

RESEARCH PAPER (No: 20/2011)

APPLICATION OF WA'AD  
IN EQUITY BASED SUKUK  
EMPIRICAL EVIDENCE

SHABNAM MOKHTAR



APPLICATION OF  
WA'AD IN EQUITY  
BASED SUKUK:  
EMPIRICAL EVIDENCE

Written by  
Shabnam Mokhtar

Presented by  
Marjan Muhammad (PhD)





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## Agenda

**Research Background**

**Research Methodology**

**Empirical Evidence: Case Studies - Pre- and Post-AAOIFI Sukuk**

**Empirical Evidence: Interviews**

**Shari'ah Analysis of Purchase Undertaking (PU) in EBS**

**Conclusion**



# Research Background

**Focus of Research**

**Wa'ad in EBS – Musharakah,  
Mudarabah & Wakalah Sukuk**

**Objectives**

PU at par guarantees  
principal in EBS



Empirical evidence on  
wa'ad application in EBS

**Comparative  
Study**

Pre- AAOIFI EBS deals, focusing  
on 2 features of wa'ad:

- Trigger events
- Price

Post-AAOIFI deals focusing on 2  
features of wa'ad:

- Trigger events
- Price

**Conclusion**

PU functions as guarantee and recourse to the obligor



# Research Methodology: Qualitative Study

## Term Sheet Analysis

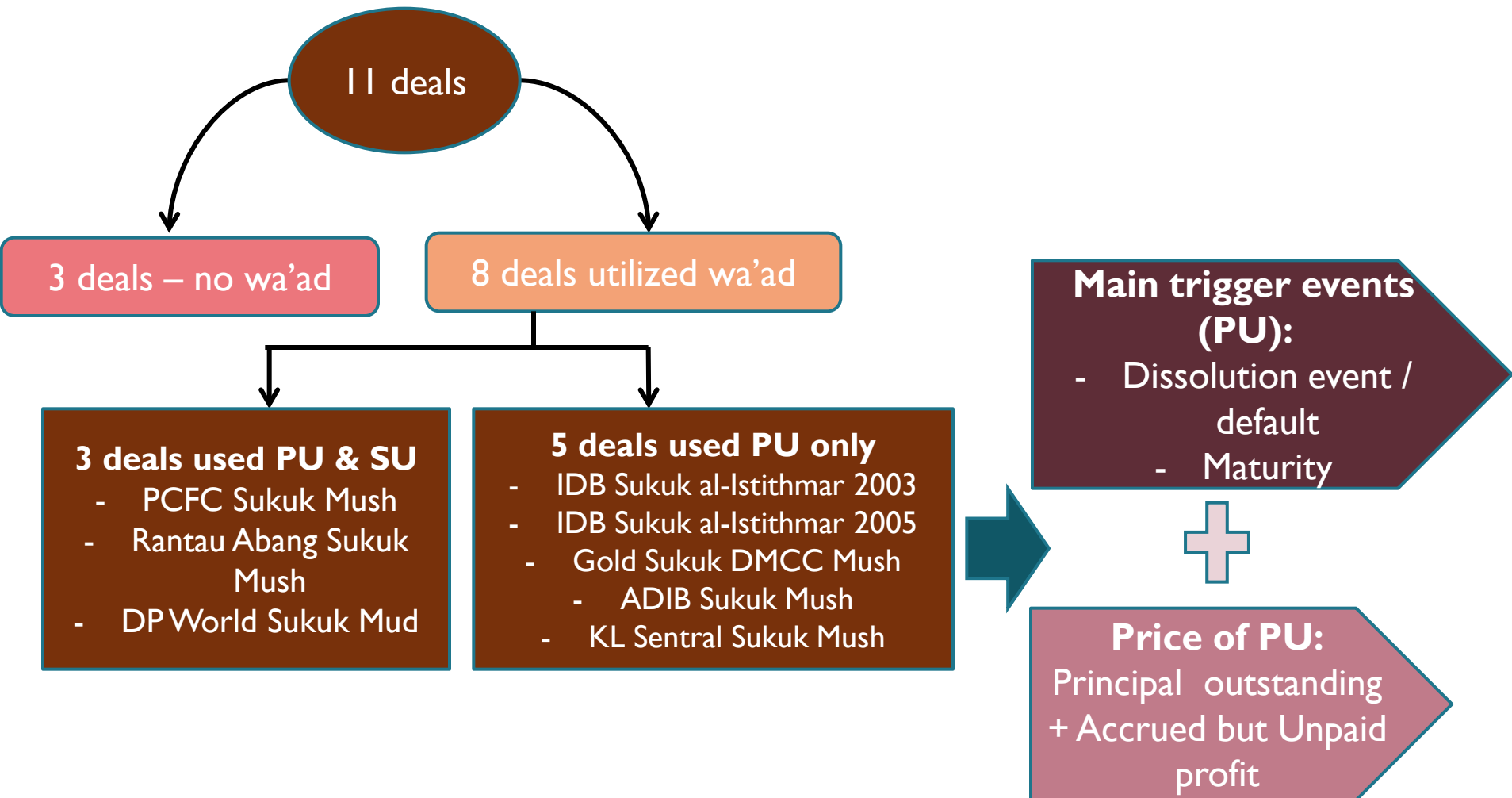


## Interviews



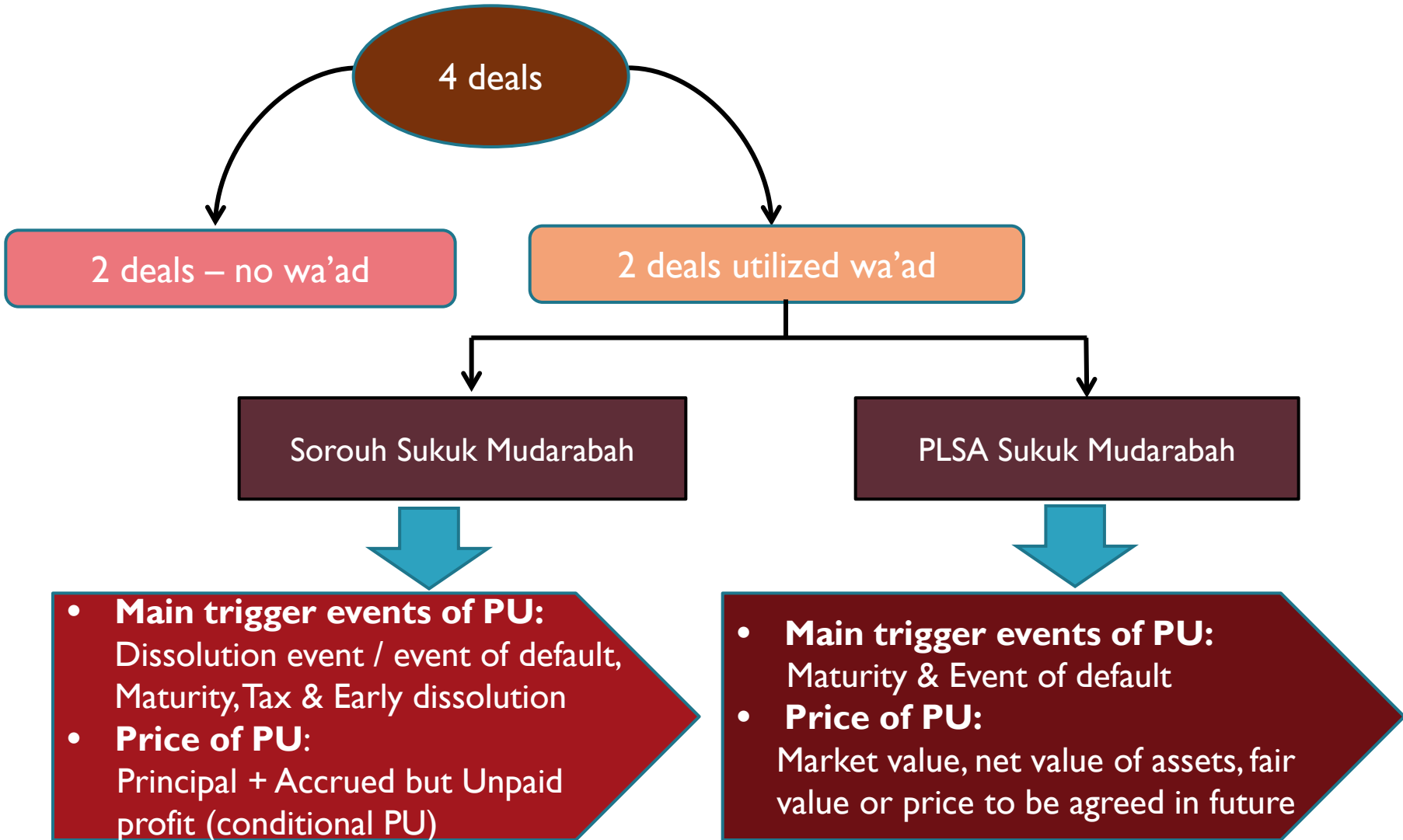


# Case Studies: Pre-AAOIFI Equity Based Sukuk (EBS)





# Case Studies: Post-AAOIFI Equity Based Sukuk (EBS)





# Empirical Evidence: Interviews

- Bankers
- Rating agencies
- Regulators
- Lawyers

- Shariah scholars

What is the function of PU?

Does PU in EBS guarantee principal?

Interviews

Recourse  
21%

Others  
18%

Crystallize  
obligation to pay  
18%

Comfort  
6%

Guarantee  
(direct/indirect)  
36%





# Shari'ah Analysis of PU in EBS

**Price of PU = principal + accrued but unpaid profit**

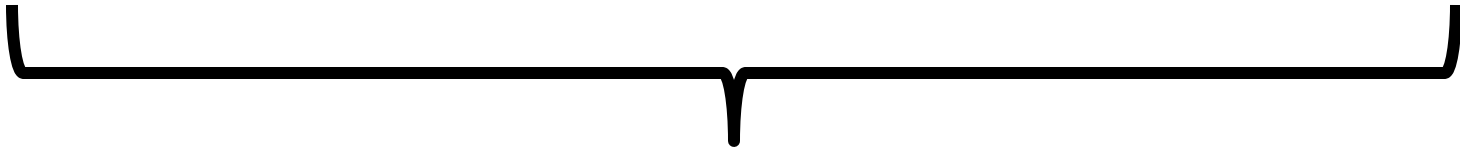
Sukuk holders can be assured that they can claim not damages

