

**Secondary Market of Sukuk: An Overview****Ahmet ULUSOY***Prof. Dr., Beykent University, ahmetulusoy@beykent.edu.tr***Mehmet ELA***Asst. Prof., Osmaniye Korkut Ata University, mehmetela@osmaniye.edu.tr*

Doi: 10.32957/ijsef.452577

Article Info:*Received 22.09.2017**Accepted 26.03.2018***ABSTRACT****Keywords:**
*Sukuk Market Challenges,
Secondary Market, Sukuk.***JEL Classification Codes:**
G15, G23, F34.

Sukuk market has been growing very fast in recent years. However, because of the sukuk market problems, the potential of the market has not been realized yet. One of these problems is the inactive, weak and sluggish secondary market of sukuk. Because of the weak secondary market, investors and issuers of sukuk cannot benefit from the advantages of sukuk completely. In order to benefit from sukuk, sukuk secondary market problems must be overcome and the secondary market of sukuk must be active. In this regard, we researched the reasons of weak sukuk secondary market by using a descriptive method in this paper. We proposed some solutions to resolve the problem. If the solution proposals can be put into practice, we think that sukuk secondary and primary market will develop and parties of sukuk can take advantages of sukuk more significantly.

Introduction

Usage area of sukuk is quite wide. Sukuk can be an alternative source of fund for governments and conventional institutions. On the other hand, sukuk is a basic investment and liquidity management tool for Islamic banks and institutions whose investments must be Sharia compliant. Sukuk is used for portfolio diversification for conventional institutions. If issuers such as governments and investors of sukuk such as Islamic banks do not trade sukuk in the secondary market, not only issuers but also investors of sukuk can be affected negatively. For example, low level of the secondary market of sukuk makes sukuk issuing very expensive, and this expensive issuing costs can make issuers reluctant to issue sukuk. On the other hand, if the secondary market is very weak, Islamic institutions which have limited number of investment opportunities cannot manage liquidity thoroughly. So, investors and issuers of sukuk can reach their objectives only if the secondary market of sukuk is very active.

The potential of the Sukuk market has not been realized yet because of the problems of sukuk market. One of these problems is lack of an active secondary market of sukuk. There are a lot of reasons for the weak secondary market of sukuk. These are a scarcity of sukuk supply, hold-to-maturity culture, Sharia restrictions, lack of standardization, inadequate trading platforms, low level of sukuk rated and listed, lack of primary sales to retail investors and lack of large and global Islamic banking institutions.

In order to benefit from advantages of sukuk, there must be an active secondary market. Therefore, we proposed some solutions to achieve an active secondary market. These are more sovereign sukuk and more standardization, more rated and listed sukuk, more issuance to retail investors and more global and large Islamic banks.

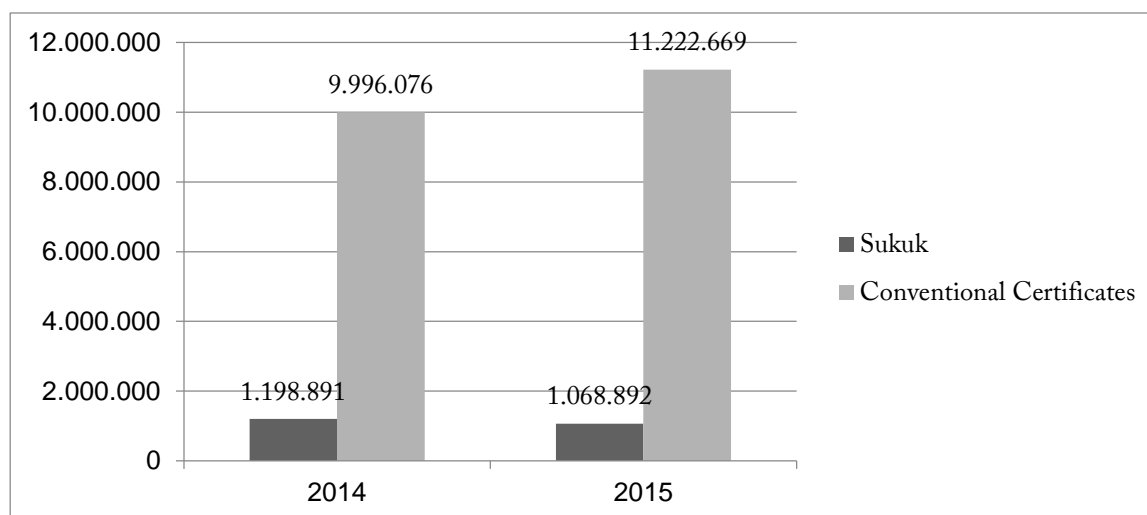
If the proposals are taken into account, sukuk market can grow faster and consequently investors and issuers can benefit more from the advantages of sukuk, because development of the primary and secondary market of sukuk is interconnecting. And so, if the secondary market of sukuk develops, sukuk market can develop completely.

The aim of this paper is to clarify secondary market of sukuk and its problems and to propose some solutions to clear the hurdle of weak secondary market. The paper is the first study which clarifies secondary market of sukuk problems and offers solutions.

The paper consists of three sections. In Section 1, we dwell on trading volume of sukuk. In section 2, we introduce the reasons of the weak secondary market of sukuk. Finally, in Section 3, we propose some solutions in order to overcome the weak secondary market problem.

