

STRUCTURING, VALUATION, RISK AND ACCOUNTING FOR SUKUK



5th - 6th November 2018, RIYADH

The Sukuk market has evolved significantly in the last 20 years. New and exciting structures have emerged to address the economic and financial interests of both Sukuk originators as well as Sukuk investors. However, a tension exists between this objective, and conformity with Shariah principles. In order to satisfy market demand, many Sukuk are structured to provide cash returns resembling conventional products. Some financial obligations within these structures may not only compromise a stricter application of Shariah principles, but lead to important valuation, risk, and accounting outcomes that are less well understood.

This course provides delegates with an invaluable opportunity to understand Sukuk across a range of inter-related financial disciplines. By taking a multi-disciplinary approach to the course, delegates are given an opportunity to not only complement and expand upon their existing knowledge of Sukuk, but to achieve a wider appreciation of why, and how, Sukuk are viewed differently by other key stake holders in the Sukuk market, for example ratings analysts, investors, and origination teams.

The course will include a high level of interactive discussion, analysis of case studies, and thorough instruction in the treatment of Sukuk for structuring, valuation, risk management, and accounting purposes. Knowledge gained from the course is directly applicable in practice.

KEY LEARNING OUTCOMES

- Understand the essentials of Sukuk structuring principles
- Apply analytic methodologies for the pricing and valuation of Sukuk based on the actual risks embedded within Sukuk structures
- Understand how risks arise in Sukuk and how they are mitigated in practice
- Know the financial accounting and capital adequacy treatment of Sukuk

AGENDA

Day 1: Structuring and Origination

Overview of Sukuk

- What Sukuk are, and what Sukuk are not
- How are Sukuk different to conventional bonds?
- Can Sukuk be traded? If so, what are the Shariah requirements?
- Are Sukuk on- or off-balance sheet?
 - Asset-backed Sukuk
 - Asset-based Sukuk

Sukuk Origination

- Securitization process based on type of underlying financial instrument
- Fair valuation of Sukuk in the context of market demand and supply
- Portfolio selection: how to choose underlying assets
 - Investor demand
 - De-risking the originator's balance sheet
 - Tradability requirements

Sukuk Structuring

- Performance undertakings
 - Commitment to repurchase at maturity
 - Liquidity facility
 - Third party guarantees
- Embedded optionality
 - Call options versus Put options
 - Break clauses
- Credit enhancement features
 - Excess Spread
 - Over-collateralization
 - Role of Takaful
- Pre-funding of Sukuk coupons

Case Study:

The structure of the ADIB Tier 1 Sukuk

Day 2: Valuation, Risk and Accounting

Valuation of Sukuk

- Why Sukuk valuations are not aligned to risks which underlie Sukuk instruments
- What steps are required to derive an accurate valuation of Sukuk?
 - Valuing cash flows generated by underlying assets
 - Incorporating risk substitution resulting from Sukuk structure

Case Study:

Pricing Sukuk Ijarah with real estate underlying assets and a repurchase undertaking

Risk management of Sukuk

- Risks arising in Sukuk: Investor
 - Murabahah Sukuk
 - Salam Sukuk
 - Ijarah Sukuk
 - Istisnah Sukuk
 - Mudarabah Sukuk
 - Musharakah Sukuk
- Risks arising in Sukuk: Originator
 - Market liquidity risk in traded Sukuk
 - Funding liquidity risk and MTN programs which use Sukuk for Balance Sheet funding
 - Liquidity facility: is it necessary?
- Other types of risks in Sukuk
 - Shariah non-compliance risk
 - Accounting and de-recognition risks
 - Project completion risk
- Capital charges for Sukuk instruments

Accounting for Sukuk

- What are the accounting standards applicable to Sukuk?
- How to account for Sukuk
- What are the main issues in accounting for Sukuk?

SPEAKERS



Dr Ken Baldwin
Former Director
*Financial Policies &
Planning, Islamic
Development Bank*

Dr. Ken has worked as a practitioner in banking and finance for over 25 years in senior quantitative finance and risk management positions. Having graduated from Oxford University with a first-class honors degree in Physics, he qualified as a Chartered Accountant before joining UBS, and then later Credit Suisse, in derivatives risk and control functions based in London. He gained a PhD in the microeconomic theory of risk sharing in Islamic contracts, and worked in the GCC for 15 years in Islamic retail and Islamic investment banks. Dr. Ken built an ALM analytic technology platform for Abu Dhabi Islamic Bank, was MENA Regional Head of Quantitative Analysis for Citigroup, and has worked in quantitative risk management roles for both conventional and Islamic private equity and venture capital institutions. He most recently set up the Islamic Development Bank's Financial Policies and Planning function, which provides risk and pricing analytic support at product and balance sheet levels. Dr. Ken is currently a senior university lecturer in finance in the UK, has published quantitative finance articles in peer-reviewed academic journals including the Journal of Risk, and taught CFA and FRM in his earlier career.

Who Will Benefit?

- Chief financial officers, heads of finance, and finance officers
- Chief risk officers, risk managers, and risk analysts
- Treasurers and treasury managers
- Capital market transaction origination and structuring teams
- Fixed income portfolio and other fund managers
- Ratings agency analysts
- Regulators

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Associate Partner:

US\$ 6,000

- Logo on all promotional activities
- 5 invitations for your colleagues and clients
- 25% discount on any additional delegate places
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- Full delegate list within one week post Seminar
- Post-Seminar questionnaire results

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<input type="checkbox"/> 2 delegates (5% Discount)	US\$1,140	US\$2,280	US\$2,052
<input type="checkbox"/> 3 delegates (15% Discount)	US\$1,020	US\$3,060	US\$2,754
<input type="checkbox"/> 4 delegates (25% Discount)	US\$960	US\$3,840	US\$3,456
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