



## Innovations within the Islamic Capital Markets

Over the past few years there has been a great deal of discussion and activity in the financial press about Islamic capital markets and “Sukuk”, Islamic Capital Market Instruments. So much so, Dow Jones and Citigroup actually launched an Islamic bond index called the “Dow Jones Citigroup Sukuk Index”.

One of the key principles of Islamic finance is the prohibition on charging Interest “Riba”. Conventional capital market instruments such as bonds and medium term notes all have a fundamental interest and principal component. *So have structures managed to get around this fundamental rule or are Islamic capital market instruments simply a contradiction in terms?*

**A well-established technique was introduced, known as the Ijara which is an Islamic compliant lease.**

The Ijara, which means “lease to own”, is a structure that produces a return to the owner of an asset, by utilising its rental stream. It operates like an amortising repayment loan and Sharia scholars have broadly accepted the arrangement being a sale and an Islamic compliant lease of an asset, rather than a loan under which interest is payable.

*However there are major commercial disadvantages with the Ijara structure.*

- The asset is locked for the full term and therefore the owner cannot simply sell it.
- Types of assets which can be used for leasing purposes are limited.
- There could be adverse taxation costs associated with introducing the asset in to the leasing structure.
- There is often the need for time consuming and costly Sharia audits in connection with the asset.

**PCP have overcome the limitations of current Islamic structures with their Win Win Ultimate Islamic Certificate.**

Win Win Ultimate Islamic Certificate is a Sharia Compliant investment product, issued under the BNPP Islamic Certificate Programme, which is fully compliant under Sharia Law.

Win Win Ultimate Islamic is issued and guaranteed by BNP Paribas, one of the world’s largest banks, which has an AA+ Standard & Poor’s strength rating.

In addition to having 100% of capital returned at maturity, investors will receive 25% Annual Profit Payments as long as none of the 20 shares in a linked basket of shares drops to below 75% of their issue-date closing price within that 12 month observation period.

Any missed Profit Payments are not necessarily lost. The Second Chance feature of the structure means they are simply “rolled over” to the next period in which an Annual Profit Payment is made, and added to that payment.

The 20 shares are selected in consultation with leading Sharia clerics, from the Dow Jones Islamic Titans Index, who ensure that all aspects of the vehicle meet with Islamic finance laws.

### **The Future of the Islamic Capital Markets**

Given the recent growth and huge potential of this market the Win Win Ultimate Islamic Certificate is an example of the innovation within the Islamic finance market, which overcomes the limitations of earlier structures. The attraction of this market to Islamic and non-Islamic institutions is growing and PCP can offer your clients a Sharia compliant, capital guaranteed investment structure with exciting profit opportunities.