



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

The legal and regulatory prerequisites for Sukuk in Azerbaijan: Comparative insights, local gaps, and regulatory reform needs.

IBRAHIM AGHAYEV

Capital Market Policy and Regulation Department



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

Outline

- 1) Sukuk: brief overview
- 2) The Strategic Opportunity for Azerbaijan
- 3) Lessons from International Models
- 4) Defining sukuk: beyond conventional bonds
- 5) Foundational statutory landscape of Azerbaijan
- 6) Defining the Impediments
- 7) Comprehensive analysis of Sukuk regulation:
Comparative Analysis
- 8) Policy Recommendations for Enabling Sukuk
Issuance in Azerbaijan

Sukuk: brief overview

Sukuk are ethical and sustainable Shariah-compliant instruments representing ownership in assets. They attract a diverse global investor base, including those seeking Environmental, Social, and Governance (ESG)-aligned investments, creating a monumental opportunity for Azerbaijan.

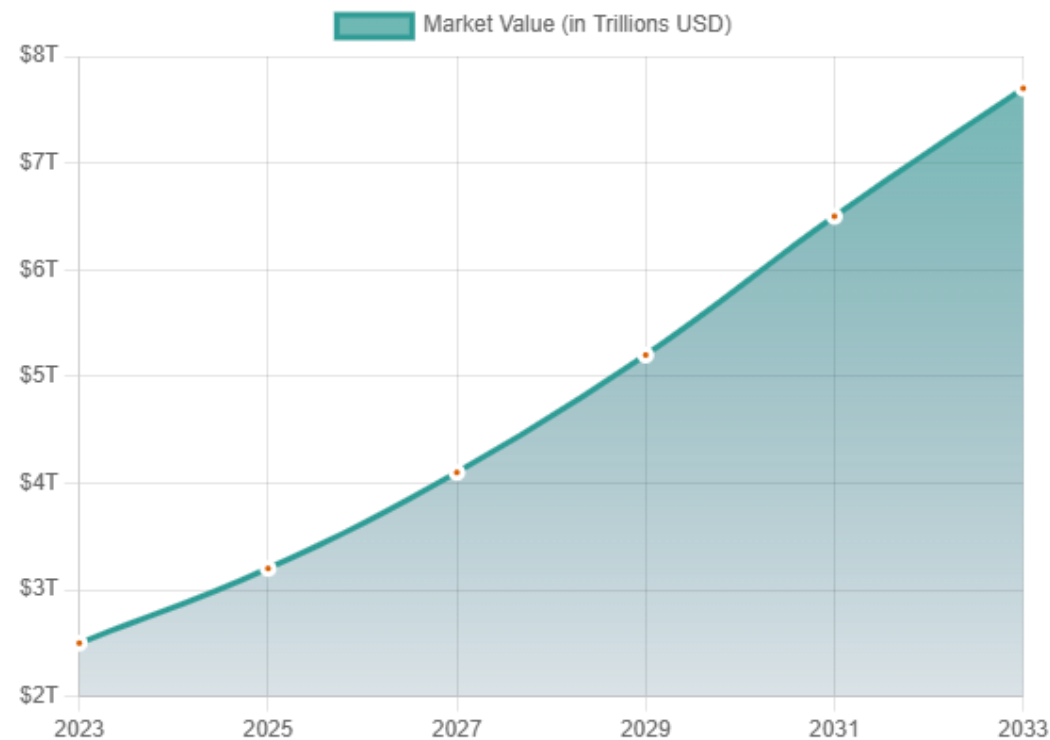
Global Sukuk Market Forecast

\$2.5T in 2023 → **\$7.7T** by 2033

A projected growth of over 200% in a decade.

Projected Market Expansion

This chart illustrates the steady and significant growth expected in the global Sukuk market.



The Strategic Opportunity for Azerbaijan

The initiative is a primary driver of the **2024–2026 Financial Sector Development Strategy for Azerbaijan**.



