Sukuk Rating Criteria

Cross-Sector Criteria

This criteria report updates and replaces *Rating Sukuk*, dated 14 August 2017. There have been no significant changes.

Scope

This report describes Fitch Ratings' approach to assigning and maintaining ratings for new and existing originator-backed sukuk issues. These criteria apply to originator-backed (or "asset-based") sukuk structures, where investors rely upon obligor direct support features and contractual commitments built into the documentation. These criteria apply globally to: corporates, financial institutions, sovereigns, supranationals, public finance, insurers and global infrastructure. They do not apply to asset-backed sukuk, which rely on underlying collateral.

The originator typically incorporates an undertaking whereby the obligor is committed irrevocably to repurchase the underlying sukuk assets on maturity (or earlier, in the event of any dissolution event or default), covering in full the outstanding principal, and any accrued but unpaid periodic distribution amounts in a timely manner, during the life of a sukuk or at any dissolution event.

It is also possible for sukuk to be structured as subordinated, short-term or secured claims. If so, they will be rated as such in accordance with Fitch's established criteria, with the ratings anchored on the Issuer Default Rating (IDR) or Viability Rating (VR), where the case dictates.

Key Rating Drivers

Rating Anchored on IDR: For originator-backed/asset-based sukuk, Fitch looks through the structure of the sukuk at the obligor/originator/issuer of the transaction. Sukuk often require the creation of a special-purpose vehicle (SPV) and the transfer of assets underlying the sukuk by the entity seeking to raise finance (the originator) to the SPV. The rating is anchored on the rating of the originator. For a senior unsecured obligation the rating would typically be in line with the originator's IDR.

Full Recourse to Originator: Fitch's analytical assumption under these criteria is that the structure of the sukuk and the underlying transaction(s) provides for full recourse to the originator – as with a conventional bond issue – and the sukuk rating is driven solely by the originator's rating. Sukuk analysis and ratings will reflect Fitch's view that the default of these senior unsecured obligations under the legal structure and sukuk documentation would reflect default of the entity in accordance with Fitch's rating definitions.

Sukuk Form Affects Rating: Sukuk can take a variety of forms, which could affect their recourse, debt ranking and recoveries upon issuer default, and therefore their ultimate effect on the analysed debt instrument rating. The sukuk ranking (senior, subordinated or pari passu with other obligations) could also be influenced by a guarantee on all or part of the obligations under the documentation; this could make a contribution to recoveries and therefore affect ratings.

Legal Risk: Legal precedents for effective enforcement in many jurisdictions where sukuk issuance is prevalent is lacking. It therefore remains uncertain whether certificate holders will be able to enforce their contractual rights in relevant courts.

No Standard Structure: Sukuk do not have a standard structure and each structure may involve different underlying contractual arrangements. As a result, each structure has to be reviewed individually to assess whether it fits with these criteria. These criteria discuss the influence of the most common features in originator-backed sukuk issue ratings. The different forms of sukuk mean not all factors mentioned in these criteria may be present or relevant in all circumstances.

Related Criteria

Sovereign Rating Criteria (July 2018)
Supranationals Rating Criteria (May 2018)
International Local and Regional Governments Rating Criteria (April 2016)
Corporate Rating Criteria (March 2018)
Bank Rating Criteria (June 2018)
Non-Bank Financial Institutions Rating Criteria (June 2018)
Insurance Rating Criteria (November 2017)
Rating Criteria for Infrastructure and Project Finance (August 2017)

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Islamic Finance

Sukuk are a form of financing that complies with sharia (Islamic rulings). Sharia is a broad term, representing a system of beliefs revealed in the Holy Qur'an and the Sunna. Scholars agree on the main principles, but there is room for differences in interpretation between the various schools of Islamic religious scholarship and different jurisdictions. In many countries, Islamic and conventional financial institutions operate side by side (see *Appendix: Islamic Finance Concepts*).