1. Trading Volume of Sukuk

The secondary market of sukuk is sluggish and dull despite of increasing issuance of sukuk. Investors (mostly institutional ones) prefer to hold sukuk to maturity rather than trade it. Thus, sukuk trading volume has been very low over the course of many years. According to Graph 1, sukuk trading volume (transaction number) is very low compared to conventional certificates. Number of sukuk traded is 1.198.891 in 2014 and 1.068.892 in 2015. On the other hand, number of conventional certificates traded is 9.996.076 in 2014 and 11.222.669 in 2015. Accordingly, number of sukuk/conventional certificates traded is 11 percent in 2014 and 9 percent in 2015.

Graph 1: Number of Sukuk and Conventional Certificates in Khartoum Stock Exchange

Sources: Khartoum Stock Exchange (2015:20).

On the other hand, in Istanbul Stock Exchange (Borsa Istanbul), total debt instruments trading volume reached at 10.267,2 billion of Turkish liras in 2015. However, sukuk trading volume is a small part of the total debt instruments trading volume. In this regard, sukuk trading volume reached 1,34 billion (0,0001 percent of total debt instruments trading volume) in 2015. And this indicates that sukuk trading volume remained very low in 2015.

2. The Main Reasons of Weak Secondary Market

As one of the challenges of sukuk market, weak secondary market is a perennial problem for sukuk market. There are a lot of reasons for this weak secondary market across the world. We try to clarify these reasons below.

2.1. Sharia Restrictions

Sukuk is an Islamic financial instrument that complies with Sharia or Islamic law. For the purpose of Sharia compliance, sukuk structures should abide by the prohibitions of the Islamic law such as gharar and riba. Sukuk trading mechanisms must be Sharia compliant and therefore, trading of some sukuk structures is not permissible in Sharia. These restrictions on tradability in the secondary market come from a Sharia ruling by the Organization of Islamic Countries (OIC) Fiqh Council which states that “a bond or note can be sold at a market price provided that the composition of the group of assets, represented by the bond, consist of a majority of physical assets and financial rights, as compared to a minority of cash and interpersonal debts.” (Iqbal and Mirakhor, 2011:187). In this regard, in order to be Sharia compliant, trading in sukuk cannot involve trading in debt, and instead sukuk must imply ownership of a recognized asset (Al Elsheikh and Tanega, 2011:188). Trading of debt is Sharia compliant when it doesn't generate profit (Abdo, 2014:94) and so, trading of debts and receivables (without the underlying asset) for any value other than its par (face) value is not permissible in Sharia law (Afshar, 2013:45). For tradability of sukuk in the secondary market in accordance with Sharia, sukuk should represent a direct link with physical (underlying) assets, instead of denoting debt. Some scholars accept assets as underlying sukuk structures, representing at least 33% of the of the face value of the sukuk, and other scholars require between 51% and 70% to be physical assets (Alawi and Al-Quati, 2014:2; Linklaters, 2012:14).

In addition to restrictions on trading of debt, trading of sukuk in the secondary market must follow these rules (Zin et al., 2011:473):

1. If sukuk are issued against specific assets ('ayn) or services, then this issuance implies the sale of these assets to the sukuk holders in return for cash based on current values of assets or services, and therefore the sukuk becomes tradable.

2. If sukuk are issued against described assets or services to be manufactured or constructed in the future (mausuf fii zimmah), then this issuance implies the sale of these assets to the sukuk holders in return for cash, and these sukuk are not tradable until the deliverability of assets or services.

3. If sukuk are not issued against assets or services, but for the purpose of utilizing the proceeds to acquire some assets, then sukuk do not become tradable until the stage at which those assets or services are purchased. This is because the sukuk up to that point represent liquid proceeds, i.e., cash money and money cannot be sold against money unless the Shariah rules of sarf are observed.

4. If there is any mixture between 'ayn and dayn then 'ayn must dominate dayn in sukuk issuance.

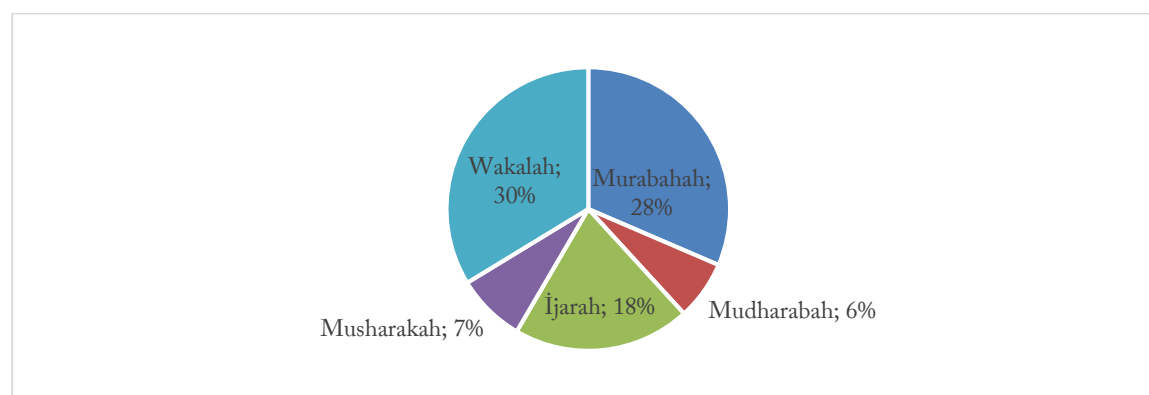
Table 1: Tradability of Sukuk in the Secondary Market

Sukuk Type	Tradability
Ījarah sukuk	Negotiable/tradable completely at market price.
Salam sukuk	Not tradable except at par value.
Istisna sukuk	Tradable if funds converted into assets and before the sale to the orderer.
Murabahah sukuk	Tradable after purchasing the murabahah commodity and before selling it to the buyer.
Mudarabah, musharakah, and wakalah sukuk	Tradable at the market price after the commencement of the activity for which the funds raised.