Diversify Funding Sources

Reduce dependency on traditional financing.



Tap New Investor Segments

Access a global pool of ethical capital.



Support Real Economic Growth

Finance key projects, particularly in infrastructure development.



Challenges

A major challenge in the industry is the lack of common global standards and consistent regulations, even though international organizations like AAOIFI and IFSB provide important guidelines.

Lessons from International Models



Malaysia (Integrated Model)

Islamic finance is deeply embedded in the national financial framework, supported by dedicated Shariah governance structures



Turkey & Kazakhstan (Civil Law Innovation)

Developed specialized SPVs (e.g., **Asset Leasing Companies** in Türkiye, **Special Purpose Companies** in Kazakhstan's AIFC) to adapt structures from common law.



Bahrain & UAE (Proactive Central Banks)

Central banks (**CBB & CBUAE**) take an active role beyond oversight, issuing T-Sukuk and driving market development



Defining sukuk: beyond conventional bonds

Sukuk Holder vs. Bond Holder

- ❑ Unlike a conventional bondholder who is a lender, a Sukuk holder is a part-owner in a tangible asset, service, or enterprise.
- ❑ Their returns are derived directly from the profits generated by that underlying asset—not from a predetermined interest rate.
- ❑ Treating Sukuk as mere “Islamic bonds” would not be correct, as their unique structure creates a different framework for risk-sharing and legal rights.



Direct Impact on Regulatory Oversight

An effective framework cannot simply adapt existing bond regulations. It must be built with a clear understanding of Sukuk as a distinct asset class.

Investor Protection

An investor's rights are tied to the performance and legal title of an asset, which requires different disclosure and governance standards than a simple promise of repayment.

Financial Stability

The risk profile is linked to asset performance, not just the issuer's creditworthiness. This alters how systemic risk must be evaluated and managed.

Foundational statutory landscape of Azerbaijan

Securities Market Regulation

The Securities Market Law governs public offerings and trading of securities but don't mention Shariah certification, regulatory framework for Sukuk, Sukuk's hybrid nature, etc.

Legislation

Azerbaijan's financial legislation does not address Islamic finance contracts, do not recognize SPVs and don't allow separation of legal and beneficial ownership.

Tax System

The Tax Code provides tax exemptions on dividends and interest for publicly traded securities. Value Added Tax (VAT) and transfer duties still apply to asset sales or leases within Sukuk structures which makes them unattractive.

Supervisory Authority

Azerbaijan lacks a centralized Shariah supervisory authority, so there is no statutory body to issue fatwa, monitor ongoing compliance, harmonize interpretations across institutions.



Defining the Impediments

A detailed analysis reveals seven core impediments to Sukuk issuance in Azerbaijan:

Non Recognition of Sukuk as a distinct security

Absence of Islamic financial contracts

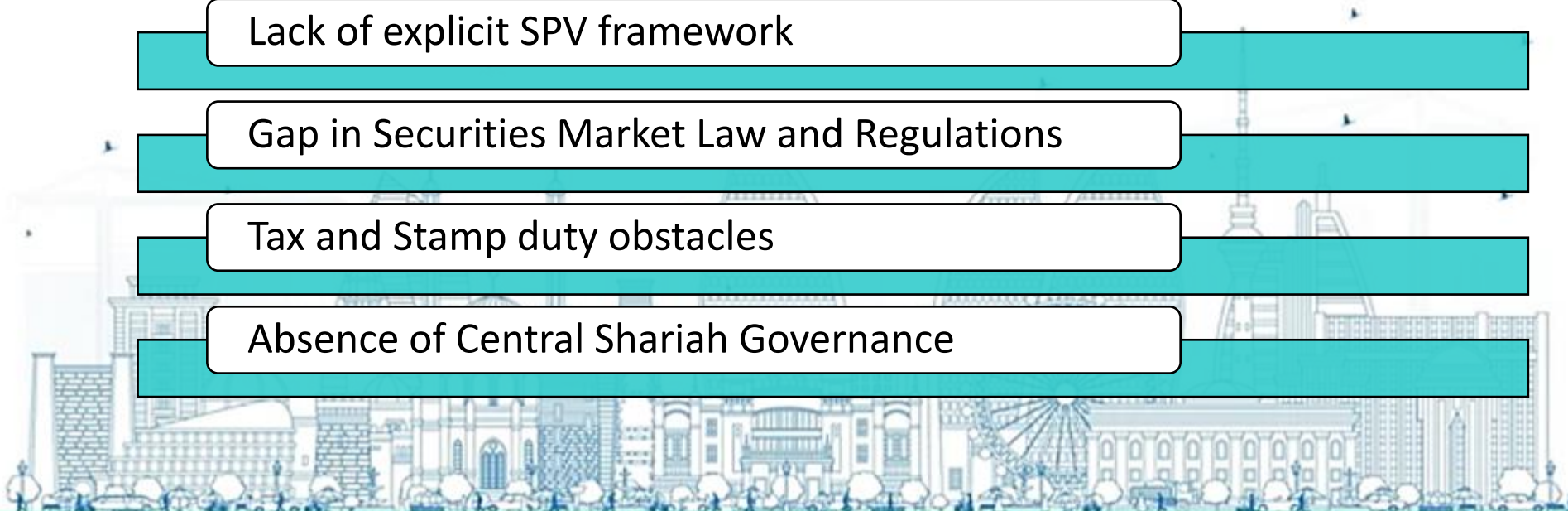
Single ownership model vs. beneficial interest