"Sukuk" is the plural of the Arabic term "sakk" (صك) which means certificate or deed. Sukuk are often referred to as "Islamic bonds". Sukuk are typically structured around contractual arrangements formulated according to sharia and have been developed as the Islamic finance industry alternative to conventional debt instruments.

Islamic finance must avoid the receipt/payment of unlawful gain. Instead, the parties must share the risks and rewards of a business transaction. The transaction should have a real economic purpose without undue speculation, and not involve any exploitation of either party or involve any activities considered sinful. In practice, Islamic capital-market transactions tend to be asset-based, although the underlying assets do not necessarily constitute collateral and the transactions may, therefore, be effectively unsecured. Even where the assets constitute collateral, the legal environment may well prevent significant and timely recoveries.

Sukuk represent undivided shares in the ownership of tangible assets, including the assets of particular projects or investment activities, and their usufruct (the right to use the assets). In their structure, sukuk constitute a beneficial ownership interest, not a debt. Each holder is entitled to an agreed return and will bear any losses in proportion to the certificates owned. However, in practice, in an originator-backed sukuk this sale is not usually a true sale and can be achieved by assigning rights without completing the necessary asset registration formalities.

Assets placed in the underlying sukuk structures are mainly to expedite Sharia requirements and to produce periodic coupon payments. Typically, sukuk are structured as entity credit-risk instruments and in a default and redemption scenario the sukuk holders would not have recourse to the assets themselves. Recovery is based on investors exercising their rights against the originator. Hence to date, the majority of sukuk have been issued in a manner which is supposed to create an economic effect similar to bonds.

Originator-Backed Sukuk

Analytical Approach

Fitch's analytical assumption under these criteria is that the structure of the sukuk and the underlying transaction(s) provides full irrevocable recourse to the originator – as with a conventional bond issue – and the rating of the sukuk is driven solely by the originator's rating, which is the case for rated sukuk under these criteria. Fitch may also review the legal opinions provided by the lawyers acting for the parties to the transaction, if considered helpful for its review.

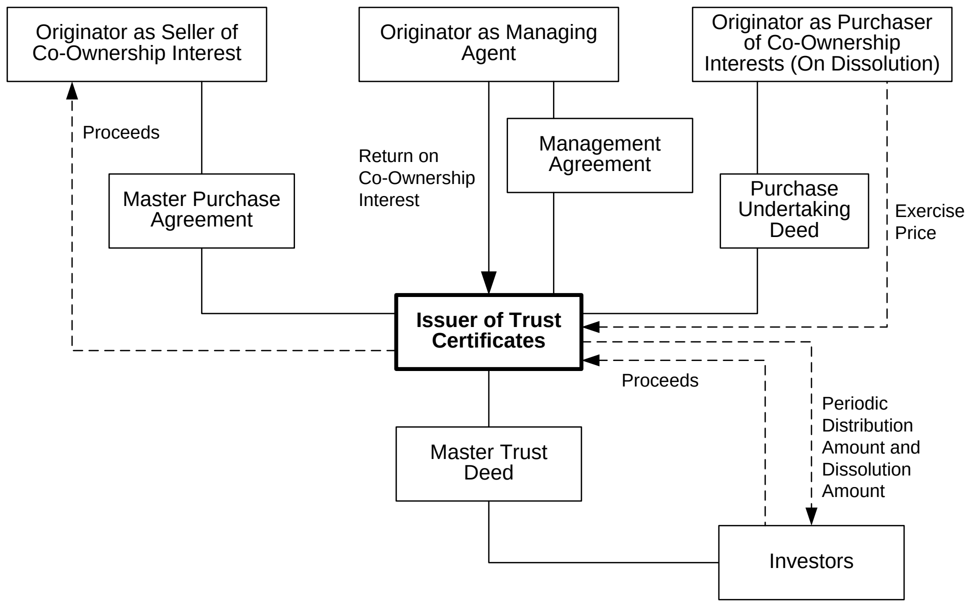
The sukuk analysis and rating take into account the sukuk's legal structure and documentation, reflecting Fitch's view that the originator's contractual commitments under such sukuk are senior unsecured obligations, and default on the sukuk would reflect default of the originator entity in accordance with Fitch's rating definitions. Fitch also considers an originator's intention to support sukuk and its obligations under the documentation. Therefore Fitch's rating for the certificates reflects the agency's expectation that an originator would stand behind its obligations.