Sources: Ayub (2007:408); Omar et. al. (2013:118); ISRA (2014:1-4).

If we adapt these rules into sukuk types, we can get Table 1. According to Table 1, ijarah sukuk is fully negotiable/tradable, because its underlying asset is fully physical assets (Iqbal and Mirakhor, 2011:188). On the other hand, salam sukuk is not tradable except par value, because in salam sukuk underlying commodity is a debt owed by the seller. In other words, salam sukuk is a pure debt security and it is not negotiable/tradable in the secondary market, because debt cannot be traded according to Sharia rules. Istisna sukuk is not tradable during the construction period. It is tradable after construction period ends or funds convert into assets and before the sale to the orderer. On the other hand, murabahah sukuk is not tradable after delivery of murabaha commodity to the buyer. It is only tradable after purchasing the murabahah commodity and before selling it to the buyer. Mudarabah, musharakah and wakalah sukuk is tradable after the commencement of the activity for which the funds raised. It is clearly mentioned in the AAOIFI Shariah Standards 17, Article 5/2/16 that "It is permissible to trade in mudarabah, musharakah, and investment agency (wakalah) certificates after closing of subscription, allotment of certificates and commencement of activity concerning assets and usufructs." (ISRA, 2014:4).

Graph 2: Structural Break-Up of Global Sukuk Issuances (2016, %)



Source: Reuters (2016:42).

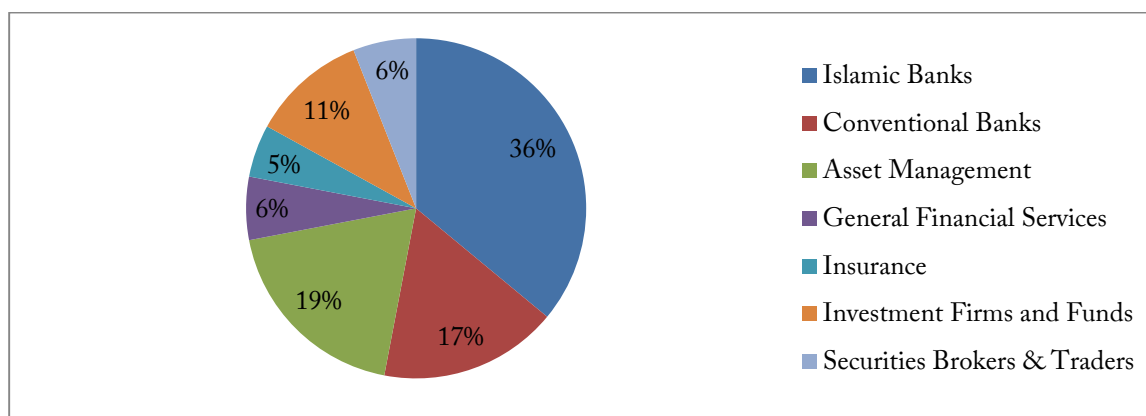
According to Graph 2, sukuk structures which are subject to some rigid conditions to be tradable in secondary market (murabaha, mudarabah, musharakah, and wakalah sukuk) constitute major part (71

%) of sukuk structures issued in 2016. This indicates that Sharia restrictions which are about tradability of sukuk affect sukuk market in 2016.

2.2. Hold-to-Maturity Culture

Sukuk is not a highly traded instrument because of hold-to-maturity routine. In sukuk secondary market, investors prefer to buy the sukuk and hold it until maturity rather than trade (Alawi and Al-Quati, 2014:3; El Qorchi, 2005; Cakir and Raei, 2007:4; Tolefat and Asutay, 2013:129; Abdo, 2014:94), because they know that if they sell the sukuk it will be difficult to find another one which has similar quality to replace the one they sold (Bennett and Iqbal, 2011:70; Cox, 2007:39; IFN, 2016; Azzam, 2015; Cosgrave, 2014; Halim, 2012; Harvey and Cosgrave, 2012). The reason of this culture is that given the scarcity of supply, Islamic institutions (particularly Islamic banks) have excess liquidity and lack opportunity to invest money. And thus, sukuk become more attractive investment tool for these Islamic institutions (Zaidi, 2008; Yean, 2009:12; Ayub, 2007:411). For example, about 40 per cent of the issues are taken up by financial institutions (Ariff et al., 2012:214). On the other hand, due to a lack of products in which to invest their money, Islamic financial institutions are finding it increasingly difficult to manage short-term liquidity (Zaidi, 2008). Hence, they invest in sukuk increasingly. Not only Islamic institutions but also conventional ones want to invest in sukuk (Alawi and Al-Quati, 2014:3). In this regard, conventional institutions invest in sukuk and so Islamic institutions have difficulty in finding sukuk to invest (Harvey and Cosgrave, 2012:22).

Graph 2: Investor Base for Sukuks



Source: Reuters (2013:130).

According to Graph 2, major investors of sukuk are large institutions. Sukuk's main investors that include Islamic banks, pension funds and takaful operators are long-term investors. They try to match their funding structures (Ascarya and Yumanita, 2008:403). In conclusion, conventional or Islamic large, long-term institutions need sukuk for investing or diversification, and so they hold sukuk to maturity (Alawi and Al-Quati, 2014:3).

