

# Introducing a regulatory framework to establish a Sukuk trading platform in Sri Lankan capital market



**SRI LANKA**

By Shiraz Refai

**Securities created within Islamic jurisprudence or Islamic capital market products can attract new streams of investment options for Sri Lanka. Having identified the positive impact of Sukuk that are trending globally, and what they could bring to develop both the capital market structure as well as the economy as a whole, the Securities and Exchange Commission of Sri Lanka (SEC) is working toward introducing a regulatory framework for Islamic collective investing schemes (ICISs) and Sukuk and further enhancing the structuring of Shariah compliant stocks. As global private capital funds expand and Shariah compliant investment appetites grow, capital markets adhering to Shariah principles can leverage on this demand.**

The SEC at present has in-principle approved introductions of Islamic capital market products to the Sri Lankan capital market in June 2021. This was a joint exercise under the Capital Market Development Program initiative of the Asian Development Bank (ADB) with the provision of technical assistance to establish a need-assessment of Shariah compliant securities in Sri Lanka.

Based on the assessment's outcome, the SEC recommended to introduce Sukuk products by proposals of amending the existing debt securities listing rules at the Colombo Stock Exchange (CSE). The ADB consultants, SEC and CSE developed a regulatory framework for Sukuk products, approved by the SEC. The introduction of Sukuk products at the CSE is expected to broaden the capital market product offerings, attract foreign funds and stimulate Sri Lanka's economic growth.

The Islamic capital market products are divided into three main categories of Shariah compliant equities, ICISs and Sukuk. Islamic capital market products that are developed in compliance with Islamic jurisprudence can play a crucial role in the development of capital markets and the economy in general as they offer investment and fundraising

opportunities to unlock specialized funds that work within the framework of Shariah compliant equities, ICISs and specifically Sukuk that are popular investment options under the alternate financial services platform.

ICISs are somewhat designed in the same legal structures as conventional funds, but invest in Shariah compliant assets including equities, money markets, REITs, commodity funds and venture capital funds. It should be noted that the Shariah boards play pivotal roles by approving product structures, screening methodologies and other operational processes of both issuers and investors.

Sri Lanka's first Sukuk Ijarah issuance was launched in 2016 by LOLC Al-Falaah and this initiative was the trendsetter that paved the way for the rest of the players in the industry to benefit from this concept. The global Islamic finance industry's assets amount

to over US\$3 trillion, with the value of Sukuk outstanding at the end of 2022 being US\$765 billion, a 7.6% increase from 2021.

The issuance of sustainable Sukuk is increasing due to green projects needing funds and high demand from ESG-centric investors. Sukuk, issued in both domestic and foreign currencies, are often listed on multiple exchanges, for example those in Kuala Lumpur, Dublin and Dubai. They have short-term tenors, with most maturing in three or five years. Malaysia, Saudi Arabia and Indonesia are the largest issuers, accounting for 75% of Sukuk issuance in 2021 and 2022. ☺

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