Rethinking Sukuk Assets: Enhancing Shariah Compliance & Market Credibility



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Introduction

- Sukuk plays a major role in mobilising Shariah-compliant capital at scale
- Sukuk gives governments & businesses a Shariah compliant capital-market funding alternative for a wide range of purposes including infrastructure developments, green projects & business expansions
- Sukuk was introduced to be the Shariah compliant alternative to conventional bonds, nonetheless, as sukuk structures evolve, they demonstrate characteristics that make them inherently distinct from bonds



The Polemic: Sukuk vs Bonds

- Sukuk has always been treated as the Shariah compliant alternative to bonds.
- Bonds are always classified as a **tradable fixed income debt instrument**, hence, there is this expectation that Sukuk should also behave like a fixed income debt instrument with tradability features. This is where the problem starts.
- Shariah compliance requirements taught us that **Sukuk may not necessarily be debt, nor fixed income, nor tradable**.
- In its true form, Sukuk could not replicate bonds because of its inherently distinct characters that translate Shariah principles into investment/financing structures that typically link investors to assets, usufructs or ventures.
- When the market tried to make Sukuk behave like bonds, while still complying with the Shariah requirements, we see the transition of Sukuk from:
    - Debt to asset (e.g. Sukuk al-Ijarah)
    - Debt to equity (e.g. Sukuk al-Mudarabah; Sukuk al-Musharakah)
    - Debt to mixed portfolio (e.g. Sukuk Wakalah)

Main Issues: Shariah principles vs expected commercial behaviors

Debt

- Shariah compliant Debt creation?
  - Commodity Murabahah - issue of tawarruq
- Shariah compliant debt trading?
  - Issue of bay' al-dayn – AAOIFI SS 59

Asset

- Asset-backed vs Asset-based?
  - Recourse to asset vs recourse to obligor?
- Ijarah
  - Asset availability
  - Ownership issue – AAIOFI ED SS 62
- Other asset classes?
  - Manafe'a (usufructs)?
  - Huquq (rights)?

Equity

- Mudarabah
  - Not fixed income
  - No capital guarantee
- Musharakah
  - Not fixed income
  - No capital guarantee

Mixed Portfolio

- Wakalah bil Istithmar
  - Ratio of debt : non-debt
  - Not fixed income
  - No capital guarantee
- Wakalah bil Khadamat
  - Definition & distinction – AAOIFI ED SS 62

Sukuk Assets: from Tangibles to Intangibles

Tangible asset

Holders own the asset, which is leased to the obligor

→

Usufruct of an identified asset

Holders own the benefit of a specified asset

Egypt 2023; Saudi Arabia 2025

→

Right to services

The right itself is described as the underlying asset

Malaysia 2026

Moving along this sequence, the subject matter stands further from an identified asset, and what the holder owns depends more on how the right is defined.

Moving from tangible assets to manafae & khadamat may address some of the difficulties in finding suitable asset to underlie the sukuk. It may also address the ownership transfer & registration requirement under AAOIFI ED SS 62 (e.g. if such usufruct is exempted from registration requirement, see Egypt Sukuk 2023)

Adapted from: Engku Rabiah Adawiah & Muhamad Nasir Haron, "Application of Sale of Bare Rights and Rights Described in the Dhimmah", Bank Rakyat i-SHAR 2026

Sovereign Sukuk: Egypt, Saudi Arabia & Malaysia

	Egypt 2023 (US$1.5bn)	Saudi Arabia 2025 programme	Malaysia 2026 (US$1.5bn)
Subject matter	Usufruct rights in or relating to specific real estate located in Egypt, leased back to the Ministry of Finance	Usufruct rights over specified real estate owned by the Kingdom, subsequently leased back to the Kingdom	Rights to services within Malaysia's urban public rail transportation network", Manafae concept
Link to an identified asset	Usufruct right separated from identified state-owned real estate; ownership of the underlying asset is not transferred	Usufruct rights carved out of identified Kingdom-owned real estate; the underlying real estate remains intact	Transportation Services measured in specified units, drawn from the available capacity of Malaysia's public rail transportation network.
Point bearing on trading	Tradability rests on the continuing usufruct rights over identified real estate assets	Tradability depends on maintaining the prescribed asset threshold: if remaining Lease Assets fall below 33% or upon Total Loss certificates become subject to Shariah debt trading rules	Tradability depends on maintaining the prescribed tangibility threshold; breach results in the application of Sharīʿah debt trading rules.
Source of Info	Law No. 138 of 2021 (as summarised); arranger and rating reports	Base Prospectus, 1 September 2025	Offering Memorandum 2026.

