company, on the maturity date, will resell those assets to the issuer according to the nominal value of the sukuk;
- the proceeds from the sale of the assets are used to meet the face value of the sukuk held by the investors.

ISTISNA'A SUKUK

The Istisna'a sukuk that are issued in Malaysia are based on advance financing or debt for the product to be made. It means the documents that represent the value of the manufactured assets, and they are issued on the basis of the Istisna' sale to prove indebtedness by the issuing party "the financier" (Mustasni) to the subscribers and holders of the sukuk [7].

The steps and stages of Istisna'a sukuk issuance applicable in Malaysia can be clarified as follows[8]:

- the Istisna'a contract is concluded between the issuing party "the lender" and the contractor "the manufacturer" (Sani) on something described, such as building a specific project "Product" (Masnu);
- the issuer sells the product to investors holding sukuk in cash, at the price of the product's cost, in order to obtain financing for this project;
- investors holding sukuk pay the price of the product to the issuing entity immediately, and the investors pay the contractor in cash to manufacture the product on behalf of the issuing entity, and in most cases the contractor is a subsidiary of the issuing entity;
- investors will immediately resell the manufactured item to the issuing entity at the first price, with an increase in a known profit, which will be paid in one payment or in installments, according to the stages of manufacturing the project, based on data provided by an expert in the industry according to the stages of the industry's progress. Mostly, this process is based on a Murabaha sale or a deferred sale;
- the issuing authority issues istisna' sukuk and delivers them to the investors, as proof of its indebtedness to the sukuk holders.

MUSHARAKA SUKUK

The Malaysian Securities Commission defines musharaka sukuk as documents of equal value that demonstrate the indivisible ownership of these documents by the holder of a specific portion of the project's assets.

The stages of issuance of participation (Musharakah) sukuk in Malaysia can be clarified in the following way:

- to establish a specific project, the issuing party enters into a contract with another business, frequently one of its affiliates;
- the issuer issues participation sukuk through the special purpose business and offers them to investors who already own sukuk;

- the sukuk holders pay the value of the musharaka sukuk, which represents their participation share, to the special purpose company and from there to the issuing authority, to start completing the project;
- the issuing company shall periodically pay the realized or calculated profits according to the agreed percentage to the project participants;
- at the end of the project period, the guarantor shall transfer the ownership of the sukuk from the sukuk holders to the issuing authority, by collecting the value of the sukuk from the issuing authority, then retrieving the participation sukuk in exchange for their market value, provided that the guarantor resells them to the issuing authority.

GUIDELINES AND REGULATORY PRINCIPLES FOR ISLAMIC SUKUK ISSUANCE IN MALAYSIA

Sukuk are issued and traded in Malaysia under the supervision of the Sharia Advisory Board and the Central Bank of Malaysia. In Malaysia, Islamic securities are governed by the Malaysian Securities Commission. Although both are subject to the same legal criteria and general procedures, the Malaysian Securities Commission has approved some extra conditions for the issue of Islamic securities.

The Malaysian Securities Authority strives to provide the regulatory, legal, and supervisory structure needed to protect dealers in the Malaysian capital market in both parts. Therefore, the Authority has issued many necessary instructions and legislation, and is keen to provide guidance and directives to all dealers to protect their rights.

Therefore, the Malaysian Securities Authority (Authority) issued a set of laws and regulations under Sections 377 and 372 of the Capital Markets and Services Law. The Authority issued instructions and guidelines for Islamic securities, including sukuk, in 2004 and reviewed them in 2011 and 2012, as part of its plan to revitalize the Malaysian Stock Exchange through trading in Islamic securities, and directing dealers in this market.

Next, it is necessary to consider the principles of regulation and recommendations on Islamic sukuk published by the Authority in order to form a sukuk market in Malaysia.