Lack of explicit SPV framework

Gap in Securities Market Law and Regulations

Tax and Stamp duty obstacles

Absence of Central Shariah Governance



Comprehensive analysis of Sukuk regulation: Comparative Analysis

Feature	 Türkiye	 Kazakhstan	 UAE	 Oman	 Bahrain	 Malaysia
Main Regulatory Authority	Capital Markets Board of Turkey (Sermaye Piyasası Kurulu, SPK)	Agency for Regulation & Development of the Financial Market and AFSA for AIFC	Securities and Commodities Authority (SCA)	Financial Services Authority (FSA)	Central Bank of Bahrain (CBB)	Securities Commission Malaysia (SC), under the Capital Markets and Services Act 2007 (CMSA)
Key Regulatory Acts & Legislation	Capital Markets Law No. 6362; Communiqué on Lease Certificates No. III-61.1	Law on the Securities Market (amended 2009 to allow sukuk); other related laws (2011, 2015) For AIFC - Legislation on Islamic finance (2009); operates under English law principles;	Federal Law No.4/2000 (SCA law); SCA Board Decision No.16/2014 on Sukuk (regulations for issuance and listing); recent SCA decisions on SPVs (2024) Corporate Tax Law	Capital Market Law (Royal Decree 59/2014) and Executive Regulation; CMA's Sukuk Regulation (Decision 3/2016, in force April 2016); Resolution No. Kh/21/2024 'The Regulation Governing Bonds and Sukuk'; Capital Market Law Royal Decree 80/98; Income Tax Law; Public Debt Law	Central Bank of Bahrain and Financial Institutions Law 2006 (CBB Law); CBB Rulebook (Volume 6 – Capital Markets) including Offering of Securities directives, Resolution No. 17 of 2012	Capital Markets and Services Act 2007 (CMSA); Securities Commission Act 1993 (order prescribing Islamic securities); Guidelines on Sukuk, Trust Deeds, Prospectus, Shariah Advisers; Income Tax Act 1967
SPV Rules	Only licensed Varlık Kiralama Şirketi (Asset Lease Companies, a form of SPV) may issue sukuk. SPV holds underlying assets; SPVs regulated by CMB, solely for Sukuk issuance	Sharia sukuk require an SPV with actual transfer of assets (asset-backed model). SPV established via special finance company under local law (or via AIFC framework). No physical office space required, limited to "Exempt Activities"	Issuer must be a Sharia-compliant SPV (often a trust or company subject to LLC rules) holding assets. SCA's SPV regulations (2024) permit licensed SPVs for securitization and sukuk issuance.	Issuer is an SPV (licensed by FSA) in form of LLC or similar. Trust structure is mandated: assets held in trust for holders. Trustee (FSA-licensed agent) must be appointed. License validity increased to duration of issuance	Issuer must be a single-purpose vehicle (SPV), often a special trust; trustee or agent licensed by CBB must manage the trust assets. SPV/sharia entity holds assets for sukuk holders. SPVs for securitization must be bankruptcy remote.	Sukuk issued via a special-purpose trust (under Trust Companies Act) or SPV. SC requires a trustee and trust deed. Use of SPVs is common in practice (assets ring-fenced from originator – where SPV acts as a "bridge").
Shariah Framework	Issuer/SPV must comply with Shariah and typically appoint a Shariah advisory board. Underlying assets/contracts must be Shariah-compliant. CMB requires Shariah compliance (CMB authorized by law).	Shariah boards ("Councils on Islamic finance principles") are mandatory in Islamic banks; issuance must observe Shariah. AIFC has a Central Shariah Board for AIFC-regulated sukuk.	SCA requires each sukuk issuance be approved by a Sharia committee. SCA's sukuk rules mandate the issuer and arranger have Shariah supervisors. SCA 2014 rules state sukuk needs Shariah approval.	Issuer (beneficiary) must form a Shariah Supervisory Board (SSB) for sukuk. Choice of SSB is left to issuer. The Shariah board must certify compliance for issuance (included in approval documents).	Shariah compliance is required. Issuers need to appoint a CBB-approved Shariah adviser or committee. CBB rulebook demands Shariah adviser for any sukuk and compliance with Sharia. Also, CBB has a Centralised Shari'ah Board.	Sukuk must comply with Shariah rulings endorsed by SC's Shariah Advisory Council (SAC). Shariah pronouncements and guidelines (e.g. sukuk Guidelines) set principles for each contract type.

