

# Indonesia's global sovereign Sukuk to utilize RegS/144A structure

Speaking to *Islamic Finance news*, a source close to the government of Indonesia's upcoming global sovereign Sukuk deal — its third, following November 2011's US\$1 billion issuance — said that the Sukuk will be structured according to RegS/144A and will be marketed to investors in Europe and “possibly” the US.

The Sukuk, which is slated before end of this year, will be similar to the 2011 deal, the source said, with the exception that it is likely to be listed in Europe, as opposed to the Singapore Stock Exchange which was the case in the prior issuance.

The republic of Indonesia last came to market with a US\$1 billion global Sukuk

on the 14<sup>th</sup> November 2011, which held a seven-year tenor and a coupon of 4%. The issuance, which received a ‘Ba1’ rating by Moody's had received overwhelming response from investors in the Middle East, Asia and Europe to reach an excess of US\$6.5 billion in its order books. ☺ — NH

## Facilitating issuances

Bank Negara Malaysia and Securities Commission Malaysia have issued a revised joint information note on the issuance and subscription of ringgit and foreign currency-denominated Sukuk in the country. The joint information note which was revised on the 1<sup>st</sup> July consolidates all information notes previously issued by both regulators and serves as a single source of reference for prospective issuers and investors. It provides further clarity on the regulatory parameters and process flow to both potential issuers and investors especially non-residents.

In concurrence with the bank's efforts to create a vibrant Islamic capital market, the facilitative regulatory requirements would support Malaysia as an Islamic finance market place for fundraising activities in multi-currency. The key

changes to the joint information note reflect the latest liberalization of the foreign exchange administration rules. In particular, the freedom for non-residents to issue foreign currency Sukuk in Malaysia as well as freedom of residents to issue Sukuk provided that the issuance of foreign currency Sukuk to non-resident complies with rules on foreign currency borrowing.

There is a definite interest from foreign issuers to tap the Malaysian Sukuk market particularly for foreign-currency denominated issuances, says a Singapore-based banker to *Islamic Finance news*. “This is due to the successful track record the market possesses as well as its increasing value proposition with one of the broadest and deepest markets presented to issuers. It is suggested that the volume could be

higher if there were Singapore names tapping the Malaysian Sukuk market. However, at the moment the prospect is quite limited due to prevailing lower pricing in the SGD market,” he said.

In an interview with *Islamic Finance news*, Bank Negara Malaysia conveyed a positive outlook on Sukuk growth as it continues to remain strong. The central bank also foresees more issuers coming to the market with Sukuk in both ringgit and foreign currencies. The joint information note has in effect eased the process of approval for non-residents to issue foreign currency Sukuk in Malaysia. As a result, it will enhance the Malaysian platform for issuances as time of market entry is crucial for prospective issuers. ☺ — NA

## Islamic finance in India: A matter of political will

With the recent expression of interest by Turkish Islamic lender Bank Asya to set up shop in India, along with the launching of the S&P BSE 500 Shariah Index last month, things from an Islamic finance perspective, seem to be finally picking up in the world's third-largest Muslim community. However, with no legislation in place for Islamic banking, market experts remain concerned over the prospects of the nation's Shariah compliant finance industry.

“It's all a matter of political will,” shares Saif Ahmed, the managing partner of India-based Shariah advisory firm Infinity Consultants, to *Islamic Finance news*. “Islamic banking is not possible in India given its present shape, not

unless the parliament passes proper legislations.”

And while there is considerable activity in the republic's Islamic capital markets sphere with the establishment of Shariah compliant mutual funds, it is still not very promising as the sector has a very limited reach.

“To my understanding, the Islamic mutual funds here are not receiving much of a demand and it is safe to say that capital market-based products have limited appeal in India due to its low penetration level which currently stands at 1%,” Saif explains. He adds that in order to circumvent this gap, industry players will have to offer innovative Islamic finance solutions through

existing legislations for the industry to thrive.

India, with its 200 million Muslims and numerous infrastructure projects in the pipeline — totaling to an estimated US\$1 trillion over the next few years — presents itself as an untapped reserve of opportunity to the Islamic finance industry, especially in the areas of microfinance and securitization. All that is left is for the government to take that crucial step forward. ☺ — VT

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