GUIDELINES FOR THE ISSUANCE OF SUKUK

These directives and instructions, which were released in 2004, are intended to advise capital market dealers on the steps involved in the issuance of sukuk in Malaysia. In order to issue Islamic sukuk in Malaysia, the issuing body must present them to the Board. The guiding principles contain a set of Sharia contracts and principles that are employed in the process of issuing and trading sukuk in Malaysia, and they were developed by the Sharia consultant at the Malaysian Securities Commission. In order to determine the degree of the issued sukuk's compliance with the laws and principles of Sharia, they must first be submitted to the Sharia Advisory Council for endorsement and approval. The guiding principles that have been issued include:

- clarifying the documents and papers required for issuing sukuk in Malaysia;
- appointing a Sharia advisor for the purpose of guiding the parties wishing to issue and assisting them in selecting Sharia contracts appropriate to the nature of the issue, in addition to informing and guiding them of all procedures and requirements of the process of issuing sukuk;
- procedures for rating the efficiency of sukuk by the approved rating agency in the case of negotiable sukuk;
- a statement of the expenses of the sums collected through the process of issuing Islamic sukuk.

GUIDELINES FOR THE ISSUANCE OF ASSET-BACKED SUKUK

The entity wishing to issue this type of sukuk must submit an application to the Malaysian Securities Commission for approval and endorsement, which includes the following:

- clarifying the specifications of the assets to be securitized;
- the necessary information on the operations and activities of the issuer;
- information proving the fulfillment of the criteria for the real sale of the securitization assets or information about the special purpose company;
- expenses of funds earned from the sukuk process;

- obtaining the approval of other regulatory authorities before submitting the check application to the Malaysian Securities Commission;
- the issuer must adhere to the guiding principles for each of the private debt bonds and sukuk. In the event of ambiguity in some Sharia principles and contracts, the issuing party must refer to the Sharia Advisory Board.

STAGES OF DEVELOPMENT OF ISLAMIC SUKUK IN MALAYSIA

Sukuk issuance in Malaysia has taken place in a number of stages, the most significant of which can be summed up as follows [9]:

- 1990: Shell MDS Sdn Bhd issued the first Islamic Sukuk in the form of a RM 192 million forward sale, which is equivalent to USD 33 million;
- 1996: The issuance of Islamic sukuk to Kuala Lumpur International Airport at a value of RM 2.2 billion, in the form of a deferred sale;
- 1997: The KHAZANAH company affiliated with the Malaysian government issued the first murabaha-format sukuk, and it was an interest-free, zero-coupon sukuk based on murabaha and debt sale; These sukuk were issued by the Malaysian government in order to find alternatives to traditional local bonds;
- 1998: examining the legal, tax, accounting, credit, and Sharia processes involved in the issuance of Islamic sukuk;
- 2000: Kampulan Guthrie's preparation for the issuance of Ijarah Sukuk. The Malaysian Stock Exchange Operations Supervision Committee approved the controls for appointing the independent Sharia advisor on Islamic Sukuk issuers;
- 2001: KUMPULAN GUTHRIE Bhd issued the first Islamic sukuk in the form of Ijara and in dollars at a value of 150 million US dollars, and it is considered the first Islamic sukuk belonging to a legal company in history that was classified before its issuance. The sukuk was listed in the Labuan International Center for Exchange (LFX), and these sukuk were of the first class, which formed the lease sukuk project, which was worth USD 395 million;
- 2002: the Malaysian government issued the first international Ijarah sukuk worth USD 600 million. With this issuance, Malaysia became the first country in the world to issue an intergovernmental sukuk. The Malaysian government has allowed the deduction of expenses for the issuance of Islamic sukuk from its federal budget for the year 2003, and the issuance was according to the provisions of Islamic law, such as leasing, participation, and speculation;
- 2003: Ambang SENTOSA Sdn Bhd issued the first Islamic sukuk backed by assets, and this year a comprehensive solution to the tax problems in Islamic sukuk as in the case of conventional bonds was announced in the federal budget for 2004. The Malaysian government has allowed the deduction of the expenses and costs of issuing Islamic sukuk that were issued according to the Istisna'a formula from its 2004 federal budget;
- 2004: SKS Power Sdn Bhd issuance of the first sukuk in the energy sector in the form of Istisna; SAR-AWAK, a private company, issued the first international Ijara sukuk by a private company at a value of USD 350 million, according to which a special purpose company was established to manage this issuance, and these sukuk were listed on the Labuan Stock Exchange. The issuance of the first local Ijara sukuk by Ingress Limited in the Malaysian Islamic capital market, at a value of RM 150 million. The International Finance Corporation, one of the financial institutions affiliated with the World Bank, issued the first global sukuk in the form of a forward sale of RM 500 million. The Malaysian Securities Authority issued guidelines and controls for the issuance of Islamic sukuk. These guidelines served as the structure and framework for the process of issuing Islamic sukuk, and regulated the innovation aspects of the Islamic capital market in Malaysia;
- 2005: the World Bank issued Islamic sukuk worth RM 760 million, which is the largest issuance of Islamic sukuk in the Malaysian local currency by the World Bank, and the second international issuance by a semi-sovereign authority. MUSYARAKAH ONE CAPITAL BERHAD issued the first Musharakah Sukuk in the amount of RM 2.5 billion; Bhd Cagamas MBS issued the first sukuk for the sale and construction of the real estate in the form of participation, with a value of RM 2.05 billion, which was issued on an international level; PG Municipal Assets Bhd issued the first Mudarabah Sukuk with a value of RM 8 billion, which is the first issuance by the Malaysian government of Islamic Sukuk in the Mudarabah form according to the guidelines and controls approved by the Stock Exchange Operations Control Committee in 2004;