Feature	 Türkiye	 Kazakhstan	 UAE	 Oman	 Bahrain	 Malaysia
Types of Sukuk Regulated	Allowed structures include Ijarah/Wakala, Murabaha, Musharaka/Mudaraba, Istisna (EPC). Hybrid or innovative sukuk also permitted if CMB-approved. No express limit on structure.	Legislation permits “Islamic securities” generally. In practice, for example, Kazakhstan’s first sukuk was a Murabaha. AIFC also issues Ijarah sukuk (e.g. 2020 listing). All Shariah-compliant types are allowed under law.	SCA definition of sukuk is broad. Government, convertible, institutional, or retail sukuk are defined. Common type structures (Ijarah, Mudaraba, Musharaka, Murabaha, Salam, Istisna, Wakalah, etc.) can be issued, subject to SC/AAOIFI principles.	All Shariah-approved types can be issued. No restrictive list, but State-owned fixed assets are largely excluded (Article 6). Common sukuk structures (Ijarah, Murabaha, Musharaka, etc.) are used in practice. No explicit prohibition on hybrid structures; assets must comply with applicable laws (land ownership restrictions, etc.).	CBB allows any Islamic sukuk permitted under Sharia: explicitly includes Ijarah, Salam, Murabaha, Mudaraba, Istisna, Bai Bithaman Ajil, mixed Ijarah, Salam, etc.. All Shariah contracts approved by CBB Sharia advisors are eligible	Malaysian law (via SCA orders) and guidelines allow all major Shariah contracts: Ijarah, Murabaha, Musharakah, Mudaraba, Istisna, Salam, Wakalah, etc. (e.g. SC Guidelines discuss Ijarah, Mudarabah, Musharakah, Bai’ Bithaman Ajil, Salam, Istisna’a, Wakalah). SRI sukuk are also recognized.
Secondary Market Treatment	Sukuk are tradable securities. CMB-regulated; underlying assets cannot be disposed or encumbered during tenor. Trading follows general capital market rules. Lease certificates (Ijara Sukuk) can be offered publicly or to qualified investors. Debt securities sold to qualified investors can be listed on Borsa Istanbul for trading among them	Sukuk can be listed on exchanges (KASE, AIX). Secondary market is under securities laws; e.g., sukuk listed on AIFC’s AIX. No special restrictions beyond general rule, but market is still shallow. First local Sukuk listed on Astana International Exchange (AIX). AIX operates alongside KASE. Cross-trading via Tabadul Exchange	Trade on licensed exchanges (e.g. DFM, ADX). SCA requires sukuk to be listed (retail) and traded under securities laws. Authority’s rules apply, and the Shariah committee’s pronouncements govern trade. Private placements may be unlisted (recent SCA decision 2024).	Sukuk (if listed) traded like bonds; subject to FSA rules. No special secondary trading mechanism; typically listed on Muscat Stock Exchange or negotiated. Trust holdings are recorded with trustee. Cross-trading via Tabadul.	Tradability governed by CBB/market rules. (CBB oversees primary and secondary markets). CBB requires all contracts’ tradability to comply with Sharia. Sukuk can be listed on Bahrain Bourse exchange; CBB may require resale restrictions. Sovereign sukuk (Al-Salam, Ijarah) are traded monthly by CBB.	Treated as securities under Bursa rules and CMSA. Listed sukuk trade like bonds. Unrated retail sukuk have transferability rules in SC guidelines. Disclosure continues post-listing. Bursa may impose liquidity requirements.
Disclosure Requirements	Full prospectus required (approved by SPK) for public offers; material information (financials, contracts, Shariah compliance) must be disclosed. CMB’s general disclosure rules apply (via Prospectus and Capital Markets Law). Public Disclosure Platform (www.kap.gov.tr) for ongoing disclosure. Covers inside information, specific events, financial statements	Issuers must register prospectus with Agency. Standard securities disclosure (prospectus, audited accounts) required. In AIFC, prospectus approval is needed. Detailed requirements under securities laws. AFSA has own “Public Disclosure Requirements”	Prospectus approved by SCA is mandatory for public sukuk (Decision 16/2014). Retail sukuk require detailed prospectus and trustee deed; institutional issuances require offering documentation. Ongoing disclosure (financials, Shariah audit) per SCA rules. SCA requires initial approval and notification for private placements.	Issuer applies to FSA with draft prospectus and documents (board resolutions, SSB certificate, trustee agreement, etc.). FSA approves issuance; trustee must prepare trust deed. Issuance documents (prospectus, term sheet) detail all terms. Cross-reference to FSA’s Bonds/Sukuk regulations for disclosure standards.	Prospectus and offering documents must be prepared in line with CBB’s securities offering rules. CBB Rulebook requires full disclosure of terms, Shariah committee opinion, financials, and trustee arrangements in offering circular. Trustees file listing prospectus with CBB/ exchange. Trust deed details are public. CBB requires public disclosure of Risk Governance Framework.	Two-tier approach including disclosure. Prospectus Guidelines specify required information. Issuer must file a registration of prospectus (for public offers) with SC. Trust deed (per Trust Companies Act) is required. SC Guidelines on Trust Deeds mandate disclosure of all material terms, risk factors, Shariah compliance, and annual trust reports. Bursa’s listing rules (for listed sukuk) apply. Transparency in SRI Sukuk framework, public accessibility via designated website

