

The Future of Islamic Capital Market

From Global Trends to Local Opportunities

Md. Abdullah Al Faisal

CEO, CBC Asset Management Limited

(to be renamed as *Lion City Asset Management Limited*)

Part 1: The Global Islamic Finance Market

Islamic Finance Industry & Supporting Ecosystem

Financial Performance



US\$4.9 Trillion

Total Islamic Finance Assets



11%

YoY Growth of IF Assets



1,981

Islamic Financial Institutions

Governance

57

Countries with IF
Regulation

72

Countries with FinTech
Sandbox

23

Countries with
Centralized Shariah
Committee

69%

Average Disclosure Index

1,512

Scholars on Shariah
Boards

Sustainability

35.9

ESG Sukuk Outstanding
(USD B)

8.0

ESG Islamic Funds (USD
B)

50

Countries with
Sustainability Guidelines

48%

Average Sustainability
Reporting Index

1.3

Total CSR Funds (USD
B)

Awareness

531

In-Person Events

387

Virtual Events

10,534

Finance
News

Knowledge

1,007

Education Providers

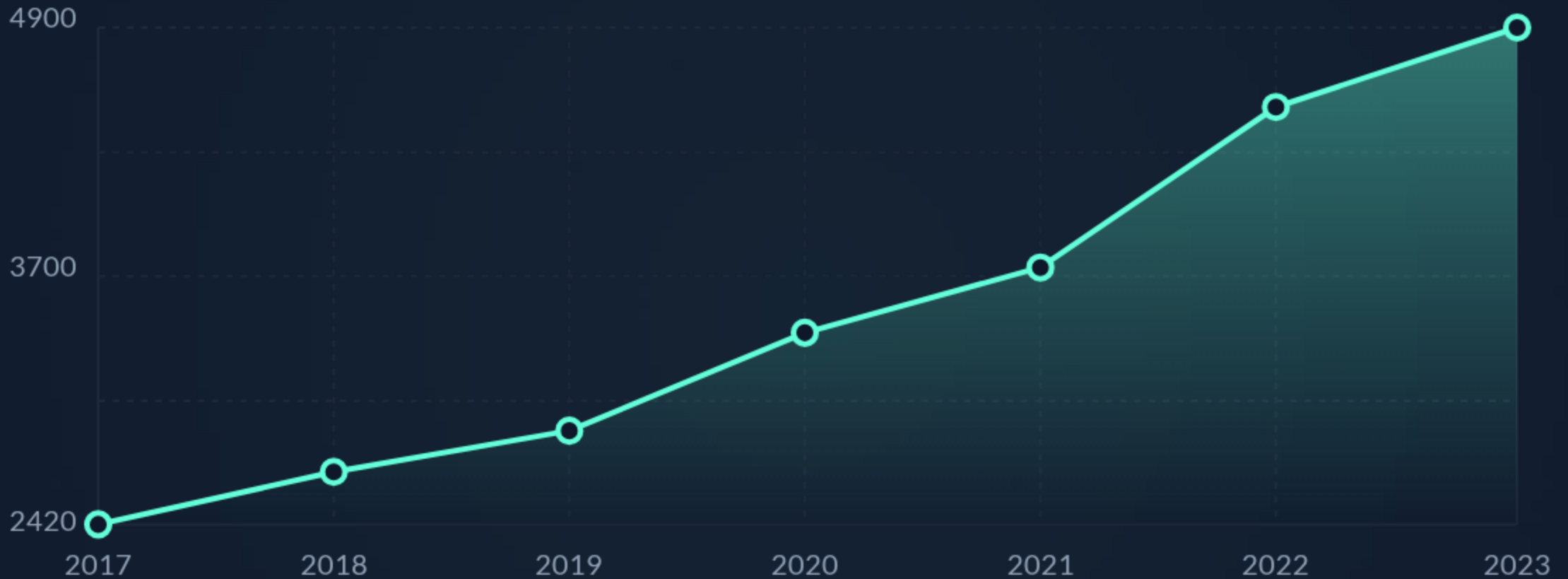
5,162

Research Papers

347

Finance Journals

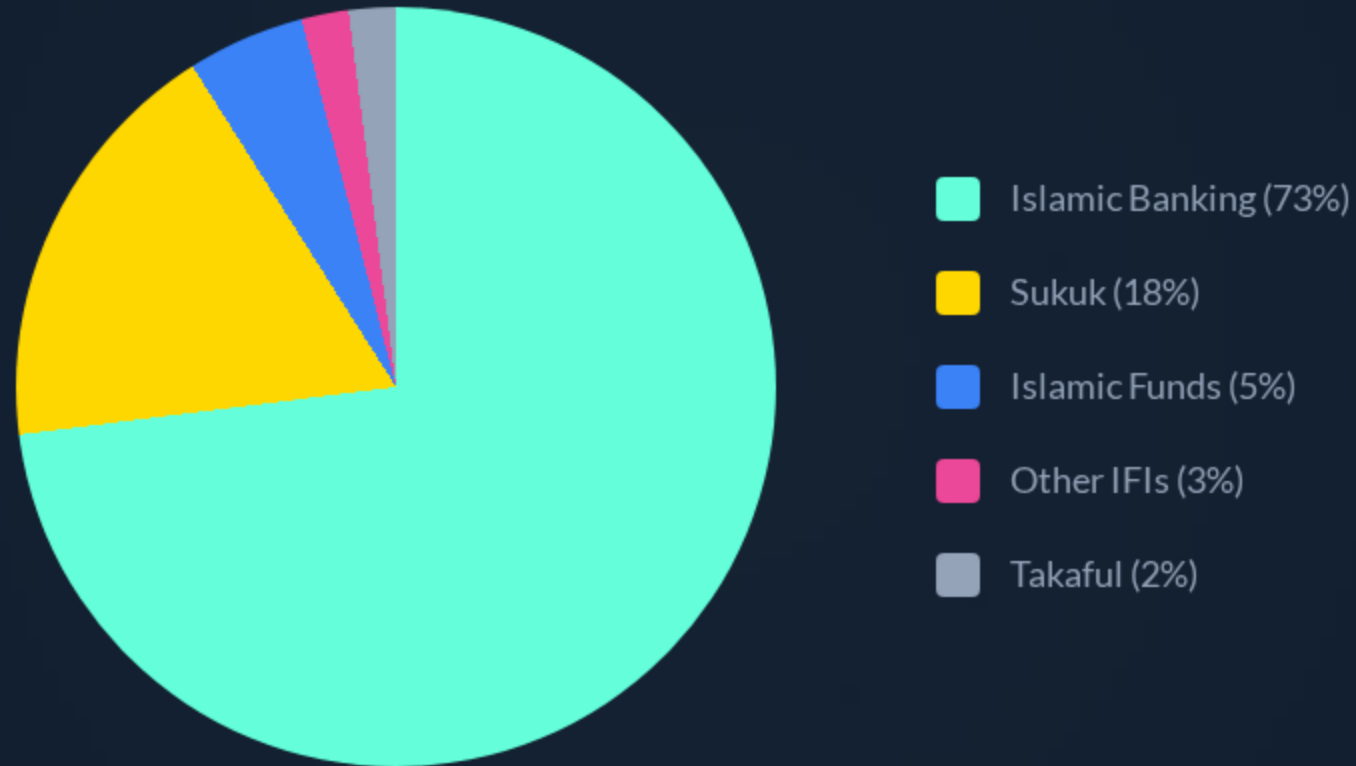
Global Asset Growth (USD Billion)



The global market has shown robust growth, expanding from \$2.42T in 2017 to \$4.9T in 2023, representing a 13% Compound Annual Growth Rate (CAGR).

Source: ICD, LSEG ISLAMICFINANCE DEVELOPMENT REPORT 2024

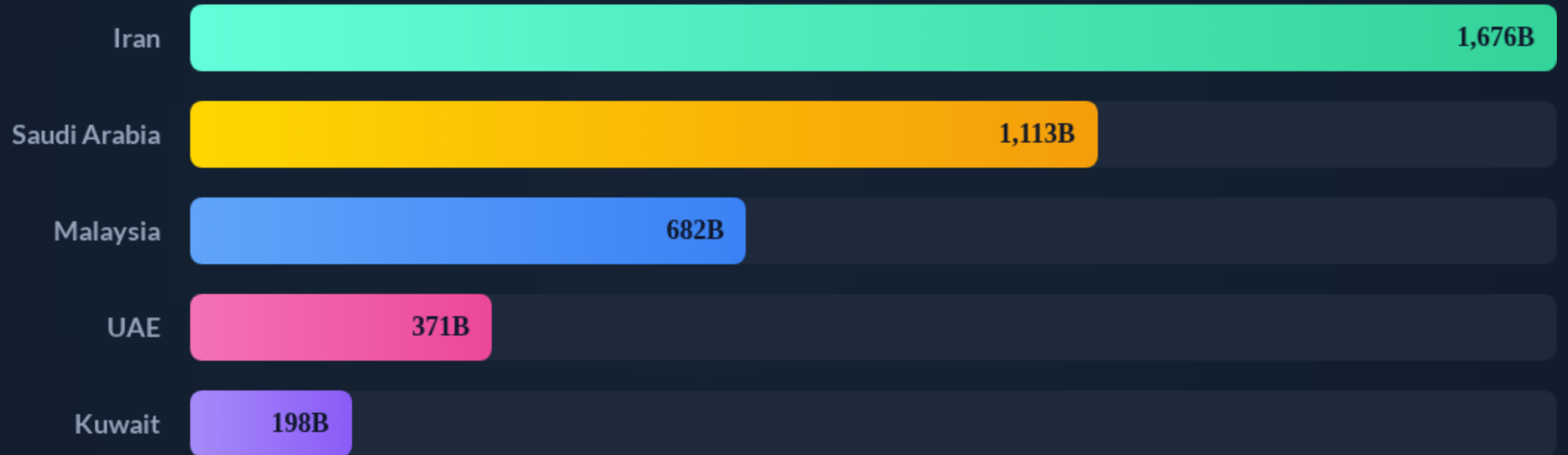
Global Asset Mix (Total: \$4.9 Trillion)



