BIIRG

VOLUME II

FIXED INCOME & SUKUK

Analyst Training Manual

Islamic capital markets, structuring, credit analysis, valuation, trading, portfolio construction, and Shariah governance.

Baruch Islamic Investment Research Group

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BIIRG ANALYST TRAINING SERIES

A five-volume research curriculum

Volume I **Equities Research**	Volume II **Fixed Income & Sukuk** THIS VOLUME
Volume III **Real Assets**	Volume IV **Macro Research**
Volume V **Quantitative Research**	

The volumes are designed to be read in any order and used as reference throughout an analyst's tenure. Fixed Income & Sukuk is the structural volume: it teaches the analyst to read a transaction as a legal and Shariah construction before pricing it as a security.

VOLUME II

Contents

PART V — DOCUMENTATION, RATINGS, AND GOVERNANCE

PART VI — PORTFOLIO, MACRO, AND PRACTICE

REFERENCE MATERIAL

FRONT MATTER

How to Use This Manual

This manual is designed to train an analyst to evaluate sukuk as both Islamic financial instruments and capital-markets securities.

A competent sukuk analyst must understand two layers simultaneously: the economic and credit substance of the investment, and the contractual and Shariah architecture through which investor returns and rights are created. The analyst should be able to read an offering circular, map the transaction parties and cash flows, identify the relevant obligor and assets, determine tradability and structural risks, price the security relative to benchmarks and peers, and explain what happens in stress or default.

BIIRG STANDARD — THE SUKUK CHAIN

Issuer → purpose → Shariah contract → asset pool → SPV and trust → cash-flow waterfall → credit support → investor claim → market pricing → downside and recovery → portfolio role.

Never stop at the label ‘sukuk.’

The component system

Recurring kinds of material are marked consistently throughout the manual.

DEFINITION
Formal definition of a concept, contract, or term.

CORE CONCEPT
Foundational structure the rest of a chapter rests on.

ANALYST NOTE
Practical interpretation and desk-level judgment.

EXAMPLE
Illustrative application of a method.

BIIRG STANDARD

KEY TAKEAWAY

Expected BIIRG methodology or research standard.

The central conclusion of a section.

FORMULA

Relationship, variable definitions, interpretation, application.

WATCH FOR

Analytical mistakes, documentation traps, structural weakness.

INVESTMENT IMPLICATION

Translation of structural and credit analysis into a portfolio decision.

Reading paths

New analysts should complete Parts I and II first, then Chapters 15 to 20, then the case study in Chapter 29. Sovereign-focused analysts should prioritise Chapters 11, 16 to 19, 22, 24, 26, and 27. Bank and capital analysts should prioritise Chapters 12, 14 to 18, and 22. Structuring analysts should master Chapters 3 to 10, 18, 20, 22, and 23.

INSTITUTIONAL CONTEXT

AAOIFI Shariah Standard No. 17 defines investment sukuk as equal-value certificates representing undivided ownership shares in tangible assets, usufructs, services, particular projects, or special investment activities after subscription proceeds are deployed. The standard distinguishes investment sukuk from shares and from conventional bonds, and recognises multiple contractual forms. The IFSB's 2025 stability report notes that contemporary issuance remains concentrated in agency-based, hybrid, and debt-based structures, while tradability constraints remain particularly relevant for debt-dominant structures.

FRONT MATTER

Learning Outcomes

On completing this volume, a BIIRG sukuk analyst should be able to do each of the following without supervision.

01 Explain the economic and jurisprudential foundations of sukuk and distinguish sukuk from conventional bonds and equity.

02 Identify and analyse Ijarah, Wakalah, Murabahah, Mudarabah, Musharakah, Salam, Istisna', and hybrid structures.

03 Map legal ownership, beneficial ownership, asset-based versus asset-backed features, recourse, purchase undertakings, guarantees, reserves, and dissolution mechanics.

04 Analyse sovereign, quasi-sovereign, financial-institution, corporate, project, green, sustainability, and regulatory-capital sukuk.

05 Perform conventional fixed-income mathematics: price and yield, accrued return, duration, convexity, spread, curve, carry, roll-down, and total-return analysis.

06 Perform issuer credit analysis and then overlay sukuk-specific structural and Shariah risks.

07 Understand primary issuance, bookbuilding, documentation, ratings, listing, settlement, secondary-market liquidity, and relative-value analysis.

08 Build portfolio views across currency, tenor, geography, structure, sector, rating, duration, and liquidity.

09 Analyse default, restructuring, enforcement, recovery, and the gap that can exist between economic expectations and legal rights.

10 Apply AAOIFI and industry standards carefully while recognising jurisdictional and scholarly differences.

PART I

Foundations and Architecture

The commercial principles that govern Islamic capital markets, what a certificate actually represents, and the parties, contracts, and cash flows behind every transaction. Chapters 1 to 4 build the vocabulary the rest of the volume assumes.

01 Foundations of Islamic Capital Markets

The commercial principles that decide how a financing cash flow may be generated, and what may then be traded.

1.1 Core commercial principles

Islamic finance is built around permissible trade, leasing, investment, partnership, and asset or service transactions while prohibiting riba and requiring attention to gharar, maysir, contractual certainty, ownership, possession, and permissible economic activity. These concepts affect how financing cash flows are generated and what may be traded in secondary markets.

TABLE 1.1 — GOVERNING CONCEPTS AND THEIR ANALYST MEANING

CONCEPT	ANALYST MEANING
Riba	Prohibition relevant to interest-bearing lending and predetermined accretion on loans.
Gharar	Excessive uncertainty or ambiguity in essential contractual elements.
Maysir	Gambling or games of chance; relevant to speculative contractual structures.
Qabd	Possession; legal or constructive possession can matter to validity of sale and transfer.
Mal / asset	Underlying property, usufruct, service, receivable, or investment interest must be classified correctly.
Bay'	Sale; creates different rights and tradability consequences from a loan.
Ijarah	Lease of usufruct or service for rent.
Shirkah	Partnership or equity participation with profit and loss principles.
Wakalah	Agency arrangement in which an agent acts within a mandate.

Source: BIIRG Fixed Income & Sukuk Division.

1.2 Form and substance

A sukuk analyst must understand both contractual form and economic substance. Similar periodic distributions can arise from rent, investment-agency profits, partnership profits, or sale receivables. These are not interchangeable under

1.3 Shariah standardisation

AAOIFI maintains Shariah standards covering, among other topics, Ijarah, Salam, Istisna', Musharakah, Mudarabah, investment sukuk, possession, and agency. Jurisdictions may also rely on national Shariah councils, securities regulators, Shariah or law. The structure affects ownership, risk allocation, tradability, remedies, and sometimes accounting or regulatory treatment.

central banks, or transaction-specific Shariah boards. Analysts should record which framework and opinions govern each issuance.