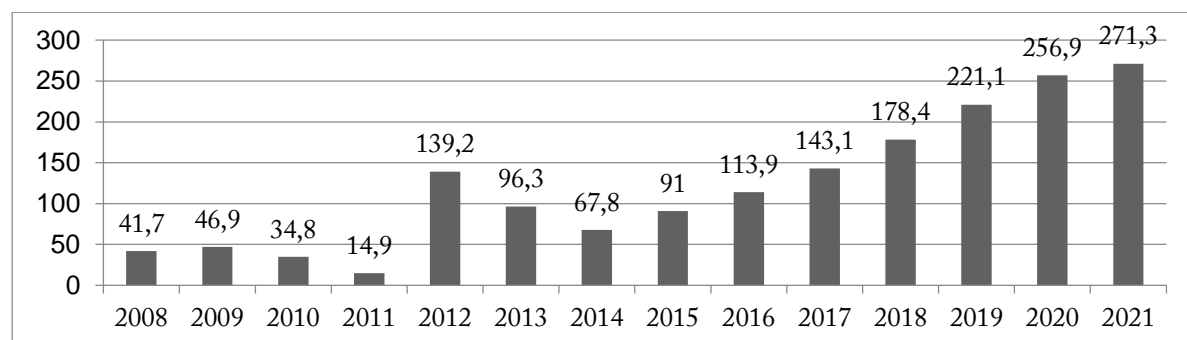
2.3. Scarcity of Supply

Although sukuk issuances have been increasing in recent years, it is not sufficient yet. Because of some challenges in sukuk issuance, sukuk issuers shy away from issuing sukuk. First of the challenges is high issuance costs. Sukuk structures require extensive and costly legal and religious advice, a lot of different skills and resources to make it work (Yean, 2009:12). Hence, it takes a long time to issue sukuk. For example, because of long advice and documentation procedures, recent IFC Al Hilal sukuk took three years to be issued (Nanaeva, 2010:36). On the other hand, sukuk have higher yields than conventional bonds, and so issuers do not want to pay more than conventional bonds. These challenges hinder the potential issuances. For example, Canadian finance ministry spokesperson told that "A new conventional product would likely lead to higher issuance cost. The increased cost would be inconsistent with our objective of rising stable, low-cost funding to meet the government's financial needs." (Reuters, 2014a).

On the other hand, in many countries, there are not favorable legal and tax regulations in order to support sukuk issuance (IFSB, 2016:19). Sukuk have a complex structure, hence it needs ownership and

transfer of assets and a Special Purpose Entity (SPV), etc. Therefore, a restriction on SPV or transfer and ownership of assets hinders issuers from issuing sukuk. For example, in Indonesia, by the Law No. 1 of 2004 Concerning State Treasury, it is restricted to transfer of state assets to third parties (Yean, 2009:6). Furthermore, in many GCC countries there are some problems about SPV and bankruptcy laws (Nazar, 2011). On the other hand, sukuk needs special tax regulations, because issuance and investment in sukuk open a road to a lot of taxes. Although legal, tax and regulatory frameworks of some countries provide for a level playing field between sukuk and conventional bonds, some countries have not adopted sukuk-specific legal and tax regulations yet (Mahmood, 2012; IFSB, 2016:19). Hence, sukuk issuances have remained low for years.

Graph 3: Sukuk Demand Gap (Billion Dollars)



Note: 2017, 2018, 2019, 2020 and 2021 data are projection of Reuters.

Source: Reuters (2016:75).

According to Graph 3, we can see a shortage of supply vis-à-vis sukuk demand. In every year, sukuk demand exceeds supply. For example, in 2008, demand surplus is \$ 41,7 billion, and in 2012 it reached \$ 139,2 billion. Although in 2013 and 2014, sukuk demand surplus started to decline, afterwards it started to increase again. And according to Graph 3, it is not expected that demand surplus will decrease in the near future.

2.4. Lack of Standardization

The lack of standardization is a major impediment to further development of sukuk market (Al-Sayed, 2013:71; CAIA, 2014; Mahmoud, 2016), because the lack of standardization in documentation and Sharia interpretations makes issuance costs of sukuk structures higher than conventional bonds (Al-Sayed, 2013:73; Nanaeva, 2010:35; McAughtry, n.d.; Mohieldin, 2012; Standard and Poor's, 2010:6-7). And so, higher costs make sukuk issuances disadvantageous. Hence, the lack of standardization hinders sukuk supply growth and sukuk market development (Muhammad and Alvi, 2010). On the other hand, the lack of standardization in sukuk increases uncertainty among industry players (Amundi, 2012). Lastly, the lack of standardization in sukuk makes a secondary market of sukuk weak (Papazian, 2008:21; IFSB, 2015:21).

The lack of standardization in documentation and interpretations across jurisdictions makes the secondary market of sukuk sluggish and dull, because structures that are deemed acceptable in one market may not be equally accepted in another jurisdiction. The most frequently cited example of this divergence in interpretation is the difference between structures that are considered tradable in Malaysia and those that can be traded in most Gulf countries (Bennett and Iqbal, 2011:71). In this regard, some Gulf-based Sharia scholars have rejected certain structures used in Asia, a region that has proven to be more flexible in its transactions. For instance, Gulf scholars do not accept the debt based contracts as tradable, and hence transactions involving the purchase and sale of debt contracts in secondary markets are permissible only in Malaysia.

