Characteristics of Sukuk and Their Influence on Financial Stability of Malaysian Firms

Chen Xiaoting

Master of Science
2019
Characteristics of Sukuk and Their Influence on Financial Stability of Malaysian Firms

Chen Xiaoting

A thesis submitted
In fulfillment of the requirements for the degree of Master of Science
(Finance)

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK
2019
DECLARATION

I, Chen Xiaoting (15020175, Faculty of Economics and Business) hereby declare that the work entitled “Characteristics of Sukuk and Their Influence on Financial Stability of Malaysian Firms” is my original work. I have not copied from any other students’ work or from any other sources where due to reference or acknowledgement is made explicitly in the text, nor has any part been written for me by another person. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Student’s Signature : ________________________
Student’s Name : Chen Xiaoting
Matric Number : 15020175
Date of Submission : _________________________
ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to those who have helped and supported me in the process of completing this thesis.

First and foremost, I would like to express my sincere appreciation to my main supervisor, Prof. Dr. Abu Hassan bin Md Isa, co-supervisor, Dr. Muhammad Abdullah Zaidel, and the Deputy Dean of the Faculty of Economics and Business, Assoc. Prof. Dr. Rossazana Ab. Rahim, for their useful guidance, comments, consistent encouragement and persistence during my post-graduate study in Universiti Malaysia Sarawak (UNIMAS).

Besides, I would like to show my gratitude to Universiti Malaysia Sarawak (UNIMAS) for providing me with an opportunity to do an empirical study on Sukuk and granting me Zamalah Graduate Scholarship Award throughout the study period.

Furthermore, special thanks to my friends who gave me a lot of helps either directly or indirectly to the success, especially Ms Chin Chee Ling. Final and the most important, thanks should go to my beloved family for their never-ending love, enormous courage and support.
ABSTRACT

Financial stability and Sukuk expanded into the financial market quickly after the global financial turmoil which had happened from 2007 to 2008. The economy globalization has made financial stability difficult to achieve. While Malaysia's Sukuk market is arguably the most prominent in Islamic finance globally, the inherent nature of Sukuk gives it better security on the premise of guaranteed firms’ financial stability and returns to investors. This study aims to evaluate the degree of Malaysian firms’ financial stability which could be influenced by the characteristics of Sukuk and also firms’ characteristics. Sixty-one out of 164 companies that were listed on Bursar Malaysia which issued Sukuk have been selected for this study, and the issuance took place from 1997 to 2017. Subsequently, the firms’ financial stability was treated as default probability and determined by using Naïve Distance to Default (DD) which was developed by Bharath and Shumway. Descriptive analysis and Ordinary Least Squares (OLS) were employed in this study, and the results of the analysis confirmed that Sukuk could promote the firms’ financial stability. Among the important variables related to the characteristics of Sukuk that were found to influence financial stability were the intensity of Sukuk and the proportion of Sukuk. They were found to be positively and significantly influenced the firms’ financial stability. The control variables which include the firm size, valuation, solvency, and profitability have also affected the firms’ financial stability significantly. The findings provide evidences that Malaysia should play more active role in promoting the development of Sukuk market, and at the same time should be aware that financial stability is a systematic element which involved many complex factors. Thus, it is essential for companies and countries to comprehensively grasp the financial stability from macro and micro perspectives.
Keywords: Sukuk, financial stability, Malaysian firms, Naïve Distance to Default
Ciri-cici Sukuk dan Pengaruhnya Terhadap Kestabilan Kewangan Firma-firma Malaysian

ABSTRAK

mikro, ia adalah penting bagi syarikat dan negara untuk memahami kestabilan kewangan secara komprehensif.

