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The Singapore Islamic Bond Market

A. Development of Islamic Finance in Singapore

Singapore started to develop Islamic finance in 2004, with the aim of leveraging its strengths in wholesale banking, insurance, asset management, and capital markets to support the development of Islamic finance, alongside conventional financial services.

Singapore adopted a broad-based approach to strengthen the foundation of the Islamic finance industry, including participating in global regulatory standards development for Islamic finance, capacity building, and talent development. To create a level playing field with conventional financial services, MAS, as the integrated financial regulator, has ensured the neutrality of its rules insofar as Islamic financing is similar to conventional financing in economic substance and risks.

MAS has been participating in international Islamic financial organizations to build capabilities and contribute to developmental and standard setting initiatives for the industry. MAS is a council member of the Islamic Financial Services Board involved in the standard setting and industry developmental work. In 2009, Singapore became the first East Asian country to host the IFSB Summit. Since 2012, MAS has worked with the International Islamic Financial Market to organize a seminar on capital market developments, and hedging and risk management practices in Islamic finance alongside the World Islamic Banking Conference Asia Summit, which has been held in Singapore since 2010.

Building Islamic finance expertise is crucial to the continued growth of the industry. MAS' financial training schemes cover Islamic finance courses. Specialized postgraduate courses in Islamic finance are eligible for funding under the MAS Finance Scholarship Programme. The Singapore Management University's International Islamic Law and Finance Initiative seeks to carry out research and develop thought leadership in Islamic law and finance, in collaboration with institutions in Indonesia, Malaysia, and the United Kingdom. Singapore Management University also offers a Masters in Islamic Law and Finance and graduated its third cohort of students in 2015.

Based on these efforts, the range of Islamic financial instruments in Singapore has expanded since 2001 when the market saw the first issuance of *sukuk*. In addition, financial institutions from the region are contributing to the Islamic finance sector in Singapore, bringing with them experience and expertise from their home countries, while a growing cluster of banks from the Middle East operating in Singapore has begun to offer Islamic financial services, channeling the expectation for strong growth potential for Islamic finance in Singapore. Recognizing the growing connectivity between Asia and the Middle East, Singapore has concluded a comprehensive free trade agreement with the Gulf Cooperation Council, which recognizes Islamic finance in the definition of financial services.

B. Regulatory Approach for Islamic Finance

MAS' banking regulatory framework applies to both conventional and Islamic banking, including conventional banks offering Islamic banking services and products through windows. As part of the single regulatory framework, a bank carrying out Islamic banking activities will be required to comply with the same set of rules and regulations as any other bank in Singapore. The Guidelines on the Application of Banking Regulations to Islamic Banking issued in April 2010 covered MAS' approach to the regulation of Islamic banking in Singapore.

For the securities market, MAS has adopted the same approach, in that both Islamic finance and conventional debt issuance are treated in the same manner and with the same approvals and requirements, as may be applicable. Shariah-compliant bond sales have been allowed in Singapore since 2001.

As a prudential regulator, MAS does not prescribe what constitutes Shariah compliance nor endorse specific Shariah rulings. Nevertheless, MAS expects Islamic banks and the issuers of Islamic finance instruments to take into account Shariah compliance and to manage compliance risk as part of their overall risk management process.

MAS continues to review its regulatory regime to facilitate the offering of Islamic financial services so that these can be offered as part of a full suite of financial services available in Singapore's financial center.

C. *Sukuk* Issuance in Singapore

Both the government and private firms issue *sukuk* in Singapore. In 2009, Singapore became the first country with a AAA credit rating to issue sovereign *sukuk* and MAS remains the only conventional central bank to have done so. Since then, Islamic capital-raising has taken off, with 35 *sukuk* issuances through the end of 2014. Singapore features more *sukuk* issuances than other conventional jurisdictions, with total outstanding *sukuk* reaching SGD4.2 billion.

MAS established its Singapore Dollar Sukuk Facility on 19 January 2009 to provide sovereign-rated SGD-denominated *sukuk*—the Islamic equivalent of SGS—to meet the regulatory needs of financial institutions conducting Shariah-compliant activities in Singapore. Issuance is on a reverse enquiry basis, which means that the size, price, and timing are flexible and any financial institution offering Islamic finance services in Singapore can tap on this revolving facility. MAS *sukuk* are included in the calculation of capital and liquidity requirements for banks in Singapore and accepted as collateral at the Standing Facility, a part of MAS money market operations for liquidity management of the participating banks. There have been eight issuances totaling SGD600 million, all with a 1-year maturity, with the most recent issuance in November 2014 being the largest so far.

The first *sukuk* issued in Singapore was in 2001 by the Majlis Ugama Islam Singapura (MUIS) for SGD25 million and was based on *musharakah* (partnership structure). By doing so, MUIS had pioneered the use of *sukuk* to finance the development of *wakaf* (Islamic endowment) properties. MUIS subsequently issued a second *musharakah sukuk* for SGD35 million in 2002 and a SGD29 million *ijarah sukuk* (leasing) in 2009.

There have also been other notable *sukuk* issuances in Singapore. Sabana Real Estate Investment Trust (Sabana REIT) issued a SGD80 million convertible *sukuk* in 2012 based on a unique combination of *wakalah* (portfolio), commodity *murabahah* (commodity sale), and *ijarah* (leasing) structures. This was also the first convertible *sukuk* globally since 2009. The following year, Sabana REIT established a SGD500 million multicurrency corporate *sukuk* program using a *wakalah* and commodity *murabahah* structure.

Malaysia's Khazanah Nasional issued a SGD1.5 billion *wakalah murabahah sukuk* in 2010; it remains the largest SGD-denominated *sukuk*. Khazanah subsequently issued a SGD600 million convertible *sukuk* based on their assets in the Singapore health industry. The Islamic Development Bank held a SGD200 million private placement in 2012 as part of its global multicurrency *sukuk* program. Singapore-listed companies First Resources and Bumitama Agri have also issued *sukuk* in Malaysia to tap the liquid Malaysian ringgit market.

Property developer City Development launched the first corporate *sukuk* program in 2009 for SGD1 billion based on the *ijarah* structure. Since then other SGD-denominated and multicurrency corporate *sukuk* programs have been established by Sabana REIT (the largest Islamic REIT globally in terms of listed assets), offshore marine services companies Swiber and Vallianz, and Singapore-listed Indonesian oil palm companies First Resources and Bumitama Agri. Most of the programs are based on the *wakalah* structure, with the First Resources *sukuk* program based on the *musharakah* structure.

D. Infrastructure for *Sukuk*

There is no distinction between market infrastructure for *sukuk* and conventional debt securities in Singapore. *Sukuk* are typically traded OTC, but may also be listed on SGX. Trades may be cleared and settled via CDP at the issuer's discretion.