

Transaction Structure for Reopening of GoP Domestic Ijarah Sukuk (Jinnah International Airport Karachi)

This document is in continuation of the approved Shariah structure for the first issuance of the GOP Ijarah Sukuk.

Preamble

Subsequent to the issuance of first Ijarah Sukuk issue if the GOP is in need of additional funds and instead of issuance of a new Sukuk wishes to raise new funds by way of re-opening, then the State Bank of Pakistan will conduct an auction for reopening of the existing Sukuk Issue.

In the Islamic context the steps of reopening of existing Sukuk is similar as that of issuance of a completely new Sukuk i.e. at the time of reopening of Sukuk the transaction is concluded by purchasing additional share in the identified asset on Musha basis which is then given on rent/ Ijarah and a separate Ijarah Agreement is executed. However, since the underlying asset, maturity date, rental rate and rental payout frequency is kept same as the initial issue, therefore the new issue would be called re-opening of Sukuk instead of a new Sukuk issuance.

The transaction flow for the re-opening of Sukuk would be same as that of an approved structure of the fresh Issue which is re-defined briefly in the following few lines:

At the time of reopening of Sukuk, a fresh Purchase Agreement would be executed between PDSCL (on behalf of Investors) and GOP at an agreed purchase price for the purchase of a new/additional share in the asset. Subsequently PDSCL (on behalf of Investors) and GoP would enter into an Ijarah Agreement wherein the new / additional assets would be leased to GoP for a fixed period which would be ending on the scheduled maturity date of the first issue. The other agreements as mentioned in the Shariah Structure of first issue would also be executed simultaneously.

However, the structure of reopening of Sukuk might differ from the structure of the first issue in ways as elaborated below.

The distinguishing features of the re-opening structure are as follows:

- For the first rental period the rental amount of the reopened Sukuk in absolute terms would be the same as the first issue. However, for subsequent period, the Rental Rate for the reopened Sukuk would be same as that of the first issue. Similarly, the maturity of the reopened Sukuk would also be same as the first issue
- For the determination of the Bid Price the Investors at the time of re-opening would take into consideration the known Rental Rate (in terms of benchmark), the remaining tenor of the issue and the higher first rental amount. The Purchase Price (at which settlement will take place) would have the following three components which can be referred to individually or collectively for the reporting purpose:

- i. Face value of Sukuk
- ii. Market premium/ discount
- iii. Price premium due to higher first rental

The component (iii) mentioned above is based on the rental rate determined in the fresh auction and/or start of last rental period; hence will be known to the investor.

The investors would bid in the auction on the price for re-opening of the Sukuk, which may be at premium or discount based on market conditions, considering component (i) and (ii) mentioned above. The component (iii) will be added to the Cut-off Bid Price (as per auction result) for determining purchase price at which settlement will take place.

- On completion of the bidding, the Purchase Agreement for the purchase of new/additional asset between PDSCL (on behalf of the Investors) and GoP would be executed at purchase price.
- The Sukuk would be recorded in the books of accounts at Absolute Auction Price i.e. the purchase price without any adjustment. 'However, for reporting purpose the above identified 3 components of the Purchase Price may be recorded separately or collectively as required.
- In case the date of Ijarah Agreement lies in between the two rental payment dates of the original issue, then the first rental period would be of a period less than 6 months. In this case the first rental amount for the reopened sukuk would be communicated to the lessee in absolute terms. This rental amount would be equal in absolute terms with the corresponding 6-month rental of the first/ previous issue.
- The full amount of first rental of the re-opened sukuk would be booked as rental income by the Investors without adjustment.
- On the expiry of the first lease period subsequent to re-opening of Sukuk an Asset Comingling Declaration' shall be executed by PDSCL (as trustee and agent of investors) on the last day of first rental period to inform GoP about the combined proportionate share of investors in the underlying asset.
- Subsequently, a single rental notice referring to Comingled Assets shall be executed for subsequent lease periods.

Annexure - 1

Definition of Important terms:

Absolute Auction Price means the purchase price as defined below.

Auction means a sale event wherein potential buyers place competitive bids for Sukuk subscription.

Bid Price means the price per Rs. 100 at which an investor bid in the auction and does not include premium paid for receiving higher first rental. In conventional term this is called clean price.

Cut-off Bid Price means the lowest bid price up to which Government decides to accept bids.

Face Value (par value) means a nominal or PKR value of a Sukuk stated by the issuer paid on maturity

Purchase Price means price paid by the investor to purchase the GIS Assets and includes premium paid for receiving higher first rental.

Market Discount means when an asset, usually a Sukuk, trades below its intrinsic or face value.

Market Premium means when an asset, usually a Sukuk, trades above its intrinsic or face value.