Guest editorial

Sukuk (Islamic bonds)

We are pleased to bring to our readership this special issue on *sukuk* (Islamic bonds), a recent innovation that has changed the dynamics of the Islamic finance industry. In the past few years, the use of *sukuk* has become increasingly popular both as a means for government in raising finance through sovereign issues and a way for companies to raise funding through the offer of corporate *sukuk*. These *sukuk* are structured in such a way that returns can be generated to investors without infringing Islamic law that prohibits *riba* or interest. The first *sukuk* was issued by Malaysia in 2000, followed by Bahrain in 2001. Since then, *sukuk* has developed as one of the most significant mechanisms for raising finance in the international capital markets through Islamically acceptable structures. Multinational corporations, sovereign bodies, state corporations and financial institutions use international sukuk issuance as an alternative to syndicated financing.

Each article in this issue adopts different research orientation and explores different aspects of *sukuk* issuance. The first three articles focus on the choice of instruments, particularly on the risk and return. Sherif and Erkol examine the abnormal return associated with issuing *sukuk* pre and post the financial crisis while Nasir and Farooq and Alswaidan and Daynes investigate *sukuk* risk classification schemes. This is followed by Hummel and Goud who explored the tax increment financing aspect with Rafay, Sadiq and Ajmal investigating the determinants and importance of establishing a universal framework for *sukuk*. Finally, Ahroum and Achchab suggest a new parameter to explain *sukuk musharakah*.

To understand the implications of these articles, we must understand the importance of both conventional bond regulations and Shariah law, as well as how they are used within the current investment environment. We need to look at how Shariah law views investment transactions and seek an alternative to conventional bonds that can be applied effectively within the ethical investment industry. In essence, these six articles explain the fundamental elements of *sukuk* associated with investors' decision-making. By having more articles published along the theme of this special issue, we believe that the findings would be useful for investors and regulators interested in planning the fixed-rate *sukuk* and conventional bonds investment.

In short, we hope that the articles in this special issue will prompt more discussion on how *sukuk* as an alternative to conventional bonds can be addressed or developed to accommodate investment practices in accordance with *shariah* law. Developing a thorough understanding of how *shariah* law can be applied in the current investment environment will help us better understand the differences between *shariah* and conventional investments.

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