*Kata kunci: Sukuk, kestabilan kewangan, firma Malaysia, Naïve Distance to Default*
TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>i</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>v</td>
</tr>
<tr>
<td>TABLE OF CONTENT</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xi</td>
</tr>
</tbody>
</table>

CHAPTER 1: INTRODUCTION

1.1 Introduction

1.2 Background of the Study
   1.2.1 The Development of Financial Stability
   1.2.2 The Development of Sukuk
   1.2.3 The Differences between Sukuk and Conventional Bond
   1.2.4 The Issuance of Sukuk

1.3 Problem Statement

1.4 Objectives of the Study
   1.4.1 General Objective
   1.4.2 Specific Objectives

1.5 Significance of the Study

1.6 Organization of the Study
# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

## 2.2 Empirical Studies of Financial Stability

- **2.2.1 The Definition of Financial Stability**
- **2.2.2 Financial Stability of Nation/Country and Firm**

## 2.3 Empirical Studies of *Sukuk*

- **2.3.1 The Definition of *Sukuk***
- **2.3.2 Types of *Sukuk***
- **2.3.3 Studies Related to *Sukuk***

## 2.4 Empirical Studies on Bond/*Sukuk* and Financial Stability

## 2.5 Theoretical Framework

- **2.5.1 Empirical Model of Financial Stability**
- **2.5.2 Reviews of the Theories**

## 2.6 Summary

# CHAPTER 3: METHODOLOGY

## 3.1 Introduction

## 3.2 Conceptual Framework

## 3.3 Data Description

## 3.4 Forecasting Model of Financial Stability

- **3.4.1 The Merton Distance to Default (DD) Model**
- **3.4.2 The Bharath and Shumway Model**

## 3.5 Specification of Model

## 3.6 Data Analysis
LIST OF TABLES

Table 1.1  *Sukuk* (Islamic Bond) versus Conventional Bond  
Table 2.1 Variables used by Hmida and Brahmi (2016)  
Table 2.2 Variables used by Orazalin et al. (2019)  
Table 3.1 Definition of Variables  
Table 3.2 Sample Selection Procedure  
Table 3.3 Analysis of Sample Companies  
Table 4.1 Descriptive Analysis of Variables  
Table 4.2 White’s Test Results  
Table 4.3 Correlation Coefficient Table  
Table 4.4 Results of the Multicollinearity Tests  
Table 4.5 Ordinary Least Squares (OLS) Results  
Table 4.6 Summary of Relationship Tested Based on Specific Objectives
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1</td>
<td>Global <em>Sukuk</em> Issuance from 1999 to 2014 (billions of USD)</td>
<td>7</td>
</tr>
<tr>
<td>Figure 2.1</td>
<td>Global <em>Sukuk</em> Structure Trend from 2010 to 3rd Quarter 2014 (billions of USD)</td>
<td>34</td>
</tr>
<tr>
<td>Figure 2.2</td>
<td>The Structure of <em>Sukuk</em> al Ijara</td>
<td>35</td>
</tr>
<tr>
<td>Figure 2.3</td>
<td>The Structure of <em>Sukuk</em> al Murabaha</td>
<td>37</td>
</tr>
<tr>
<td>Figure 2.4</td>
<td>The Structure of <em>Sukuk</em> al Musharaka</td>
<td>39</td>
</tr>
<tr>
<td>Figure 3.1</td>
<td>The Relationship between Dependent Variable and Independent Variables</td>
<td>64</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.1 Introduction

Financial stability and *Sukuk* expanded into financial industry swiftly and become the recent interest after the global financial turmoil which happened in 2007 and 2008 (Taoual, 2016; Dusuki, 2010). Financial stability is a kind of balanced state where the function of the financial intermediaries’ program runs smoothly and the market participants believed that the main financial institutions and markets within the economy will operate well (Bank Negara Malaysia, 2015b). Financial stability was first used by the Bank of England (BoE) in 1994 to describe its goals which were not to do with price stability or financial system’s effective operation (Allen & Wood, 2006). East Asian financial crisis which happened in the 90s might be the main catalyst for the development of financial stability. Since then, increasing attention has been given to financial stability due to the market volatility and more frequency and intensity of financial crisis (Morris, 2010; Alawode & Sadek, 2008; Allen & Wood, 2005; Bank of Canada, 2003; Sundararajan et al., 2002).

