SOAS University of London X مركز قطر للمال Qatar Financial Centre

20th ANNIVERSARY

The SOAS School of Law in collaboration with the Qatar Financial Centre presents:

2025 SOAS-QFC PUBLIC LECTURE ON ISLAMIC FINANCE

Rethinking Sukuk - Islamic Bonds:

Is the Draft AAOIFI Standard 62 Out of Touch with Reality or Much Needed?

Guest Speaker

Dr. Umar A. Oseni

Secretary General of the Organisation of Islamic Cooperation Arbitration Centre (OIC-AC); Member of the Governance and Ethics Board of the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI); Member of the Financial Regulation Advisory Council of Experts (FRACE) of the Central Bank of Nigeria

Islamic Bonds (Sukuk) are key Islamic Finance instruments. In this public lecture, Dr. Umar Oseni will examine the proposed AAOIFI Sukuk Standard 62 – probing Shari'ah principles, asset-backed structures, and its enforceability in common and civil law jurisdictions. You are invited to join this intriguing debate on the future trajectory of Islamic Bonds!

When & Where

Wednesday, 25 June 2025 17:00 – 19:30

Djam Lecture Theatre
SOAS, University of London
10 Thornhaugh Street,
Bloomsbury, Russel Square,
WC1H 0XG, United Kingdom.

Co-Chairs

Professor Mashood Baderin
Professor of Laws School of Law,
SOAS, University of London

Professor Syed Nazim Ali
Director of the Research Division &
Center for Islamic Economics and
Finance (CIEF),
Hamid Bin Khalifa University

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Scan to Join Via Zoom
Meeting ID: 841 3442 3064
Passcode: 123018

SOAS – QFC

Workshop on Islamic Finance

The Future of Sukuk

Reconciling diverging interpretations of the proposed AAOIFI Standard 62

Are new rules really needed, or rather, wholly unwarranted?

Thursday June 26, 2025
9:00am to 5:00pm

Brunei Gallery, SOAS – University of London
London, United Kingdom

Workshop Chair: Prof Mashood Baderin, Professor of Law and Deputy Head of the School of Law, SOAS, University of London

Workshop Moderator: Prof Frank E Vogel, Legal Consultant and Founding Director, Islamic Legal Studies Program, Harvard Law School, Cambridge, MA

Workshop Theme – Sukuk (Islamic Bonds) & AAOIFI Standard 62

As sukuk continue to evolve as an alternative to conventional bonds, questions are being raised about whether they still fulfil their intended purpose—fostering risk-sharing and financing real economic activities—or if they have simply become pure-debt instruments disguised under different terminology. The recent AAOIFI Shariah Standard No. 62 has further ignited a debate within the Islamic finance industry, proposing a shift towards genuine asset-backed sukuk by mandating actual ownership transfers and linking sukuk profits to underlying assets rather than the creditworthiness of issuers. This year's theme builds on previous workshop's discussions on the nature of Sukuk issuance and Shari'ah compliance in the Islamic finance industry.

Benefits of AAOIFI Standard No. 62: New Rules

It standardizes mandates that issuers transfer legal ownership of the underlying assets to investors, moving beyond merely providing economic benefits (Asset backed vs Asset Based).

This shift is intended to ensure genuine risk and reward sharing, adhering to Sharīʻah principles by shifting from the prevalent asset-based structures to asset-backed ones.

This aligns sukuk structures more closely with Shariah principles and the *Maqasid* Al- Sharīʻah, potentially increasing the authenticity and integrity of Islamic financial instruments.

The enhanced Shariah Compliance of requiring actual asset transfers, should promote genuine risk sharing between issuers and investors, rather than more symbolic risk sharing.

Reduces the role of the instrument's appearance and criticism of being a mere conventional bond wrapped in compliant terminology only.

Challenges This New AAOIFI Standard No. 62: May Create

While the new standard seeks to enhance Shariah compliance and promote risk-sharing, it introduces significant **practical challenges as well**:

Legal and operational complexities in transferring ownership and enforcement of, especially for sovereign issuers who face legal restrictions (e.g., restrictions on property disposals), political sensitivities as well as practical & increased transaction costs difficulties with transferring assets, including restrictions on asset ownership by foreign entities. May require restructuring existing sukuk to align with the new requirements, causing complexity of amending legal documentation and obtaining investor consents.

Increased risks for investors, including exposure to credit (performance of underlying assets), market (underlying asset valuation fluctuations), operational risks (Challenges in managing and administering the underlying assets), and liquidity risks (Difficulty in selling or converting the underlying assets quickly).

Market Acceptance, is doing so even feasible or even practical in its current form?
Market fragmentation, as different jurisdictions may struggle with implementation, with varying and inconsistent interpretations and implementations of the standard across different jurisdictions could lead to market fragmentation and undermining standardization efforts, stratifying the market, and delaying wider acceptance of sukuk.

Impact on investor appetite, particularly from traditional fixed-income investors who could be deterred or reduced interest, thereby affecting the overall demand of new issuances, and

Structuring complexities may render sukuk less comparable to conventional bonds in marketability, inconsistencies in application in different jurisdictions, and transforming them from fixed-income-like instruments to those resembling equity investments.

Yet, at the same time, innovation—such as tokenization of sukuk assets, clever or reformed asset structuring rules —could provide new opportunities for liquidity, fractional ownership, and more efficient asset transfers, helping to move sukuk structuring to the ideal.

Key Questions for Exploration

Will the proposed AAOIFI Standard No. 62 encourage more authentic Islamic financial instruments, or will it create barriers to issuance and investment?

Is sukuk still aligned with its original purpose of fostering risk-sharing, or has it become too similar to conventional debt?

Is it just wishful thinking that banks and issuers can structure "True" / “Asset backed” sukuk in this debt-dominated financial market?

Shall we abandon all together attempting to transform it as an equity / risk sharing product, and just call it and use it, what it really just is – a debt instrument, nothing more?

Should we revisit its original purpose, as a “true risk-sharing instrument directly linked to real economic activity”? Was this even a real goal for sukuk?

Can sukuk continue to retain its Shariah compliance while evolving to meet the needs of the modern economy?

Given recent high profile sukuk defaults, the misuse of the ‘asset-backed perception’ and/or the misuse of ‘sharia arbitrage’, is it time to revisit whether it is still fit for purpose?

Is the continued use of ‘purchase undertakings’ that lead to a ‘bond-like’ obligor credit the main challenge?

Beyond changing ‘purchase undertakings’, is it even commercially viable to do so?
How can sukuk structures be adapted to meet the evolving needs of the modern financial landscape?

Potential Solutions

Innovative Structuring: Can sukuk structures be innovated to better serve real economic growth while maintaining Shariah compliance (e.g., blockchain and asset tokenization) help sukuk evolve in a sustainable way?

Phased Implementation: Allowing a transition period for issuers and investors to adapt to the new requirements could mitigate immediate disruptions.

Jurisdictional Flexibility: Providing guidelines that consider the legal and operational contexts of different jurisdictions may facilitate smoother adoption and reduce market fragmentation.

Stakeholder Engagement: Continuous dialogue between standard-setting bodies, regulators, issuers, and investors is crucial to address concerns and develop practical solutions that uphold Shariah principles while ensuring market viability.