Table 2: Tradability of Sukuk in Different Jurisdictions

Sukuk Type	Tradability
Murabahah	Sukuk are only tradable under Malaysian rules.
Bai Bithamin Al Ajil	Sukuk are only tradable under Malaysian rules
Musharakah	Depending on the underlying asset, these sukuk are tradable. In Malaysia, the underlying asset may be a permissible debt from such as a murabahah receivable.
Wakalah	Depending on the underlying asset, these sukuk are tradable. In Malaysia, the underlying asset may be permissible debt from such as a murabahah receivable.
Ijarah	Sukuk are universally tradable.

Source: Laldin (n.d.); Thomas (2007).

According to Table 2, there are a lot of sukuk types that can be tradable only in Malaysia. Hence, these sukuk types cannot be tradable in other jurisdictions as Gulf countries. This creates market segmentation regarding secondary market of sukuk (Kusuma and Silva, 2014:9). On the other hand, different interpretations related to tradability of sukuk affect the cross-border trading of sukuk negatively (Halim, 2012). Thus, investors try to buy and trade sukuk only in their own jurisdiction (Ahmed, 2007). As a consequence of this problem, sukuk trading cannot achieve a global dimension.

Standardization is the key to the further development of the secondary market of sukuk market (ADB, 2014:43; Jobst et al., 2008:11; Papazian, 2008:222), because greater standardization not only enhances the valuation and efficient pricing of sukuk (Jobst et al., 2008:11) but also increases global trading of sukuk. We expect that greater standardization will make the investors trade sukuk globally.

2.5. Inadequate Trading Platforms

One of the factors hindering secondary market trading is the lack of well- developed and global sukuk trading platforms for active trading (Najeeb et al., 2014). Trading platforms is a key contributory factor in the active secondary market. But, sukuk trading platforms are not well developed in all countries. Hence, investors have some problems about finding adequate trading platforms. On the other hand, trading platforms have their local restrictions. In this regard, there is a lack of standardization in sukuk trading platforms (E&Y, 2012). For example, investors cannot trade debt based sukuk in the trading platforms in GCC countries.

Table 3: Sufficiency of Sukuk Trading Platforms

Category	Dubai	Kuala Lumpur	Riyadh	Doha	London	Manama
Secondary Sukuk Trading Platfors	Adequate	Well Developed	Adequate	Adequate	Adequate	Adequate

Source: Deloitte (2015:17-47).

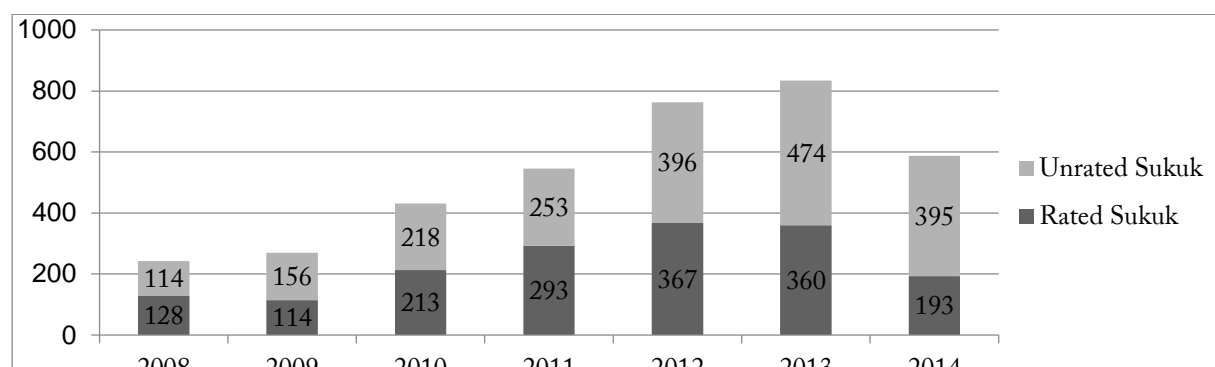
According to Table 3, sukuk trading platforms are adequate in some countries. In Malaysia, the trading platform is well developed. But the problem is that in many countries there is not any well-developed and global trading platform. For example, secondary sukuk market trading platforms in GCC are limited, present only in Bahrain, Dubai and Saudi Arabia (Creek, 2012). On the other hand, even in Malaysia sukuk trading platform has not got a global dimension. Hence, so as to achieve increasing supply and active trading in sukuk, there is a need for well-developed and global trading platforms (Vollmer, 2012; Follak, 2011; Al Maraj, 2005).

2.5. Low Level of Sukuk Rated

Rating is a major need to achieve an active secondary market of sukuk. In this regard, to achieve widespread trading, sukuk will have to be rated by international rating agencies. At present, however, it is difficult to obtain ratings from major international rating agencies (McMillen, 2007:431). On the other hand, high fees of credit rating agencies usually mean that they are too expensive for issuers (ADB, 2014:42). This makes issuers shy from obtaining ratings from global credit rating agencies.

For the purpose of the active secondary market, sukuk must be rated, because investors need better pricing mechanism and baseline information with which to make an investment decision and to trade in the secondary market (Eldred, 2011). In this respect, ratings are a useful tool to price the security for secondary market trading (Rabindranath and Parthapratim, 2010:3). Thus, obtaining rating enables better pricing mechanism for the investors (IFSB, 2016:19). Given that complexity and obscurity of sukuk structures, investors need rated sukuk, because rated sukuk structures give investors some confidence to invest in and trade sukuk (Greene, 2012). On the other hand, the investment policies of most of the institutional investors such as funds require an investment grade rating as a minimum acceptable level for security to be considered for investment (Rabindranath and Parthapratim, 2010:3). Hence, sukuk needs to be rated for the active secondary market. However, only a few sukuk have ratings in sukuk market.