A sound, stable and healthy financial system is of great significance and indispensable to a country and a stabled financial system helps the country allocates resources efficiently, distributes risk across the whole economy, and absorbs shocks effectively (Bank Negara Malaysia, 2015b). However, financial instability could spread throughout and have the spillover effects to the other sectors of economy, and it might be the blasting fuse of the financial crisis as for its adverse consequences for the economy. These factors contribute to the high cost of financial instability and adverse impact on the economy (Bank Negara Malaysia, 2015b).
Like financial stability, *Sukuk* is also relatively a new term that has been introduced into financial system. It is a *Sharia*-complied asset-backed financial instrument which can be referred as Islamic bond and usually treated as one substitute of conventional bond (Alshamrani, 2014; Saeed & Salah, 2014; Jamaldeen, 2012; Wilson, 2004). As one of the most popular instruments under Islamic finance, *Sukuk* represents undivided interest or shares in the ownership of the underlying asset, where profit and cash flow will generate via this kind of ownership, meanwhile, the relative risk matched with those benefits should be borne by its owner (Franklin Templeton Investment, 2014). *Sukuk* market may be thought as a late bloomer compared with banking and equity market, and the modern history of the Islamic finance industry is considerably young which was just began about the 1970s (Jamaldeen, 2012). Based on the data gathered, *Sukuk* was first introduced to the global world with only $600 million in 2002 and the issuance amount reached to $118.84 billion in 2014 within only twelve years, which was an increase of approximately $9.85 billion per year (Thomson Reuters, 2015; Malaysian International Islamic Finance Centre, 2015a).

Needless to say, Malaysia is the pioneer and leader of the *Sukuk* market. Malaysia occupied the first position with a sizeable 42.3% of total issuances in the first quarter of 2015, followed by the United Arab Emirates (UAE) with 18.2% and then Indonesia accounted for 14.1% share (Malaysian International Islamic Finance Centre, 2015a; Islamic Finance News, 2015). The *Sukuk* market has been performing well and widely received among the contemporary global financial industries. *Sukuk* investors are widely spread across Asia, the Middle East, Europe and the United State (Shahida & Sapiyi, 2013). In addition, *Sukuk* issuers are also increase along with the growing demand. The United Kingdom, Luxembourg, South Africa, Senegal, Hong Kong and a major Western bank, Goldman Sachs, became the
participants of Sukuk issuers in 2014 (Islamic Finance News, 2015). Those growing trends have made Sukuk market the most notable achievement in the development of Islamic capital market and has received a great deal of attention after the global financial crises of 2007 and 2008 (Jamaldeen, 2012; Dusuki, 2010). Several years have passed since financial stability and Sukuk came into the spotlight, but research on both has been scanty. Thus, the contribution of Sukuk towards financial stability is very crucial.

1.2 Background of the Study

This section includes the discussion on the development of financial stability, the development of Sukuk, the difference between Sukuk and conventional bond, and the issuance of Sukuk.

1.2.1 The Development of Financial Stability

Financial stability refers to the smooth operation of financial intermediation where the market participants have full confidence in the operation of major financial institutions and markets (Bank Negara Malaysia, 2015b). Financial stability is a product of the modern financial world and it is a quite new concept. The high cost and increased frequency of financial crisis, the rapid growth of financial transaction volume, as well as the intricacy of new financial trading tools, could be the main activators that make financial stability issue receives a widespread attention for policy makers and research scholars in recent years (Creel, Hubert & Labondance, 2015; Beck, Degryse & Kneer, 2014; Morris, 2010; Alawode & Sadek, 2008; Cihak, 2007a; Cihak, 2007b).
The Bank of England might be a precursor of financial stability development. For the first time in 1994, financial stability has been chosen as the Bank of England’s objective which does not related to price stability and financial system’s effective operation (Allen & Wood, 2005). Two years later, in 1996, the Bank of England published financial stability review to emphasize the significant progress that has affected the financial system stability, as well as to generalize the newest concepts related to risk, regulation and market institutions. The Financial Stability Review was officially renamed as the Financial Stability Report (FSR) in 2006 to show its contents and targets preference (Bank of England, 2015; Allen & Wood, 2005). Financial Stability Report (FSR) has shown its importance to the country and therefore became the primary objective of most central banks around the world; about 80 central banks committed to publish their report by 2011 (Cihak, Munoz, Sharifuddin & Tintchey, 2012). Malaysia has also started to publish its financial stability and payment systems report from 2006 as a response to the booming of financial transactions, more complexity of financial markets and closer interaction of the global economy.