– 2006: the launch of the first international index of Islamic sukuk in Kuala Lumpur. This index was known as the Dow Jones CitiGroup Sukuk Index. It measures the work of Islamic sukuk with fixed income that are governed by Sharia investment controls. This index was created to help investors wishing to identify legitimate fixed income investments. KHAZANAH NATIONAL Bhd issued the first exchangeable Sharia-compliant Musharakah Sukuk with a value of USD 750 million. These sukuk were listed on LFX and also on the Hong Kong Stock Exchange, making it the first Islamic Sukuk to be listed on the Hong Kong Stock Exchange;

– 2007: MALAKOFF C.Bhd issuance of its first mixed and hybrid sukuk of RM 1.7 billion; Binariang GSM Sdn Bhd's largest issuance of Islamic Sukuk at RM 15.4 billion; KHAZANAH NATIONAL Bhd made the largest issuance of exchangeable Islamic Sukuk with a value of USD 850 million; Cagamas Bhd undertook the largest Islamic Sukuk and Conventional Bond financing project at RM 60 billion; Malaysia's liberalization of the sukuk market, allowing it to be traded from all over the world in any type of currency, in addition to its interest in being a global liquidity collection center;

– 2008: TADAMUN Services Bhd issued the first Islamic Sukuk by a special purpose company, funded by the Islamic Development Bank, with a value of RM 1 billion;

– 2009: the largest issuance of Islamic sukuk in a foreign currency was by Nasional Bhd Petroleum, a Malaysian company, with a value of USD 1.2 billion;

– 2010: the Malaysian government has approved several incentives for the Islamic sukuk market, including the issuance of sukuk for ten years instead of five years, deducting all taxes on global investments that adopt Islamic sukuk for the next three years, extending the exemption from income tax on issuing sukuk in local currency until 2014, and allocating separate support and bonuses for new products in the industry;

– 2011: KHAZANAH NATIONAL Bhd, the government investment arm of Malaysia, issued the world's first foreign sukuk in Chinese currency worth CNY 500 million;

– 2013: the issuance of the first Islamic sukuk in the world for people with limited income, by giving people with limited income the opportunity to deal with them and obtain stable and guaranteed profits. and small investors; These sukuk are characterized by being tax-exempt, and their returns are predetermined - as they are Murabaha sukuk;

– 2015: the issuance of the first “social responsibility” sukuk in the world with the aim of financing educational programs in schools and facilitating the access of young people to schools, by the “Sukuk Al-Ihsan” Foundation, which was established by Malaysia for this purpose, with a value of RM 100 million, equivalent to USD 26 million, as part of the program will have a value of up to RM 1 billion, or the equivalent of USD 260 million, and is of a type that is financially described as a “responsible and sustainable financing instrument” and has been approved by the Malaysian financial authorities;

– 2017: the issuance of the first “green sukuk”, with the assistance of the World Bank, in a new step in the direction of what is known as “green financing,” in the form of environmentally friendly sukuk to finance new and renewable energy projects.

