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6<sup>th</sup> March 2024 (Volume 21 Issue 10)

## Tokens: Gaining currency in Islamic asset management

“A breath of fresh air in the world of conventional asset management” is how one practitioner described the emergence of tokenization. VINEETA TAN explores how this asset class is minting itself as a potential viable tool for the Islamic finance industry, particularly in asset and investment management.

### New avenue

Bankruptcies, failures and wild volatility may have cast serious doubts on the sustainability and future of cryptocurrencies, but the technology underpinning the asset class has opened a whole new universe of commercial possibilities.

Blockchain, smart contracts, tokens — fad or trend, buzzword or not, blue chip banks and asset managers, from JPMorgan and Goldman Sachs to BlackRock, are pouring in big bucks into Web3 applications in the hunt for efficiencies.

Islamic financial institutions too are exploring asset tokenization, and

interestingly, this innovation has also attracted non-Islamic players into the Shariah space.

Take for example, Tai Shan, a Hong Kong-based asset management firm dealing primarily in Chinese ceramics. Through Tai Shan Digital, it will be conducting a security token offering (STO) on Green-X, a Shariah compliant ESG digital asset exchange operating out of Malaysia's offshore center Labuan. Green-X is owned by Greenpro Capital Corp, a NASDAQ-listed entity focused on Asia.

Andrea Tang, a director of Tai Shan Management, explained to IFN the firm had been weighing options to create better exit opportunities for clients, one that would allow them to sell their art pieces in a shorter time frame. This led the company to the tokenization route, and eventually to Green-X.

The asset manager tokenized limited partner shares



Andrea Tang

of its art fund, which currently has a portfolio of about 77 refined Chinese ceramic pieces worth HK\$150 million (US\$19.17 million). The STO listing has been approved; Tai Shan Digital is currently conducting a pre-sale, building the orderbook, and it expects to begin trading on Green-X this month.

“Tai Shan opens the door for digitalization and an innovative way of doing asset management ... we are looking for other types of issues that may go on a similar route,” Alex Mu, the senior manager of corporate advisory at Greenpro Capital Corp, shared with IFN. “We see STOs as a bridge between the initial coin offerings of the token world and the IPOs of the traditional world.”

### Bridge between two worlds

Like many, Tai Shan is sold on asset tokenization as it boosts liquidity through asset fractionalization and secures ownership rights while enhancing

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Alex Mu

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## DEALS

**Aktif Bank** sells lease certificate worth TRY100 million (US\$3.18 million)

**Reis Makina** sells Islamic paper worth TRY150 million (US\$4.76 million)

**Tarfin** launches Islamic facility worth TRY70.25 million (US\$2.23 million)

**alrajhi bank** plans US dollar-denominated sustainable Sukuk issuance

**Contact Financial Holding** to complete fourth Sukuk worth EGP2 billion (US\$64.67 million) this month

Saudi government opens second round of Sah savings Sukuk for March 2024

## NEWS

**Jaiz Bank** completes offering of 10.05 billion shares via private placement

**Egyptian Financial Regulatory Authority** expects high Sukuk demand in 2024

**Ethis's** venture capital firm **HASAN** aims to raise US\$3 million this year

**Islamic Bank of Thailand** aims to increase asset size to THB100 billion (US\$2.79 billion)

**Pakistan Kuwait Investment Company** commences Islamic finance operations

**Financial Services Authority** of Indonesia issues regulation regarding reporting of fintech lending management

**Central Bank of the Islamic Republic of Iran** approves launch of joint bank with Syria

**Kuwait Finance House Group** submits non-binding offer for acquisition of **The United Bank of Egypt**

Islamic fintech **RizqX** clinches second place in start-up competition **Venture Z**

