

Sukuk activity on the rise once again for offshore centers



OFFSHORE CENTERS

By *Manuela Belmontes*

Global Sukuk issuances dropped in August 2020 (and significantly in the third quarter generally). However, if the increased activity in September 2020 is a foretelling for the remainder of the year, then the fourth quarter should be a much busier one. In September 2020, we saw GCC sovereigns and financial institutions returning to the Sukuk markets with big ticket issuances through offshore vehicles.

On 9th September 2020, the government of Dubai, acting through the Department of Finance (DOF), issued US\$1 billion in 10-year Sukuk under its US\$6 billion trust certificate issuance program. The program uses a Cayman Islands vehicle, Dubai DOF, as the issuer and trustee, set up as an orphan company with shares held on charitable trust.

The Sukuk were issued concurrently with a US\$1 billion 30-year bond issuance by the DOF. It has been reported that these issues attracted the lowest profit rate (of 2.76%) and interest rate (of 3.9%) ever achieved for a Sukuk issuance and bond issuance in Dubai. The securities were listed on the Dubai Financial Market.

In the middle of September 2020, Saudi Electricity Company (SEC) issued US\$1.3 billion in international green Sukuk, split into two equal tranches – a US\$650 million five-year 1.74% fixed profit rate Sukuk and a US\$650 million 10-year 2.41% fixed profit rate Sukuk. Both issuances were made using a Cayman Islands vehicle, Saudi Electricity Global Sukuk Company 5, as the issuer and trustee.

This issuer was set up as a wholly-owned subsidiary of SEC but is managed independently of SEC, having a board of directors made up of employees of an independent trust company.

The securities are listed on Euronext Dublin and have been rated 'A2' with a

negative outlook by Moody's Investors Service (being the same as the long-term issuer rating of SEC). The Sukuk were issued as part of SEC's new Green Sukuk Framework.

Masraf Al Rayan (MAR) and Emirates Islamic (EI) both returned to the Sukuk market in September 2020. MAR issued a US\$750 million five-year 2.21% fixed profit rate Sukuk facility under its US\$2 billion trust certificate issuance program and, after a four year absence, EI issued a US\$500 million five-year 1.83% fixed profit rate Sukuk under its US\$2.5 billion issuance program.

Both programs used orphan Cayman Islands companies, MAR Sukuk and EI Sukuk Company respectively, as the issuer and trustee. The securities were listed on Euronext Dublin and EI's Sukuk were also listed on NASDAQ Dubai. Both issuances were oversubscribed.

According to reports, MAR was able to attract great demand from international investors – with more than 65% of its Sukuk placed with investors in Europe and Asia and 69% of investors made up of fund managers.

All of the aforementioned Sukuk issuances used an SPV incorporated in the Cayman Islands. As per recent media coverage, the EU has reaffirmed that it considers the Cayman Islands to be a fully cooperative jurisdiction for tax purposes by removing it from its Annex I list.

This recognition of the Cayman Islands as a jurisdiction fully committed to implementing international standards will be welcomed by European and international investors (and issuers wanting to attract the same) and cements the Cayman Islands as a preferred jurisdiction for the formation of capital markets issuing vehicles. ☺

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