Case Study on Sukuk Musharakah Issued in Malaysia

Khairun Najmi Saripudin, Shamsiah Mohamad, Nor Fahimah Mohd Razif, Luqman Haji Abdullah and Noor Naemah Abdul Rahman

Department of Fiqh and Usul, Academy of Islamic Studies, University of Malaya, 50603, Kuala Lumpur, Malaysia

Abstract: This paper aims to provide the theoretical concept of sukuk musharakah and also to examine and analyse the compliance of sukuk musharakah issued by Kuala Lumpur Sentral Sdn. Bhd. (KLSSB) according to Shariah law. Documentation method is used in collecting the data. In order to analyse the data, the inductive, deductive and comparative methods are applied. The study confirms that the sukuk musharakah issued by KLSSB has fulfilled the principles and conditions that has been set under musharakah contract.

Key words: Sukuk • Musharakah • Islamic bonds • Islamic capital market

INTRODUCTION

Islamic Capital Market (ICM) is a component of the overall capital market especially in Malaysia. ICM refers to the market where activities are carried out in ways which does not conflict with the principles of Islam. The ICM represents an assertion of Shariah law in capital market transactions where the market is free from prohibited activities and elements such as riba (usury), maisir (gambling) and gharar (ambiguity) [1]. Its development is more tremendous compared to the conventional capital market [2]. This can be proven through the current trend in which most countries that have been practicing conventional systems are switching to the Islamic capital market which is more competitive and stable compared to the latter [3].

Globally, the sukuk market has experienced tremendous growth, averaging an annual growth of 40%. The sukuk market issuances declined in 2010 as a result of global market turmoil; however the long-term prospects for the sukuk market remain strong. Sukuk issued globally up 55% in second quarter 2012 from second quarter 2011 to reach USD 25 billion [4]. Malaysia leads the global sukuk market, represented by 69.8% of total global sukuk outstanding as at second quarter 2012 [4].

Sukuk is an instrument in the Islamic capital market which is applied in project financing and major undertakings. Its position as a strong and active instrument in the economic growth and financial stability has been long acknowledged. The existence of sukuk provides a new paradigm shift to obtain financing to support economic activity.

Sukuk is issued in accordance with Shariah principles, including the principle of ijara, mudharabah, musharakah, bai’ bithaman ajil, istisna’ and others [5]. The year 2011 (until Q3) saw the issuance in Malaysia of more globally accepted sukuk, employing the concepts of musharakah. As in year 2011, 59% of sukuk issued were based on this principle as shown in Chart 1 [6].

Chart 1: Size of sukuk approved in 2011 (Q1-Q3)