**Ajman Bank** partners with **KPMG** to develop inaugural ESG work

**ahli islamic** launches crowdfunding initiative **Tamkeen Islami** to support SMEs and entrepreneurs

**IsDB** strengthens partnership with Bahrain in key areas including infrastructure development

**Central Bank of Jordan** unveils new Shariah compliant monetary policy instruments

## RESULTS

**Amlak International Finance Company** records net profit of SAR31.81 million (US\$8.47 million) for 2023

## ASSET MANAGEMENT

**Sahm Capital Financial Company** partners with

**Alibaba Cloud** to improve trading app

**Tenami Capital** successfully exits inaugural revenue-based investment in digital gift card marketplace **YOUgotaGift**

**Ficus Capital** invests RM2 million (US\$420,602) in internet-sharing platform **Simplify**

**AlinmaPay** becomes **Sukna Ventures's** limited partner

## TAKAFUL

**Fitch Ratings** expects profitability and capitalization of Malaysia's Takaful sector to remain stable

**Oman Re** secures license from Omani **Capital Market Authority** to conduct re-Takaful business

**Allianz Saudi Fransi** renews license with Saudi **Council of Cooperative Health Insurance** for three years

**Future Care Company** to provide home mental healthcare services for clients of **Bupa Arabia**

## MOVES

Former **Mayer Brown** partner **Barry Cosgrave** establishes **North Harwood Global** focusing on Shariah finance

Dr **Ryadh Alkhareif** becomes deputy chair of International Monetary and Financial Committee of **IMF**

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## Tokens: Gaining currency in Islamic asset management

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transparency, convenience and process efficiency.

A more secure, inclusive, transparent and cheaper (Boston Consulting Group estimates that asset tokenization could save up to US\$20 billion in just global clearing and settlement costs) method of managing assets seems almost too good to be true.

Well, the ecosystem is not perfect.

“What is missing in the tokenized world now is the ability to bridge the two groups of stakeholders — digital native firms and traditional financial institutions or banks. Crypto and securities today are almost like two separate universes and for this to work, we need to be able to bridge these two groups,” Henry Chong, the founder of Fusang Exchange, told IFN.

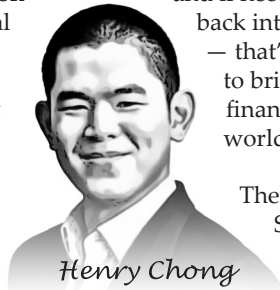
Fusang has the distinction of being the first in the world to tokenize and list a sovereign-linked Sukuk facility — one that was issued by the International Islamic Liquidity Management Corporation, and one that **won** the IFN Most Innovative Deal of the Year.

Using its proprietary Fusang Depository Receipt (FDR) structure, which mirrors the American Depository Receipts and Hong Kong Depository Receipts, to ‘wrap’ the underlying

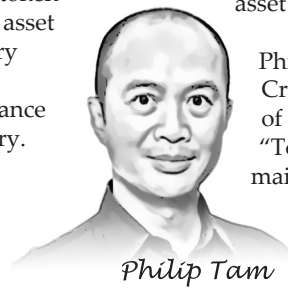


Sukuk, procured in the secondary market, into digital form, Fusang was able to list, trade and settle the tokenized high-quality liquid asset Sukuk while adhering to Shariah compliance.

“[Using FDR] means we can start to build this bilateral bridge where we can take in an existing asset, tokenize it, and if need be, redeem the token back into the underlying asset — that’s what’s necessary to bridge traditional finance and digital finance worlds,” believes Henry.



The tokenization of Sukuk could address a very



important challenge of the global Sukuk market — the siloed landscape resulting in little cross-border activity. The task at hand is to demonstrate that Sukuk tokens can move to an exchange-traded model.

### The future?

So, is tokenization the future of (Islamic) asset management?

