

The Brunei *Sukuk* Market

A. Current Status of the Islamic Bond Market in Brunei Darussalam

Virtually all bond issuance in Brunei Darussalam has been in the form of *sukuk*. On the issuance side of the *sukuk* market, there has been limited activity to date, although since 2006, the Government of Brunei Darussalam has maintained a continuous program of *sukuk* issuance with progressively longer maturities. Since 1993, there have been only two instances of a significant issuance to the public by a commercial enterprise. In 1993, the Islamic Bank of Brunei (now known as Bank Islam Brunei Darussalam) made an initial public offering of shares. In 2005, the first corporate *sukuk* was issued by Brunei Liquefied Natural Gas while the Islamic Development Bank of Brunei Berhad served as the arranger.

B. The Nature of *Sukuk*

Sukuk can be defined as certificates of equal value which evidence undivided ownership or investment in the assets using Syariah principles and concepts endorsed by the Syariah Advisory Body.

A prerequisite for *sukuk* is compliance with Islamic or Syariah principles. A *sukuk* is structured so that it involves an exchange of Syariah-compliant assets for financial consideration that allows investors to earn profits and rentals from transactions in the future.

Sukuk currently issued by the Government of Brunei Darussalam use the concept of *al-ijarah*.

C. Legal Implications for Investors

Sukuk represent ownership claims on a pool of assets, or rights to receivables or participation. *Sukuk* may be issued as offers to retail investors, public offerings, private offerings, as well as offers to nonresident (foreign) entities.

The various transaction contracts that form the genesis of a *sukuk* issue have different legal implications for investors. *Sukuk* investors should therefore be fully apprised of and knowledgeable about their rights and obligations under the various underlying Islamic concepts and principles, which are explained below.

1. Rights to an Underlying Asset and its Cash Flow

For *sukuk* that represent the ownership of assets, their usufruct, or services (of the underlying asset), the claim embodied in the *sukuk* is not just a claim on the underlying

asset used in the *sukuk* transaction, but also the right to the cash flow and proceeds from the sale of the asset. For example, with Brunei Government Sukuk Al-Ijarah, the *sukuk* are akin to trust certificates establishing undivided ownership of the leased asset and the right to the cash flow arising from it.

2. Rights to Cash Flow from the Contract of Exchange but Not the Asset

For *sukuk* issued as evidence of indebtedness arising from the sale of the asset based on contracts of exchange, the claim is on the obligations stemming from the applied contract of exchange, and not ownership of the physical asset, as ownership has been transferred to the obligor.

3. Rights to Undivided Interest in Specific Investments

This underlying type of *sukuk* is not applicable to the Brunei bond market.

D. Sukuk Issuance in Brunei Darussalam

Brunei Government Sukuk Al-Ijarah are zero-coupon bonds with a maturity of less than 1 year.

E. Regulatory Framework for Sukuk

AMBD supervises the Islamic capital market including the issuance of *sukuk* in Brunei Darussalam. In fact, regulations on the issuance of *sukuk* do not materially differ from those of other debt instruments that are considered as public offerings. However, it will require approval from the Syariah Financial Supervisory Board.

F. Infrastructure for Sukuk

In Brunei Darussalam, *sukuk* are traded OTC. In the absence of a common trading platform, trading is conducted directly among Primary Market Participants via phone or Bloomberg, or other such global trading system providers, or through an in-house trading system.