Islamic Banking remains the dominant sector, accounting for 73% of all global Islamic finance assets.

Source: ICD, LSEG ISLAMIC FINANCE DEVELOPMENT REPORT 2024

Top Countries by Islamic Finance Assets



Asset concentration is high, with Iran and Saudi Arabia representing a significant portion of the global market.

Source: ICD, LSEG ISLAMIC FINANCE DEVELOPMENT REPORT 2024

Top Countries in Islamic Banking Assets



Bangladesh being the 4th largest Muslim Population is 10th largest Islamic Banking Market

Source: ICD, LSEG ISLAMIC FINANCE DEVELOPMENT REPORT 2024

Total International Sukuk Issuances (USD Billion)



The international Sukuk market has seen significant growth, rising from \$4.2B in 2010 to a peak of \$52.7B in 2023, despite some years of volatility.

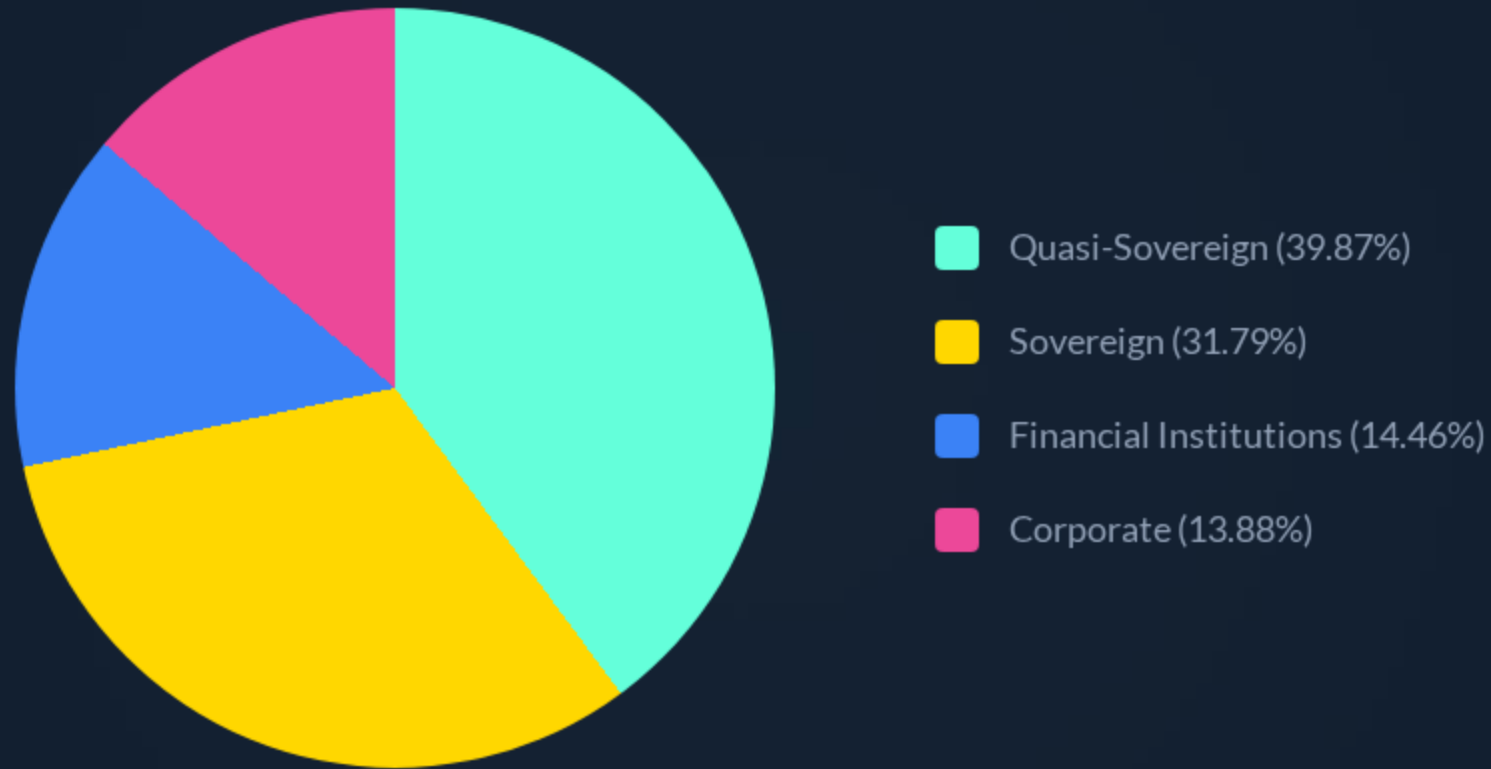
Source: IIFM Sukuk database

Top Countries in Sukuk Value Outstanding



Source: ICD, LSEG ISLAMIC FINANCE DEVELOPMENT REPORT 2024

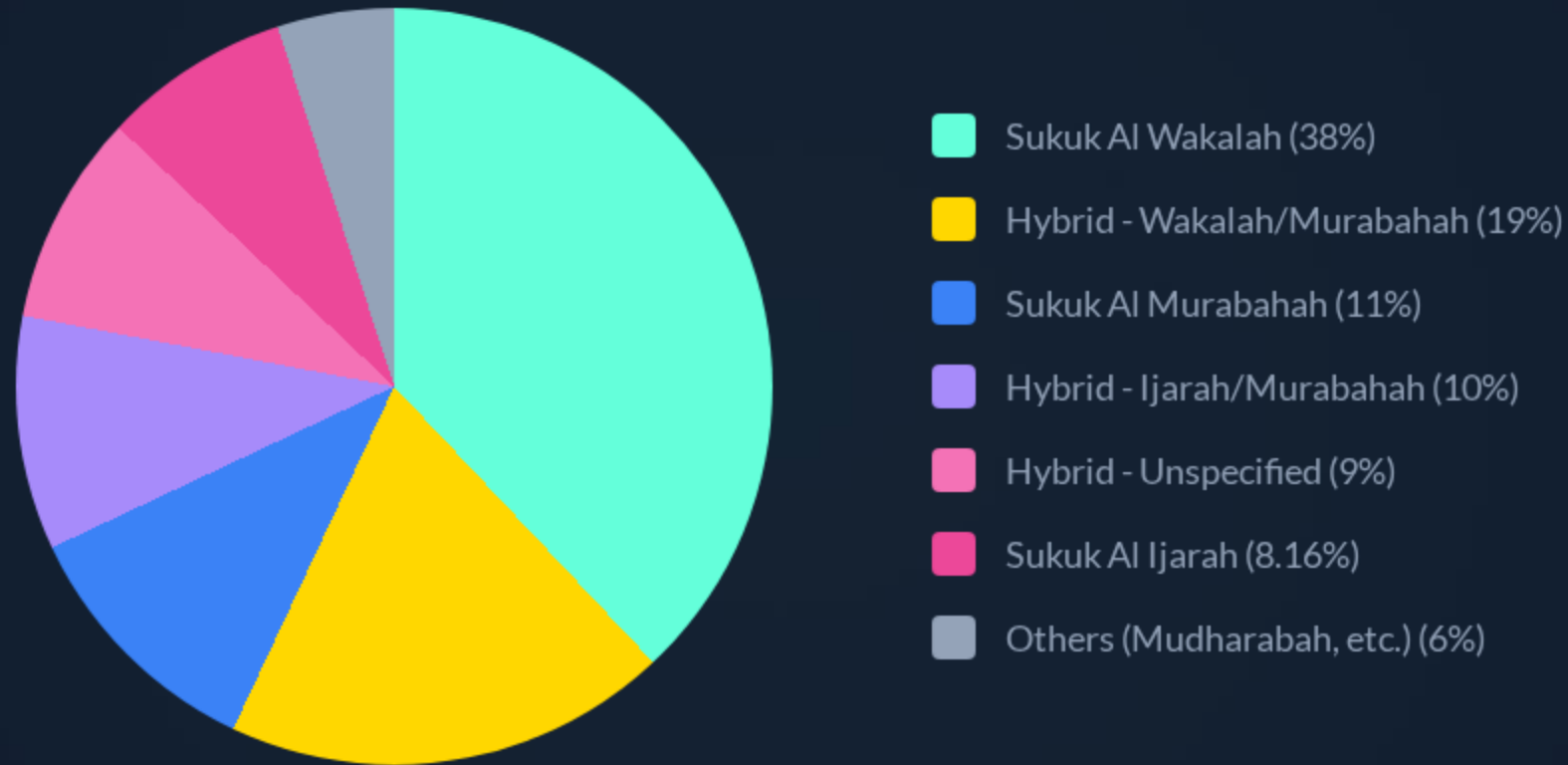
Int'l Sukuk Issuances by Issuer (2010–2021)