Graph 4: Global Sukuk Historical Trend Breakdown By Rating (2008 YTD-Q3 2014)

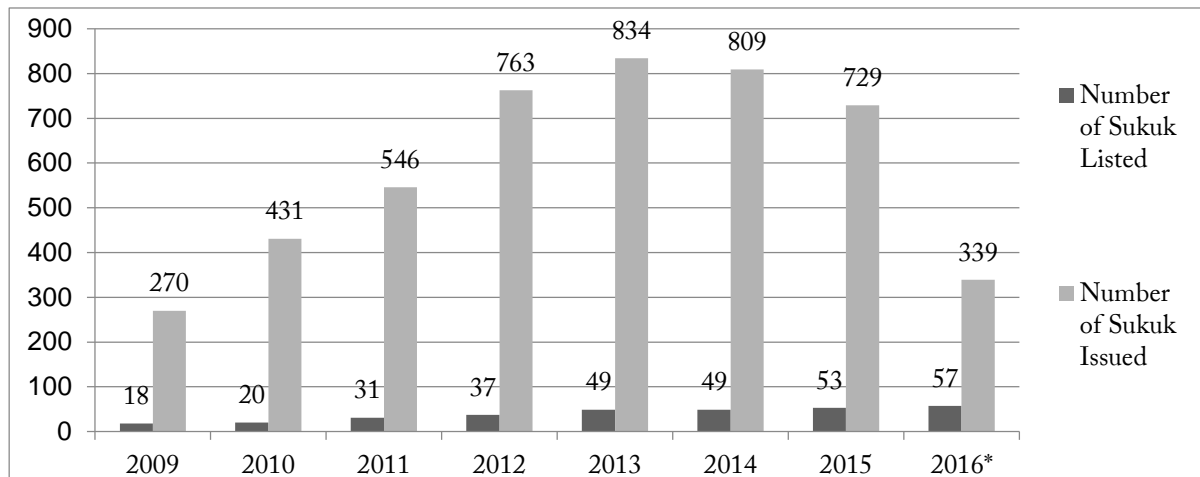


Source: Reuters (2014b:77).

According to Graph 4, nearly half of the sukuk issued is unrated. For example, in 2008 only 128 sukuk issuances are rated by rating agencies and 114 of total sukuk issued are unrated. In 2009, rated sukuk number decreased, but between 2010 and 2012, in parallel with increased sukuk issuance number, rated sukuk number increased significantly. However, between 2010 and 2012, unrated/rated sukuk ratio decreased slightly, and in 2014 the ratio decreased significantly. Graph 4 shows that with regard to sukuk rating, there is not a fertile environment for sukuk trading.

2.6. Low Level of Sukuk Listed

Low level of sukuk listed on global stock exchanges is another reason of weak secondary market of sukuk (Al-Amine, 2012:80). A listing of sukuk gives access to a diverse pool of fixed income investors (ICD, 2016), generates investor demand and facilitate further liquidity and trading (Papazian, 2008:216-217). Listing of sukuk increases visibility of sukuk. Hence, listed sukuk attracts more investors in the secondary market. Namely, many fund managers and other institutional investors are required by mandate to select listed securities for a certain percentage of their holdings (Ali, 2014:85).

Graph 5: Number of Sukuk Listed on London Stock Exchange

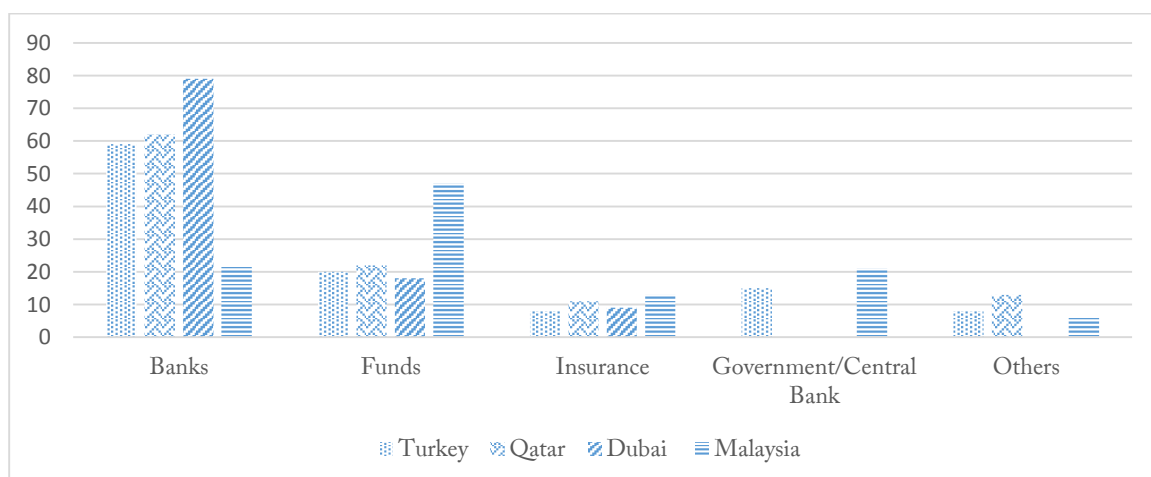
Source: Reuters, (2016:27); Statista (2017).

*Number of sukuk issued in 2016 represents Q3-2016 values.

