



سازمان بورس و اوراق بهادار
SECURITIES & EXCHANGE ORGANIZATION

SUKŪK IN IRAN, A PROMISING FINANCIAL INSTRUMENT

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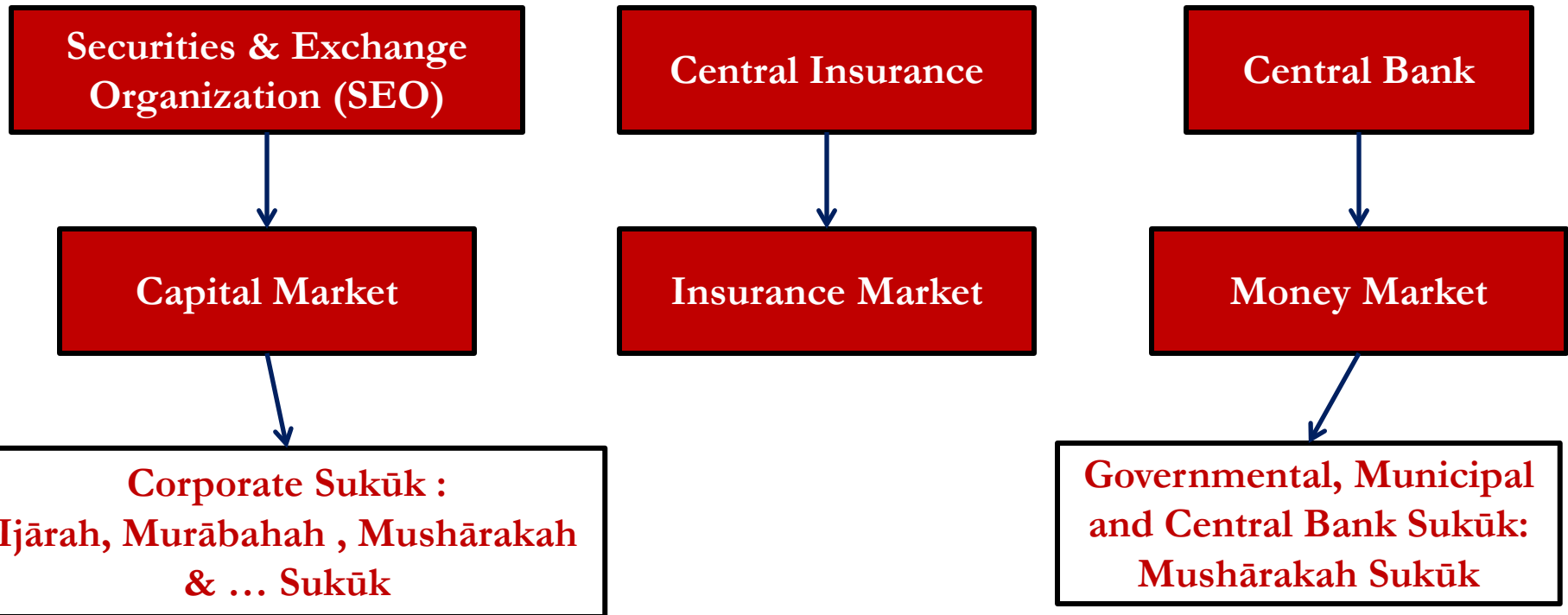
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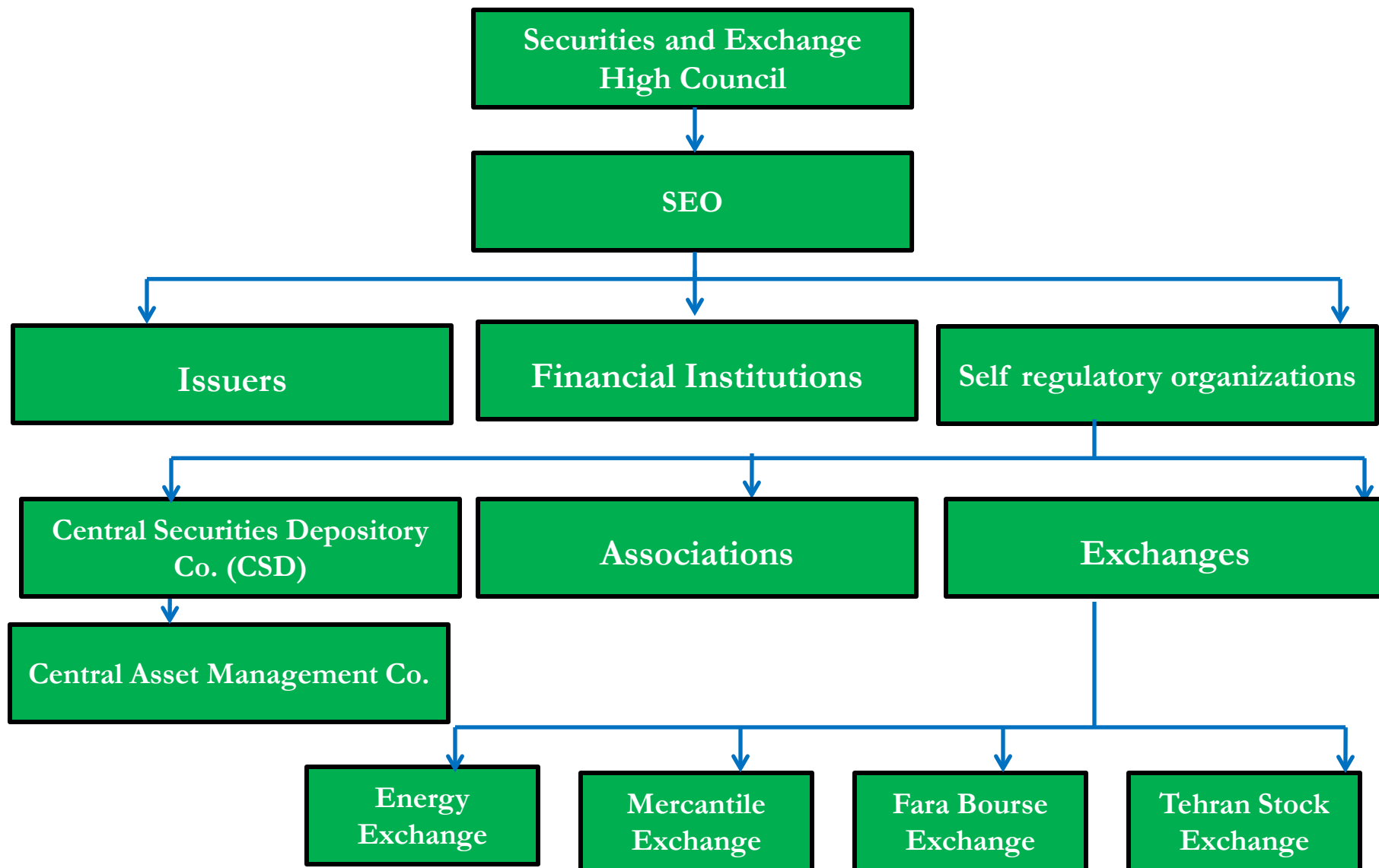
Part 1

