Sukuk and the Malta Stock Exchange (MSE)

Malta is positioning itself to tap into the billion-dollar sukuk market to attract foreign direct investment and to raise funds for both government and business.

Malta is considering entering into the world of Islamic Finance. Prime Minister Joseph Muscat stated the country is exploring the opportunity to issue a sovereign sukuk on the Malta Stock Exchange (MSE) in order to gauge the reaction of the markets and send a strong political message that Malta is open for business.

Launching a sovereign sukuk would certainly put the country and its Exchange on the map for Islamic Finance and facilitate more sukuk transactions and trading. The MSE has launched a number of major initiatives designed to bolster its strategy, such as the adoption of the Xetra trading platform supplied by Deutsche Börse, the launch of the Market Making rules and the designation of the Exchange as a Designated Offshore Securities Centre by the US Securities and Exchange Commission. Recently awarded the title 'Most Innovative Stock Exchange of 2014' in the prestigious Acquisition International Finance Awards, the MSE has also set up an inter-operable link between its own Central Securities Depository (CSD) and Clearstream Banking, which has led to the successful launch of the MSE's custody business.

Sukuk and bonds are internationally recognised as important project finance vehicles for companies, institutions and governments, as they provide financial protection for portfolios with lower risk tools and enable investors to diversify their investments. While traditional bonds represent pure debt obligations from the issuer to the investor/bondholders, the sukuk represents ownership of well-defined asset. The sale of the sukuk, both in primary and secondary markets, is a sale of a share of an asset, while selling a bond is essentially the sale of debt. In terms of pricing, sukuk prices are market-driven and depend on the fluctuation of the market value of underlying assets. In the case an issuer’s default, sukuk holders will possess the asset and either sell it or retain it as an asset. Bondholders on the other hand are completely dependent on the creditworthiness of the issuers without any specific assets to be relied on. New sukuk issuances are often oversubscribed, and some estimates suggest conventional investors may account for 40 to 60 per cent of any individual sukuk offering.

Aspects of the sukuk:

- An undivided ownership share in specific assets
- Assets must be Sharia-compliant, with a minimum of 51 per cent tangible assets

The Malta Stock Exchange (MSE)

Market Capitalisation 2014: €10.3bn

Trading Across Europe: Issuers that have been granted Admissibility to Listing can opt to have their instruments traded on the Malta Stock Exchange trading platform, or have them traded anywhere within the EU. This is possible since both the Main and the Alternative Companies lists are Regulated Markets, and enjoy full passporting rights within the EU.

Internationally Recognised Exchange: The Malta Stock Exchange is a small market with big vision, and its credible track record has already won recognition from other leading stock exchanges. Malta’s equity market has been included in the FTSE’s Global Equity Index Series (GEIS) since 2010. The MSE has also achieved recognition from the UK tax authorities and been granted recognised exchange status by the US Securities and Exchange Commission.

Malta Stock Exchange Affiliations

- Federation of European Securities Exchanges (FSE)
- European Central Securities Depository Association (ECSDA)
- World Federation of Exchanges (WFE)
- International Organisation of Securities Commissions (IOSCO)
- Association of National Numbering Agencies
- A signatory to the EU Code of Conduct for Clearing and Settlement.

Why consider using the Malta Stock Exchange’s Central Securities Depository (CSD) to maintain the register of the funds?

- The MSE CSD already has significant experience and capacity, and has a very strong reputation in this area of operations. Registers held within the MSE CSD are the authenticated register of a security.
- The close link with the MSE trading arm makes it a logical choice for listed funds and other securities to be domiciled at the CSD.
- The CSD enjoys a link with Clearstream which provides international access to securities and is conducive to increasing the level of liquidity of the assets on the market.
Malta is now offering the possibility for the listing of wholesale securities. The European Wholesale Securities Market (EWSM) is a new EU-regulated market for wholesale debt, asset-backed and derivative securities dedicated to the needs of arrangers and issuers of wholesale debt products. Combining the strengths of two reputable European exchanges, the EWSM is a joint venture with the Irish Stock Exchange (ISE) and the Malta Stock Exchange (MSE), creating one truly European market designed to meet international debt issuer requirements. The EWSM is approved as an EU regulated market under MiFID and is considered a Recognised Stock Exchange under the UK Income Tax Act, 2007.

As the listing authority the MFSA approves prospectuses for securities to be admitted to the EWSM under the Prospectus Directive, as well as the on-going requirements of issuers under the Transparency Directive. The MFSA adopts a pragmatic market-oriented approach to prospectus review and approval, including guaranteed review times of three business days for initial submission and two business days for subsequent drafts of prospectuses.

The guidelines provide for the appointment of a Listing Agent for the admission process to ensure smooth and timely interaction between issuers and arrangers on the one hand and the MFSA and EWSM on the other with respect to regulatory requirements. The MFSA-approved Agent may be a body, corporate, partnership or firm incorporated or established in the EEA and be independent of any Issuer, or related service provider, to which it provides listing agent services.

EU Access
EWSM offers access to European financial services markets

Publicity
listing on an international exchange helps to publicise the securities offering

Credibility
listing highlights a recognised exchange’s seal of approval

Withholding tax exemption
applies to securities listed on an EU recognised stock exchange, while quoted Eurobonds benefit from an exemption from withholding tax on interest payments.

Investor Requirements
many investment portfolios stipulate a requirement to invest in listed securities

Simple Transparent Pricing

Fees for Non-Programme Admissions: The following fee structure applies to an issuer wishing to list securities on the EWSM under a standalone prospectus document.

Registration of prospectus document and admission to listing: €1,500
For each class of security listed, the following processing fees apply:
First tranche of an application (e.g., Class A): €500
All subsequent tranches under the same application: €250/tranche
Annual fee (payable in advance): €2,000

Fees for Programme Admissions: The following fee structure applies to an issuer wishing to list securities on the EWSM as part of a multi-issuance programme.
Registration of base prospectus: €1,500
Registration of programme updates: €1,500
Registration of prospectus supplement: €1,000
Registration of Series or Drawdown Prospectus and admission to listing: €1,500
For each class of security listed, the following processing fees apply:
First tranche (e.g., Class A): €500
All subsequent tranches under the same application: €250/tranche
Programme annual fee (payable in advance): €2,000

Five Reasons to List on EWSM

1. EU Access
EWSM offers access to European financial services markets

2. Publicity
listing on an international exchange helps to publicise the securities offering

3. Credibility
listing highlights a recognised exchange’s seal of approval

4. Withholding tax exemption
applies to securities listed on an EU recognised stock exchange, while quoted Eurobonds benefit from an exemption from withholding tax on interest payments.

5. Investor Requirements
many investment portfolios stipulate a requirement to invest in listed securities