Historically, the market has been dominated by Sovereign and Quasi-Sovereign issuers, which together account for over 71% of all issuances.

Source: IIFM Sukuk database

International Sukuk Issuances by Type

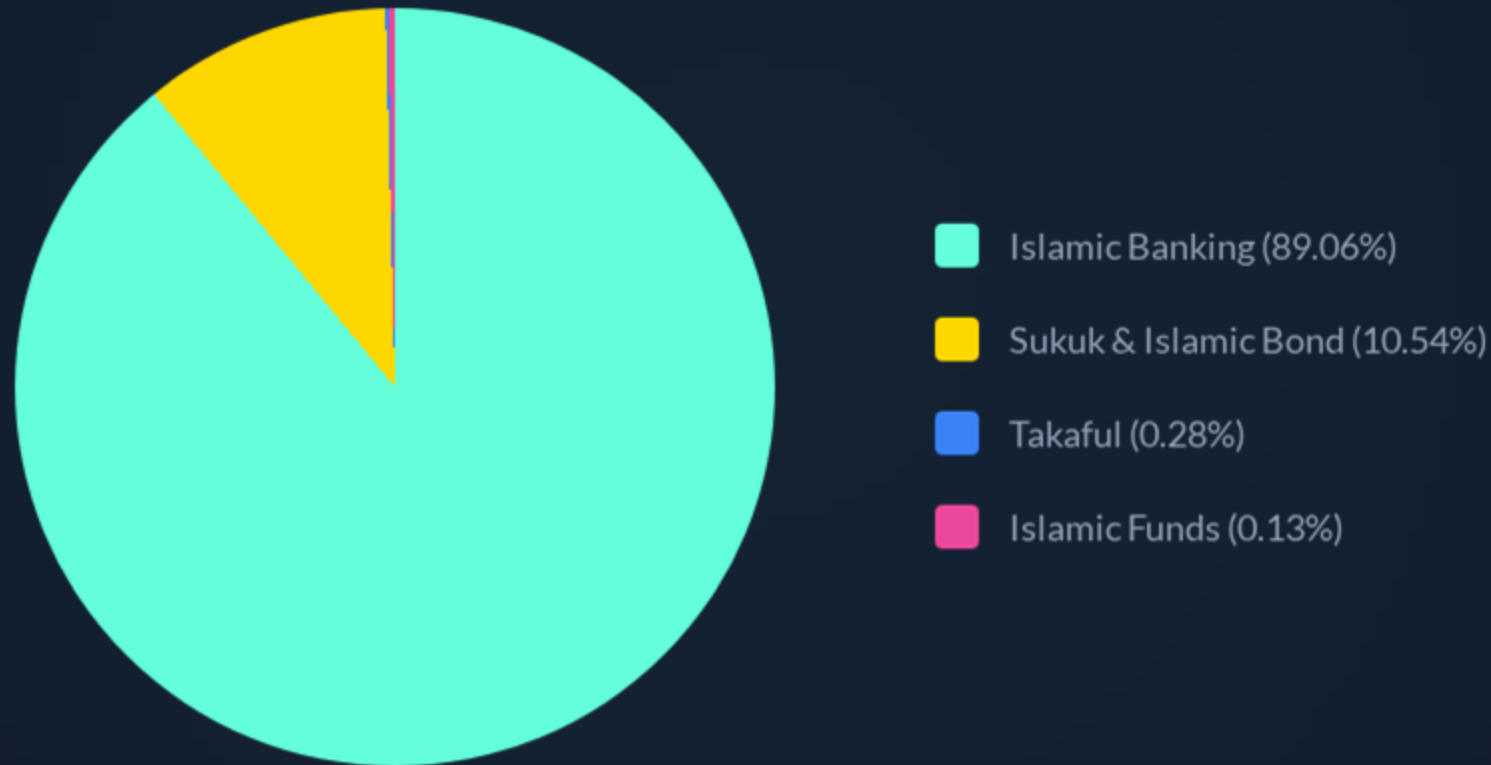


Sukuk Al Wakalah is the most popular structure, representing 38% of issuances. Hybrid structures are also significant, showing market innovation.