A Brief Introduction to Iranian Financial Market Structure

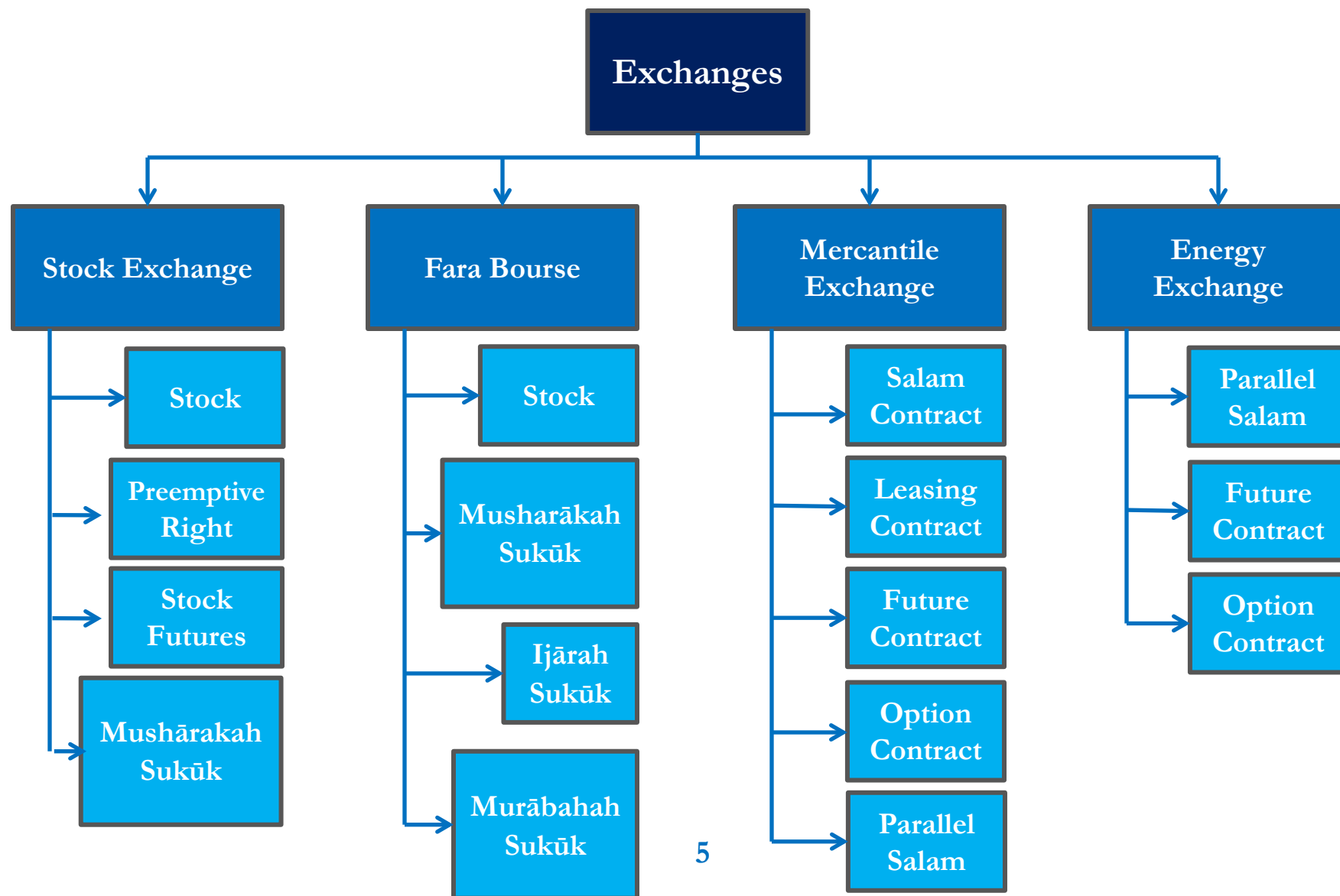
REGULATORY STRUCTURE OF FINANCIAL MARKET IN IRAN



