

Unlocking the Potential of Sukuk: Issues and Proposals for Reform

Sukuk, also known as Islamic bonds, have emerged as a rapidly growing segment of the global financial market. Guided by the principles of Islamic law (Shariah), these financial instruments offer investors an ethical and Shariah-compliant alternative to conventional bonds. However, despite their growing popularity, sukuk face several challenges that hinder their full potential. This article presents a comprehensive overview of the key issues affecting sukuk and proposes innovative proposals for reform that aim to enhance their transparency, accessibility, and global appeal.

Key Issues in Sukuk

1. Standardization and Harmonization

One of the significant challenges in the sukuk market is the lack of standardization and harmonization among different issuers. The absence of uniform accounting and disclosure standards complicates the comparison and evaluation of sukuk offerings, creating uncertainty for investors and hindering the development of a robust secondary market.



Islamic Finance: Issues in Sukuk and Proposals for Reform

by Don McBurney

★★★★★ 5 out of 5

Language : English
File size : 6563 KB
Text-to-Speech : Enabled
Screen Reader : Supported
Enhanced typesetting : Enabled
Print length : 272 pages



2. Liquidity Constraints

Sukuk often face liquidity constraints due to their relatively small issuance sizes and limited trading volumes. This lack of liquidity can make it challenging for investors to enter and exit sukuk positions, further discouraging participation in the market.

3. Tax Treatment

Taxation of sukuk remains a complex issue in many jurisdictions. The classification of sukuk as debt or equity instruments for tax purposes varies across countries, leading to uncertainty and potential tax liabilities for investors.

4. Shariah Compliance Verification

Ensuring that sukuk comply with Islamic principles is crucial. However, the verification process can be complex and time-consuming, especially in cross-border transactions. This complexity can increase costs and delays in the issuance of sukuk.

5. Limited Investor Base

Despite their ethical and Shariah-compliant nature, sukuk have traditionally catered to a limited investor base, primarily comprising Islamic investors. Expanding the investor base to include conventional investors is essential for the long-term growth and sustainability of the sukuk market.

Proposals for Reform

1. Embracing Technology for Standardization

Leveraging technology, such as distributed ledger technology (DLT), can facilitate the standardization and harmonization of sukuk. DLT can create immutable records, ensuring transparency, traceability, and the enforceability of sukuk contracts.

2. Enhancing Liquidity through Asset-Backed Sukuk

To address liquidity constraints, the of asset-backed sukuk, securitized by tangible assets such as real estate or infrastructure, can diversify sukuk offerings and attract a wider pool of investors.

3. Harmonizing Tax Treatment

Global collaboration and dialogue among policymakers are crucial to harmonize the tax treatment of sukuk. Establishing a common framework for sukuk taxation would provide certainty to investors and promote cross-bFree Download investments.

4. Standardized Shariah Certification

Creating a standardized Shariah certification process, overseen by international bodies, would streamline the verification process and enhance the credibility of sukuk offerings for both Islamic and conventional investors.

5. Outreaching to Conventional Investors

To broaden the investor base, sukuk issuers should proactively engage with conventional investors, highlighting the ethical and financial benefits of sukuk. Education and awareness programs can foster a better understanding and appreciation of sukuk's unique features.

Addressing the key issues in sukuk is fundamental to unlocking their full potential and fostering the growth of the Islamic finance industry. By embracing innovation, harmonizing regulations, and engaging with a wider investor base, sukuk can become a truly global financial instrument that meets the ethical and investment needs of a diverse audience. The proposals for reform outlined in this article provide a roadmap for the future development of sukuk, promoting transparency, accessibility, and global appeal.

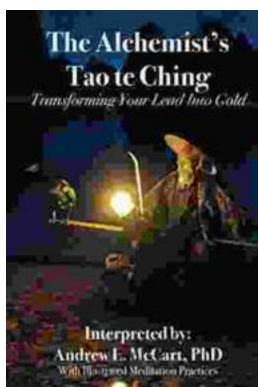


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