Furthermore, international institutions also keen to track financial stability from worldwide. The World Bank and the International Monetary Fund (IMF) introduced the Financial Sector Assessment Program (FSAP) in 1999, aimed at assessing regularly on the strengths and weaknesses of financial systems in their member countries (Alawode & Sadek, 2008). In addition, the International Monetary Fund (IMF) issued the first Global Financial Stability Report (GFSR) in 2002 to assess financial trends and market developments across the globe (International Monetary Fund, 2017). Besides, as early as 1997, the Bank for International Settlements (BIS) realized the importance of financial stability. Under the joint efforts of Japan, the United States, the United Kingdom, Sweden and other countries, a
unified and coordinated international principles and practices were developed to promote financial stability at the international level (Bank for International Settlements, 1997).

Financial stability is mainly considered in the context of macro-economy, and regarded as a necessary condition for the normal operation of the entire national economic system to achieve the stable economic growth (Pera, 2017; Bank of England, 2015; Bank Negara Malaysia, 2015b; Rosengren, 2011; Schinasi, 2004). Similar to the financial stability at the national level, this concept is also the main goal of a company and treated as an indispensable condition for the long-term sustainable development of the company (Cernavskis, 2014). Financial stability of a company means that even in the presence of disturbances, the company can stick to its development goals, withstand shocks and quickly return to the development path (Pera, 2017). At the same time, Cernavskis (2014) and Pera (2017) believed that stability can be treated as solvency, and according to this, a company's financial stability is to have enough free cash flow available to repay the company's short-term and long-term debt.

In terms of the measures of financial stability, lots of methods have been used. In the perspective of firm level, Z-score model and Merton distance to default (DD) model are mainly adopted for the measurement of company’s financial stability. Among them, the Merton DD model is easily to be modified, for example, Bharath and Shumway’s naïve DD model was developed based on Merton DD model and its naïve DD was used as one proxy of financial stability from firm level (World Bank, 2016; Bharath & Shumway, 2008). Besides, in the perspective of country level, to aggregate the company’s financial stability indicators into a national level, First-to-Default probability, System Expected Shortfall
(SES), distribution of systemic loss and a range of indicators of financial soundness are the common measurement of financial stability for a country (World Bank, 2016).

All of those works offered valuable insights into the structure of financial systems. Those works provided a rich source not only for the public but also for policy makers as well as for scholars and researchers to understand and study the complex financial world more intuitively.

1.2.2 The Development of Sukuk

Islamic finance was originally considered as a financial instrument of Muslim countries only; but as for today, it has shown its powerful financing strength and ability to resist risks and to become an integral part of the financial world stage. *Sukuk* market could be the most shining star among Islamic finance. Meanwhile, the growth of the *Sukuk* market globally also shown promising result in the Islamic capital markets (Dusuki, 2010).

The history of *Sukuk* could be traced back to 1983 when the Central Bank of Malaysia attempted to overcome the Islamic banks’ liquidity problem for the first time (Rezaei, 2013; Jamaldeen, 2012). Actually, the real first Islamic bond that was called *Muqarada* bond was introduced by Jordan Islamic Bank in 1978. After this, in 1990, multinational Shell Malaysia, a non-Islamic company, issued the world’s first ringgit *Sukuk* worth $33 million. As for this development, most scholars now take regard for Malaysia as the birthplace of the first *Sukuk* in the world (Jamaldeen, 2012). However, after this, there was no other *Sukuk* was issued until the first global *Sukuk* worth $600 million issued by Malaysia sovereign in 2002, and that was the first time for *Sukuk* to appear on world financial market (Malaysian International Islamic Finance Centre, 2015b; Rezaei, 2013; Jamaldeen, 2012; Zaidi, 2008).
The growth of the *Sukuk* market has been rapid and has made gratifying achievements. Only twelve years later after the first global issuance, the amount of *Sukuk* issuance has reached $118.84 billion in 2014. As depicted in Figure 1.1, it is clearly shown that the issuance of *Sukuk* is increasing promptly, especially during the financial crisis of 2007 and 2008. The global circulation of *Sukuk* in 2006, 2007, 2008 and 2009 was $20.43 billion, $37.63 billion, $20.99 billion and $34.3 billion respectively. Its issuance rapidly rebounded to $34.3 billion in 2009 after a brief decline in 2008, which was higher than the circulation in 2006. Hereafter, the *Sukuk* market reached a total issuance of $137.14 billion in 2012 with an average annual growth rate of about 60% globally ($51.24 billion in 2010, $85.07 billion in 2011 and $137.14 billion in 2012) (Malaysian International Islamic Finance Centre, 2015a).