1.4 Capital-market function

Sukuk allow sovereigns, financial institutions, corporations, and projects to raise capital through Shariah-compliant structures. They can serve liquidity management, budget financing, infrastructure investment, bank funding, regulatory capital, corporate refinancing, and investor portfolio needs.

> **KEY TAKEAWAY**
>
> The contract is not a label attached to a financing. It determines what the investor owns, what generates the cash flow, and whether the certificate can be sold at a price other than par.

02 Sukuk: Definition, Economic Purpose, and Bond Comparison

What the certificates represent, where they differ from a bond, and why they often still trade like one.

2.1 What sukuk represent

Under AAOIFI Standard No. 17, investment sukuk represent undivided ownership shares in specified assets, usufructs, services, projects, or investment activities after proceeds are deployed. This ownership concept is the analytical starting point, although the practical strength of ownership and recourse varies materially by transaction.

2.2 Sukuk versus conventional bonds

TABLE 2.1 — BOND AND SUKUK COMPARED ACROSS SEVEN DIMENSIONS

DIMENSION	CONVENTIONAL BOND	SUKUK
Core concept	Debt obligation of issuer	Certificates linked to ownership or investment interests under a Shariah structure
Return source	Interest or coupon	Rent, profit, investment return, or other permissible cash flow
Principal claim	Contractual debt repayment	Depends on structure, obligor undertakings, assets, and dissolution mechanics
Underlying assets	Not inherently required	Usually integral to structure or investment activity
Tradability	Generally debt-security rules	Depends on composition of tangible assets, usufructs, cash, and receivables plus the applicable Shariah view
Credit analysis	Issuer and guarantor primarily	Issuer and obligor plus structure, assets, counterparties, and legal or Shariah enforceability
Default remedy	Debt enforcement	Transaction-specific enforcement, undertakings, guarantees, asset rights, and insolvency law

Source: BIIRG Fixed Income & Sukuk Division.

2.3 Why sukuk often trade like fixed income

Many sukuk are engineered to deliver predictable periodic distributions and principal-like redemption at maturity, so market pricing frequently references conventional yield curves and credit spreads. This does not eliminate the need to understand the underlying Shariah contracts. Economic similarity in cash-flow profile does not mean legal identity.

2.4 Par, premium, discount

Like other capital-markets instruments, a sukuk may trade at par, premium, or discount depending on required yield, credit quality, liquidity, expected cash flows, and benchmark rates. At scheduled

2.5 Market scale

IIFM's 2025 Sukuk Report records global sukuk outstanding of approximately USD 902.82 billion at 31 December 2024, with sovereign issuance representing the largest issuer category. The market includes large domestic ecosystems as well as international hard-currency issuance.

dissolution, investors receive the contractual dissolution amount subject to transaction terms and credit performance.

> **WATCH FOR**
>
> Pricing a sukuk off a conventional curve is standard practice and is not the error. The error is allowing that convention to substitute for reading the structure, because the two instruments can behave identically until the moment they do not.

03 Parties, Legal Architecture, and Cash-Flow Mapping

Who does what, what the vehicle actually holds, and the diagram every analyst is expected to draw before forming a view.

3.1 Typical parties

TABLE 3.1 — TRANSACTION PARTIES AND FUNCTIONS

PARTY	FUNCTION
Originator / obligor	Raises financing and often sells, leases, services, or manages assets.
Issuer SPV / trustee	Issues certificates, holds relevant rights or assets for investors, executes transaction documents.
Sukukholders	Provide subscription funds and hold beneficial or economic interests represented by certificates.
Delegate / trustee	Acts for holders in enforcement and covenant matters.
Investment agent / wakeel	Manages assets or investments under Wakalah.
Servicing agent	Performs operational, maintenance, and collection functions.
Guarantor	Provides permitted contractual credit support where applicable.
Shariah board / adviser	Reviews structure and documentation for Shariah compliance.
Arrangers / dealers	Structure, market, price, and distribute the issuance.
Paying / calculation agent	Administers payments and calculations.

Source: BIIRG Fixed Income & Sukuk Division.

3.2 The SPV

The special-purpose vehicle isolates issuance mechanics and can hold legal or beneficial interests for certificate holders. Analysts should ask whether the SPV is bankruptcy remote, what assets or rights it actually holds, whether those rights survive insolvency, and whether investors have direct or indirect recourse to the obligor.

3.3 Cash-flow mapping

BIIRG STANDARD — REQUIRED ANALYST DIAGRAM

Subscription proceeds → issuer or SPV → asset purchase or investment deployment → operating, rental, or profit cash flow → SPV or trustee → periodic distributions → maturity or dissolution event → purchase or asset realisation → final distribution.

3.4 Transaction waterfall

Read the priority of payments. Administrative expenses, trustee fees, hedging amounts, taxes, reserve funding, senior obligations, and certificate distributions may have different priorities. In stress, waterfall priority can determine recovery.

3.5 Dissolution events

Documentation typically specifies scheduled dissolution and early dissolution events, which may include non-payment, breach, insolvency, cross-default, illegality, tax events, or other triggers. The consequences depend on the transaction documents and governing law.

04 Shariah Contracts Used in Sukuk

Eight contractual engines, the cash flow each produces, and the question each one forces the analyst to answer.

TABLE 4.1 — CONTRACT, ENGINE, CASH FLOW, AND CORE ISSUE

STRUCTURE	ECONOMIC ENGINE	TYPICAL ASSET OR CASH FLOW	CORE ANALYST ISSUE
Ijarah	Lease	Rent from asset or usufruct	Ownership, maintenance, lease terms, purchase undertaking
Wakalah	Agency investment	Profit from managed asset pool	Mandate, expected profit, incentive, asset composition
Murabahah	Cost-plus sale	Receivable from deferred sale	Receivable character and tradability
Salam	Advance purchase	Future delivery of fungible goods	Delivery and commodity risk, tradability
Istisna'	Manufacture or construction	Constructed asset or project	Completion risk, parallel contracts
Mudarabah	Capital-management partnership	Investment profits	Profit sharing, loss allocation, manager conduct
Musharakah	Equity partnership	Joint-venture profits and assets	Ownership, profit ratio, loss by capital
Hybrid	Combination	Mixed pool	Composition, sequencing, tradability, complexity

Source: BIIRG Fixed Income & Sukuk Division.

4.1 Contract determines risk

The Shariah contract is not decorative. In Ijarah, ownership-related obligations matter. In Murabahah, the economic asset can become a receivable after sale. In Mudarabah, capital providers bear investment loss absent misconduct, negligence, or breach. In Istisna', construction and delivery risk are central.

4.2 Purchase undertakings

Purchase undertakings are frequently used to create an orderly redemption mechanism. Analysts should identify who promises to purchase what, at what price or pricing formula, under which events, and whether the mechanism is Shariah-approved for that structure. This area has historically been important to debates over genuine risk sharing and capital protection.