THE EVOLUTION OF MALAYSIAN-ISSUED SUKUK FROM 2001 TO 2021

Around USD 1.6 trillion worth of Islamic sukuk were issued internationally between the years of 2001 and 2021. They were issued by about 35 nations from around the world, with Malaysia leading the way with more than 60% of global sukuk issuances. The USD 444 billion development program helped Malaysia take the lead in the world's sukuk market and acquire more than half of all sukuk issuances. The Malaysian Securities Commission set restrictions on the sukuk approval processes [10].

Table 1

Regional distribution of sukuk issued globally during the period (2001–2021)

Continents and States	Number of issues	Amount, USD million	Total value, %
Asia, Far East	9,770	1,078,537	66.95

End of table 1

Continents and States	Number of issues	Amount, USD million	Total value, %
Gulf Cooperation Council, Middle East	1,075	418,139	25.95
Africa	753	25,279	1.55
Europe and others	1,180	89,077	5.53
Total	12,778	1,611,032	100

Compiled by the authors on the materials of the source [11]

Table 1 demonstrates that the total number of Malaysian sukuk issued at the global level from 2001 to 2021 amounted to about USD 877,410 million, constituting 54.46% of the total global issuance, with a number of issues amounting to 8,575, of which about USD 102.053 million are international sukuk, constituting 26.73% of the total. The total global issuance, with 214 issuances, and approximately USD 775,357 million in local sukuk, constituting 63.07% of the total global issuance, with 8,361 issuances during this period.

THE DEVELOPMENT OF MALAYSIAN SUKUK DURING THE PERIOD (2010-2021)

Table 2 shows the development of sukuk issuance and trading in Malaysia from 2010 to 2021.

Table 2

The evolution of Malaysian sukuk issuance during the period (2010-2021)

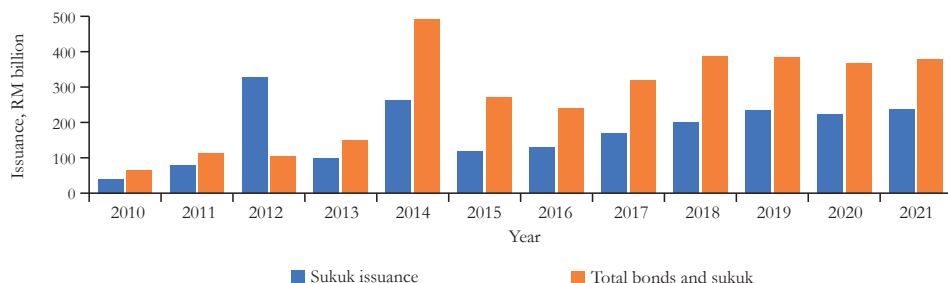
Evolution of Islamic sukuk issuance in Malaysia													
Total issuance	Sukuk issuance, RM bil-lion	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
		40. 33	78.9	326.5	99.13	262.79	117.70	129.45	168.68	199.90	235.20	223.4	237.41
	Total bonds and sukuk issuance, RM bil-lion	63.58	112.33	103.3	148.1	492.23	270.15	240.56	317.94	385.93	384.85	366.67	377.41
	Percent-age of sukuk to total bonds and sukuk issu-ances, %	63.43	70.23	68.81	67	53.38	43.57	53.81	53.05	51.80	61.11	61.07	62.91

Evolution of Islamic sukuk issuance in Malaysia													
Total out-standing	Sukuk out-standing, RM bil-lion	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
		-	349.3	474.6	512.1	576.31	607.93	661.08	759.64	844.96	938.96	1,017,79	1,104,26
	Total bonds and sukuk out-standing, RM bil-lion	-	841.1	1,007,8	1,031	1,109,71	1,172,91	1,172,91	1,291,91	1,405,78	1,490,28	1,609,01	1,740,83