![Figure 1.1: Global Sukuk Issuance from 1999 to 2014 (billions of USD)](image)

Sources: Thomson Reuters (2015), Malaysian International Islamic Finance Centre (2015a)

Besides, the increasing number of economic entities that has showed their interest in *Sukuk* market, such as sovereigns, multilateral institutions, multinational and national corporations both from developed and emerging economies has finance investments in a wide range of economic activities and development projects and so on. Furthermore, the
Sukuk market is no longer limited to Islamic countries and active in more than 20 countries globally, and its investors are spread across Asia, the Middle East as well as Europe. In addition, Sukuk issuances in international reserve currencies became colorful, such as Malaysian Ringgit (MYR, RM), US Dollar (USD, $), Indonesian Rupiah (IDR, R$), British Pound (GBP, £), Chinese Renminbi (RMB, ¥) and so on (Aziz, 2014).

Malaysia is the world’s largest Islamic founder and has been the pioneer of Sukuk development (Oladunjoye, 2014; Rezaei, 2013; Alhabshi, 2013). The latest data showed Malaysia continue to be accounted for the first place with 50.4% of total global Sukuk shares in 2018 (Malaysian International Islamic Finance Centre, 2019). Other countries also participated in Sukuk market actively, such as Saudi Arabia, Kuwait, Bahrain, Indonesia, Brunei, Pakistan, Gambia, UAE and so on (Said & Grassa, 2013; Zaidi, 2008).

Saudi Arabia is considered as the second-largest player in the Middle East for Islamic finance with 30% of its total financial assets are in Islamic finance products. In 2004, the first Sukuk of the Kingdom of Saudi Arabia (KSA) was issued on behalf of HANCO Rent-A-Car (Alshamrani, 2014; Jamaldeen, 2012). Bahrain is another world’s leader in Islamic financial services with a dual banking system. As the first issuer of Bahrain, Bahrain Monetary Institute issued $25 million government bills in accordance with Islamic law within the scope of Persian Gulf states in 2001 (Rezaei, 2013; Wilson, 2004). In the year of 2007, the highest exchange happened in the Dubai International Financial Exchange (DIFX) with $10.43 billion of Sukuk list on it (Alshamrani, 2014). On 3rd August 2012, Kazakhstan becomes the first country in the former Soviet Union to issued Sukuk with $75 million via the Development Bank of Kazakhstan (Khaki & Mailk, 2013).
In addition, more and more non-Muslim countries are also been attracted to participate the *Sukuk* market. England became the first non-Muslim country to issue sovereign *Sukuk* with a five-year maturity of $0.35 billion on 25th June 2014 (Edwards, 2014). Hong Kong also issued $1 billion *Sukuk* successfully on 11th September 2014 (Rezaei, 2013; Hanefah, Noguchi & Muda, 2013). Government of Ningxia Hui autonomous region signed an agreement with AVIC securities to decide to issue $1.5 billion *Sukuk* on 24th December 2014 (China Development, 2015).

1.2.3 The Differences between *Sukuk* and Conventional Bond

Usually, *Sukuk* can be treated as one alternative to conventional bond which complied with *Sharia* laws (Jamaldeen, 2012). *Sukuk* and conventional bond are quite similar and have no such differences in terms of financial perspectives, this resulting in *Sukuk* rapid development, and sometimes, market participants directly to treat *Sukuk* as the conventional bond. However, *Sukuk* and conventional bond are distinctly different. One of the biggest differences between them is that *Sukuk* means ownership of underlying asset together with the associated risk and potential return while the conventional bond is the certificate of pure debt (Jamaldeen, 2012). Table 1.1 compares *Sukuk* and conventional bond side by side so that makes it clearer and easier to understand.
Table 1.1: Sukuk (Islamic Bond) versus Conventional Bond