> **INVESTMENT IMPLICATION**
>
> Where a purchase undertaking carries the redemption, the instrument's downside is the promisor's credit rather than the asset's value. Price it accordingly, and read the undertaking before the spread.

PART II

Structures in Practice

The six structural families an analyst will actually meet in an offering circular, from lease-based certificates to mixed pools, and the recourse question that separates asset-based from asset-backed. Chapters 5 to 10.

05 Ijarah Sukuk

The lease-based structure: five steps, seven questions, and the reason a tangible asset changes the tradability answer.

5.1 Basic structure

FIGURE 5.1 — THE IJARAH SEQUENCE

STEP 01	STEP 02	STEP 03	STEP 04	STEP 05
Originator sells an eligible asset or interest to the issuer or SPV.	SPV funds the purchase using subscription proceeds.	Asset or usufruct is leased to the lessee, often the originator.	Lease rentals fund periodic distributions.	At dissolution the asset is sold or realised under documented mechanics.

Source: BIIRG Fixed Income & Sukuk Division.

5.2 Analyst focus

CORE CONCEPT — THE SEVEN IJARAH QUESTIONS

- Is the asset identifiable and permissible?
- What happens if the asset is destroyed or unavailable?
- Who bears major maintenance and takaful obligations?
- What is the purchase undertaking and dissolution price?
- Are rentals fixed, floating, or benchmark-linked?
- Does legal title transfer, or only beneficial rights?
- Are substitution rights permitted?

5.3 Credit economics

Even where sukukholders have an ownership interest, periodic and redemption cash flows may depend overwhelmingly on the lessee or originator. The analyst should therefore evaluate both the asset and legal rights and the lessee's credit.

5.4 Tradability

Certificates representing ownership of tangible leased assets or usufructs are generally more compatible with secondary trading than certificates representing pure receivables, subject to the governing Shariah standard and asset composition.

06 Wakalah Sukuk

The agency structure that dominates international issuance, and the eight questions its flexibility creates.

6.1 Structure

Under Wakalah, sukukholders appoint an investment agent to invest proceeds in a defined pool of Shariah-compliant assets or activities. The agent manages the pool under an agreed mandate.

6.2 Why Wakalah matters

Wakalah provides flexibility to combine different assets and financing exposures. The IFSB reported that Wakalah and hybrid structures were among the most widely used forms in 2024, reflecting flexibility in pooling assets and execution.

6.3 Analyst questions

CORE CONCEPT — INTERROGATING THE POOL

- What assets are eligible, and what minimum tangible-asset ratio applies?
- Can assets be substituted?
- What is expected profit versus actual portfolio profit?
- Who absorbs underperformance?
- Is there a reserve account?
- How is excess profit treated?
- What happens if the pool holds substantial Murabahah receivables or cash?
- What undertaking supports dissolution?

6.4 Incentive mechanics

An investment agent may be entitled to an incentive from returns above an agreed threshold, subject to the governing structure. Analysts should distinguish an incentive from a guarantee of expected profit.

ANALYST NOTE

Pool composition is a live variable, not a closing-day fact. A Wakalah pool that satisfies the tangibility threshold at issuance can drift toward receivables as financings mature, which is a monitoring obligation rather than a diligence item.

07 Murabahah, Salam, and Istisna' Sukuk

Three sale-based contracts, the receivable problem they create, and construction-period risk.

7.1 Murabahah

Murabahah is a sale at disclosed cost plus profit, commonly with deferred payment. Once the commodity or asset is sold to the purchaser, the seller holds a receivable. Sukuk substantially representing Murabahah receivables face secondary-market tradability constraints under commonly applied Shariah rules, because trading debt at a discount or premium raises riba concerns.

7.2 Salam

Salam is an advance-payment sale for specified fungible goods delivered later. Key risks include specification, delivery, commodity price, counterparty, and the restrictions around selling the Salam receivable or subject matter before possession.

7.3 Istisna'

Istisna' is a contract to manufacture or construct an asset according to specifications. A parallel Istisna' may be used, but the two contracts must remain legally distinct.

7.4 Construction-period risk

CORE CONCEPT — SEVEN CONSTRUCTION EXPOSURES

- Completion delay
- Cost overrun
- Performance or specification failure
- Transition from construction asset to leased or operating asset
- Contractor credit
- Permits and land
- Force majeure

08 Mudarabah and Musharakah Sukuk

Partnership structures, where loss actually falls, and why contractual support can quietly undo risk sharing.

8.1 Mudarabah

Mudarabah is a partnership between capital providers and a mudarib who manages the investment. Profit is shared according to an agreed ratio; financial loss is borne by capital providers in proportion to capital, absent negligence, misconduct, or breach by the manager.

8.2 Musharakah

Musharakah is an equity partnership in which parties contribute capital. Profit may be shared according to agreed ratios within Shariah parameters, while losses follow capital contribution.

8.3 Equity-like risk

These structures can create more direct exposure to business performance than a lease-based structure. Analysts must understand the underlying venture, expected profit, governance rights, valuation, exit, and whether contractual support changes the intended risk-sharing profile.

8.4 Diminishing Musharakah

DEFINITION — DIMINISHING MUSHARAKAH

A partnership in which one partner's ownership share is progressively purchased by another. It is used in asset financing and requires analysis of ownership transfer, lease of the remaining shares where applicable, and purchase mechanics.

09 Hybrid and Asset-Pool Structures

Combined contracts, why the proportions inside the pool are the analytical object, and what substitution rights permit.

Hybrid sukuk combine multiple Shariah contracts or asset classes, for example Wakalah with Murabahah or Ijarah with Murabahah.

9.1 Composition matters

An analyst must classify the pool at issuance and over time: tangible assets, usufructs, cash, receivables, and investment interests. The proportions can affect tradability and compliance.

9.2 Substitution and rebalancing

Programme documentation may permit substitution of assets as financings mature. Review eligibility criteria, valuation mechanics, concentration limits, minimum asset ratios, and what happens after a breach.

9.3 Market practice

IIFM's 2025 market study shows significant use of Wakalah and hybrid structures in international issuance, while the IFSB likewise notes concentration in agency-based, composite, and debt-based forms.

10 Asset-Based versus Asset-Backed Sukuk

The distinction that decides recovery, the eight questions that establish it, and why identical ratings can mean different outcomes.

10.1 The distinction

In a stronger asset-backed securitisation, investors expect meaningful recourse to transferred assets and their cash flows, with true-sale and bankruptcy-remoteness analysis. In many asset-based sukuk, assets support the Shariah structure but investors economically rely primarily on the obligor's contractual promises.

