208 Markets   John Tiner & Partners

Issuance of Islamic securities and financial instruments

This reference material is intended for financial institutions that create/sell financial products.

The use of Islamic securities for structuring transactions/assets and arranging payments is described in other explanatory materials.

What are Islamic securities?

Islamic securities are a special class of securities whose **terms** and **underlying asset** do not conflict with the restrictive **principles of Shariah**.

They emerged in the 1980s and 1990s and have since captured a significant share of the financial products market in Muslim-majority countries.

The volume of Islamic securities issues outstanding at the end of 2024 is estimated at **$930 billion and is expected to exceed $1 trillion** in 2025 .

Most types of Islamic securities are similar to conventional securities but have unique characteristics that make them compliant with Shariah restrictions.

Many banks, funds, and family offices, as well as retail investors in Muslim countries and international financial centers, have voluntary restrictions on investing only in Shariah-compliant products. Accordingly, **issuing your financial product as an Islamic security is a way to offer it to a unique audience that invests only in Shariah financial products**. The investment potential of this audience is several trillion dollars globally.

"Issuance Factory": we create securities and other financial instruments for professional clients around the world.

John Tiner & Partners, founded 1995 | https://208markets.com | https://tiner.ch

John Tiner & Partners Eurasia, Kyrgyz Republic (since 2006) | https://tiner-kyrgyzstan.com

We create

Eurobonds | Credit Linked Notes | Asset-Backed Notes | Actively Managed Certificates | Islamic Investment Certificates (Sukuk) | Structured Products (Notes) | Depository Receipts / Notes |FX Forward Contracts | Option Products | Commodity-Linked Products

Jurisdictions of issuance of financial products

- EU Financial Centers
- United Kingdom
- Switzerland
- Hong Kong
- Offshore financial centers
- Kyrgyz Republic

Attributes: ISIN; Euroclear / Clearstream / other systems; listing; brokers; any currencies

Islamic finance: John Tiner & Partners service

- Concept development and creation of Islamic securities in various jurisdictions
- Providing Shariah Board (Shariah Council) services for issues (Shariah opinion, etc.)
- Creation and support of SPV issuers (ISFC: Islamic special financial company, other formats)
- ISIN, CFI, LEI, GIIN and other codes for the issuer and the issue
- Coordination of the Issue Terms with the state investment market regulator, if required by law
- Engagement of paying agent, clearing and depository services
- Exchange listing if required
- Provision of services of Representative of Holders of Islamic Securities / Trustee, depending on jurisdiction (regulated, licensed organizations)
- Provision of brokers to service the initial placement of securities.

What Islamic financial products can be issued?

> This list does not focus on the legal formats of securities (there may be several for each item), but on the types of financial products in terms of their functionality.

- Islamic investment certificates (sukuk) for **raising funds for a specific business**. The issuer may be a bank or corporation that needs to raise funds for a specific term. Similar to bonds; the interest rate is not formally guaranteed, but is specified and actually paid according to market practice.
- Sukuk similar to investment funds (ETF) or **actively managed portfolio securities** (Actively Managed Certificates; Portfolio-linked Notes; Performance-linked Notes). Such sukuk are called Sukuk al Wakala / Sukuk al Wakala bei al Istithmar.
- Shares, units or trust units of an Islamic **investment fund** – private or exchange traded (like ETFs).
- Islamic **structured products** (structured products, structured notes).
- Financial products where the underlying asset is a real economy **commodity**.
- Over-the-counter **derivative financial instruments** that comply with the principles of Islamic finance.

Types of Islamic securities

This list contains the main types of Islamic securities that we issue. Each such instrument can be used for various economic purposes and embody different financial products.

- **Sukuk al-Ijara** – used for securitization of rental (lease) income.
- **Sukuk al-Murabaha** – issued for the purchase of a specific asset, its immediate resale at a profit, but the sale price is paid gradually, in tranches.
- **Sukuk al-Mudaraba** – issued to securitize a stake in a business partnership (investors receive an agreed share of the business profits of the person raising the financing, received on the amount raised). Also used as an Islamic analogue of fixed-interest bonds.
- **Sukuk al-Musharaka** – both investors (through SPV) and the fundraiser jointly invest in the business.
- **Sukuk al-Salam** – based on a forward contract, often for a commodity. Often used for short-term financing or liquidity management.
- **Sukuk al-Istisna** – based on a contract for the future delivery of a manufactured or constructed asset. The customer (future buyer) of such asset may be the obligated party itself. It is used for debt financing of construction or creation of other assets.
- **Sukuk al-Wakala [bi al-Istithmar]** – based on a contract for trust management of investment assets. An analogue of investment fund or managed portfolio. Its European equivalent is the *Actively Managed Certificate*.