Compiled by the authors on the materials of the source [12]

It is evident that the amount of Malaysian Islamic sukuk issued has increased consistently between 2010 and 2012, the latter year in which the volume of issuance peaked and broke a record of 326.5 billion ringgit, when the issuance of sukuk outpaced the issuance of conventional bonds as a result of Malaysia's focus on financing infrastructure development projects in particular. The sukuk proceeds have been invested in promoting many large-scale projects such as: Kuala Lumpur Airport, within the framework of the Malaysian Economic Transformation Program, which aims to transform Malaysia into a high-income country, not to mention the implementation of its plan Aiming to reach Islamic banking assets to 40% of the total financial industry in 2020.

Due to the ongoing decline in oil prices and the decision of the Central Bank of Malaysia (Bank Negara Malaysia), which is one of the largest sukuk issuers, the volume of Malaysian Islamic sukuk issued during the years 2013 and 2014 saw a slight decrease until 2015, when it witnessed a significant and noticeable decline compared to previous years (fig.1). Islamic nations around the globe decided to stop issuing sukuk, and they announced their desire to use different techniques to control liquidity in Malaysian Islamic banks. After that, the amount of sukuk issued increased once more in recent years, reaching approximately RM 237.41 billion in 2021.

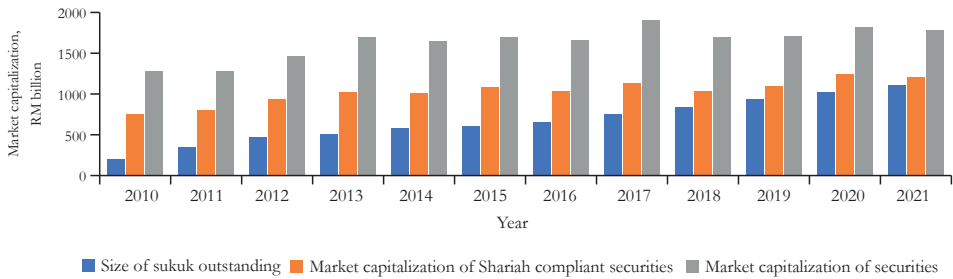


Compiled by the authors on the materials of the source [13]

Fig.1. Malaysian Sukuk issued during the period 2010–2021

The Malaysian Islamic sukuk market has become an important section in the Malaysian stock market, as it has been able to gradually raise its market value within the Malaysian stock market, as it has increased remarkably and has acquired more than a quarter of the market, which reflects the confidence of investors of all levels in this tool (fig. 2).

Islamic finance, despite its recent listing on the Stock Exchange, offers various investment opportunities for various local and foreign investors, as well as financing opportunities for local and foreign projects.



Complied by the authors on the materials of the source [13]

Fig. 2. The evolution of the capitalization of the Islamic sukuk market to the capitalization of the stock market in Malaysia during the period (2010–2021)

As a result, the trading volume of Islamic sukuk on the Malaysian Stock Exchange (MSE) increased continuously, rising from RM 38 billion in 2010 to RM 99 billion in 2013, though this increase was partially offset by a rise in the number of sukuk listed and traded on the MSE, from 20 listed and traded sukuk in 2010 to 49 Islamic sukuk listed in 2013, due to the incentives and tax exemptions approved by the Malaysian government in order to encourage investors to use this type of tool and also because the government included government sukuk in order to finance economic development.

Given the Malaysian government’s approved development plan, amounting to USD 444 billion, contributed to Malaysia’s global leadership and leadership in the sukuk industry, and its acquisition alone of more than half of the world’s issuances of sukuk, led to a decrease and decline in trading volume during the years 2014 and 2015, from USD 76 billion in 2014 to USD 48 billion in 2015, before rising again to USD 63 billion in 2016.