10.2 Questions to ask

CORE CONCEPT — ESTABLISHING REAL RECOURSE

- Was there a true legal sale?
- Are asset cash flows independent of the obligor?
- Who has registered title?
- What happens in originator insolvency?
- Can sukukholders enforce against the asset?
- Can creditors challenge the transfer?
- Is recourse limited or full to the obligor?
- Are local-law perfection and registration requirements satisfied?

10.3 Why it matters

KEY TAKEAWAY

Two sukuk with identical ratings and coupons can have different recovery prospects if one provides enforceable asset recourse and the other relies almost entirely on an unsecured purchase undertaking.

PART III

Issuers and Credit

Who issues, what each issuer class requires of the analyst, and the two-layer credit model that sits underneath every recommendation. Chapters 11 to 15 move from sovereign curves to covenant analysis.

11 Sovereign and Quasi-Sovereign Sukuk

The largest issuer class in the market, the immunity and asset questions it raises, and why ownership is not support.

11.1 Sovereign credit

Analyse fiscal balance, debt burden, the interest and profit-payment burden, external accounts, reserves, the monetary framework, political institutions, contingent liabilities, growth, commodity dependence, and the currency regime. For foreign-currency sukuk, external liquidity and hard-currency debt service are critical.

11.2 Sovereign structure

Sovereign structures may use government-owned assets, usufructs, services, or investment pools. Analysts should understand sovereign immunity waivers, governing law, tax treatment, asset transfer limitations, and whether the structure creates any practical claim on public assets.

11.3 Quasi-sovereigns

Government-related entities require standalone credit analysis plus an assessment of extraordinary support. Ownership alone is not a guarantee. Consider strategic importance, legal status, track record of support, financial linkage, and political willingness.

11.4 Market importance

IIFM reported sovereigns as approximately 58% of global sukuk outstanding at year-end 2024, which is why sovereign curves anchor market pricing and liquidity across the asset class.

> **INVESTMENT IMPLICATION**
>
> Because the sovereign curve sets the reference for every other issuer in its jurisdiction, a quasi-sovereign spread is a statement about expected support as much as about the entity's own cash flows. State both separately in the memo.

12 Corporate and Financial-Institution Sukuk

The five-dimension corporate framework, and why bank sukuk require a separate instrument-level analysis.

12.1 Corporate credit framework

TABLE 12.1 — FIVE DIMENSIONS OF CORPORATE ASSESSMENT

DIMENSION	WHAT IT COVERS
Business risk	Industry structure, competitive position, cyclicality, concentration.
Financial risk	Leverage, coverage, free cash flow, liquidity, maturity schedule.
Management and governance	Capital allocation, related parties, transparency.
Structural position	Operating company versus holding company, secured versus unsecured, guarantees.
Sukuk-specific	Asset pool, undertakings, SPV, ranking, negative pledge, covenants.

Source: BIIRG Fixed Income & Sukuk Division.

12.2 Banks

Bank sukuk require analysis of capital, asset quality, earnings, funding and liquidity, management, sovereign linkage, depositor preference, the resolution regime, and instrument hierarchy. Senior sukuk and capital sukuk can have radically different loss behaviour.

12.3 Corporate market

IIFM's 2025 report records substantial cumulative corporate and financial-institution issuance, with corporate issuance of about USD 24.0 billion and financial-institution issuance of about USD 30.7 billion in 2024.

PART III · ISSUERS AND CREDIT · CHAPTER 13

13 Project, Infrastructure, Green, and Sustainability Sukuk

Separating construction risk from operating risk, the four coverage metrics, and what a green label does not do.

13.1 Project sukuk

Project-linked sukuk may finance infrastructure, power, transport, real estate, or industrial assets. Analysts must separate construction risk from operating risk and determine whether repayment relies on project cash flow, sponsor support, offtake contracts, government payments, or a broader corporate balance sheet.

13.2 Project-finance metrics

TABLE 13.1 — COVERAGE METRICS

METRIC	MEANING
CFADS	Cash flow available for debt service
DSCR	CFADS divided by scheduled debt service
LLCR	Present value of CFADS over loan life divided by debt outstanding
PLCR	Present value of CFADS over project life divided by debt outstanding

Source: BIIRG Fixed Income & Sukuk Division.

13.3 Green and sustainability sukuk

A green sukuk combines a Shariah-compliant financing structure with a use-of-proceeds or sustainability framework. The analyst should separately evaluate credit quality, Shariah compliance, eligible-project criteria, allocation reporting, impact reporting, external review, and greenwashing risk.

13.4 Additionality

A green label does not automatically improve credit. It may broaden demand or support strategic funding, but cash-flow and recovery analysis remain essential.

PART III · ISSUERS AND CREDIT CHAPTER 14

14 Basel and Regulatory Capital Sukuk

Loss-absorbing instruments, the nine terms that define them, and the call assumption that flatters the quoted yield.

14.1 Purpose

Islamic banks may issue sukuk designed to qualify as regulatory capital. These instruments can be perpetual or deeply subordinated and may contain loss-absorption, distribution-cancellation, or write-down and conversion mechanisms under the applicable regulatory framework.

14.2 Analyst priorities

CORE CONCEPT — NINE TERMS THAT DEFINE A CAPITAL SUKUK

- Ranking in liquidation
- Perpetual versus dated maturity
- Issuer call options and regulatory approval
- Distribution discretion and cancellation
- Non-viability or loss-absorption triggers
- Write-down or conversion mechanics
- Reset spread and benchmark
- Capital treatment and grandfathering
- Extension risk if not called

14.3 The yield-to-call trap

WATCH FOR

Do not assume a first call date is maturity. Price both call and extension scenarios. A perpetual capital sukuk can reprice sharply if investors expected a call but economics or regulation make extension rational.

PART III · ISSUERS AND CREDIT · CHAPTER 15

15 Credit Analysis for Sukuk

Two layers, the ratio sets for each issuer class, and where structural subordination hides.

15.1 The two-layer credit model

BIIRG STANDARD — TWO LAYERS, IN ORDER

Layer 1, issuer credit. Can the obligor generate and access enough cash to meet its obligations?

Layer 2, structural credit. If the obligor fails, what contractual rights, assets, guarantees, priorities, and enforcement mechanisms actually protect sukukholders?

15.2 Corporate ratios

TABLE 15.1 — CORPORATE RATIO SET

RATIO	FORMULA OR USE
Net leverage	Net debt / EBITDA
Gross leverage	Debt / EBITDA
Interest or profit coverage	EBITDA / financing cost
FFO / debt	Cash-generation measure
FCF / debt	Debt repayment capacity after capex
Liquidity	Cash plus committed facilities against near-term uses

Source: BIIRG Fixed Income & Sukuk Division.