According to Graph 5, only a small number of sukuk issued is listed in London Stock Exchange, a leading and global stock exchange in the world. For example, in 2009 there are 270 sukuk issued but only 18 sukuk listed on London Exchange. In 2009, listed/issued sukuk ratio is 6 percent. In the years that followed, we can see the increasing number of listed sukuk. However, in 2015, listed/issued sukuk ratio is only 7 percent. Graph 5 shows that in order to have an active secondary market of sukuk, more sukuk must be listed on global and standard stock exchanges.

2.7. Inadequate Retail Investors

Institutional investors (mainly Islamic banks) who are prone to buy sukuk and hold to maturity dominate in the primary market. Their appetite for either selling or buying in the secondary market is limited. Institutional investors, mainly Islamic banks have very limited instrument to invest and manage the liquidity. On the other hand, conventional institutional investors want portfolio diversification and hence they want to invest in sukuk too. Given the scarcity of supply of sukuk, these institutional investors do not want to trade sukuk in the secondary market. Therefore, sukuk secondary market volume is very weak.

Graph 6: Investor Base for Selected Sukuk (%)

Source: World Bank (n.d.:11).

According to Graph 6, banks dominate in sukuk primary market. Banks buy more than %50 of issued sukuk in Turkey, Qatar and Dubai. On the other hand, funds and insurance companies buy a substantial part of sukuk primary sales. Central banks and governments buy small part of sukuk. Retail investors (in

other investor on Graph 6) share very limited part of primary sales. There reason behind this result is that in many countries there is not primary sales of sukuk to retail investors.

Table 4: Primary Sales of Sukuk to Retail Investors

Category	Dubai	Kuala Lumpur	Riyadh	Doha	London	Manama
Primary Sales of Sukuk to Retail Investors	Not Available	Well Developed	Not Available	Not Available	Not Available	Adequate

Source: Deloitte (2015).

Similarly, in the world, sukuk is sold to institutional investors only. According to Table 4, many countries do not sell sukuk to retail investors. For example, in Dubai, Doha, and London there is not a primary sale to retail investors. Therefore, generally, in many countries, there is a sale to only institutional investors. As traditional sukuk investors, many institutional investors, especially Islamic banks prefer to hold to maturity structure because of few investment alternatives they have (Schoon, 2011:138). Therefore, sukuk secondary market is weak globally.

2.8. Lack of Global International Islamic Banks

One of the reasons of the weak secondary market is lack of global international Islamic banks. In this regard, there are very few Islamic banks which are bookrunner, lead arranger or market maker, etc. So, it is noticeable that in all international and big sukuk issuances, conventional banks take the role of lead arrangers and book runners of sukuk while Islamic banks provide support to the issuance through distribution in their respective domestic markets (Azzam, 2015). For example, in Islamic industry globally the biggest bookrunner is a conventional bank, HSBC. On the other hand, between 1996 and 2009, there are only two Islamic banks in the top ten lead arrangers. Islamic banks are in the eighth and ninth ranks (Nanaeva, 2010:34). These indicators show the absence of a large global Islamic banks.

Lack of global international Islamic banks and the absence of dedicated traders providing bid/ask prices on a continuous basis is another constraint to deeper secondary sukuk markets (Azzam, 2015). In Reuters (2016:100) survey, it is indicated that two big reasons which are the most sukuk tradability and liquidity setbacks are lack of global international Islamic banks with the same network such as the large multinational financial institutions and lack of dedicated traders that provide tradable prices. So, there is a huge need for large global Islamic banks and dedicated traders.

3. Solution Proposals

The weak secondary market is a big problem to be solved in sukuk market, because sukuk primary and secondary market support each other. Therefore, the development of a secondary market is important and essential to the development of a primary market (Iqbal and Mirakhor, 2011:130). Therefore, solving the problems of the secondary market will develop primary market and this will, in turn, develop the secondary market of sukuk. In this respect, we propose some solutions to secondary market problems below.

3.1. More Sovereign Sukuk

Although the active secondary market is the aim of some governments such as Turkey (Undersecretariat of Treasury, 2016:44), secondary market of sukuk is still very weak and sluggish. One of the reasons of weak secondary market is lack of sufficient sukuk supply. On the other hand, weak secondary market has a lot of negative consequences such as sukuk price distortion and high yields over conventional bonds. Because of these negative consequences, issuers can shy away from sukuk market. Hence, reasons and consequences of weak secondary market can get into a vicious circle (Ulusoy and Ela, 2016:63). In order to break this vicious circle sukuk market need more sukuk issuance. In this regard, sovereign issuers should open the sukuk door for conventional issuers. Only sovereign issuances can generate benchmark yield for conventional issuances. If governments issue more types of sukuk, conventional issuers can use the benchmark yield and issue sukuk more easily. But, in practice, many governments have no regulation (tax, leasing, etc.) about sukuk offering. Hence, many governments cannot issue sukuk other than ijarah

sukuk. For example, in Turkey tax regulations is related to *ijarah* sukuk and although legislations allow issuing other types of sukuk, tax legislations do not give support to other types of sukuk. On the other hand, some countries do not have legislation that allows issuing sukuk. For example, Jordan's leasing law indicates that the sale and leaseback structure, which is a commonly used *ijarah*, is not allowed (ICD, 2017). In order to increase the volume of sukuk supply, governments should issue more and various types of sukuk. If so, not only the sovereign issuance but also the conventional one will increase substantially, because as more sukuk are issued, investors may be tempted to trade sukuk so as to generate greater returns on capital invested and to create liquidity (Lovells, 2014:8). In this regard, as more issues come to market there will be different opportunities for investors to choose from, and the culture of buy and hold will fade out soon (Al-Amine, 2012:80).