Sukuk holders get the amount of the principal + accrued but unpaid profit from the obligor or partner

**Empirical evidence = PU functions as guarantee**

PU creates the element of indebtedness in equity-based contracts (like a loan)

The partner who enjoyed the guarantee can only get back the principal and not any additional amount because the additional amount is tantamount to riba.



**Violation of the Shari'ah rules:**

- Revenue comes with liability
- Liability accompanies gain

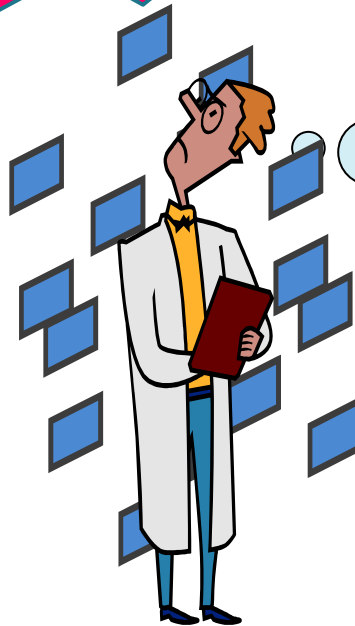
# Conclusion



If *wa'ad* is analyzed as a stand-alone component in EBS, it fulfills the Shari'ah requirement

Role of guarantee

Obligation to pay principal + unpaid profit



What will happen if the effect of *wa'ad* is combined with its price?



# Thank You

International Shari'ah Research Academy for Islamic Finance  
ISRA @ INCEIF  
Lorong Universiti A  
59100 Kuala Lumpur  
Malaysia

Website: <http://www.isra.my/>

Telephone: +603 7561400