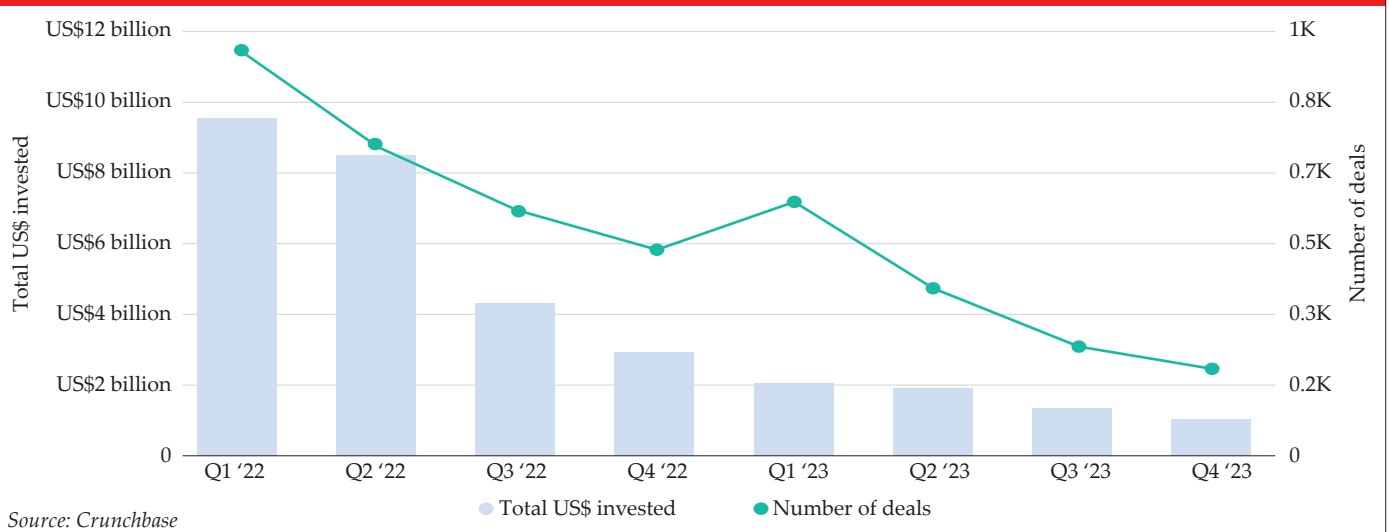
Philip Tam, the founder of Cryptosx and a director of Green-X, believes so.

“Tokenization is going to be mainstream, without a doubt.

Going forward, all IPOs will be digitized,” he told IFN.

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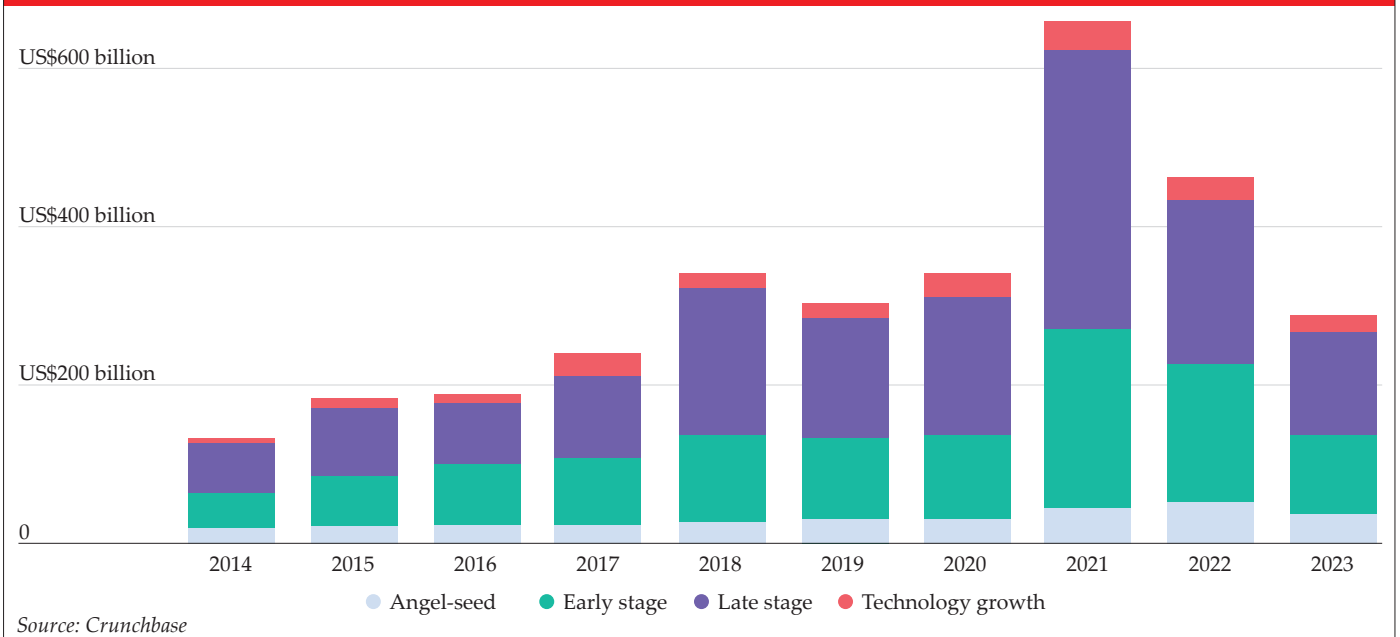
Chart 1: Funding to VC-backed Web3 start-ups by quarter