15.3 Sovereign ratios and covenants

- Debt to GDP and debt to revenue
- Fiscal balance and primary balance
- External debt and external financing requirement
- FX reserves and import coverage
- Current account
- Government revenue concentration
- Bank-sovereign nexus
- Negative pledge
- Cross-default and cross-acceleration
- Change of control
- Financial covenants
- Asset disposal restrictions
- Information covenants and tax gross-up
- Shariah-compliance undertakings

15.4 Structural subordination

Determine whether the sukuk claim sits at a holding company while cash is generated in operating subsidiaries, whether secured creditors rank ahead, whether guarantees are upstreamed, and whether local insolvency law limits transfers.

PART IV

Valuation and Markets

The mathematics the desk runs on, the curves and spreads a view is expressed against, and how a certificate is brought to market and then traded. Chapters 16 to 19.

16 Fixed-Income Mathematics for Sukuk Analysts

Price, yield, duration, convexity, DV01, and the four spread measures, applied to distribution-paying certificates.

16.1 Price and yield

FORMULA — PRESENT VALUE OF A SUKUK

$$P = \Sigma\, CF_t \div (1 + y/m)^{m \cdot t}$$

WHERE

Price equals the present value of expected periodic distributions plus the dissolution amount, discounted at the market-required yield, subject to day-count and settlement conventions.

ANALYST APPLICATION

For predictable periodic-distribution sukuk, standard present-value mathematics is commonly used for market pricing. The cash-flow schedule must come from the documentation, not from an assumed coupon pattern.

16.2 Current yield

Annual periodic distribution divided by market price. It ignores maturity value and reinvestment and should not substitute for yield to maturity or yield to call.

16.3 Yield to dissolution

YTM is the discount rate equating market price to promised cash flows through scheduled maturity or dissolution. For callable or perpetual instruments, yield-to-call, yield-to-worst, and scenario analysis may be more informative.

16.4 Duration and convexity

Macaulay duration is the weighted-average time to cash flow. Modified duration approximates percentage price change for a small yield change: $\Delta P/P \approx -\text{modified duration} \times \Delta y$. Convexity captures curvature and improves estimates for larger moves; callable instruments can exhibit reduced or negative effective convexity near the call region.

16.5 DV01

DV01 estimates the price change for a one-basis-point yield move. Portfolio DV01 is central to rate-risk budgeting and hedging.

16.6 Spread measures

- Nominal spread: sukuk yield minus selected benchmark yield.
- Z-spread: constant spread over the zero curve matching price.
- Option-adjusted spread: spread after adjusting for embedded options, where modelling is appropriate.
- Asset-swap or cross-market spreads: useful only with consistent conventions and liquidity awareness.

17 Yield Curves, Benchmarks, Spreads, and Relative Value

Choosing the reference curve, reading five curve dimensions, and testing whether a wider spread is opportunity or compensation.

17.1 Benchmark selection

International USD sukuk are commonly assessed against U.S. Treasury or swap and SOFR-related curves depending on market convention; local-currency sukuk use domestic government, money-market, or swap benchmarks. Benchmark choice must match currency, duration, and trading convention.

17.2 Curve analysis

TABLE 17.1 — FIVE DIMENSIONS OF CURVE ANALYSIS

DIMENSION	WHAT IT READS
Level	Overall yield environment
Slope	Short versus long maturity pricing
Curvature	Richness or cheapness of intermediate maturities
Credit curve	Spread by issuer maturity
Sukuk-conventional basis	Pricing difference between comparable sukuk and conventional debt

Source: BIIRG Fixed Income & Sukuk Division.

17.3 Relative-value framework

Compare like with like: same issuer or credit family, currency, seniority, maturity, rating, liquidity, call structure, and documentation. A wider spread may compensate for liquidity or structural weakness rather than represent a free arbitrage.

17.4 Carry and roll-down

Carry is income earned from holding the security over a horizon; roll-down is the price benefit or loss as the security ages along a non-flat curve, assuming the curve is unchanged.

PART IV · VALUATION AND MARKETS

CHAPTER 18

18 Primary Market: Origination, Structuring, and Bookbuilding

Twelve steps from mandate to listing, and how to read a book rather than a headline.

18.1 Issuance process

CORE CONCEPT — MANDATE TO LISTING IN TWELVE STEPS

01 Funding need and mandate
02 Structuring and asset identification
03 Shariah review
04 Legal, tax, and regulatory analysis
05 SPV and documentation
06 Ratings where applicable
07 Investor marketing and roadshow
08 Initial price thoughts and guidance
09 Order book and allocation
10 Pricing
11 Settlement and listing
12 Ongoing reporting and compliance

18.2 Price guidance

Initial price thoughts are refined through investor feedback and order-book formation. Analysts should compare final spread with secondary comparables, new-issue concession, book quality, geographic distribution, and post-pricing performance.

18.3 New-issue premium

A new issue may price at a concession to comparable outstanding securities to compensate investors for execution, liquidity, or supply. Strong demand can compress or eliminate that concession.

18.4 Allocation quality

ANALYST NOTE

Headline oversubscription can be misleading. Assess order inflation, concentration, long-only versus fast-money participation, geographic mix, and whether the book remained strong as guidance tightened.

PART IV · VALUATION AND MARKETS CHAPTER 19

19 Secondary Market, Trading, Liquidity, and Tradability

Ten liquidity drivers, the cost of immediacy, and the Shariah constraint that has no conventional analogue.

19.1 Liquidity drivers

CORE CONCEPT — WHAT MAKES A SUKUK LIQUID

Issue size	Currency and settlement infrastructure
Benchmark or index eligibility	Credit transparency
Issuer frequency	Tenor
Market-maker inventory	Market volatility
Investor buy-and-hold behaviour	Shariah tradability

19.2 Bid-ask spread

Bid-ask spread is an immediate liquidity cost. Less liquid sukuk may display stale evaluated prices, so mark-to-market precision should be treated cautiously.

19.3 Shariah tradability

Secondary trading depends on what the certificates represent. If a pool is predominantly cash or receivables, sale at a premium or discount can be restricted under commonly applied Shariah rules. The IFSB specifically notes that Murabahah-heavy debt-based structures can face secondary-market liquidity constraints.

19.4 Liquidity premium

A sukuk can trade wider than a conventional peer due to a smaller float or a more concentrated investor base. Conversely, scarcity and dedicated Islamic demand can create a sukuk premium, or a tighter spread, in some markets.

PART V

Documentation, Ratings, and Governance

What the documents say, what a rating does and does not cover, what happens when a transaction fails, and the governance obligations that continue after closing. Chapters 20 to 23.

20 Documentation and Offering Circular Analysis

The thirteen documents behind a transaction, and why the risk-factor section is worth reading twice.

