

Islamic Securitisation Workshop

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Introduction

- Issues to be considered by Islamic investors
- Issues to be considered by the asset providers
- Conclusion



Conventional Securitisation

- Set up an SPC to own the physical assets
- Underlying cashflows received by the SPC
- SPC is credit enhanced in a number of ways
- This allows the SPC to issue highly rated (ie AAA or AA) securities



Issues – Shari'a

- No debt-based receivables
- No assets involved in activities repugnant to the Islamic faith
- Structure
 - no tranching
 - no disallowed credit enhancements
- Tradability – must be hard physical assets



Issues – Investment Quality

- Liquidity and tradability
- Distance from assets
- Pivotal role of ratings agencies



Five year transition ratios 1985-2001 (%)

	AAA	AA	A	BBB	Sub-inv	Default
AAA	99.11	0.89	0.00	0.00	0.00	0.00
AA	10.23	81.02	8.32	0.43	0.00	0.00
A	3.39	1.84	91.80	0.21	2.17	0.57
BBB	6.40	2.44	2.74	86.59	1.82	0.00
Sub inv	0.00	2.08	0.00	2.08	83.33	12.50

Source - S&P Ratings Transitions 2001: US ABS Credit Ratings Endure the Test of Recession



Investment Quality – the Enron Factor

Differences

ABS

- Generally diversified asset pools
- Investors paid from cashflows generated from the assets
- Ratings de-linked from originator through SPC structure
- ABS market large, liquid and has good disclosure

Enron

- Single projects in off balance sheet vehicles
- Returns to investors NOT generated by the assets
- Ratings linked to Enron
- Projects required minimal disclosure

Source: Fitch Ratings ABS Market Update May 2002



Issues for Asset Providers

- Islamic Finance?
- Costs and efficiencies compared with conventional securitisation

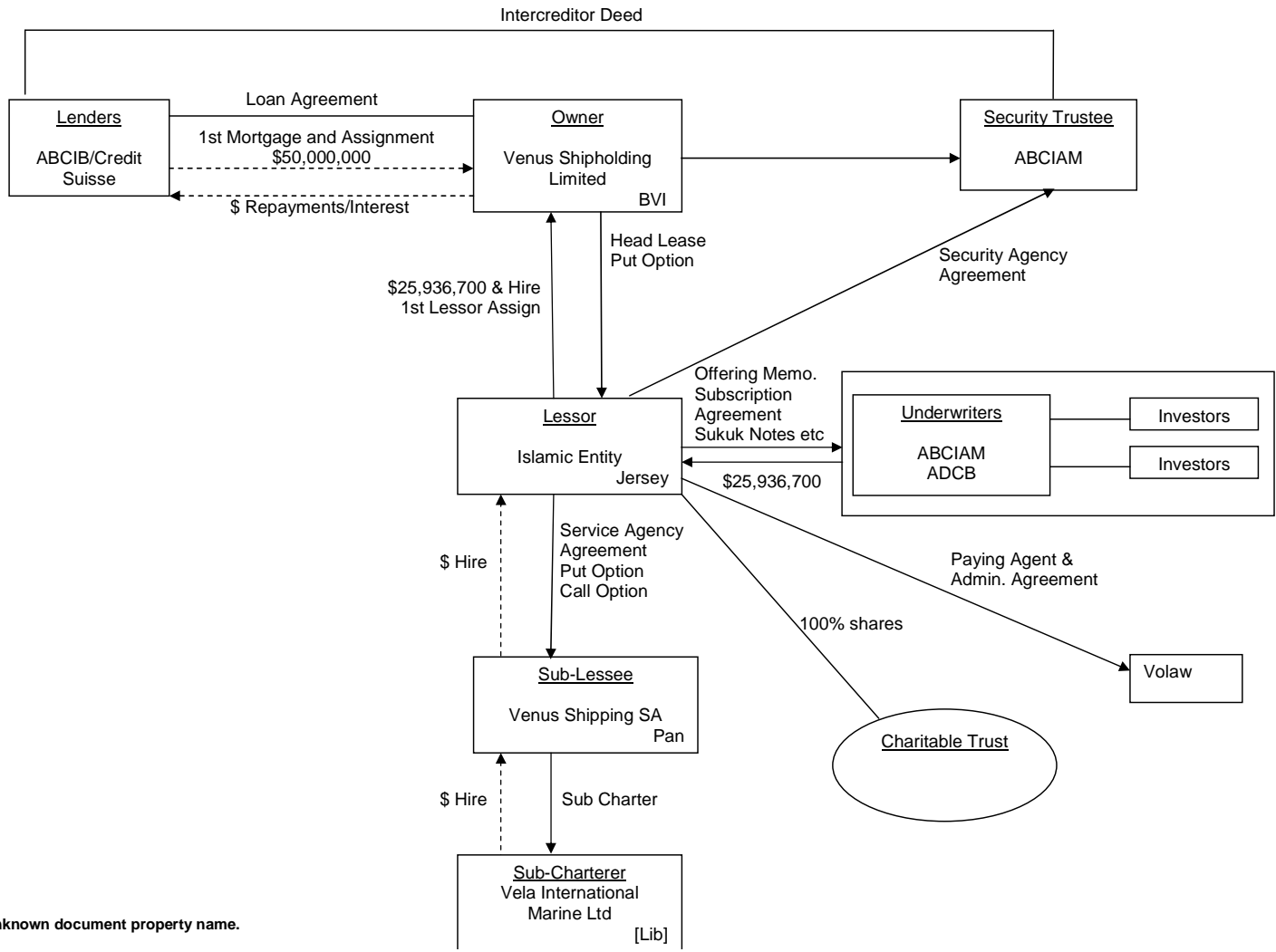


Conclusion

- Is there is a strong demand for Shari'a-compatible, quality, liquid tradable securities providing Libor plus yields
- Can the western model can be adapted to be Shari'a compliant
- Is the credit ratings process is pivotal in providing the necessary level of comfort for investors located at a distance from the assets



Al Safeena Sukuk



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Islamic Securitisation of Western Assets

