

## Singapore Deal of the Year: MAS Sukuk Program



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A milestone in the continuing development of the Islamic financing industry in Singapore was reached in 2009 when the Monetary Authority of Singapore (MAS) established its S\$200 million (US\$145 million) Sukuk Al-Ijarah Trust Certificate Issuance Program. The program marked the first issuance in the Islamic finance market of Sukuk with the highest credit quality. It is especially significant when viewed in the larger context of developments designed to foster the growth of Islamic finance in Singapore. This program is one part of a two-pronged approach of providing both a conducive regulatory framework and high quality liquidity assets for financial institutions to undertake Islamic finance transactions, with the aim of promoting the Islamic finance market in Singapore.

### Innovative and Flexible Structure

The program is based on a Shariah-compliant Ijarah (sale and leaseback) structure and is the Shariah-compliant equivalent of Singapore Government Securities (SGS). The trust certificates issued under the program (Sukuk) are of the highest credit standing and will be given equal regulatory treatment as SGS. Returns under the Sukuk will be tied to the risk-free yield of SGS of equivalent tenor. The Sukuk will qualify as an asset in the computation of capital and liquidity requirements of banks licensed in Singapore, and as eligible collateral for them to tap the MAS' liquidity.

The underlying assets for the Sukuk are the office units of the MAS' head office building, parts of which may already be leased to third party tenants. Since some

underlying properties are already tenanted by the MAS to third parties, the Sukuk has been structured based on the innovative concept of forward leasing, which is a variation of the traditional Ijarah structure. The underlying assets must themselves also be Shariah-compliant.

Issuances under the program are done on a reverse enquiry basis, based on the needs of investors. This gives the MAS the flexibility to size, price and time issuances according to the requirements of each investor and prevailing market conditions.

The establishment of the program is a ground-breaking transaction in many respects. It is:

- The first Sukuk program to be established by a statutory board in Singapore
- The first local currency Sukuk to be established by a central bank of a non-Muslim majority jurisdiction
- The first reverse inquiry Ijarah-based Sukuk established for such a high quality issuer

### Significance

The significance of the program lies in its contribution as one part of the continuing two-pronged approach towards developing Singapore's Islamic finance market.

On the regulatory front, the MAS has introduced changes

to the regulations that have clarified and enabled the application of Islamic finance in Singapore. For instance, the program was announced in tandem with certain regulatory changes allowing Singapore-based banks to, among other things, offer Ijarah-based financing. The program also relied on some of the important changes previously made to the tax regime in Singapore, announced as far back as 2005, to harmonise the tax treatment of certain Shariah-compliant financing instruments with that of conventional products. Such changes include waiving the imposition of double stamp duties in Islamic financing transactions involving real estate in Singapore, and providing the same concessionary tax treatment to income from Sukuk that is afforded to conventional bonds.

***“With the program, banks are better equipped to manage their liquidity and match their assets and liabilities”***

The Sukuk is an essential building block enabling banks licensed in Singapore to meet their capital and liquidity requirements to carry out Shariah-compliant financing activities in Singapore. With the program, banks are better equipped to manage their liquidity and match their assets and liabilities, which in turn should bolster their ability to conduct a wider range of Islamic finance activities.

Since 2009, the regulatory landscape in Singapore has continued to evolve. From April 2010, banks in Singapore may

enter into Istisnah or project finance transactions, following amendments to the Banking Regulations in Singapore. With these changes, the MAS has extended Islamic finance in Singapore into the field of participatory finance for economic projects. It is a timely move that paves the way for financial institutions to undertake Islamic infrastructural project finance transactions, an area that has significant growth potential in Asia and to which Istisnah is well suited.

Ultimately, the program should be seen as part of the broad, consistent trend of developing an active and well-regulated Islamic finance market in Singapore. <sup>(2)</sup>

## Allen & Gledhill

ADVOCATES & SOLICITORS

Yeo Wico  
Partner

Suhaimi Zainul  
Senior Associate

Allen & Gledhill LLP  
One Marina Boulevard #28-00  
Singapore 018989

Website: [www.allenandgledhill.com](http://www.allenandgledhill.com)

## MAS Sukuk Program

<b>CLIENTS</b>	Standard Chartered Bank and The Islamic Bank of Asia (as joint arrangers) and The Bank of New York Mellon (as co-trustee)
<b>INSTRUMENT</b>	Sukuk Al-Ijarah Programme
<b>ISSUER</b>	Singapore Sukuk Pte. Ltd., a subsidiary of the Monetary Authority of Singapore
<b>ISSUER PRINCIPAL ACTIVITIES</b>	The central bank of Singapore
<b>DATE</b>	19 <sup>th</sup> January 2009
<b>ARRANGERS</b>	Standard Chartered Bank and The Islamic Bank of Asia
<b>LEGAL COUNSEL FOR ISSUER</b>	General Counsel's Office of the Monetary Authority of Singapore
<b>LEGAL COUNSEL FOR ARRANGERS AND CO-TRUSTEE</b>	Allen & Gledhill LLP
<b>CO-TRUSTEE</b>	The Bank of New York Mellon
<b>SHARIAH ADVISORS</b>	The Shariah Supervisory Committee of Standard Chartered Bank and the Shariah Supervisory Board of The Islamic Bank of Asia