20.1 Documents to read

TABLE 20.1 — THE DOCUMENT SET

DOCUMENT	WHAT IT SETTLES
Offering circular or prospectus	The transaction as presented to investors, including risk factors and tradability disclosure.
Trust certificate documents and declaration of trust	What the certificates are and what the trustee holds.
Sale or purchase agreement	Whether, and how, assets moved.
Lease or agency agreement	How the cash flow is generated and by whom.
Purchase undertaking	Who redeems, at what price, on which events.
Service agency agreement and guarantee	Operating obligations and permitted credit support.
Master trust deed and programme documents	Standing terms for repeat issuance.
Shariah pronouncement or certificate	Which opinion and framework govern.
Financial statements and rating reports	Obligor capacity and third-party opinion.
Listing and regulatory filings	Ongoing disclosure and eligibility.

Source: BIIRG Fixed Income & Sukuk Division. The sixteen-point offering circular checklist is reproduced at Appendix B.

20.2 Risk factors

Risk-factor sections can be boilerplate, but they often identify real legal constraints: sovereign immunity, inability to perfect title, limitations on SPV enforcement, local-law uncertainty, the consequences of Shariah non-compliance, benchmark replacement, tax changes, or limited secondary liquidity.

KEY TAKEAWAY

The offering circular is the only place where the structure diagram, the ranking, the dissolution mechanics, and the enforcement limitations appear together. An analyst who has not read it is quoting someone else's summary.

PART V · DOCUMENTATION, RATINGS, AND GOVERNANCE CHAPTER 21

21 Ratings and External Credit Assessment

What a rating actually rates, and why a Shariah-fiduciary assessment answers a different question.

Credit ratings are opinions, not guarantees. Determine whether the sukuk rating is aligned with the issuer rating or adjusted for subordination, guarantees, asset recourse, structural features, or loss absorption.

21.1 Rating questions

CORE CONCEPT — SEVEN QUESTIONS FOR ANY RATED SUKUK

- Who is the rated obligor?
- What instrument ranking is assumed?
- Does the agency give credit to the asset structure?
- Are government-support assumptions embedded?
- What could trigger a downgrade?
- Is recovery analysis provided?
- Are capital sukuk notched below senior debt?

21.2 Shariah and fiduciary assessment

AAOIFI has issued Governance Standard 17 on Shariah compliance and fiduciary ratings of sukuk and other Islamic finance instruments, complementing broader governance standards. Such assessment is conceptually distinct from conventional credit quality: a security can be financially strong yet carry Shariah-governance concerns, or vice versa.

22 Default, Enforcement, Restructuring, and Recovery

The eight-step recovery waterfall, and why structure only becomes visible in stress.

22.1 Default is where structure becomes real

In benign markets, many sukuk behave similarly to conventional fixed income. Stress reveals the importance of governing law, true sale, asset ownership, purchase undertakings, guarantees, priority, trustee powers, and local insolvency.

22.2 Recovery waterfall

CORE CONCEPT — EIGHT STEPS TO AN EXPECTED RECOVERY

01 Identify the legal debtors.

02 Identify secured and structurally senior claims.

03 Determine whether SPV assets are bankruptcy remote.

04 Test enforceability of guarantees and undertakings.

05 Determine whether assets can be sold, and by whom.

06 Estimate liquidation or going-concern value.

07 Deduct enforcement costs and timing.

08 Apply priority and calculate expected recovery.

22.3 Restructuring

A restructuring may extend maturity, reduce or defer distributions, exchange certificates, modify undertakings, add collateral, or change covenants. Analysts must assess both financial value and whether amendments require renewed Shariah approval.

22.4 Expected loss

FORMULA — EXPECTED LOSS

$$\text{Expected loss} \approx \text{probability of default} \times \text{loss given default}$$

WHERE

Loss given default is one minus the recovery rate, measured on the specific claim rather than on the issuer as a whole.

ANALYST APPLICATION

For sukuk, loss given default should incorporate structure-specific recovery rights rather than importing a generic unsecured-bond recovery assumption.

23 Shariah Governance and Compliance Risk

Who supervises compliance, why a closing certificate is not the end of the work, and how to handle scholarly disagreement.

23.1 Governance

Shariah governance can include transaction scholars, institutional Shariah boards, central or national Shariah authorities, internal compliance, external audit, and ongoing asset-composition monitoring. AAOIFI's issued governance standards include Sukuk Governance and a broader Shariah governance framework.

23.2 Ex ante versus ongoing

A Shariah certificate at issuance does not end the analyst's work. Asset substitution, use of proceeds, investment-pool composition, late-payment treatment, reserves, hedging, and amendments may all create ongoing compliance questions.

23.3 Shariah non-compliance risk

Potential consequences can include reputational damage, investor eligibility changes, remediation or purification, restrictions on trading, or contractual complications. Exact consequences depend on documentation, jurisdiction, and scholarly framework.

23.4 Scholar differences

BIIRG STANDARD — ANALYST DISCIPLINE

Record the applicable Shariah opinion and standard. Do not resolve genuine scholarly disagreement by personal preference. Flag differences that can affect investor base, tradability, or enforceability.

PART VI

Portfolio, Macro, and Practice

Building and controlling a book, the macro conditions that move it, and the workflow, modelling standards, and case discipline expected of a published BIIRG view. Chapters 24 to 30.

24 Portfolio Construction and Risk Management

Eleven allocation dimensions, eight measured risks, and the shape decision between barbell and bullet.

24.1 Allocation dimensions

CORE CONCEPT — THE ALLOCATION GRID

- Sovereign, quasi-sovereign, corporate, financial
- Fixed, floating, reset
- Investment grade, high yield, unrated
- Senior, subordinated, capital
- Currency
- Structure
- Country and region
- Sector
- Tenor and duration
- Liquidity
- Green or sustainability label

24.2 Core risks

TABLE 24.1 — RISK AND ITS MEASUREMENT

RISK	MEASUREMENT OR CONTROL
Rate	Duration, DV01, key-rate duration
Credit	Spread, rating, fundamental score, expected loss
Curve	Maturity buckets and key rates
Liquidity	Bid-ask, issue size, days to liquidate
Currency	FX exposure and hedge ratio
Concentration	Issuer, country, and sector limits
Call and extension	Yield-to-worst and scenario analysis
Shariah	Eligibility, tradability, governance monitoring
Tail	Stress tests and drawdown scenarios

Source: BIIRG Fixed Income & Sukuk Division.

24.3 Barbell versus bullet

A barbell combines short and long maturities; a bullet concentrates around a target maturity. The choice depends on the curve view, liquidity, liability needs, and rate risk.

24.4 Credit barbell

Portfolio managers can combine highly liquid sovereign sukuk with higher-spread corporates, but must recognise that liquidity correlations can rise during stress.

25 Sukuk Funds, ETFs, Indices, and Benchmarks

Eleven fund diagnostics, how index rules shape demand, and the benchmark-fit test.