As for the number of sukuk listed shares, it decreased in 2014 to 47 sukuk and continued to decline until it reached 32 sukuk in 2016, as a result of the decrease in the total Malaysian sukuk issued during this period, before rising again in recent years. As for the most important types of Malaysian sukuk issued during the period from 2010 to 2019, they can be clarified in table 3.

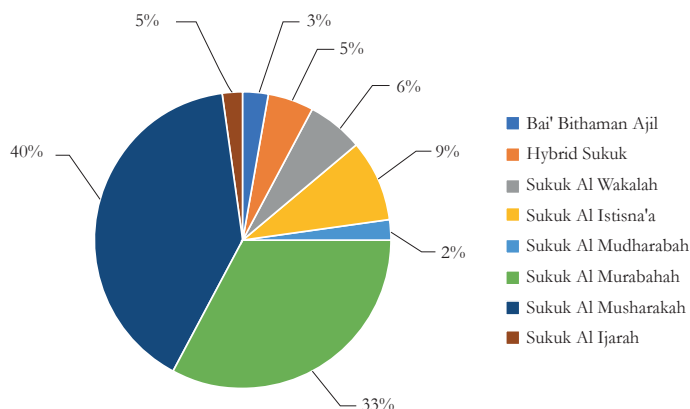
Table 3

Types’ percentages of Malaysian sukuk issued during the period from 2010 to 2019

Types of Malaysian sukuk	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sukuk Al Mudharabah, %	8.2	9	55	32	79.49	66	85	-	25.41	39.40
Sukuk Al Murabahah, %	0.6	5	2	-	2.63	-	-	-	8.99	12.23
Sukuk Al Musharakah, %	42.1	64	19	30	8.42	12	1	-	11.99	6.72
Sukuk Al Ijarah, %	34	13	9	4	1.31	7	-	-	-	0.12

Complied by the authors on the materials of the source [13]

Due to the lower tax rates on these formulas and the introduction of new incentives for these sukuk, the table depicts the dominance of Murabaha and Musharaka sukuk across various time periods in the Malaysian sukuk market between 2010 and 2019. This dominance can be explained in fig. 3.



Compiled by the authors on the materials of the source [14]

Fig. 3. Types of Malaysian Sukuk issued during the period from 2010 to 2019

The period from 2010 to 2019 was characterized by the control of Murabaha and Musharaka sukuk by about 70% of the Malaysian sukuk market, due to their low risk and ease of issuance, not to mention their ability to create liquidity for the issuer. and mixed sukuk, ijara sukuk, deferred sale sukuk, and mudaraba sukuk in the Malaysian sukuk market.

As for the fourth quarter of the years 2020 and 2021, murabaha sukuk clearly dominated with more than 54% and hybrid sukuk with more than 34%, followed by mudaraba sukuk, then musharaka sukuk, then ijarah sukuk with a rate of less than 1% [15].

PROCEDURES AND INCENTIVES FOR DEVELOPING THE MALAYSIAN SUKUK MARKET

Malaysia has taken measures and made changes to relevant legislation to remove or reduce legal obstacles to Islamic financial transactions, including sukuk. The authorities have taken the necessary steps to provide tax neutrality between Islamic and conventional transactions, and introduced tax incentives to enhance the attractiveness of sukuk to investors, issuers of securities and brokers.

The dominance of the Malaysian market over sukuk issuances globally is due to the quality of the local and international supply and demand climate for Malaysian sukuk issuances, in addition to the availability of liquidity at a rate that encourages investment. The importance of promoting and strong government support for the sukuk market, in addition to adopting sovereign sukuk as a tool for developing the state's infrastructure, which inspires confidence among investors and reassures them that there will be no default for this type of sukuk.

The volume of Malaysian acquisition of the sukuk market increased after opening subscriptions to small investors in infrastructure projects, and the government guaranteeing capital as a third party in these projects, taking into account the attractive incentives for investors in the Malaysian market sponsored by the state, such as various tax exemptions.