Originator-backed sukuk are typically rated as senior unsecured claims against the originator. Fitch will therefore assign a senior unsecured rating to the instrument, anchored on, and usually at the same level as, an originator's IDR. It is also possible for sukuk documentation to be structured as subordinated, short-term or secured claims, and if so they will be rated as such in accordance with Fitch's established criteria (see *Related Criteria*), with the ratings being again anchored on the originator's IDR.

In a typical international sukuk structure, an originator places well-defined, identifiable asset(s) (which in the case of a financial institution could also include a pool of transactions) into a single-purpose SPV[1], the shares of which are usually held in a trust (could be a charitable trust). The SPV in turn enters into a separate "declaration of trust" in favour of the sukuk holders. (This is sometimes expressed as a declaration of agency, as the concept of a trust does not exist explicitly in sharia in the sense it is generally understood in common law jurisdictions). In return, the SPV receives the proceeds of the sukuk issue.

Simplified Example of a Sukuk Transaction

Structure Diagram and Cashflows



Source: Fitch

The sukuk holders will not have any rights of enforcement against the trust assets, as their rights are limited to enforcement against the originator of its obligation to purchase the assets pursuant to the terms of the purchase undertaking. The documentation will usually provide that the only recourse and contractual claim is against the originator, which should place the sukuk investors in a position similar to that of bondholders under a conventional unsecured bond.

The idea behind placing assets into the SPV is to ensure that, when issuing sukuk, the process results in a sharia-compliant transaction, in which parties share in the risks and rewards of a specific asset or asset pool (in the SPV). The SPV is the entity that actually issues the sukuk, and is also the entity that passes on the proportional profit distributions to investors. Investors purchase the issue and make a principal payment to the SPV, which then uses the proceeds to purchase the assets. The originator is then responsible, under the documentation, for example

[1] Depending on local legislation, such as in Malaysia, an SPV structure may not always be required and the transaction may sometimes be held on the books of the originator rather than an SPV's. This does not have any implications for Fitch's criteria.

under an agency agreement with the SPV, for managing the assets and making timely and regular distributions to the SPV of the income that they generate. That structure usually allows the originator to retain possession and control of the assets, including the responsibility for maintaining the sukuk assets at the same value on issuance date during the life of the sukuk. This could also include originator obligations to replacement of assets and providing insurance/takaful cover to underlying assets and covering any shortfall of insurance/takaful coverage. Furthermore this minimises disruption to the originator's business, and saves the SPV from getting involved in operational matters.

Investors are entitled to receive distributions representing a proportion of the returns generated by the assets, which as noted above continue to be managed by the originator. Transaction documents typically indicate a benchmark rate of return. Upon maturity of the agreement, the originator is responsible for repurchasing the assets, which results in the return of the principal payment to investors.

The investor shares in the returns generated by the underlying assets, but his risk relating to the underlying assets has, to date, typically been contractually limited, as sukuk include contractual obligations and mechanisms to pass the risk to the originator and not the investor. Sukuk ccontractual commitments include timely full payment of sukuk principal and periodical distribution during the life of the sukuk, and on maturity or any dissolution or default event. Moreover, sukuk obligations rank as other unsecured obligations of the obligor, and default on these commitments can usually trigger and be triggered by other unsecured cross-acceleration/cross-default provisions.