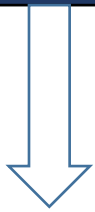
Feature	 Türkiye	 Kazakhstan	 UAE	 Oman	 Bahrain	 Malaysia
Risk Management & Governance	Sukuk SPV must act to protect investors (e.g. sell assets to cover losses) – as no explicit Trustee requirements, SPV is de facto is trustee). Underlying assets held in separate estate (TMSF fund can't attach). Board of SPV/Trustee has fiduciary duties. Capital Markets Law aims for investor protection. Islamic finance risk management more complex due to Shariah	General corporate governance rules apply. Agency has not specific sukuk regime beyond requiring SPV fiduciary duties (as above). In AIFC, corporate governance includes Shariah governance via a central board. AFSA follows international standards. AFSA has sections for Credit Risk, Market Risk, Operational Risk, Liquidity Risk in its Prudential Rules. Islamic finance risk management important due to risk sharing.	SCA requires appointment of independent Shariah committee and often a trustee to represent sukukholders. Trustees must meet SCA eligibility. SCA's SPV rules (2024) introduce governance safeguards (e.g. separate directors). Conventional risk provisions (no bankruptcy estate claim on assets). Risk management aligns with international practices, requires comprehensive risk governance framework and stress testing.	Trustee holds assets and must discharge duties (fiduciary). SPV board/trustee are obliged to protect sukukholders. FSA may impose capital/rating requirements on issuers. No explicit statutory insurance. Shariah governance via SSB, but no regulatory Shariah council (issuer's SSB suffice). Issuers must acquaint potential investors with rewards and risks	CBB's prudential framework treats Sukuk as debt; banks holding sukuk must assign risk weights (CA-5.4 Sukuk module). Sukuk structures must ensure true sale of assets (protection in bankruptcy). Governance: issuers have board responsibilities; trustees report to investors. CBB requires sharia audits. CBB has detailed modules for Liquidity Risk Management (LM) and Operational Risk Management (OM) for Islamic banks. Capital Adequacy (CA) module includes specific risk for Sukuk. Board responsible for risk tolerance	Robust corporate governance under CMSA and SC's Code. Sukuk trustee has fiduciary role; rating often required. SC's guidelines emphasize trustee and SSB roles. Asset quality and risk disclosed in documents. SCM focuses on market efficiency, resilience, investor protection. Revised Guidelines on Technology Risk Management.
Issuance Process & Approvals	Application to CMB for ALC establishment and Sukuk issuance approval. Underlying asset required. Valuation report for Ijara Sukuk. Prospectus registration with CMB needed for public issue. Private placements to qualified investors follow agreement terms. Final issuance upon compliance with CMB conditions.	Issuer (SPV or originator) obtains preliminary consent from Agency to issue sukuk; then submits prospectus/ offering docs for registration. Government sukuk issuance has separate procedures (National Bank). AIFC: AIX listing rules applied for sukuk approvals. (First local Sukuk issued by Gamma-T SPC on AIX. AIFC has a "favourable legal and regulatory environment")	Issuer files offer document with SCA. SCA reviews for completeness (including Shariah cert). Approval (Board decision) and conditional listing permit are issued. Minimum issue size (AED10m for public sukuk) and appointing trustee. Post-issuance listing on ADX/DFM. SCA's new rules streamline private sukuk placement approvals.	Beneficiary applies to FSA for sukuk issuance licence (initial approval). After preliminary ok, submits required documents (Article 9 list) for final approval and SPV license. FSA issues approval letter. SPV incorporated post-approval. Sukuk issued via trust deed and SPV instruments. No separate Shariah board approval needed from FSA.	Issuer submits draft prospectus to CBB or licensed exchange for approval. If public, CBB license needed; trustee appointed in advance. Exchanges (Bahrain Bourse) may require additional approvals. Government sukuk issued by CBB directly under Central Bank Law. For corporate sukuk, issuance via capital markets procedure. Structured process with advisors, documentation, rating, marketing, subscription, closing. Tangibility ratio of 51% for CBB Sukuk program	Issuer lodges application for sukuk issuance with SC (30-day standard timeline). For public offer, prospectus registration required; for private offers, SC's Private Debt Securities framework. Trustee appointment and trust deed must comply with guidelines. SAC ruling (for Shariah) is obtained. Approval is required before launch (Section 258 CMSA). SCM pre-approval required. Guidelines on Sukuk set terms and conditions. Lodge and launch framework (LOLA) to shorten process