REGULATORY STRUCTURE OF CAPITAL MARKET



FINANCIAL INSTRUMENTS IN IRANIAN CAPITAL MARKET



Part 2

Brief History of Sukūk Issuance in Iran, Facts and Figures

BRIEF HISTORY OF SUKŪK ISSUANCE IN IRAN

- **1994** : First Mushārah Sukūk issued by Tehran municipality to finance complex construction project (43 USD mln);
- **1995-2005**: government and central bank of Iran issued 22,361 million \$ Mushārah Sukūk in money market;
- **2005**: The Securities Market Act enacted and ground work for Issuance of other types of Sukūk started;
- **2006**: Shari'ah Board Established; structures of different Sukūk reviewed and many of them ratified;
- **2008**: the first regulation on Ijārah Sukūk issuance was ratified;
- **2009**: The Development of New Financial Instruments and Institutions Law was enacted;
- **2010**: SPVs regulation was ratified;
- **2011**: The first Ijārah Sukūk was issued for Mahan Airline Co.(28.2 USD mln);
- **2011**: Murābahah Sukūk issuance regulation was ratified;
- **2013**: The first Murābahah Sukūk was issued for Butan Co. (24.6 USD mln)

SUKŪK ISSUANCE FACTS AND FIGURES

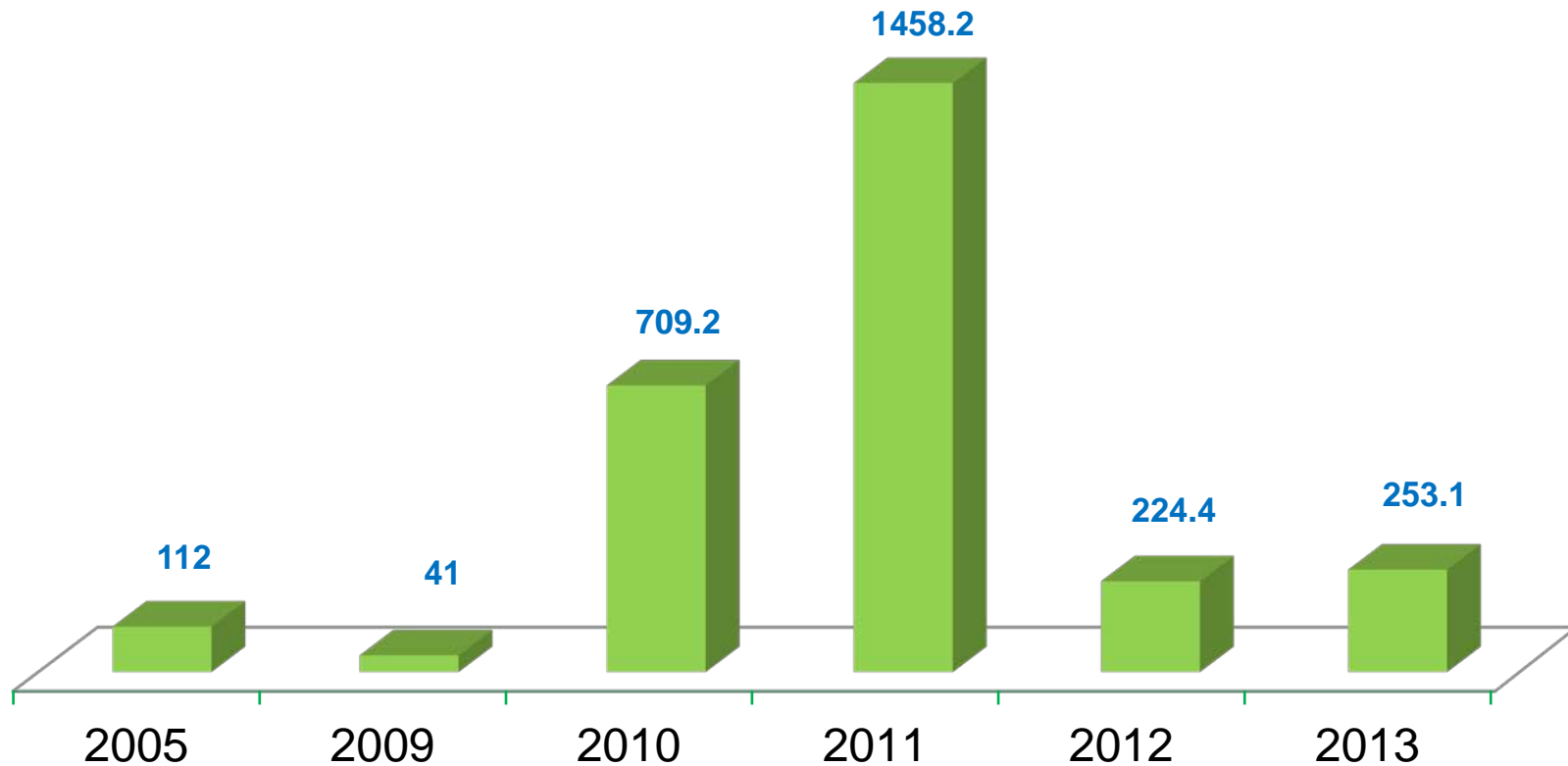
- **2011-2014:** 940.6 USD mln Ijārah Sukūk , 32.6 USD mln Murābahah Sukūk issued in Capital Market;
- **2005-2014:** around 2,825 USD mln Mushāarakah Sukūk issued in capital market;

Sukūk Issued in Capital Market: 3,798.2 USD mln

- **2005- 2013:** around 40,688 USD mln Mushāarakah Sukūk Issued by central bank, municipality and government;