Source: IIFM Sukuk database

Part 2: Bangladesh Market Snapshot

Bangladesh Islamic Finance Landscape (Total: \$42.08 Billion)



The Bangladesh market is overwhelmingly dominated by Islamic Banking (89%) as it has started from 1983, with Sukuk representing the next largest segment.

Bangladesh Govt. Long-Term Sukuk

Sukuk Project	Tenor	Issuing Date	Outstanding BDT (Cr.)
Safe Water Supply	5 Y	12/29/20	8,000
Govt Primary Schools Project	5 Y	12/30/21	5,000
IRIDP-3 Social Impact Sukuk	5 Y	4/20/22	5,000
CDWSP Social Impact Sukuk	5 Y	6/6/24	1,000
CIBRR-2 Socio-Economic Sukuk	7 Y	3/13/25	3,000
RDIRWSP Socio-Economic	7 Y	5/20/25	2,000

24,000 Cr.

Outstanding Value

2,500 Cr.

New Ijara Sukuk will lunch in Dec

Bangladesh Govt. Short-Term Sukuk

12,671 Cr.
Outstanding Value

BGIIB

The Bangladesh Government Islamic Investment Bond (BGIIB) serves as the primary instrument for the government's short-term Shariah-compliant financing and liquidity management.

Private Sector Sukuk: Untapped Potential



Infrastructure

Finance power plants, ports, telecom networks, and economic zones with long-term, asset-backed instruments.



Real Estate

Fund large-scale residential and commercial projects using Ijarah (leasing) or Istisna'a (construction) Sukuk.



Manufacturing (RMG/Pharma)

Use Sukuk to finance new machinery, factory expansions, and supply chain logistics (e.g., Salam Sukuk).

Bangladesh Private Sector Sukuk

Issuer	Issue Size (crore)	Mode
Beximco Limited	3,000	Hybrid (Ijara+Istisna)
Banga Building material Limited	300	Hybrid (Ijara+Istisna)
Total	3,300	2 Issuances

Bangladesh Banking Sector Mudaraba Bonds

Bond Type	Issue Size (crore)	Total Issuances	Mode
Perpetual Bond	4,182	8	Mudaraba Bond
Subordinated Bond	7,450	14	Mudaraba Bond
Total	11,632	22 Issuances	

Bangladesh Islamic Mutual Funds (Open-End)

Asset Management Company	Fund Name	AUM (Million)
IDLC Asset Management Ltd.	IDLC AM Shariah Fund	725
Shanta Asset Management Ltd	Shanta Amanah Shariah Fund	497
ICB Asset Management Co. Ltd.	ICB AMCL Islamic Unit Fund	383
Capitec Asset Management Ltd.	Capitec Padma P.F. Shariah Unit Fund	281
All Others (10 Funds)		1,512
Total Open-End (14)		3,398

Bangladesh Islamic Mutual Funds (Closed-End)

Asset Management Company	Fund Name	AUM (M)
Strategic Equity Management Ltd.	SEMLIBBSF	997
LR Global Bangladesh Asset Management	AIBL1STIMF	925
ICB Asset Management Co. Ltd.	IFILISLMF1	723
Capital & Asset Portfolio Management	CAPMIBBLMF	548
Total Closed-End		3,193

Bangladesh Islamic Fund Market Share

7.29%

Share of Total Mutual Fund AUM

Market Snapshot (Amount in Cr)

Total Islamic Mutual Funds: 659

Total Mutual Fund Market: 9,046

Islamic Open-End Funds: 340

Islamic Closed-End Funds: 319

Why Islamic Fund is not working in Bangladesh

Absence of Good Corporates

- ❖ Bangladesh lacks strong Shariah-compliant investment options because many well-governed corporates — Nestlé, Unilever, Akij, major pharma and large RMG groups — are not listed.
- ❖ Islamic banks continue to underperform due to governance and operational weaknesses.
- ❖ limited availability of competitive Takaful (Islamic insurance) companies.

Major Barriers Holding Back Islamic Investments

- ❖ Existing fund managers are underperforming and cannot invest in BIIG.
- ❖ There is a shortage of Islamic bonds and Shariah-compliant REITs.
- ❖ Overall awareness of Islamic investment options remains low.

Market Development: Dividend Taxation Hurdle

The Problem: Multi-Level Taxation

Returns are eroded as profits are taxed at the company level, then again at the end investor receives distributions. This discourages fund-based investment. An d Individual dividend tax is personal slab wise and for corporates is 20%

The Solution: Favorable Policy

Implement a "tax-pass-through" status for all mutual funds to avoid double taxation. Favorable tax treatment for dividend income received by end investors is crucial to boost market participation.

