

## **ISLAMIC BONDS**

By Ronald Tan

There is still a common misconception that Islamic bonds can only be issued by Islamic companies or subscribed by Islamic investors. Far from it, Islamic bonds are nowadays issued by issuers as diverse as the Saxony-Anhalt State in Germany (they issued a €100.0 million Islamic bond in 2006) and are subscribed even by conventional banks.

Islamic bonds commonly known as *Sukuks* must comply with the rules and principles of Islamic law (*sharia*) which prohibits the charging of interests.

In this current environment of global credit crunch, the Islamic finance market is an oasis of sorts. Fuelled by rising oil prices (a large amount of Islamic funds originate from the Middle East), there is ample liquidity in the Islamic finance market. So much so that even non-traditional jurisdictions such as Singapore and recently Hong Kong have jumped onto the bandwagon and declared their intention to be Islamic financial centres.

But Malaysia has always been the market leader in Islamic finance. It has an enviable 30 year track record in Islamic finance with the full complementary tax and regulatory regime firmly in place. Malaysia is the world's leading issuer of *Sukuks* and has the world's largest Islamic bond market, estimated in 2007 at US\$60.0 billion. To cement its market leader position, the Malaysian Islamic Financial Centre (MIFC), a joint initiative by the Central Bank and the Securities Commission, was launched in 2006 to develop and internationalise the Malaysian Islamic capital markets.

The Malaysian bond market is an international market. Issuers of Islamic bonds in Malaysia are not restricted to only Malaysian companies. Eligible foreign issuers such as sovereigns, quasi-sovereigns, multilateral development banks, multilateral financial institutions and multinational corporations can also issue bonds in Malaysia.

Issuers are also given the flexibility to issue their bonds either in Ringgit/RM (the official currency of Malaysia) or in foreign currency. Interestingly, with the recent slide in the US dollar, foreign issuers have opted to issue their bonds in RM and did not mind incurring foreign exchange costs when converting it into their required foreign currency. For example, in 2008, 3 foreign issuers issued their bonds in RM. The State Bank of India and the Export-Import Bank of Korea issued RM500.0 million and RM1.0 billion bonds, respectively. Whereas the Industrial Bank of Korea upsized its original RM600.0 million bonds to RM1.0 billion (approximately US\$320.0 million).

The Islamic finance market is a highly lucrative market estimated at US\$360 billion globally and growing at 15% annually. While it still lags behind conventional debt markets in terms of size, we are seeing increased interests among foreign issuers to explore issuing Islamic bonds in Malaysia. The Asian economies are still growing and require much needed funds to sustain their growth. But in this current environment of global credit crunch, sources of funds are harder to come by and this has resulted in companies being prepared to seek alternative cost-effective fund raising avenues such as Islamic finance.

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