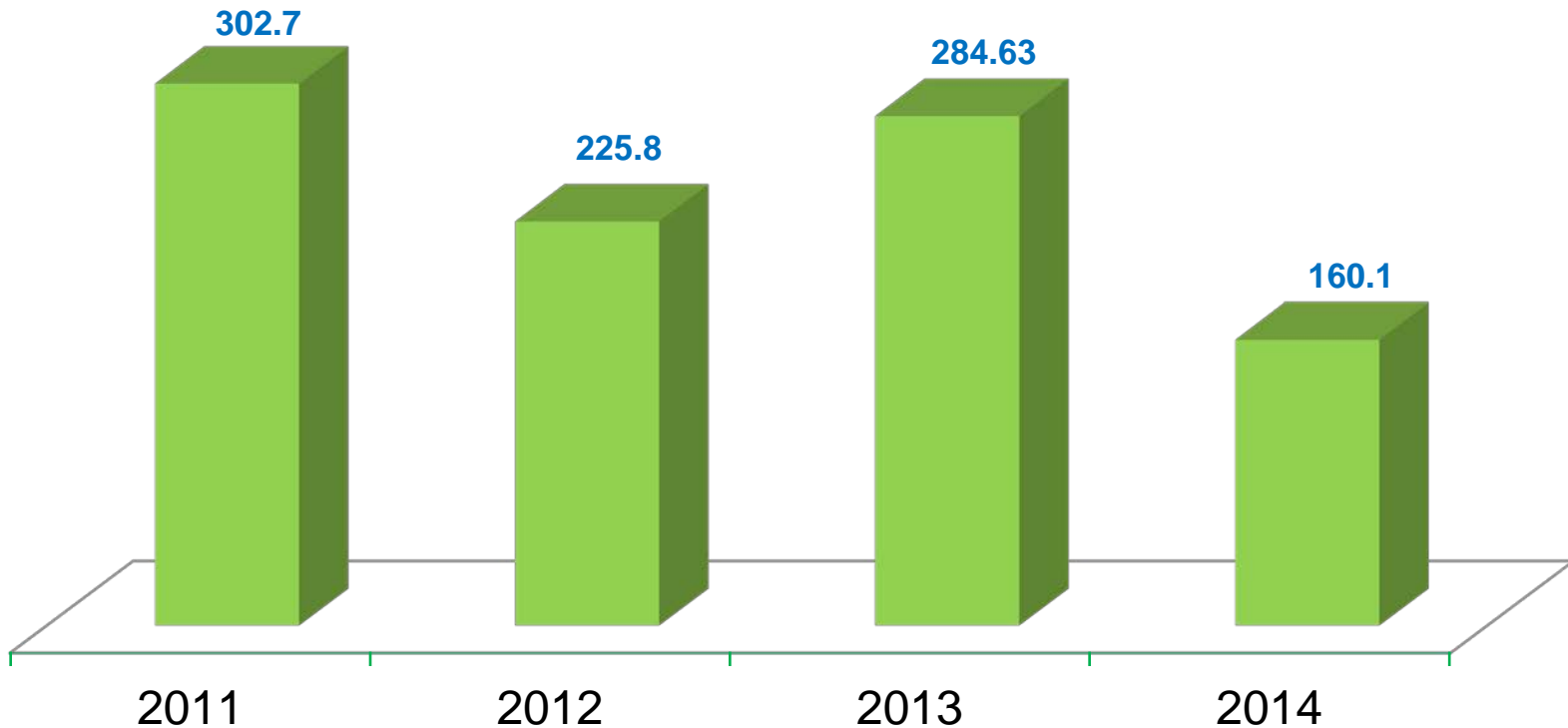
SUKŪK ISSUANCE FACTS AND FIGURES

Corporate Mushārah Sukūk in Capital Market (USD mln)



SUKŪK ISSUANCE FACTS AND FIGURES

Ijārah and Murābahah Sukūk in Capital Market (USD mln)



TYPES OF RATIFIED SUKŪK BY SHARI'AH BOARD

- Mushārah Sukūk
- Convertible Mushārah Sukūk ;
- Ijārah Sukūk ;
- Murābahah Sukūk ;
- Istisna Sukūk ;
- Usufructs Sukūk ;
- Qard-Alhasan Sukūk ;
- Muzarābah Sukūk ;
- Jualah Sukūk ;
- Mozara'ah and Musaqāh Sukūk ;
- Salam Sukūk ;
- Vaghf (Endowment) Sukūk .

Part 3

Sukūk Structure

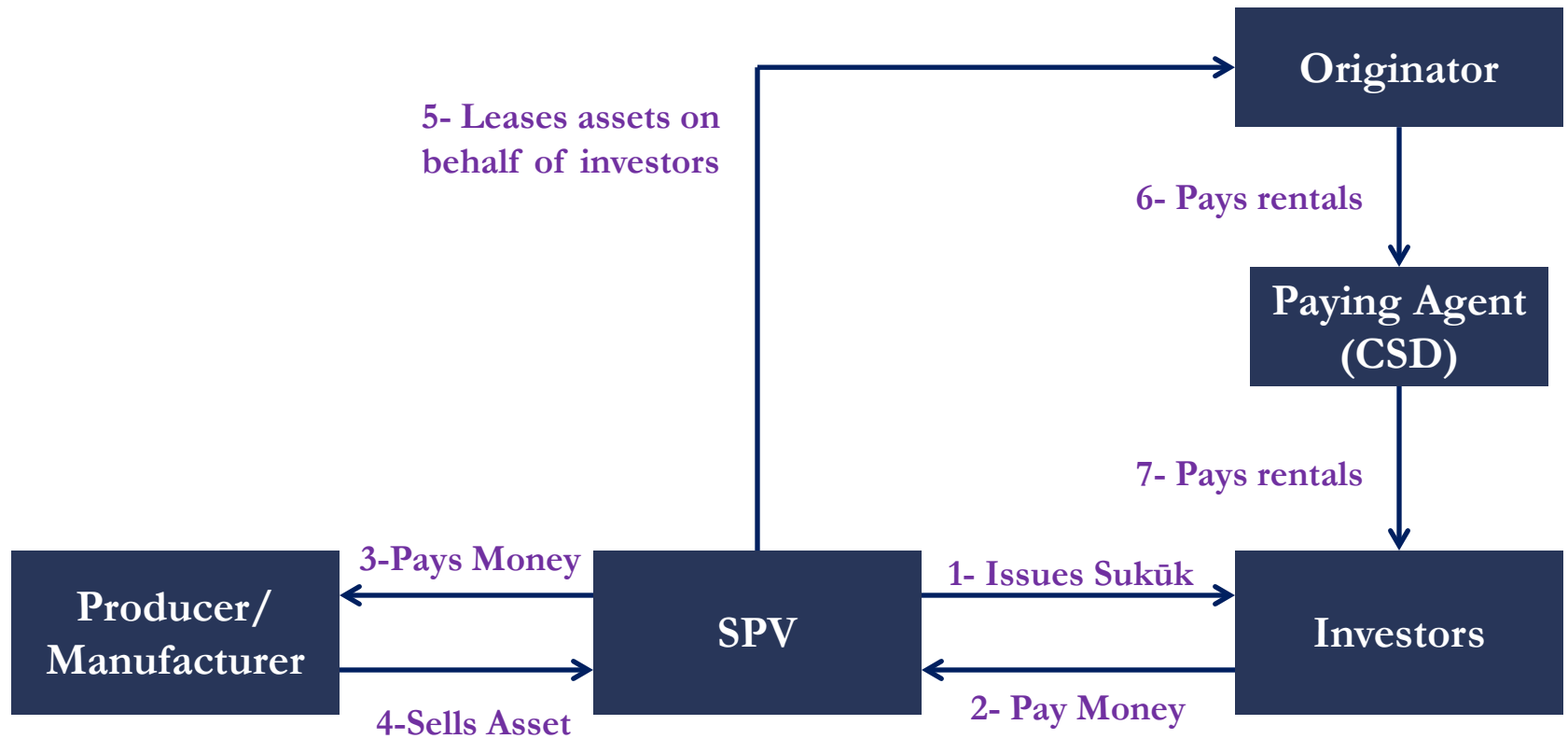
SUKŪK DESIGNATION AND ISSUANCE CONSIDERATIONS