25.1 Fund analysis

CORE CONCEPT — FUND DIAGNOSTICS

- Mandate and Shariah board
- Index versus active
- Duration
- Average rating
- Country concentration
- Treatment of cash and hedging
- Currency
- Liquidity
- Distribution yield
- Tracking error
- Fees

25.2 Index construction

A sukuk index may impose minimum issue size, currency, maturity, rating, and tradability rules. Index eligibility can influence demand and liquidity. Analysts should know whether a benchmark is market-value weighted and whether sovereign concentration dominates.

25.3 Benchmark fit

A global USD investment-grade sukuk fund should not be judged against a domestic local-currency sovereign index. Benchmark currency, credit, duration, and universe must match the mandate.

26 Macroeconomic Framework for Sukuk

Global rates, hydrocarbon transmission, dollar liquidity, domestic conditions, and net supply.

26.1 Global rates

Hard-currency sukuk are sensitive to global risk-free rates and credit spreads. A high-quality issuer can suffer mark-to-market losses when Treasury yields rise even if credit fundamentals are unchanged.

26.2 Oil and GCC credit

Hydrocarbon prices influence fiscal balances, liquidity, banking systems, and government-related entities in several major sukuk markets. The transmission varies by fiscal breakeven, reserves, diversification, and hedging.

26.3 Dollar liquidity

USD funding conditions affect international issuance, refinancing, and investor risk appetite. Tight dollar liquidity can widen spreads even for issuers with stable local fundamentals.

26.4 Domestic monetary conditions

Local-currency sukuk reflect domestic policy rates, banking liquidity, government issuance calendars, inflation, FX regimes, and local institutional demand.

26.5 Supply technicals

Heavy sovereign issuance can cheapen curves; redemptions and reinvestment can support demand. Analyse net supply, not only gross issuance.

27 Currency, Hedging, and Cross-Border Considerations

Where yield advantage is lost, the eight cross-border legal risks, and benchmark-replacement mechanics.

27.1 Currency risk

A USD investor holding SAR, MYR, IDR, TRY, PKR, or other local-currency sukuk faces FX risk unless the currency is pegged or hedged. Yield advantage can be overwhelmed by depreciation.

27.2 Hedging

Shariah-compliant hedging structures exist, but permissible instruments and documentation require specialist review.

From a portfolio perspective, analysts should measure unhedged and hedged return separately and include hedge carry.

27.3 Cross-border legal risk

CORE CONCEPT — EIGHT CROSS-BORDER EXPOSURES

- Governing law mismatch
- Recognition of trust and SPV concepts
- Foreign judgments
- Capital controls
- Withholding tax
- Sovereign immunity
- Asset-transfer restrictions
- Resolution regimes

27.4 Benchmark reform

Floating-rate sukuk documentation should specify benchmark replacement mechanics. Analysts should understand fallback rates, adjustment spreads, consent thresholds, and Shariah review.

PART VI · PORTFOLIO, MACRO, AND PRACTICE
CHAPTER 28

28 Analyst Workflow and Investment Memo

Ten steps from mandate to monitoring, and the difference between a weak thesis and a publishable one.

28.1 Workflow

FIGURE 28.1 — THE TEN-STEP SUKUK WORKFLOW

01 Identify mandate and eligibility.

02 Read term sheet and offering circular.

03 Map parties, assets, contracts, and cash flows.

04 Analyse issuer credit independently.

05 Analyse structure, ranking, recourse, and Shariah framework.

06 Calculate yield, duration, spread, and scenario returns.

07 Build peer and curve comparisons.

08 Stress default and recovery, call and extension, rates, FX, and liquidity.

09 Write the recommendation with catalysts and invalidation conditions.

10 Monitor issuer, structure, pricing, and compliance after purchase.

Source: BIIRG Fixed Income & Sukuk Division. The fifteen-section memo template is reproduced at Appendix A.

28.2 Thesis standard

EXAMPLE — WEAK

‘The sukuk is investment grade and offers an attractive yield.’

BIIRG STANDARD — STRONG

‘The 5-year senior Wakalah sukuk trades 38 bp wider than the issuer's comparable conventional curve despite pari passu senior ranking and similar maturity; we view 20 to 25 bp as liquidity and technical premium, while leverage is declining and 24-month liquidity covers maturities 1.8x. Downside is a 75 bp spread widening plus a 50 bp Treasury shock; the thesis breaks if FFO to debt falls below our threshold or government support weakens.’

PART VI · PORTFOLIO, MACRO, AND PRACTICE CHAPTER 29

29 Modeling Standards and Practical Case Study

The workbook every analyst maintains, a hypothetical Wakalah sukuk to price, and ten quality-control checks.

29.1 Sukuk analytics workbook

CORE CONCEPT — TWELVE REQUIRED TABS

- Terms and cash-flow schedule
- Price and yield calculator
- Benchmark curve
- Spread history
- Duration and DV01
- Recovery waterfall
- Issuer financials and ratios
- Debt maturity profile
- Peer comparables
- Scenario returns
- Call and extension analysis
- Portfolio contribution

29.2 Hypothetical case

EXAMPLE — THE REVIEW CASE

BIIRG is evaluating a hypothetical USD 500 million, five-year senior unsecured Wakalah sukuk issued at par with a 5.25% semiannual distribution rate. The obligor is an investment-grade GCC infrastructure company. The sukuk uses a mixed Wakalah asset pool and ranks pari passu with other senior unsecured obligations. At review date, the security trades at 98.50. A comparable U.S. Treasury yield is 4.10%, and the issuer's similar conventional bond trades at a 105 bp spread.

29.3 Tasks

1. Calculate approximate YTM from the full cash-flow schedule.
2. Calculate nominal spread to Treasury.
3. Estimate modified duration and DV01.
4. Compare sukuk spread with the conventional bond after adjusting for maturity.
5. Map the Wakalah asset pool and identify tradability constraints.
6. Analyse obligor leverage, coverage, liquidity, and government linkage.
7. Identify ranking, cross-default, negative pledge, and purchase-undertaking terms.
8. Stress Treasury +100 bp and credit spread +75 bp.
9. Estimate recovery under a hypothetical default using enterprise value and claim priority.
10. Determine whether the extra spread compensates for liquidity and structural differences.

29.4 Capital sukuk extension case

For a perpetual AT1-style sukuk, build separate outcomes for first-call redemption and extension. Recalculate yield and price using the post-call reset rate. The investor should know how much of apparent yield depends on an assumed call.

29.5 Quality-control checks

Cash-flow dates match documentation; distribution frequency correct; clean and dirty price distinguished; day-count convention correct; benchmark maturity matched; call date not treated as guaranteed maturity; currency consistent; rating refers to the correct instrument; structure diagram matches the legal documents; Shariah certificate and ongoing conditions recorded.