Islamic structured products (Notes)

Traditional structured products typically contain two elements: **an option** on the underlying asset and a bond or other **fixed-income instrument** that provides full or partial protection of the original invested capital till the maturity of the product.

Both of these elements **are prohibited** in Sharia finance. An option is a speculative contract detached from a real economic asset, violating the Sharia prohibition on “undue uncertainty” (*gharar*) and speculation or gambling (*maisir*). A bond violates the prohibition on fixed-interest instruments (*riba*).

Also, not every underlying asset may be acceptable – for example, shares of non-Islamic banks would be considered unacceptable, since their main business is to issue loans at interest.

However, the issuing practices of Muslim countries and large global banks have developed legal forms for creating structured products that comply with the principles of Sharia.

Thus, when creating a Sharia-compliant structured note, not the traditional options are used, but specifically Islamic contracts – such as *Urbun* (literally, “advance”) and *Wa’ad* (unilateral contract). As a tool providing capital protection for the term of the product, an Islamic analogue of an interest-bearing bond is used (for example, a *Mudaraba deposit* or a corresponding security – *Sukuk al-Mudaraba*).

In which jurisdictions are Islamic securities issued?

All jurisdictions where Islamic securities are issued are divided into two parts. One is **Muslim countries** (e.g. Indonesia, Malaysia, Egypt, Pakistan, etc.), where issues are **primarily aimed at the local population** and local institutional investors. The second is **international financial centers**, where issues are traditionally carried out for placement around the world. Examples of countries whose issuing practices and legislation are adapted to the issue of Islamic securities: **Great Britain, the Cayman Islands, the Isle of Man, Hong Kong, Singapore, etc. The Kyrgyz Republic** stands apart, where issues of Islamic certificates (sukuk) are used both for sale on the local market and for attracting financing from and to other countries.

Can Islamic securities be introduced into the Euroclear/Clearstream systems?

Yes.

The client ordering the issue must initially determine which jurisdictions its investing audience is located in. It may well turn out that the optimal solution would be to issue securities using other depositories.

Can Islamic securities be listed on a stock exchange?

Yes, they can.

In the overwhelming majority of cases that we encounter, listing is not needed to create **deep liquidity** for a given security (this is achieved not by the listing, but by attracting interest to the security among market operators, market makers, etc.).

Listing is needed either-

- to **support the marketing** of securities in what is essentially a private placement;

or-

- for **regulatory reasons** (for example, they are purchased by an investment fund that requires a market quote to value the security at a "market" price rather than a "fair" price).

Issue via SPV or directly?

Islamic securities, depending on the jurisdiction and the wishes of the person raising funds, can be issued either by the person raising funds themselves or through an SPV – similar to Eurobonds.

In some jurisdictions, issues are only possible through a special purpose vehicle (SPV) (called an "ISFC": Islamic Special Finance Company).

Issuing sukuk through an SPV has a number of advantages: you can choose the most convenient jurisdiction for the SPV and thus avoid a cumbersome regulatory regime in the country of the Originator (i.e., the person actually attracting the financing).

Basic Sharia Restrictions

When issuing Islamic securities, Shariah restrictions must be observed both in **the terms of the securities** and in relation to **the underlying asset or business** to be financed through such securities.

The main prohibitions of Shariah in relation to investments:

Not to guarantee **fixed interest** to the investors;

- The ban applies specifically to the guarantee of a fixed interest rate, not to the payment of interest-type income in principle. In some jurisdictions the rules allow a third party to guarantee the income on Islamic securities.

Speculation and betting similar **to gambling** are not permitted;

- "Speculation for the sake of speculation" is not allowed, without reference to real economic activity. For example, trading Forex is an unacceptable activity. Also, the use of derivatives for speculation is unacceptable. The use of derivatives for hedging risks is at the discretion of the Islamic scholar issuing the Shariah opinion.