National Accounting Standards: based on the nature of each Sukūk, it could be liability or equity.

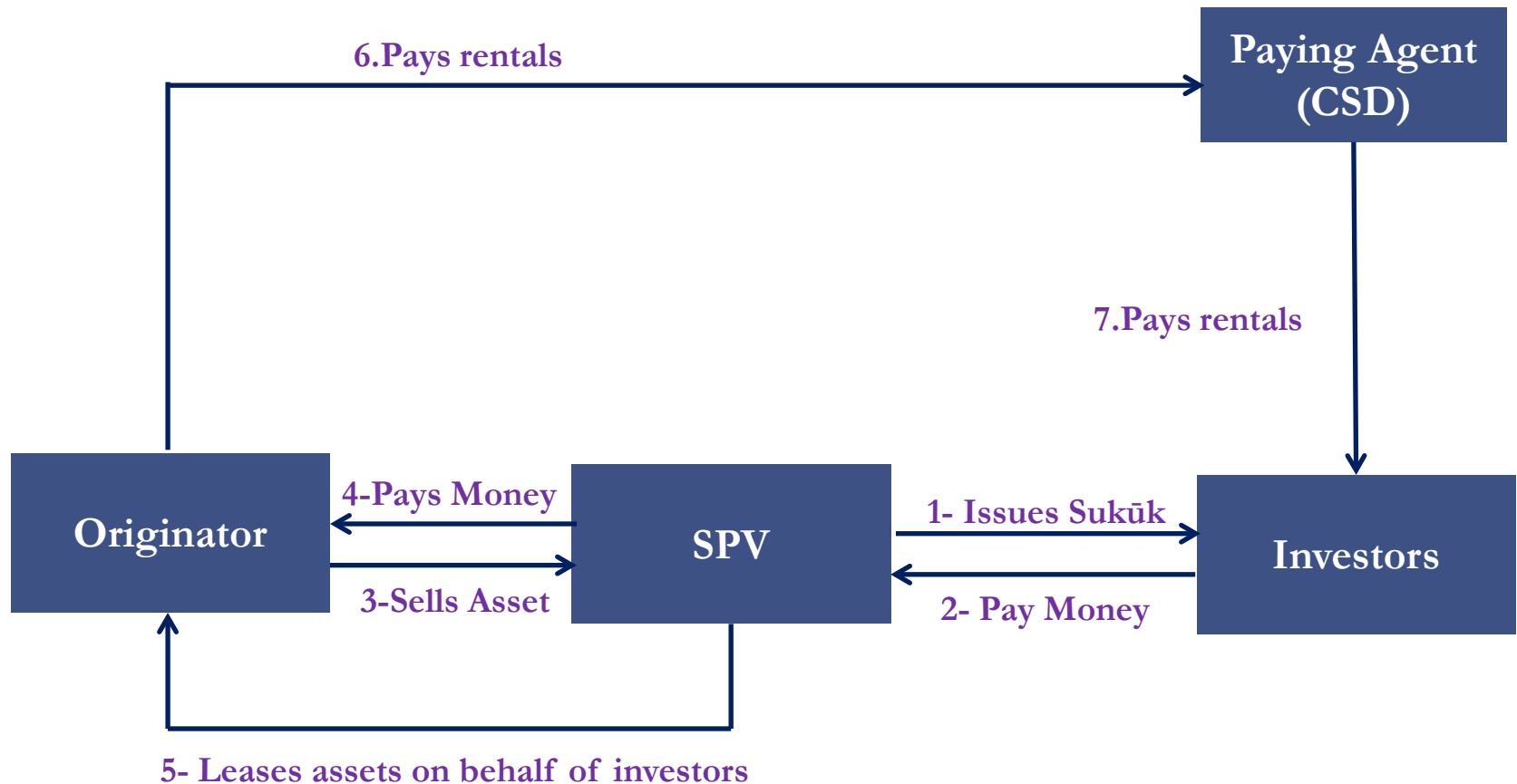


Shari'ah Board consists of 7 members including 5 jurists, a financial expert, an Attorney familiar with capital market, an economist familiar with capital market