First, the originator may provide a liquidity facility or a top-up mechanism to match receipts to the contractual periodic distributions and eliminate any volatility in the cash flows deriving from the assets. Second, the documentation usually incorporates a purchase undertaking, whereby the originator is committed irrevocably to repurchase the assets on maturity or any dissolution event (or earlier, in the event of any dissolution or default by the originator or a total loss event), covering the outstanding principal and periodic distributions during the life of a sukuk or at any dissolution event.

The basis on which the repurchase price is set may vary according to the sukuk structure. There has been a tendency among sharia scholars to push for fair market value, rather than a fixed amount (eg the original sale price) to be the benchmark for a repurchase on maturity or following an event of default. If the repurchase price on maturity were to be subject to market risk and therefore have an impact on the repayment amount to sukuk holders, the sukuk would be unrateable under these criteria.

Moreover, if the periodic distribution amounts are not fully contractually covered in the sukuk, Fitch will assess the other mechanisms in place to indemnify the sukuk holders in the case of non-payment of timely full periodic distribution amounts. Non-payment would trigger an event of dissolution or default, which would require the payment of the outstanding principal amount, and any accrued but unpaid periodic distribution amounts by the originator. Issues are not rateable when the principal would not become due because of missing periodic distributions. Contractual provisions that would provide flexibility with view to periodic distribution payments only may be considered subordinated issues.

The purchase undertaking may be further reinforced by an explicit guarantee from the originator. It is, however, customary for the originator to guarantee the obligations arising under the underlying contracts (eg, ijara or murabaha) rather than guaranteeing the obligation of the SPV to pass payments through to the sukuk holders. In addition, in Fitch's opinion, an explicit guarantee may not necessarily be enforceable in all applicable jurisdictions, but Fitch considers in its review whether it believes that the originator will, nevertheless, perform its obligations under the guarantee and other contractual obligations in the sukuk documentation.

It should be noted that the nature of the underlying assets will vary depending on the nature of the originator. For example, a sovereign or corporate may transfer just one asset or more, for example, a property generating a rental stream, whereas an Islamic bank could also include a transfer of financing transactions pool.

Warranties and waivers clauses relating to the sharia-compliant nature of the sukuk, aiming to prevent an obligor from challenging the legitimacy and enforceability of the sukuk, have been enhanced recently and are becoming part of the sukuk documentation. Fitch does not express an opinion on whether the relevant transaction documents are enforceable under any applicable law. However, Fitch considers the originator's intention to support the sukuk and its obligations. Hence Fitch's rating for the sukuk therefore reflects the agency's assessment that the originator would stand behind its respective obligations under the documentation.

Covenants (Including Events of Default)

Documentation on sukuk has incorporated covenants, including events of default similar to those seen in conventional bond documentation. These include: failure to perform any obligations laid down in the agreements; failure to pay any amounts due (both periodic distributions and repayment on maturity); failure to comply with any notices; unlawful actions; noncompliance with sharia and cessation of operations, insolvency, or any arrangements/deferment in relation to any indebtedness. These events of default may be reinforced by a negative pledge and cross-default clauses, which further link the performance of the originator and the sukuk.

Where an originator has both sukuk and conventional bonds rated by Fitch, the agency will review covenants with respect to both the sukuk and bonds to assess whether there are differences that are material to the rating analysis.

Recoveries

When rating sukuk for corporate entities Fitch uses the *Corporates Notching and Recovery Rating Criteria*. For Financial Institutions and Insurance entities their respective master criteria include equivalent recovery rating details (*Bank Rating Criteria*, *Non-Bank Financial Institutions Rating Criteria*, *Insurance Rating Criteria*).

Fitch's recovery ratings, if applicable, also include the *Country-Specific Treatment of Recovery Ratings Criteria* where Fitch has examined creditor-friendliness, insolvency regimes and enforceability across countries to determine recovery expectations for rated entities. All reports are available at www.fitchratings.com.