<table>
<thead>
<tr>
<th>Issue</th>
<th>Sukuk (Islamic Bond)</th>
<th>Conventional Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>• Consistent with the laws of Sharia.</td>
<td>• The investors do not have the ownership of the asset or business they support.</td>
</tr>
<tr>
<td></td>
<td>• Investors get the partial ownership of the Sukuk’s underlying asset.</td>
<td>• Representative borrowers owe the debt to the investors.</td>
</tr>
<tr>
<td></td>
<td>• Underlying assets must comply with Sharia law.</td>
<td></td>
</tr>
<tr>
<td>Investment criteria</td>
<td>• All the investment activities and each issuance process need compliant to Sharia laws.</td>
<td>• Do not have the special law to follow, just need to comply with the local legislation.</td>
</tr>
<tr>
<td>Meaning of per unit</td>
<td>• Represents a share of ownership of the underlying asset.</td>
<td>• Represents a share of debt.</td>
</tr>
<tr>
<td>Face value</td>
<td>• Based on the market value of the underlying asset.</td>
<td>• Based on the credit worthiness of issuer and its rating.</td>
</tr>
<tr>
<td>Investment rewards and risks</td>
<td>• Profit and loss come from the share of underlying asset. The principle amount not guaranteed by the issuer at maturity.</td>
<td>• Get the interest payment based on the regularly scheduled during bond period and the principle will return at the maturity date.</td>
</tr>
<tr>
<td>Costs and investor’s profit</td>
<td>• Negative relationship existed between investors’ profit and the cost of underlying asset.</td>
<td>• Investors are not affected by the performance of the underlying asset.</td>
</tr>
<tr>
<td>Invest area</td>
<td>• Prohibited to invest some area relate to gaming, tobacco, alcohol manufacturers and other include uncertainty.</td>
<td>• Do not have clear ban area.</td>
</tr>
</tbody>
</table>


1.2.4 The Issuance of Sukuk

Although the types of Sukuk are numerous, three main parties involved when Sukuk is issued, which are obligator, trustee or issuer and investors. Sometimes, underwriter may also be included as an optional party (Jamaldeen, 2012). Obligator refers to a government or a corporation who will achieve some financial benefit via Sukuk issuance. Trustee or issuer is a part connecting the obligator and the investors and this part usually know as special purpose vehicle (SPV). Investors are the parties who hold the Sukuk. While underwriter usually acts as an insurance of SPV to guarantee any unsold Sukuk will be purchased. The involvement of underwriter is depending on the situation and usually does not bear the actual issue work (Jamaldeen, 2012). However, there is not much differences between Sukuk and
conventional bond issuance except that *Sukuk* have *Sharia* advisors and need to be in accordance with certain regulatory requirement and Islamic laws (Islamic Finance News, 2012).

Determination of the structure used is the first and foremost things when *Sukuk* issuance is initiated, because different types of *Sukuk* products require for different structures (Jamaldeen, 2012). There are fourteen (14) different types of *Sukuk* were acceptable in Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) *Sharia* standard 17, such as *Ijara, Mudaraba, Musharaka* and so on (Saeed & Salah, 2014; Hanefah et al., 2013). Besides, arrangers are the professionals or Islamic financial service providers who know the process of *Sukuk* well. They will aid the obligator to determine structure of *Sukuk*. With the help of arrangers, the obligators has the duty to describe six (6) items:

1. purpose of the *Sukuk*, the underlying assets set to directly benefit from the issuance;
2. legal issues or relevant regulations, issue *Sukuk* need to be approved by the relevant authorities for public offerings same as conventional bonds;
3. information about the obligators, business types, historical performance, board of directors as well as outstanding shares needs to be described in this item;
4. units, the number of *Sukuk* will be issued;
5. currency, currency used in the primary market transactions; and
6. structure, the details of Islamic contract used for this issue, *Ijara* or *Mudaraba* contract for instance (Jamaldeen, 2012).

Subsequently, the obligators will create a prospectus, which included general structure information and some necessary terms and conditions, such as the obligators’ rating position according to the independent rating agencies. All kinds of potential risks involved in *Sukuk* issuance need to specify in the prospectus, such as, taxation and law issues, accidents caused