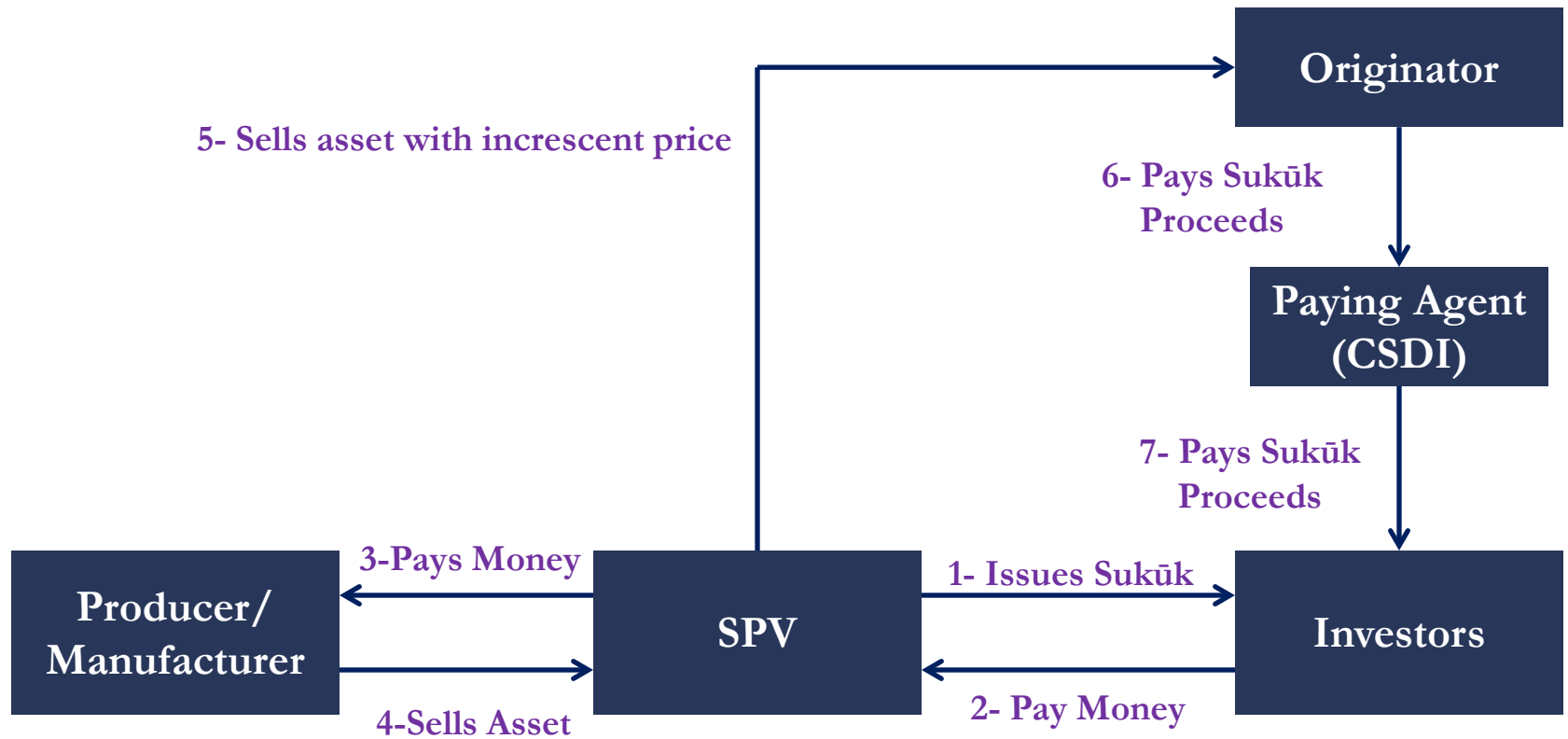
RATIFIED STRUCTURE OF IJĀRAH SUKŪK : ASSET PROVIDING MODEL



RATIFIED STRUCTURE OF **IJĀRAH SUKŪK** : LIQUIDITY PROVIDING MODEL (SELL & LEASEBACK)



RATIFIED STRUCTURE OF MURĀBAHAH SUKŪK



MAIN DIFFERENCES BETWEEN IJARAH AND MURĀBAHAH SUKŪK

- In Murābahah Sukūk , originator is allowed to purchase the Sukūk issued for the purpose of raising its funds (unlike Ijārah Sukūk);
- Murābahah Sukūk is asset based, but Ijārah Sukūk is asset backed;
- Different context of risk;

REGULATORY REQUIREMENTS IN REGARD OF ORIGINATOR

- The originator must be registered with SEO;
- The total cash flow derived from its operations(CFO) must be positive in two recent fiscal years;
- Maximum total liability to assets ratio must be at most ninety percent;
- Auditor's opinion about its financial statements must be "Clean" or "Qualified" in two recent fiscal years;

REGULATORY REQUIREMENTS IN REGARD OF SPV

- Only registered financial institutions are authorized to distribute and issue Sukūk;
- Each SPV can issue only one Sukūk;
- SPV should not be affiliated by originator;
- All income produced through publicly financed assets is tax exempted;
- All income produced from selling asset to SPV is tax exempted;

REGULATORY REQUIREMENTS IN REGARD OF UNDERWRITER

- Underwriter takes on unsubscribed securities during IPO;
- Appointing underwriter(s) in issuance of Ijārah Sukūk for the assets dividable to certain units by the request of the originator and approval of SEO is not obligatory;
- Underwriter must comply with Capital Adequacy Requirements;

REGULATORY REQUIREMENTS IN REGARD OF GUARANTOR

- Guarantees payment of rentals and other funds which the originator is committed to pay to the SPV;
- Must be independent from originator;
- The guarantor must have sufficient liquidity to be a Guarantor;
- The Guarantor will be committed to pay the amount that is guaranteed on, only when the Originator refuses to pay it;
- Rated Sukūks which are deemed investment grade, are not required to appoint guarantor, at the discretion of SEO.
- Must be abided by Capital Adequacy Requirements

REGULATORY REQUIREMENTS IN REGARD OF MARKET MAKER

- Is bound to maintain market Smooth and Regular;
- Is obliged to buy securities from askers and sell them to bidders when they need liquidity with the aim of tranquilizing the secondary market due to minimizing incompatibility in bid and ask offers;
- Must be abided by Capital Adequacy Requirements.

