

## Use of SPEs for Sukuk/financing matters in Saudi Arabia



SAUDI ARABIA

By Nabil A Issa

**The Saudi Arabian Capital Market Authority (CMA) has created a new regulation to permit the creation of special purpose entities (SPEs) to house assets for debt, allowing the CMA to approve and license SPEs to stimulate debt activity. This is critical in relation to launching locally domiciled Sukuk as the most common form of company, a limited liability company, is not permitted to issue a debt instrument. Thus, an SPE can be used to facilitate Shariah compliant financings and Sukuk.**

A Saudi Arabian CMA-authorized person (CMA AP) must be the sponsor

of the SPE. As the SPE can only be used for debt products, it can be used for both financings and Sukuk.

From the time the CMA receives the completed application/documents, the CMA will take up to five business days to provide the SPE's license. There are no restrictions on who may be the shareholders of the SPE, and the CMA has previously advised that if the CMA AP so wished, it could be the sole shareholder. The SPE will need to have a standard form of bylaws which the CMA has provided to interested parties.

An SPE must have at least two natural persons (as opposed to corporate) as directors who are Saudi residents. The directors may be employees of the

CMA AP, but must act independently of the CMA AP in their capacity as SPE directors. A Saudi authorised person other than the CMA AP must act as the custodian (the reason for this is that the same party cannot act as the sponsor and custodian).

It is expected that if the SPE is owned by a 100% GCC-owned entity, then it can be used to hold assets that do not require a license from the Saudi Arabian General Investment Authority while potentially issuing participations to non-GCC-owned parties. Such SPEs could also be used to hold assets as security for both GCC and foreign lenders. ☺

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## Post-summer activity pickup for Sukuk



DEBT CAPITAL  
MARKETS

By Imran Mufti

**The high-profile Dana Gas case was finally brought to an end following a consensual agreement to restructure the Sukuk.**

Dana Gas has now announced it has completed the process of issuing the new Sukuk which will be listed on Euronext Dublin, previously known as the Irish Stock Exchange.

The newly agreed Sukuk will stand at US\$530 million with a three-year maturity and a new profit rate of 4% per annum. It will save the company US\$35 million per year in profit payments compared to the previous debt instrument. The settlement should alleviate the concerns that arose around the cogency of the enforceability of Sukuk documentation created by this legal saga over the past 18 months.

Also in the UAE, Abu Dhabi Islamic Bank, the largest Shariah compliant lender in Abu Dhabi, has hired international banks to arrange the sale of US\$750 million in Islamic bonds to help the bank fulfill its growth objectives.

In the GCC, Qatari issuers led the aggregate bonds and Sukuk market in

the first half of this year (H1), raising a total of US\$19.97 billion. Qatari bonds and Sukuk in H1 were through 47 issuances and represented nearly 32% of the total value raised in the GCC region, according to a recent report by Kuwait Financial Centre.

Saudi Arabia's finance ministry sold SAR4 billion (US\$1.07 billion)-worth of domestic Islamic bonds in its monthly auction by reopening an issue originally made in July. It sold SAR2.25 billion (US\$599.66 million)-worth of five-year Sukuk, SAR500 million (US\$133.26 million)-worth of seven-year Sukuk and SAR1.25 billion (US\$333.15 million)-worth of 10-year Sukuk, bringing the total issue size to SAR7.47 billion (US\$1.99 billion).

These three deals suggest an uptick in regional Sukuk activity, despite a drop in overall Sukuk issuance in the GCC when compared with 2017.

Bahrain-based GFH Financial Group has announced that it has paid the entire amount of its US\$200 million Sukuk facility, which was originally drawn in 2007. The facility, which was payable over several tranches with final maturity in July, has now been settled with a recent payment of an outstanding amount of US\$34 million.

Elsewhere, Malaysia continues to lead the Sukuk market. The National Mortgage Corporation of Malaysia has issued an RM825 million (US\$198.73 million) one-year bond and Sukuk comprising RM800 million (US\$192.7 million)-worth of conventional medium-term notes and RM25 million (US\$6.02 million)-worth of Islamic medium-term notes, proceeds of which would be used to fund the purchase of mortgage and Islamic home loans from the financial system. They will be listed and tradable under the Scripless Securities Trading System.

Looking ahead, in the UAE, Hamed Ahmed Ali, CEO of NASDAQ Dubai, has announced that the exchange plans to allow individuals to invest in Sukuk by 2019. He said the technological infrastructure for the offering is being prepared and that a simplified system would be developed. These reforms should open up a broader investor base more akin to equity investments. ☺

*All figures and information are correct at the time of writing.*

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