## Tokens: Gaining currency in Islamic asset management

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Chart 2: Global venture dollar volume by year



One may however think otherwise judging from how investors are pulling away from Web3 start-ups.

In 2023, funding to start-ups in the crypto and blockchain verticals plunged 74% year-on-year to under US\$7 billion through 1,564 deals, the lowest in three years, according to Crunchbase. The year before, the figures stood at US\$26.6 billion across 2,891 deals; in 2021, almost US\$33 billion was invested.

Is the bandwagon falling off track?

Not necessarily.

The dramatic fall in funding can be attributed to several factors including the collapse of FTX and the troubles that landed crypt hedge fund Three Arrows Capital and brokerage Genesis. It is also important to note that the contraction is not exclusive to Web3 — venture capital (VC) funding is down across the board. Global start-up investment dropped 38% last year to US\$285 billion, Crunchbase data shows.

It also seems that investors are instead channeling their funds to more familiar sectors such as software-as-a-service and enterprise software, and of course, the current big star: artificial intelligence

(AI). In a year when most verticals saw funding decrease, generative AI and AI-related start-ups bucked the trend, raising almost US\$50 billion in 2023.

The rebound of bitcoin (the crypto rallied to an all-time high on the 4<sup>th</sup> March to US\$68,791) turbocharged by regulatory developments (the Securities and Commission’s approval of spot bitcoin exchange-traded funds) are green flags, even if times ahead may remain tough.

### Positive signals

In the Islamic finance space, there are promising developments. There are at least 43 entities operating in the Islamic blockchain and crypto sector, according to the IFN Islamic Fintech Landscape as at the 5<sup>th</sup> March 2024. The sector is also active.

For example, Asia International Exchange late last year listed Shariah compliant Rahn and cash Waqf tokens. Philip from Green-X confirmed that the firm is working on new STOs including one for gold and another for uncut sapphire. Discussions on a project comprising hotel properties are

also ongoing. Henry from Fusang also confirmed that the exchange is working on building its pipeline, noting green Sukuk are of interest.

In Canada, IFN has learned that tokenization platform AI Mabrook Financial has secured Shariah compliance and has partnered with MRHB Network to bring fractional Shariah compliant businesses, including real estate, to the latter’s Sahal wallet users.

Fahad Siddiqui, CEO of AI Mabrook, shared with IFN that the firm is in the “final stages” of securing a license in El Salvador. It is also working toward setting up a joint venture or partnership with an existing securities company in Canada to be able to provide its service in the market, which is currently without any dedicated digital asset regulations nor regulator.

Asset tokenization is not here to disrupt, it is here to enhance. Just as sure as the market became more efficient when stocks moved to electronic trading from dedicated floors of an exchange, advocates believe tokenization is a natural progression. ☺