RISK CONSIDERATIONS

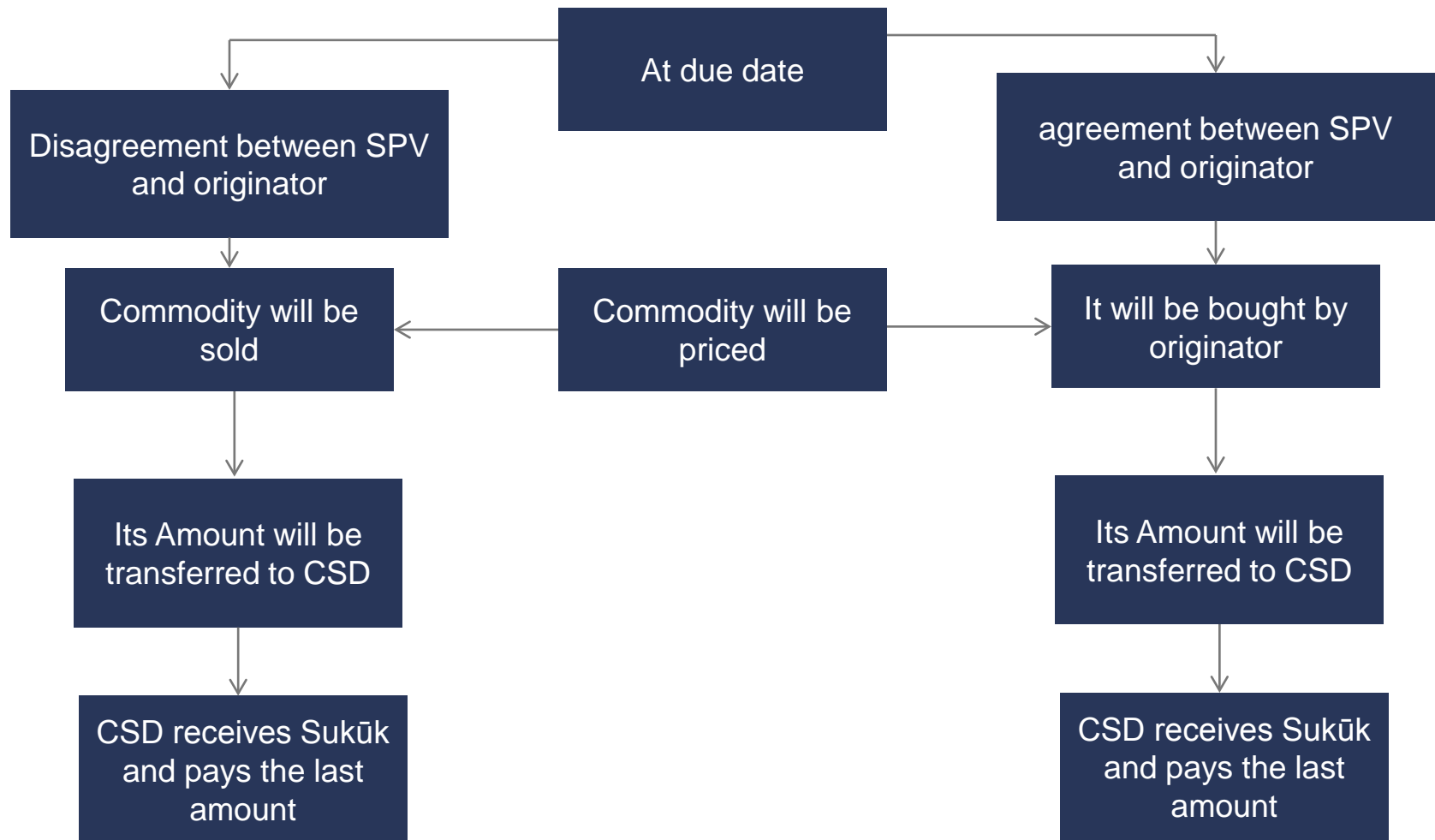
- All related risks must be clarified in prospectus and its coverage must be explained;
- Investors should be aware of inherent risks of different kinds of Sukūk ;
- Risks are divided into 3 categories: Primary Market, Secondary Market and Asset related risks;
- If asset is dividable: Best Effort Methods for Ijārah Sukūk Issuance, If asset is not dividable: Firm Commitment Method;
- Asset must be insured;
- Originator is responsible for operating expenses due to an article added to the contract;

