

The continued use of offshore SPVs for Sukuk issuances



OFFSHORE CENTERS

By *Manuela Belmontes*

According to Fitch Ratings, global Sukuk issuances rose 6% in 2019. This is consistent with the overall increased activity in debt capital markets and is partly attributable to an increase in the range of Sukuk issuers coming to market.

Historically, corporates based in the UAE have been the main issuers of Sukuk within the GCC; however, we are seeing more and more issuers from other GCC countries entering the international debt capital markets through the issuance of Sukuk.

Offshore SPVs, in particular Cayman Islands-incorporated orphan SPVs, remain a popular choice of issuance vehicle for Sukuk originating from the GCC.

An orphan SPV is a company that has its shares held on charitable trust by a third-party trust company. The directors of the issuer are also provided by the trust company, keeping both the ownership and management of the issuer independent of the ultimate obligor.

This structure has become favorable for Sukuk issuances over the years from both an insolvency and a Shariah compliance perspective.

This was demonstrated earlier this month as we witnessed GFH Financial Group (GFH), a Manama and Dubai-listed financial institution, return to the international debt capital markets through the issuance by GFH Sukuk Company, a Cayman Islands SPV, of a US\$3 billion Sukuk facility, which was listed on NASDAQ Dubai. According to reports, the Sukuk issuance was oversubscribed 2.5 times.

This followed the recent US\$1.5 billion fixed rate reset Tier 2 Sukuk issued by Riyadh Sukuk, a Cayman Islands SPV, under its recently established US\$3 billion Sukuk issuance program to raise financing for Riyadh Bank, a Saudi Arabian financial institution. The Sukuk

facility was listed on the International Securities Market of the London Stock Exchange and, according to Reuters, Riyadh Bank received more than US\$7.6 billion in orders for the Sukuk.

Earlier this year, Boubyan Sukuk, a Cayman Islands SPV, issued a US\$750 million Sukuk facility under its US\$1 billion Sukuk issuance program to raise finance for Boubyan Bank, a Kuwaiti financial institution.

The Sukuk issuance was admitted to the official list of the Irish Stock Exchange trading as Euronext Dublin and to trading on its regulated market.

First Abu Dhabi Bank (FAB), a UAE financial institution, continued to tap the capital markets this year through the issuance by FAB Sukuk, a Cayman Islands SPV, of a US\$500 million fixed rate Sukuk facility under its US\$3.5 billion Sukuk issuance program.

More recently, Saudi Arabian property development company Dar Al-Arkan Real Estate Development Company issued a US\$400 million Sukuk facility through Dar Al-Arkan Sukuk Company, a Cayman Islands SPV.

The latest issuance raises Dar Al-Arkan's total Sukuk to US\$2 billion following the listing of a US\$600 million Sukuk facility in October 2019 and the listings of two other Sukuk of US\$500 million each in 2017 and 2018.

S&P Global expects total Sukuk issuance of around US\$170 billion in 2020 and the market's strong performance to continue as more and more issuers tap into the Islamic capital markets.

The continued use of Cayman Islands orphan SPVs would appear to be an integral part of that. ☺

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