

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Are You Sick of Sukuks Yet?

Ustādh Abu Eesa Niamatullah

Because *I* for one am heartily fed up of them.

When we were fortunate enough to review the AAOIFI standards that govern Islamic Finance in the world with Mufti Taqi Usmani a few years back, it was clear to everyone that the *sukuk* issue was the real weak point in the entire field, despite the fact that it was Mufti Taqi himself who helped create the current model.

It is little surprise to see all the news coming out from AAOIFI as reported below:

Islamic bonds hit by scholar

By Sebastian Abbot

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MANAMA, Bahrain (AP) — The booming market for financial products that comply with Islamic law was thrown for a loop recently by criticism from a leading scholar, who has set off a debate about whether the industry has sacrificed religious principles for the sake of growth at a time of surging Middle East oil revenue.

Shariah, or Islamic law, prohibits charging or paying interest, so bankers and lawyers have developed a rapidly growing financial market by restructuring conventional products like bonds to make them compliant with Islam. Shariah-compliant products attempt to replicate the concept of interest through cost-plus transactions, leasing arrangements or by linking payments to returns on underlying assets. The process is normally blessed by a board of religious scholars affiliated with a bank.

However, one of the world's leading Shariah-finance scholars recently rattled the market by saying 85 percent of Islamic bonds, or sukuk, are not Shariah-compliant. Shaykh Mohammed Taqi Usmani argued that, in essence, they were structured too much like conventional bonds.

Many industry participants say Shariah scholars knew the bonds had structural issues but approved them to jump-start market growth, raising questions about how the gatekeepers of the Islamic banking industry weigh potential profit versus religious principles.

Others downplay the controversy, saying debate was expected, given the rapid evolution of the market and the nature of Islamic law, which encourages multiple viewpoints from different scholars.

The influential Shariah board headed by Mr. Usmani at the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions, one of the leading groups trying to establish standards for the market, is scheduled to meet tomorrow with the hope of resolving the dispute and mitigating its effects on the industry.

Some say the race to expand the market has led to questionable religious rulings — a problem that is hard to police because of the lack of standardization across Shariah approval boards and the shortage of Islamic scholars well-versed in finance.

“Increasing the market in volume or numbers with false product that is against Islam is not a big success. It should be according to Shariah, that is the main thing,” said Sheik Saleh Abdullah Kamel, chairman of the Bahrain-based General Council for Islamic Banks and Financial Institutions, one of several organizations attempting to monitor the industry.

Islamic banking assets outside Iran totaled \$400 billion to \$450 billion in 2006 and are projected to rise to \$1 trillion by 2010, according to a report by McKinsey & Co. Total assets, including those in Iran, totaled \$750 billion in 2006, a small fraction of global financial assets, but one that is growing quickly.

Authorities say growth has been driven by booming Persian Gulf oil revenue, Muslims’ growing preference for an expanding range of Shariah-compliant products and increasing acceptance of Islamic banking practices by financial regulators around the world.

The development of the sukuk market has been particularly important because there was a scarcity of Islamic products that could provide mid- to long-term investment and potentially be traded in the secondary market.

Sukuk issuance has grown almost 85 percent each year since 2001, with the total value of Islamic bonds issued last year reaching \$39 billion as of October, according to McKinsey.

“There has been this perception in the past that Islamic finance doesn’t lend itself to overly complicated structures, but sukuk rebuts that view,” said Nadim Khan, a Dubai-based lawyer who specializes in Islamic banking.

“It’s a real demonstration from the perspective of the Islamic financing industry that it is possible to structure widely acceptable, quite sophisticated Shariah compliance structures,” he added.