

Sukuk: An Islamic Financial Certificate



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Sukuk is the plural of the word “sak” in Arabic. “Sak”, as a word, has various meanings such as bill, bond, document or certificate. It is commonly used colloquially as document, bill or certificate. In financial literature, sukuk is the Arabic name for a financial certificate. Sukuk can be generally defined as a non-interest-bearing bond in compliance with islamic principles. The concept of right claim in sukuk involves not only cash flow, but also right of ownership. Sukuk is an alternative financial instrument introduced to the markets by the islamic finance system. The islamic finance system is based on three principles: prohibition of interest, prohibition of activities involving uncertainty (“gharar”) and prohibition of activities considered to be sinful (“haram”) such as gambling.

Types of the sukuk

Sukuk-u Mudaraba

Mudaraba is a term for partnerships where a party introduces its labor while the other party introduces its capital. A mudaraba partnership is an investment sukuk which represents ownership of shares with equal values, where ownership is full, names of mudaraba buyers are registered and revenue is distributed in proportion to the owned shares. In mudaraba sukuk, the certificate issuer is the mudarip (undertaker) while the funders are investors.

Sukuk-u Musaraka

Musaraka, which literally means partnership, is a joint venture in which both sides provide funds. Both parties participate in the profit or loss of the venture in proportion to their shares. In musaraka sukuk, certificate (sukuk) holders become the owners of the project or the activity on the basis of the partnership agreement in order to provide financing for an available project.

Sukuk-u Murabaha

Murabaha is a term for selling a property more expensively on account. In economic literature, it means the sale of a property, acquired by a financial institution (bank, leasing company etc.) from a third party, against cash, to the customer on account. Since a relevant financial institution is thus engaged in the direct trade of a property, obtained revenue is considered to be commercial and legitimate.

Sukuk-u Salam

Salam is a trade transaction where payment is made in advance during an agreement, while the delivery of the bought assets is postponed to an estimated future date. Salam sukuk are certificates which are issued with equal values in order to obtain funds. Those who acquire certificates issued by these funds receive the ownership of the assets sold on the basis of salam.

Sukuk-u Istisna

Istisna sukuk is a production contract, pursuant to which the producer assumes the responsibility of providing products defined at previously agreed prices, characteristics and defined standards. The price is paid before the job is done or at a determined later time. Delivery is made later. Istisna sukuk are certificates with equal value which the certificate owner issues for the purpose of providing necessary funds for the production of products he owns.

Sukuk-u Icara

Icara means rent. In economic literature, it is a type of leasing. It is a contract under which a financial institution acquires an asset to lease to its client. Icara sukuk is a contract which entitles its owner to partnership in or ownership of the rent or property or usufruct of the property. Icara sukuk owners also undertake maintenance costs of the property. Icara sukuk grants the right of ownership of assets which are bound by a rental contract, defined, available and known to its owners, and rent value is paid to the owner of sukuk. Procedures in icara sukuk are, in order, as follows:

- The property owner establishment sells the asset to the Special Purpose Vehicle (SPV).
- The asset is leased by the SPV to the property owner.
- The SPV issues sukuk certificates and obtains funds in the capacity of the owner of the asset. It distributes rent values received from the lessee as accretion to sukuk owners.
- At the end of the contract, the Special Purpose Vehicle returns the property to its owner.

In Turkey, sukuk is a capital market instrument, and the issuance of sukuk is regulated by the Capital Market Board through the framework provided under the Communiqué on Lease Certificates.

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