Rating Sensitivities

Fitch's opinions are forward-looking and include 'analysts' views of future performance. Non-financial corporate ratings are subject to positive or negative adjustment based on actual or projected financial and operational performance. The list below includes a non-exhaustive list of the primary sensitivities that can influence the ratings and/or Outlook.

Industry Risk: Changes in long-term growth prospects, competitive intensity and volatility of the relevant industry resulting from social, demographic, regulatory and technological developments.

Location Risk: Deterioration in an issuer operating environment due to weakening of the general economic environment, financial market health and systemic governance in the countries where the issuer is operating as well as possible imposition of foreign-exchange controls.

Business Risk: Developments in an issuer's ability to withstand competitive pressures as shown in its position in key markets, its diversification, its level of product dominance, its ability to influence price and its operating efficiency.

Financial Risk: Changes in an issuer's financial profile either due to the impact of operational developments, the issuer's management financial policy or the availability of funding in case of market disruption potentially leading to liquidity pressures.

Variations From Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Data Sources

The key rating assumptions for the criteria are informed by Fitch's analysis of previous sukuk transactions, information received from issuers and/or obligors and various participants across the fixed-income markets, general market observations, and the judgement of experienced analysts. This covers both, information used to derive the criteria, as well as information used when assigning ratings/assessing sukuk structures. Fitch looks through the structure of the sukuk at the obligor/originator/issuer of the transaction, and the rating is anchored on the rating of the originator.

Sukuk do not have a standard structure, as each structure may involve different underlying contractual arrangements. Therefore, no standard set of documentation is available, but the below can act as a general guide on key documentation that can be used, where applicable, in the sukuk rating:

- Prospectus
- Legal sukuk structure document
- Terms and Conditions
- Master Trust Deed
- Agency Agreement
- Master Purchase Agreement
- Master Lease Agreement (if a Supplemental Lease Contract is executed in connection with the relevant sukuk)
- Management Agreement
- Purchase Undertaking
- Sale Undertaking
- Fatwa
- Legal opinion

Criteria Limitations

This report describes Fitch's approach to originator-backed (also called asset-based) sukuk structures, in which investors rely upon obligor direct support features. Fitch's sukuk analysis, as with a conventional bond issue, is driven solely by the originator's rating, in addition to the clarity and strength of the contractual documentation binding the originator to the sukuk. Without the necessary documentation, in line with Fitch criteria, sukuk could be considered subordinated, or Fitch may choose not to rate the notes at all. Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's *Ratings Definitions* and available at https://www.fitchratings.com/site/definitions.

Asset-Backed Sukuk Excluded

Asset-backed arrangements (ie, where the underlying assets that serve as collateral are the only credit support) would typically be rated according to established structured finance criteria, including analysis of the extent to which sukuk holders would have recourse to the sukuk assets on the insolvency of the originator. The significance of this is that registered title to registerable assets (for example, land or vehicles) is not always transferred to the SPV, either because of foreign ownership restrictions or because the reregistration process is cumbersome or expensive. In those cases, the sale of the assets takes place on an unregistered or "simple contractual" basis.

This is usually sufficient for sharia purposes, but the enforceability of the sale on the insolvency of the originator varies from jurisdiction to jurisdiction. In addition, in the case of asset-based sukuk, recourse to the underlying assets is specifically excluded and the transfer cannot be considered a true sale because of the originator's obligation to repurchase the assets.

Legal Status and Governing Law

Sukuk issued on the international capital markets are typically governed by English law and subject to the jurisdiction of the courts of England (or other recognised international law and jurisdiction), but part of the documentation and any judgement would also be governed and reviewed by the courts where the originator is domiciled – and would be subject to local law restrictions on enforceability.

These courts would ordinarily act in accordance with local commercial law, but may be influenced by sharia, which adds further uncertainty to any judgement, for example, due to the existence of multiple schools of law, the lack of sharia codification in some jurisdictions and potential differences of opinion as to what properly constitutes a default. In the event that transactions were governed solely by local commercial and/or sharia law - mainly local issuance - such transactions might prove difficult to rate, considering the unpredictability of any judgement, similarly to local bond issuance.