The Malaysian government has implemented numerous policies and incentives, particularly those connected to tax breaks and regulatory matters, with the goal of increasing investment in Islamic sukuk. These policies and incentives can be summarized as follows [15]:

1. Regulatory Incentives.

With regard to regulatory matters, the Malaysian government has done the following:

- providing a set of solutions that are compatible with the types of sukuk, by providing a base for issuing and trading Islamic sukuk that is governed by a solid legal and regulatory structure and at the same time adheres to Sharia controls and principles;

- Malaysia possesses the infrastructure institutions of the Islamic financial industry, and this would contribute to the consolidation and development of the sukuk market;
- availability of hedging and risk management tools such as Islamic futures contracts;
- establishing an information center on the Malaysian financial market in addition to the Malaysian Islamic financial center;
- Malaysia has also established a special market for Islamic sukuk, in which the issued sukuk are traded, whether from local or foreign entities and parties. This market is independent from the rest of the other securities markets and provides all information related to new issuances of sukuk and trading prices.

2. Tax Incentives.

Malaysia has introduced numerous incentives and changes to its tax legislation with reference to tax matters and to expand the sukuk market. These include:

- 1) for exporters:
 - tax and stamp duty exemptions for any sukuk issued in accordance with Malaysian Securities Commission approval;
 - abolishing the tax on the sukuk issuers and the special purpose company in the event that the assets are sukuk;
 - reducing taxes on the costs of contracts for the issuance of sukuk until the evaluation year;
 - reducing taxes on the Special Purpose Company (SPV) in relation to the issuance of sukuk, by exempting it from paying taxes on its income only if it issues sukuk and is not subject to the income tax law;
- 2) for brokers:
 - exempting them from fees for negotiating sukuk, underwriting risks and distributing sukuk issued in non-ringgit denominations outside Malaysia;
 - exempting them from tax on profits obtained from sukuk issued in other than the Malaysian ringgit;
- 3) for investors:
 - exempting resident investors and closed-end investment funds from income tax on profits made from sukuk issued in Malaysian ringgit, whether governmental or private companies, and approved by the Malaysian Securities Commission;
 - exemption of non-resident investors from income taxes on profits made from sukuk issued in Malaysian ringgit, whether governmental or private companies, and approved by the Malaysian Securities Commission;
 - exempting resident investors from paying income taxes on profits made from sukuk issued in foreign currency within the State of Malaysia;
 - exempting non-resident investors from paying income taxes on profits realized from sukuk issued in foreign currency within the State of Malaysia.

CONCLUSION

This study aimed to shed light on the process of issuing Islamic sukuk in Malaysia as a world leader in doing so, as it alone accounts for more than half of the volume of sukuk issuances worldwide. This is due to Malaysia's efforts to become the hub of international Islamic finance, as it worked to establish the sound legal, regulatory, and institutional framework that ensures the continuity and growth of sukuk of all kinds, while also taking the necessary steps and implementing the necessary policies.

Therefore, it is expected that Malaysia will continue to dominate global sukuk issuances during the coming years, with most of them being issued in the local currency, and therefore the Malaysian government's promotion of Islamic finance will encourage more companies and financial institutions to turn to the sukuk market for financing and investments.

In this regard, Arab countries can benefit from the Malaysian experience in issuing Islamic sukuk in the following ways:

- the need to focus on creating a suitable legal framework that would govern the issuance of Islamic sukuk and implement the required legislation that helps to lower taxes on transactions involving the buying and selling of Islamic sukuk in order to revive secondary markets for Islamic sukuk;

- the process of issuing Islamic sukuk should be subject to many legal rules and Sharia controls, to ensure that it is free from any Sharia defect and to ensure the safety of dealing with it in the financial markets;
- granting all the necessary powers to fatwa and Sharia supervisory boards to exercise their tasks and duties with complete impartiality, in everything related to the issuance, redemption and trading of Islamic sukuk;
- work to encourage various projects to resort to the issuance of Islamic sukuk in order to obtain the necessary financing for it, which contributes to the revitalization of stock markets in the Arab countries;
- the necessity of preparing research and studies and holding conferences and seminars on contemporary issues of Islamic instruments.

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