Adapted from: Engku Rabiah Adawiah & Muhamad Nasir Haron, "Application of Sale of Bare Rights and Rights Described in the Dhimmah", Bank Rakyat i-SHAR 2026

Malaysia's 2026 US$1.5 Billion Global Sovereign Sukuk

US$1.5bn
Issue size, dual tranche

4.7x
Oversubscribed; book above US$9.5bn

T+15 / T+25
Tightest-ever Malaysian sukuk spreads

140+
International investors

Transaction snapshot

Issuer	Government of Malaysia
Tranches	US$850m 5.75-yr @ 4.612%; US$650m 10-yr @ 4.949%
Spreads	T+15 bps and T+25 bps; 30 bps inside guidance
Ratings	A3 (Moody's) / A- (S&P), in line with sovereign
Assets	Rights to services in the urban public rail network
Structure	Manafae, in accordance with AAOIFI guidelines
Distribution	Reg S / 144A; Asia 76%, EMEA 19%, US 5% (5.75-yr)
Listings	HKEX, Labuan IFX, Bursa Malaysia (Exempt Regime)

How the Manafae structure works

1. **Grant of rights**
   Government sells rail service rights (manafae) to the trustee
2. **Issuance**
   Trustee issues Trust Certificates; investors pay proceeds
3. **Proceeds**
   Government applies proceeds to Shariah-compliant purposes
4. **Returns**
   Service rights generate the periodic distributions to investors
5. **Dissolution**
   At maturity the rights are repurchased and principal repaid

Sukuk becomes globally investable when three things line up: credible sovereign credit, Shariah structure acceptable across jurisdictions, and clear underlying economic rights.

Source: Ministry of Finance Malaysia press release, "Malaysia's Global Sukuk 4.7 Times Oversubscribed, Priced at Record-Low Spreads", 24 July 2026.

Malaysia Global Sukuk 2026

Rights to services within the urban rail network (Manafae)

(a) Present proprietary right, identified or allocated

- Drawn from an identified Transportation Network and available capacity
- Determinate Transportation Services Units allocated for specified periods
- No general substitution of the Transportation Services is disclosed
- Replacement of the Authorised Entity is permitted; the identified network remains the reference point

(b) Right to future services in the Government's dhimmah

- Future Transportation Services are measured in Transportation Services Units
- Services are drawn from available capacity; individual journeys or trains are not specified
- No express obligation to provide equivalent services from another network upon disruption
- If characterised as mawṣūfah fī al-dhimmah, trading is subject to debt rules (IIFA 226; SS 17; SS 59)

Precedents. 2016 wakālah sukuk: at least 80% in vouchers for travel units. 2021 sustainability sukuk: travel vouchers on LRT, MRT and KL Monorail. The 2026 OC identifies the network, units and periods; it permits replacement of the Authorised Entity, but discloses no general power to substitute the purchased Transportation Services with equivalent services from another network.

Decisive documents. Purchase of Services Agreement; Service Agency Agreement; Total Disruption Event provisions; Purchase Undertaking; Shariah pronouncements.

Adapted from: Engku Rabiah Adawiah & Muhamad Nasir Haron, "Application of Sale of Bare Rights and Rights Described in the Dhimmah", Bank Rakyat i-SHAR 2026

Tradability: Identified Usufructs vs Obligations in Dhimmah

Consideration	Indicates an identified usufruct (muʿayyanah)	Indicates a claim in the dhimmah (mawṣūfah)
Source of performance	An existing, specified asset, or a truly closed pool of assets	Any source that meets the description
Power of substitution	Obligor may perform only from the identified source	Obligor may perform from elsewhere unilaterally
Allocation and exclusivity	A defined portion is assigned to the holder	No portion assigned; capacity may go to others
Loss of the source	Holder's right ends with the source	Obligor must supply an equivalent service
Holder can point to	A particular asset	Only a particular person

No single factor decides every case. Source, the absence of a unilateral power of substitution, allocation and loss usually carry most weight.

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Way Forward?