Recoveries, even under commercial law, may also be subject to delays depending on the efficiency of the local legal system. However, these risks also apply to conventional bonds issued in the same country and are already reflected in the IDR of the originator.

There remains a lack of legal precedents in terms of effective enforcement in many jurisdictions where sukuk issuance is prevalent. As such, it remains uncertain whether certificate holders will be able to enforce their contractual rights in local courts.

Sharia Compliance

Ratings assigned to sukuk do not imply any confirmation that the sukuk are sharia compliant. This responsibility lies with the sharia board of the lead manager/originator, which will have issued a fatwa prior to the launch of the sukuk. There is, however, the risk that other sharia scholars could take a different view from that of the lead manager/originator's sharia board. While there is broad agreement on sharia principles, there are differences of interpretation that the agency would not be in a position to anticipate or assess. Fitch will assess non-compliance with sharia if it has credit implications and if such implications cannot be quantified under our criteria for rating sukuk, this may mean that the sukuk are not rateable under these criteria.

Appendix: Islamic Finance Concepts

The following are some of the basic concepts in Islamic finance, which are fundamentally based on profit and loss sharing, involving the acquisition of specific tangible assets or investment in business activities.

Riba (Interest and Other Unlawful Gains)

Riba is an unlawful gain – and interest is one form of riba. In accordance with Islamic principles, invested funds can only create returns on the basis of sharing risks and rewards in a business venture. The sharing of risks and rewards in a proportionate manner is acceptable. However, it is not acceptable for the level of investment returns to be guaranteed regardless of the outcome of the purpose for which the money was originally borrowed. In addition, gains could be unlawful if the underlying transaction involves a business activity or commodity that is unlawful under sharia law.

Gharar (Speculation or Risk)

Gharar is uncertainty or speculation, and any gain that results from transactions relating to uncertain events. This particularly relates to the fundamental terms of a contract such as price, time, delivery, and each party's obligations and rights, which might lead to speculation. It does not mean the avoidance of risk, as commercial risk is acceptable under sharia, provided the risk is reasonable and jointly shared among partners.

Categorically Prohibited in Islam

Corporates that have an activity relating to riba, alcohol, pork or gambling are unable to issue sukuk.

Islamic Finance Structures

Sukuk are typically structured to reflect the characteristics of traditional fixed-income products such as bonds, and are structured in a manner that is certified by scholars to be sharia-compliant. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has specified types of allowable sukuk and a number of practices that can be employed to structure a sukuk deal.

The choice of structure will depend on several aspects, including the character of the underlying assets, taxation and regulatory considerations, the investor base and the views of the sharia scholars who must approve the sukuk issuance. Historically, the most dominant structures used in the sukuk were ijara, mudaraba and musharaka. However, following the AAOIFI 2008 statement criticising the use of fixed-price purchase undertakings to guarantee returns in al-mudaraba and al-musharaka sukuk structures, ijara and al wakala or a hybrid of more than one contract became the most commonly used sukuk structures.

The following is an overview of the underlying structures most commonly used in sukuk issuance. Sukuk may incorporate one or more structures, eg, ijara and murabaha. Financial institution (FI) sukuk tend to be based on a pool of transactions, while corporate and sovereign sukuk are generally based on returns from tangible assets, eg, real estate. The terms "musharaka", "mudarabah", "ijarah" and "wakalah" are broadly used in sukuk structures, but the actual legal structure can differ considerably. Therefore each structure has to be reviewed individually to assess whether it fits with these criteria.