SETTLEMENT AND CLEARANCE CONSIDERATIONS

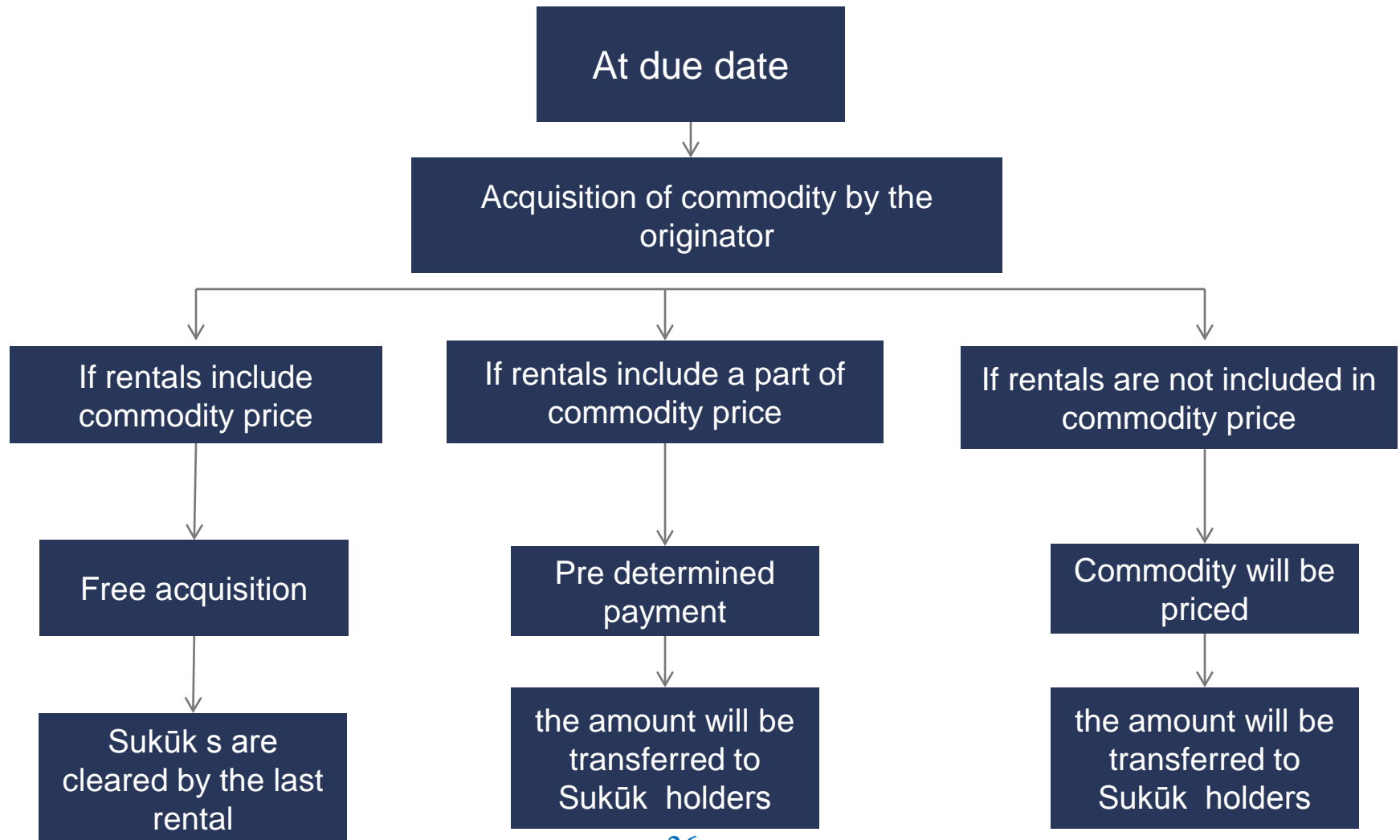
- Central Securities Depository (CSD) is settlement and clearance body;
- Before leasing or purchasing commodity, its prices must be approved by SPV and Originator;
- Originator pays rentals or proceeds to CSD and it will allocate them to investors by reducing fees and commissions;

CLEARANCE PROCESS

1- Typical leasing contract:

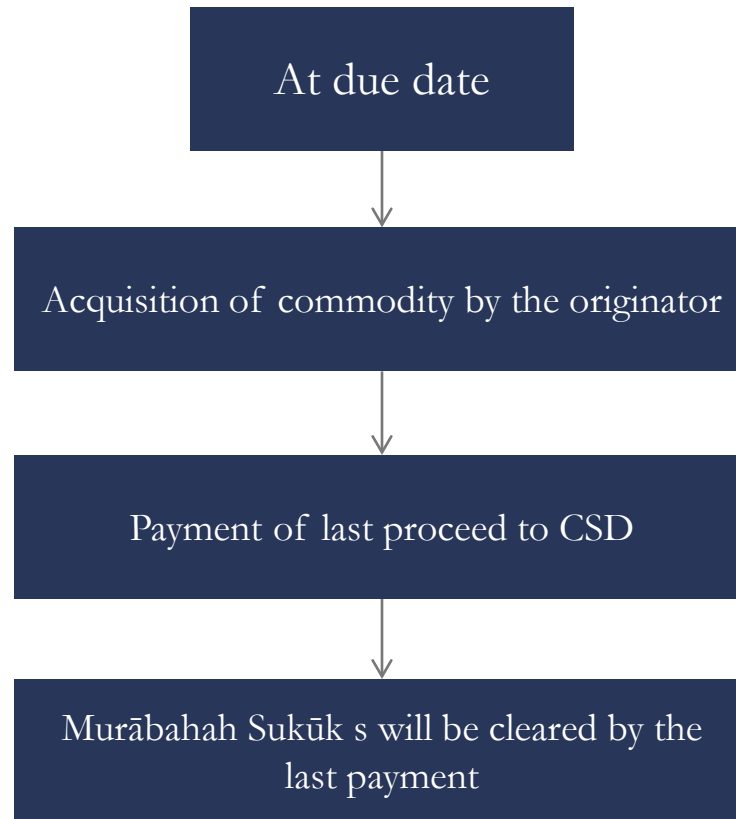


CLEARANCE PROCESS



CLEARANCE PROCESS

3- Murābahah Clearance: In case of predetermination of price commodity



CONCLUSION

- Although it's not been a long time experience for Sukūk issuance in Iranian capital market, issued amount and corporations' willingness obviously show that it can be a promising method of financing;
- Sukūk related regulations, facilitate Sukūk issuance in Iran;
- Capital market of Iran has great potential for Sukūk issuance and quite all organs exist in the country;
- By the nature of financing, Shari'ah board ratification, and approval of appropriate regulations, other types of Sukūk are in the queue of issuance.

THANK YOU FOR
YOUR ATTENTION