Popularizing Islamic Funds: A Path Forward

Boosting Equity Funds

Focus on robust financial literacy campaigns. We need product innovation, like Shari'ah-compliant ETFs, and absolute transparency in Shari'ah governance to build investor trust.

Growing Fixed Income Funds

Requires a stable pipeline of high-quality government and corporate Sukuk. We must also develop digital-first distribution channels to make these funds accessible to all.

Bangladesh Takaful (Insurance) Snapshot

7.8%

**Takaful Share of Total Gross Premium
And Insurance Penetration is only 0.41% of GDP**

Premium Breakdown (Amount in Crore)

Total Gross Premium: 18,226

Total Takaful Premium: 1,421

Takaful (Life): 1,230 (10.0% of Life)

Takaful (Non-Life): 192 (3.2% of Non-Life)

Bangladesh Shariah Governance

Bangladesh Leads in Scholar Count

- A robust governance framework is crucial for industry trust and authenticity.
- Bangladesh has the highest number of Shariah scholars at 247.
- Other leaders include Indonesia (175) and Malaysia (173), Pakistan 101 and Sudan 81.



Part 3: Understanding Sukuk

Sukuk Types: Asset-Backed vs. Asset-Based

Asset-Backed Sukuk


True securitization where investors have direct recourse to the underlying assets. The assets are sold to an SPV, and investors own a share of these assets. Performance depends solely on the assets, not the originator. i.e. Ijara Sukuk


Asset-Based Sukuk

Investors have recourse to the assets, but also rely on the creditworthiness of the originator (issuer). The assets are not truly sold but may be leased to the SPV. This is the more common structure globally. i.e. Wakalh, Murabha, Mudarba

Part 4: Bangladesh Regulatory Initiatives

Key Regulatory Milestones

 **BSEC (Investment Sukuk) Rules, 2019:** Established the primary legal framework for issuing and governing investment-grade Sukuk in Bangladesh.

 **Government Sukuk Notification, 2020:** The Finance Division issued specific guidelines on October 8, 2020, paving the way for government-backed Sukuk issuances.

Fiscal & Legal Incentives



Stamp Duty Waiver: Government waived the 2% stamp duty for the registration of a Trust Deed for an SPV.



Stamp Duty Reduction: Duty reduced to a maximum of 0.1% of the Trust Value or BDT 10,000,000, whichever is higher.



SPV Transfer Exemption: Income of SPV is tax exempted



Zero Coupon Sukuk: Tax free for investors other than Bank and FIs

Shari'ah Governance Framework



BSEC Shari'ah Council

Formation of a 9-member Shari'ah Advisory Council in 2022 to ensure BSEC rules and securities comply with Shari'ah principles.



BB Shari'ah Committee

Bangladesh Bank formed its own Shari'ah Advisory Committee to provide guidance on Islamic banking and finance regulations.



Shari'ah Index

Introduction of dedicated Shari'ah-compliant indices on both the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE).

Addressing Default: Sukuk Restructuring



Trustee/SPV Intervention: The Trustee, acting on behalf of investors, takes control of the underlying asset(s) as per the trust deed.



Liquidation of Assets: For asset-backed/Ijarah Sukuk, the asset is sold (liquidated), and the proceeds are distributed to the Sukuk holders.



Negotiated Restructuring: For Sukuk, this may involve renegotiating profit-sharing ratios, extending the maturity (tenor), or a "workout" plan.



Legal & Shari'ah Oversight: The entire process is governed by the trust deed, relevant court (e.g., Artha Rin Adalat), and Shari'ah principles to ensure a fair resolution.

Part 5: Recommendations for Market Development

Reforms expectations from BSEC

BSEC: Rules & Credit Rating

Clarify & Update Rules

Rules for Sukuk, REITs, and Asset-Backed Securities (ABS) need clear guidelines on the transfer of security. The ABS Rules from 2004 are outdated and require updates with clear modus operandi.

Credit Rating Agencies

Consider limiting bond rating agencies to 2-3 (from 8) to align with global standards. Implement stricter guidelines to enhance rating quality and investor trust in bond risk assessment.

BSEC: Process & Automation

Simplified Issuance

Trustee registration should not be a prerequisite for application. BSEC could approve the trustee registration and debt security application simultaneously to speed up the process.

Automation & Efficiency

Minimize repetitive document submissions. BSEC should have direct access to RJSC data and listed company audited reports. Reconsider the necessity of receiving attached copies of all submitted documents.