Ijara

The ijara structure resembles a conventional lease agreement, and while there are some technical differences in terms of asset ownership and interest penalties, it is similar in terms of how it functions to a lease agreement, with the owner of the asset leasing it to a third party in exchange for a specified rental payment. Ijara contracts are similar to a conventional lease in so far as they reflect the concept of usufruct. However, unlike conventional lease agreements, if a lessee is late making payment, lessors cannot impose any penalty, as any additional gain for the owner would be deemed unfair to the lessee. The lessor may, however, in that situation, impose a late payment charge to be paid to a charity of the lessor's choice. This provides additional motivation to the lessee to comply with the lease.

The lessor retains ownership of the asset being leased, until the maturity of the transaction, when ownership is ordinarily transferred to the lessee. The lessor usually appoints the lessee as his agent to manage the asset, which allows the lessee to make full use of the asset and minimise interruption to his business. As a matter of sharia, however, the lessor is responsible for major maintenance of the leased assets to ensure that they are in working order, although these responsibilities will typically be delegated to the lessee.

Istisna'a

Istisna'a is a form of financing, under which a financier commissions the construction or manufacturing of an asset. The financier supplies specifications for the asset (eg, a power plant, a factory or machinery), but in practice the specifications are generated by the obligor, who will usually understand the technical and commercial requirements better than the financier. The financier makes one or more down payments for the asset and agrees to purchase it when it is delivered. Meanwhile, the financier and the obligor enter into a forward ijara (lease) agreement. The combination of istisna'a and ijara thus provides for advances to finance the construction/manufacturing phase and subsequent use with settlement by instalments. The documents usually provide for the unwinding of the forward lease arrangement if completion of the asset is not achieved.

Murabaha

Murabaha is the sale of an agreed asset or commodity at cost plus an agreed profit margin, which may then be financed in instalments. Banks also use this as a means of providing liquidity to their customers, by (a) buying the assets and (b) selling the assets to the customer at a mark-up, whilst giving the customer a period of credit in which to pay the purchase price and mark-up. The bank and the customer will often arrange for the bank to sell the assets into the market as agent for the customer and to account to the customer for the proceeds of that on-sale.

Mudaraba

The investor or an FI entrusts funds to a corporate that utilises them in a pre-agreed investment or business. After the operation is concluded, the corporate returns the principal and the pre-agreed share of the profit. The corporate retains the remaining profits from the business. Conversely, the investor or FI also shares in any potential losses, and is faced with the prospect of losing the original principal investment. The corporate does not share in the losses beyond its own investment and the time and effort put into the business venture, provided fraud or negligence cannot be proven.

Musharaka

This type of partnership is similar to mudaraba, except that under musharaka the investor or an FI takes an equity stake in the venture. Such an arrangement is similar to venture capital financing, where the investor or an FI sometimes participates in the management of the business or project. Profits are divided on a pre-arranged basis, and any losses are shared in proportion to the capital owned.

Wakala

A wakala is an agency contract between an investor (muwakkil), typically a financial institution, and the agent (wakil), the entity requiring financing. It is customarily used in interbank arrangements and between group companies. In sukuk, it is not always possible to identify a tangible asset of sufficient value that can be used for the purposes of sukuk issuance.

In a basic sukuk-al-wakala, it is permissible for the originator to bundle its underlying investments and sell them to the issuer in return for a purchase price. An Islamic financial institution is therefore able to bundle, for example, its ijara contracts, murabaha receivables and any shares or sukuk certificates held by it into a portfolio which is then sold to the investors. The income derived from the portfolio is used to service the coupon payments due under the sukuk certificates. Although the wakil can be any entity, the investments made by the wakil have to be sharia-compliant. In each case the wakil will charge a nominal fee for providing its expertise.

The sharia-compliant financing structures adopted in the Middle East can differ noticeably from those embraced in East Asia. There are many reasons for these differences, including the difference in the interpretation of sharia between Middle Eastern scholars and Asian scholars. Other reasons include different local laws and, more importantly, different tax treatments. For instance, in the Gulf Cooperation Council countries income tax and VAT are almost absent and therefore sukuk structures are typically not tax driven. This is not the case in East Asia and most other counties, where taxation could have a significant impact on structures.