30 Formula Sheet, Glossary, and Institutional References

The reference layer: thirteen formulas, the working vocabulary, and the recommended study sequence.

30.1 Formula sheet

TABLE 30.1 — FORMULA SHEET

METRIC	FORMULA OR APPROXIMATION
Current yield	Annual distribution / clean price
Price	PV of expected distributions + dissolution amount
Modified duration	Macaulay duration / (1 + y/m)
Price sensitivity	$\Delta P/P \approx -\text{ModDur} \times \Delta y$
DV01	Approximate price change for a 1 bp yield move
Nominal spread	Sukuk yield − benchmark yield
Total return	Income + price change + FX effect, where applicable
Expected loss	PD × LGD
Recovery rate	Recovered value / claim
DSCR	CFADS / debt service
LLCR	PV of loan-life CFADS / debt balance
Net leverage	Net debt / EBITDA
Coverage	EBITDA / financing cost

Source: BIIRG Fixed Income & Sukuk Division.

30.2 Glossary

TABLE 30.2 — WORKING VOCABULARY

TERM	DEFINITION
Asset-backed	Structure intended to provide meaningful recourse to transferred assets; exact legal meaning must be tested.
Asset-based	Structure where assets support transaction form but credit often remains primarily obligor-based.
Benchmark	Reference yield or curve used to price a sukuk.
Clean price	Price excluding accrued distribution.
Credit spread	Yield premium over a reference curve attributable mainly to credit, liquidity, and technical factors.
Dissolution amount	Amount payable on scheduled or early dissolution under transaction terms.
DV01	Price sensitivity to a one-basis-point yield move.
Gharar	Excessive contractual uncertainty.
Ijarah	Lease contract.
Istisna'	Manufacture or construction contract.
Maysir	Gambling or speculation prohibited under Shariah.
Mudarabah	Capital-management partnership.
Murabahah	Disclosed cost-plus sale.
Musharakah	Equity partnership.
Obligor	Party whose contractual payments substantially support the sukuk.
Periodic distribution	Recurring sukukholder payment generated under the transaction structure.
Purchase undertaking	Promise used in specified circumstances to purchase relevant assets or interests.
Qabd	Possession.
Riba	Prohibited interest or usurious increment in relevant transactions.
Salam	Advance-payment sale for future delivery of specified fungible goods.
SPV	Special-purpose vehicle used to issue certificates and hold transaction rights or assets.

TERM	DEFINITION
Sukuk	Investment certificates representing specified ownership or investment interests under a Shariah-compliant structure.
Trustee / delegate	Representative holding rights or acting for sukukholders.
Wakalah	Agency contract.
Yield to call	Yield assuming redemption on a call date.
Yield to maturity	Discount rate equating price with expected contractual cash flows to maturity.

Source: BIIRG Fixed Income & Sukuk Division.

30.3 Recommended study sequence

New analysts should complete Chapters 1 to 10 first, then 15 to 20, then the case study. Sovereign-focused analysts should prioritise Chapters 11, 16 to 19, 22, 24, 26, and 27. Bank and capital analysts should prioritise Chapters 12, 14 to 18, and 22. Structuring analysts should master Chapters 3 to 10, 18, 20, 22, and 23.

REFERENCE MATERIAL

Final Analyst Checklist

Fifteen questions. A sukuk view that cannot answer all of them is not ready for the investment committee.

01	What exactly do the certificates represent?
02	Which Shariah contracts generate the cash flow?
03	Who is the real credit risk?
04	What assets or rights does the SPV hold?
05	What is the ranking and recourse?
06	What happens at scheduled dissolution?
07	What happens in default?
08	Can holders enforce against assets, or only against undertakings?
09	Is the sukuk tradable under the applicable Shariah framework?
10	Are there call, extension, loss-absorption, or subordination features?
11	What is fair value versus benchmark and peers?
12	What are the duration, DV01, spread, liquidity, and FX risks?
13	What breaks the credit thesis?
14	What breaks the Shariah eligibility thesis?
15	Which assumptions require scholar, legal, tax, or regulatory escalation?

APPENDIX A

Sukuk Investment Memo Template

Fifteen sections, in this order. A memo that omits a section should say why.

RECOMMENDATION

Recommendation and position size
Security terms
Issuer overview

STRUCTURE

Sukuk structure diagram
Shariah structure and governing approvals
Structural protections and weaknesses

CREDIT

Credit thesis
Financial analysis
Downside and recovery

VALUATION

Valuation and relative value
Rate and duration exposure
Liquidity

CONTEXT

Macro and catalysts
Portfolio fit

AFTER PURCHASE

Monitoring triggers

ANALYST NOTE

Monitoring triggers are part of the memo, not an afterthought. Name the covenant level, spread level, rating action, pool-composition change, or support signal that would require the position to be revisited.

APPENDIX B

Offering Circular Checklist

Sixteen items to locate and record on a first read, before any pricing work begins.

Issuer, obligor, guarantor, and SPV identities	Dissolution amount
Use of proceeds	Optional and mandatory early dissolution
Structure diagram	Tax gross-up
Asset pool	Events of default and dissolution
Ranking and status	Negative pledge
Periodic distribution mechanics	Cross-default
Governing law and jurisdiction	Shariah risk disclosure
Enforcement limitations	Tradability disclosure

WATCH FOR

Enforcement limitations and tradability disclosure are the two items most often skipped and most often decisive. Record them verbatim rather than in paraphrase.

APPENDIX C

Institutional References

01 AAOIFI, Shari'ah Standard No. 17: Investment Sukuk. Defines investment sukuk and the principal recognised types.

02 AAOIFI, Shari'ah Standards catalogue. Including Istisna', Musharakah, Mudarabah, investment sukuk, possession, and related standards.

03 IIFM, Sukuk Report 2025, 14th edition. Global issuance, outstanding market, issuer categories, structural trends, and country-market analysis.

04 IFSB, Islamic Financial Services Industry Stability Report 2025. Sukuk maturity, structure, market development, and stability analysis.

05 AAOIFI Governance and Ethics Board, GS 17. Shari'ah compliance and fiduciary ratings of sukuk and other Islamic finance instruments.

06 AAOIFI, issued governance standards. Including GS 12 Sukuk Governance and GS 1 (revised 2024) Shari'ah Governance Framework.

07 World Bank, Mobilizing Islamic Finance for Infrastructure Public-Private Partnerships. Overview of sukuk and Islamic-finance structures in infrastructure.

08 Transaction-level sources. Offering circulars, national securities regulations, central-bank frameworks, Shariah-board pronouncements, and rating-agency methodologies for each security analysed.

FINAL STANDARD

A sukuk analyst should be able to explain the instrument twice: first as a Shariah and legal transaction, then as an investment. The recommendation is credible only when both explanations reconcile.

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