Feature	 Türkiye	 Kazakhstan	 UAE	 Oman	 Bahrain	 Malaysia
Tax Treatment & Incentives for Sukuk	0% withholding tax on income from Sukuk (lease certificates) extended to July 2025. Withholding tax rates vary by maturity (5% for earnings/gains on sukuk held >1 year; 7.5% for ≤1 year; 10% for ≤6 months). Exemptions from stamp duty, capital gains tax, and VAT during asset transfers to SPVs, ensuring parity with conventional bonds. Avoid double taxation in multi-tiered transactions. Unlike Malaysia, Turkey does not allow tax deductions for sukuk structuring fees.	VAT exemption for Islamic finance transactions Fee waivers for trading Islamic securities AIFC offers 50-year corporate tax holiday, exemption from property and land taxes.	Profit from Islamic financial instruments (including Sukuk) treated as "Interest" for Corporate Tax Law. However, sukuk benefit from broad tax neutrality principles and general incentives applicable to capital markets, ensuring they are not disadvantaged compared to conventional bonds. UAE tax law ensures that sukuk transactions are treated identically to conventional bonds. This avoids double taxation from asset transfers inherent in sukuk structures.	SPV for Sukuk exempted from corporate tax and asset transfer fees. Income tax exemptions for profits/fees linked to Islamic Financial models. Donations deductible	Bahrain has no corporate income tax. Sukuk transactions receive equal treatment to conventional bonds under Bahraini tax law, no withholding tax on returns to investors (applies to both local and international sukuk holders), Exemptions from VAT, stamp duty, and capital gains tax for asset transfers to SPVs during sukuk structuring. sukuk returns remain tax-deductible for issuers (mirroring conventional bond interest). No deductions for issuance cost like in Malaysia.	Deductions for issuance costs (e.g., Wakalah sukuk until 2025). Tax-exempt profits for individuals/unit trusts. Full stamp duty exemption for issuance/transfer. Exemption from real property gains tax. Income tax exemption for SPVs issuing Islamic securities (excluding asset-backed). Profit paid to non-residents/individuals on RM/non-RM Sukuk approved by SC is exempted



Policy Recommendations for Enabling Sukuk Issuance in Azerbaijan

Amend Civil Code to recognize Islamic contracts and bifurcated ownership.



To support the contracts used in Sukuk, the Civil Code should be updated to clearly define Murabaha, Ijarah, Mudaraba, Wakalah, and Musharaka. The Code should allow for dual ownership—separating legal and beneficial ownership.

Incorporate SPV Framework into Company Law.

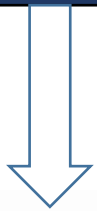


- Bankruptcy remoteness
- Streamlined incorporation
- Tailored governance



Policy Recommendations for Enabling Sukuk Issuance in Azerbaijan

Embed Sukuk-specific provisions in Securities Market Law.



- Define Sukuk
- Mandate Shariah Certification
- Prescribe listing criteria
- Establish a regulator liaison office

Enact tax neutrality for Sukuk transactions.