It is prohibited to finance businesses and assets that are **subject to religious prohibition** (haram): alcohol, interest-bearing loans, gambling, etc.

- The doctrine allows that **a certain share of the forbidden may be present in the financed business**. The permitted share may be different for different situations. There are also standard ways of “smoothing out” the economic effect from it – for example, the direction of the relevant part of profits to charity.

Are Sharia restrictions the same all over the world?

Islam assumes that sacred laws can be interpreted by any Muslim who has a good faith intention to comply with them. In practice, this role is assigned to Islamic scholars with specialized religious education.

In Islam, there are various **schools of Islamic jurisprudence** (*fiqh*), called *madhhabs*. They differ in certain aspects of the interpretation of sacred texts and principles of religion. These nuances must be taken into account when choosing both the country of issue of the security (if it is a Muslim country, and not an international financial center) and the country of ultimate distribution of the financial product.

The most common schools of Islamic jurisprudence are:

- **Hanafi Madhhab** (Sunni Islam: Turkey, Egypt, Balkans, Levant, Central Asia, South Asia, China, North Caucasus, Tatarstan)
- **Maliki Madhhab** (Sunni Islam: North Africa, West Africa, East Arabia)
- **Shafi'i Madhhab** (Sunni Islam: Indonesia, Malaysia, Brunei, Kurdistan, Egypt, East Africa, Yemen, Kerala, Maldives)
- **Hanbali Madhhab** (Sunni Islam: Saudi Arabia)
- **Ja'fari Madhhab** (Shi'a Islam: Iran, Azerbaijan, Iraq, Lebanon).

A significant role in setting standards for Islamic transactions and securities is played by **AOOIFI** – Accounting and Auditing Organization for Islamic Financial Institutions, headquartered in Bahrain.

Other Islamic financial products

In addition to financial products issued in the form of securities (sukuk), you can create other products, such as **financial contracts** , which are derivative in nature.

Due to the Shariah restrictions on speculative transactions, the range of derivatives in Islamic finance is much narrower than in the conventional financial system. However, many types of derivatives available in conventional finance have their counterparts in the world of Shariah finance – with certain features and restrictions.

The purpose of using derivatives in Shariah finance should be **to minimize risk and uncertainty**, and not to make speculative profits by "guessing" market movements.

Methodology for assessing securities for compliance with Sharia

Recognizing a security as Shariah-compliant opens it up to investment by banks, funds, family offices and other investors who are guided by Shariah restrictions.

The analysis of the security is carried out by a specialized organization recognized as an authority in such activities, or by an expert council under the national regulator of the investment market.

The following are the indicators that are taken into account during certification. Their specific maximum permissible value is established by the expert body.

Methodology for assessing securities for compliance with Sharia

The ratio of revenue and pre-tax profit from the following non-Shariah compliant activities to total revenue/profit (for example, in Malaysia – no more than 5%):

- Traditional banking and lending
- Traditional insurance
- Gambling
- Activities related to alcoholic beverages
- Pork related activities
- Non-halal products, including products without halal certification
- Tobacco, cigarettes, electronic cigarettes and related activities and products
- Interest income from traditional deposits and instruments
- Dividends from non-Shariah compliant investments
- Entertainment that is not Shariah compliant

The ratio of revenue and pre-tax profit from the following activities to the total revenue/profit (for example, in Malaysia – no more than 20%):

- Stock trading
- Brokerage business
- Cinemas
- Rental income from non-Shariah compliant activities

Methodology for assessing securities for compliance with Sharia

The following financial indicators are also assessed for certification:

- Cash to total assets ratio
- The ratio of debt to total assets.

[1] The estimates provided reflect the opinion of Islamic experts considered in the financial market. John Tiner & Partners, its employees and partners do not express any opinion regarding the acceptability or unacceptability of any particular investment.

Examples of companies whose shares are considered[1]halal investments (as of February 2025):

- Tesla Inc.
- Apple Inc.
- Nvidia Corporation
- Microsoft
- Nike
- Netflix
- Walmart Inc.

Examples of companies in which investments (February 2025) are considered non-Sharia compliant:

- Louis Vuitton
- JP Morgan
- Alphabet (there are conflicting opinions)
- Toyota Motors

Informational resources

Resource about our global securities issuance service
https://208markets.com

Service for issuing securities in the Kyrgyz Republic
https://tiner-kyrgyzstan.com