Although sovereign sukuk issuances creates benchmarks for conventional issues some challenges in sukuk market must be took on. One of the challenges which cause low sukuk issuance rate is high issuance cost. As a complex and Sharia compliant instrument sukuk must be evaluated by the Sharia boards. Given that two different boards can evaluate sukuk in a different way and this may cause extra costs, a central Sharia board in countries which have Islamic finance service may be a solution to high Sharia related costs and different opinions of different Sharia boards.

3.2. Standardization

Standardization in sukuk and sukuk trading platforms is a big necessity so as to reach an active secondary market. But, the lack of standardization in documentation and sukuk structures affects global sukuk trading negatively. Because of lack of standardization in sukuk market, some types of sukuk can be traded only in Malaysia. For example, *murabaha* sukuk and *Bai Bithamin Al Ajil* sukuk are only tradable in Malaysia (Thomas, 2007). In this regard, different interpretations on Sharia allowance of sukuk create segmentation in markets (Kusuma and Silva, 2014:9). As the sukuk investors are confused about which sukuk structure is Sharia compliant (Rohmatunnisa, 2008:2), they try to buy and trade sukuk in their local markets (Ahmed, 2007). On the other hand, sukuk trading platforms are not adequate and standardized. In this regard, standardization in sukuk and sukuk trading platforms can make secondary market of sukuk very active.

Standardization in sukuk market can be ensured by strong regulatory institutions which have an impact upon countries. In practice there are many regulatory institutions such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) but not all countries which have Islamic finance services adopt AAOFI standards (Hamdan, 2010). Hence, it is an urgent need to exchange ideas in Islamic countries to standardize the rules. Lastly, constitution of a central Regulatory Institution may be a solution to standardization problem in secondary market practice.

3.3. More Rated and Listed Sukuk

Number of rated and listed sukuk is very low although issuance of sukuk has been increasing recently. The reason of scarcity of rated and listed sukuk is that some issuers can be seen secure by investors. On the other hand, some countries do not consider rating and listing of sukuk necessary. For example, Malaysia revised the guidelines of sukuk. One of the main revision is the transferability and tradability of unrated sukuk (Saleh, 2014). Therefore, sukuk rating and the listing level are very low although listing and rating of sukuk help secondary market of sukuk. In order to increase the level of sukuk traded in the secondary market, more sukuk should be rated and listed.

3.4. More Issuance to Retail Investors

Globally, sukuk is sold to institutional investors who hold sukuk to maturity. As a result, the level of activity in the secondary market is low, which, in turn, reduces liquidity and also increases transaction costs by way of high bid-ask prices. The problem can be overcome by developing a market for retail investors (Iqbal and Mirakhor, 2011:201; Cizacka, 2011:172). Therefore, sukuk should be sold to retail investors too.

3.5. Global International Islamic Banks

There is a huge need for global Islamic banks to achieve an active secondary market of sukuk. In this respect, Islamic banks need to have a professional staff and to expand their experience in the secondary market of sukuk. Bambang Brodjonegoro, Indonesia's finance minister, recently said that the establishment of a new Islamic infrastructure bank – between Saudi Arabia, Turkey, Indonesia and the IDB – will be able to support the secondary market (IFN, 2016).

Apart from these, structural changes need to be introduced- for example, market makers need to be appointed to create liquidity. Another alternative would be to have quotes at which market makers would buy an issue; this information should be posted by specially appointed brokers and dealers (Ariff vd., 2012:214).

3.6. More Well-Known Sukuk

Sukuk as a new and complex instrument is not well known by the investors yet. Lack of awareness about sukuk and its benefits deters potential issuers from issuing sukuk (Deloitte, n.d.:17). On the other hand, sukuk must be more transparent and must be in different platforms which supply information about sukuk prices etc. such as Bloomberg and Reuters platforms. In doing so, sukuk may be more popular in retail and institutional investors. High awareness of sukuk can also attract more issuers from Europe and Asia. Hence, awareness of sukuk can help to get out of vicious circle in secondary market of sukuk. On the other hand, governments must support secondary market by using different methods. For example, primary dealer system for sukuk is an urgent need to solve illiquidity problem of sukuk secondary market.

Conclusion

Sukuk is a very useful instrument for issuers and investors. Sukuk can be used for portfolio or fund resource diversification and liquidity management. On the other hand, given that Islamic finance methods are very limited, sukuk is a big change for Islamic institutions. However, in order to take the advantages of sukuk, the primary and secondary market of sukuk must be very active. But, in reality, sukuk secondary market is very weak and sluggish, so weak secondary market hinders the growth of sukuk market completely. In this regard, secondary market of sukuk must be developed.

Secondary market of sukuk is weak because of the scarcity of sukuk supply, hold-to-maturity culture, Sharia restrictions, lack of standardization, inadequate trading platforms, low level of sukuk rated and listed, lack of primary sales of sukuk to retail investors and lack of large and global Islamic banking institutions. These sukuk problems hinder the growth of the secondary market of sukuk and so, it cannot be benefited from sukuk entirely.

In order to benefit from sukuk, we proposed some solutions. These are more sovereign sukuk and more standardization, more rated and listed sukuk, more issuance to retail investors and more global and large Islamic banks.

If the proposals we recommend can be put into practice, investors and issuers of sukuk can take advantages of sukuk extensively. For example, with the active secondary market, sukuk cost (coupon rate for example) can decrease, and so the issuance of sukuk can increase, and Islamic institutions can use sukuk more for liquidity management and fund raising. In this regard, in order to develop sukuk market and Islamic finance in general, the problems of sukuk market must be resolved.

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