BSEC: Lower Issuance Costs

0.56%

Approx. Cost of Issuance

High Issuance Expenses

A BDT 500 Crore sukuk issue costs approx. BDT 2.8 Crore (0.56%) in fees (BSEC, Trustee, CDBL, Listing).

BSEC receives a 0.10% consent fee on the *approved* amount, regardless of whether the funds are raised.

BSEC: High Listing Fees

1.7 Cr.

Listing Fees (Approx. BDT)

Barrier to Entry

Listing fees to exchanges (including first year annual fees) cost approximately BDT 1.7 Crore. This is significantly higher than nearby markets where fixed income is a popular financing tool. Streamlining these costs is essential.

Recommendation: Address Asset Transfer Costs

The Preference: Movable Assets

Sukuk issued in Bangladesh show a preference for movable assets. This is driven by their cost-effective and tax-efficient transfer, avoiding significant transactional frictions.

The Hurdle: Immovable Assets

High costs for immovable assets: 1.0% stamp duty, 2% local government tax, and 1% registration fee. These taxes dramatically elevate Sukuk/ABS issuance expenses for vital projects with land.

Recommendation: Ensure Bankruptcy Remoteness

”

If project land remains un-transferred, the assurance of bankruptcy remoteness becomes challenging.

”

A Critical Risk to Asset-Backed
Structures

BSEC: Rating Rule Anomaly

”

As per the Debt Securities rule, it is stipulated that the issue must hold a minimum rating of “ST-2” or its equivalent in the short term. ”

Recommendation: Since sukus are inherently long-term, the inclusion of short-term rating requirements in the rules should be re-evaluated or omitted to avoid confusion.

Reforms expectations from Bangladesh Bank (BB)

BB: Remove SPV Permissions

The Problem

DOS Circulars (2015 & 2019) require banks to take permission from Bangladesh Bank before investing in BSEC-approved SPVs, and limits investment to specific sectors.

The Solution

Secured, BSEC-approved Asset-Backed Securities (ABS) or Sukuk should not require additional, redundant permission from Bangladesh Bank, as this creates delays and limits the market.

BB: CIB & Single Obligor Treatment



Single Obligor Limit: ABS/Sukuk should be treated as independent from the Issuer/Originator and not be counted towards the issuer's Single Obligor Limit.



CIB Reporting: The Special Purpose Vehicle (SPV) should be reported as an individual entity in the CIB. Any default should be reported against the SPV/Trust, not the originator.

BB: Incentivize Green & Blue Sukuk

Opportunity

BB's Sustainable Finance Policy (2022) exists, but offers no additional benefits for issuing Green or Blue Sukuk.

Recommendation

BB should offer special pre-financing or refinancing funds (like the Technology Development Fund) for banks that invest in sustainable Sukuk, creating a tangible incentive.



Legal & Framework Reforms

Legal: Insolvency & Default Remedies

Insolvency & Bankruptcy

Implementing a robust framework, similar to India's 2015 code or other peer countries, is critical. Clear rules for debt recovery and resolution will enhance investor confidence and promote a healthier Sukuk market.

Default Remedies (Non-Banks)

Banks use "Artha Rin Adalat Ain, 2003".
Corporations and individuals only have Civil Courts.
This discrepancy must be addressed to ensure equal access to legal remedies for all bond investors.

Incentives for Investors

Investor Base: Domestic Funds

Pension & Provident Funds

Allowing government pension funds and provident funds to invest in high-rated Sukuk would significantly boost demand. It diversifies options for these funds and provides a new funding source. Invest up to 25% of the total funds in any security listed on a stock exchange in Bangladesh.

IDRA (Insurance)

Current limits (15% Non-Life, 10% Life) on Sukuk/Bond investment are restrictive. These limits should be relaxed to allow insurance companies to participate more actively in the fixed-income market.

Investor Base: Attract Foreign Investors



Tax Incentives

Introduce incentives like reduced withholding tax on profit income to make investments more attractive for foreign capital.



Easy Repatriation

Ensure smooth and clear mechanisms for the repatriation of invested funds and earned profits to build investor confidence.



Clear Guidelines

Develop comprehensive guidelines from BSEC tailored for foreign bond investors, providing clarity on regulations, procedures, and protections.

The Path to a Multi-Trillion Taka Market

The "Bull" Case (Call to Action)

- ❖ The opportunity is immense. By streamlining issuance (BSEC) unlocking bank participation (BB), and incentivizing investors (Tax/NBR), Bangladesh can build a deep, liquid Sukuk market to fund its national ambitions.
- ❖ We also need to focus on Islamic commodity market, REITS, Tokenization, Shariah-compliant stable coins.

Questions?

Thank you for your attention.