

ABSTRACT

The purpose of this case study is to highlight the unique nature of Sukuk with the presentation of First Complete Asset Replacement transaction undertaken by Government of Pakistan (GoP) in its sovereign Ijarah Sukuk. The GoP issued International Sukuk against Lahore – Islamabad Motorway (M2) in 2014 which was already a Sukuk Asset for a series of five domestic sovereign Sukuk transactions.

The case illustrates the process undertaken to replace the underlying asset i.e. Motorway with Jinnah International Airport before maturity of the Sukuk transaction.

The Sukuk, which are ordinarily referred to as Islamic alternative to conventional bonds as they provide a Shariah compliant solution to raising funds from the capital market while broadly replicating the cash flows of a bond, are ownership certificates of underlying asset/business. However, unlike Bonds the Sukuk holder assumes the ownership and risk of the underlying asset or business. In any conventional finance transaction freeing up of an asset against which a bond is issued is done through providing another security. In case of a Sukuk, which is closer to a securitization transaction, replacement of underlying asset requires the Sukuk holders to agree to sell that asset which in conventional terms would be construed as a premature termination.

The Motorway(M2) had to be replaced in this unique and masterfully structured transaction by Ministry of Finance (MoF), State Bank of Pakistan (SBP) and GoP along with a team of local Islamic banks, which ensured continuity of payments to the original sukuk holders in form of rental payments from the Jinnah Airport.

Keywords

Ijarah Sukuk, Asset Replacement, Sovereign Sukuk