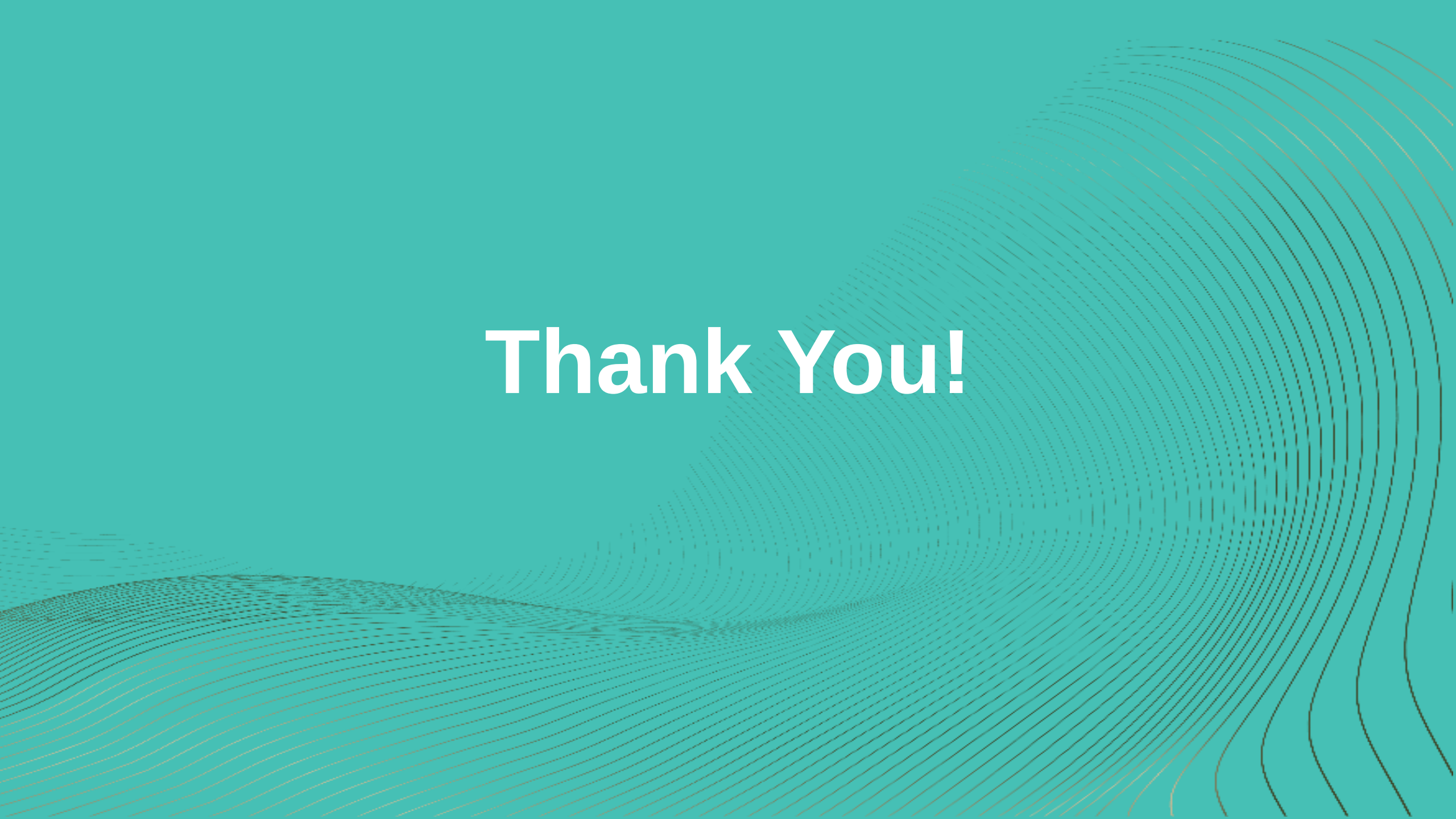
- VAT exemption
- Withholding-Tax relief
- Stamp duty exemption

Establish a Central Shariah supervisory authority.



Centralizing Shariah oversight will bolster investor confidence, reduce legal ambiguity and provide a single reference point for dispute resolution in courts or arbitration.



The background is a solid teal color. It features a series of white, concentric, wavy lines that originate from the bottom left and curve upwards and to the right, creating a sense of depth and movement. The lines are closely spaced and vary in curvature, giving the impression of a stylized landscape or a dynamic wave pattern.

Thank You!