Consultation Fact Sheet

Guidance Note on Sustainability-related Issues and Climate-related Financial Risks for Sukuk

Body Islamic Financial Services Board (IFSB)	
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Scope of application Supervisory treatment of sukuk where structural features may affect the interpretation of sustainability-related claims or the assessment of climate-related financial risks	Impacted / targeted stakeholders Regulatory and supervisory authorities responsible for oversight over sukuk markets and by extension sukuk issuers and external reviewers whose claims and assessments may be subject to their oversight

Synthesis

The IFSB is consulting on a Guidance Note containing six recommendations for regulatory and supervisory authorities on sustainability-related issues and climate-related financial risks arising from the distinctive structural characteristics of sukuk. The draft addresses how sustainability-related claims should be interpreted where financed activities, underlying assets and return-generating arrangements differ; how such claims should be assessed as structures and assets change over time, and whether external reviews capture all material features of an issuance. It also proposes that climate risk assessments consider underlying assets and financing pools in addition to the obligor, account for changes caused by asset substitution or replenishment, and adequately reflect the sources of climate-risk exposure within different sukuk structures. The Guidance Note complements existing international standards and does not establish sustainability taxonomies, disclosure requirements or climate risk assessment methodologies.

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Purpose & rationale

Sustainability-labelled sukuk have grown rapidly alongside increased attention to climate change, transition finance and broader sustainability objectives. These developments are conceptually aligned with Islamic finance principles such as responsible stewardship, avoidance of harm, promotion of social welfare and support for real economic activity.

Existing sustainability-related and climate-related frameworks have largely been developed for conventional debt instruments, where analysis typically focuses on the issuer, use of proceeds or financed activities. Sukuk may involve identifiable underlying assets, financing pools, special purpose issuers and contractual arrangements that generate investor returns. These structural elements may differ from the activities financed by the issuance and may change during its life.

The draft Guidance Note therefore seeks to ensure that regulatory and supervisory approaches adequately capture the implications of sukuk structures for sustainability-related representations, greenwashing risks and climate-related financial exposures.

Specific policy objectives:

- Support authorities in assessing whether sustainability-related claims in sukuk are clearly and consistently interpreted, and remain appropriately supported as relevant activities, assets or structural arrangements change over the life of an issuance.
- Ensure that external reviews and supervisory assessments reflect structural features material to those claims, including where they may give rise to misleading representations or greenwashing.
- Ensure that climate-related financial risk assessments capture exposures arising from underlying assets and financing pools and material changes caused by substitution or replenishment, in addition to the obligor's risk profile.

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Key proposals

The IFSB proposes six recommendations for regulatory and supervisory authorities (RSAs) to assess whether existing sustainability-related and climate-risk frameworks adequately capture features specific to ṣukūk structures.

Practice	Description
Sustainability-related issues	
Recommendation 1: Basis and scope of sustainability-related claims	Authorities should consider whether existing frameworks address the activities, assets and structural arrangements underpinning a sustainability-related claim, particularly where the use of proceeds, assets supporting the structure and arrangements generating investor returns are distinct. Where these differences affect interpretation or comparability, authorities may clarify regulatory expectations, disclosure and supervisory treatment to reduce misleading representations or greenwashing.
Recommendation 2: Continuing assessment of sustainability-related claims	Authorities should consider whether claims continue to be assessed against an appropriate basis when relevant activities, assets, exposures or contractual phases change during the life of the sukuk. Frameworks should provide clarity on how such changes affect performance measures and reported outcomes, and when updated disclosures, assessments, external reviews or other regulatory measures may be appropriate
Recommendation 3: External reviews and sustainability-related assessments	Authorities should consider whether assessment methodologies and external reviews are aligned with the basis of the sustainability-related designation and capture material structural features of the sukuk. Where they do not, authorities may establish expectations regarding their scope, methodology and limitations, or supplement them with additional supervisory analysis.

Climate-related financial risks	
Recommendation 4: Risks associated with underlying assets	Authorities should consider physical and transition risks affecting underlying assets, financing pools, leased assets or other arrangements supporting investor returns, in addition to risks affecting the ultimate obligor. This is particularly relevant where those risks may affect financing performance, cash flow generation or asset values, or differ materially from the obligor level risk profile.
Recommendation 5: Changing climate risk profiles	Authorities should consider whether asset substitution, replenishment or changes in financing pool composition may materially alter the climate risk profile of the sukuk over time. They should also assess whether existing frameworks provide sufficient clarity on ongoing evaluation, monitoring and any additional supervisory response where the risk profile changes materially from that identified at issuance.
Recommendation 6: Climate risk assessment methodologies	Authorities should consider whether climate risk assessment methodologies and related regulatory practices adequately reflect the structural sources of exposure in different ṣukuk structures. Where material exposures receive limited consideration, authorities may clarify the scope, application and limitations of those methodologies or undertake additional regulatory or supervisory analysis

Appendix

Key concepts and definitions

Term	Definition
Sukuk	Certificates representing proportional, undivided ownership rights in tangible assets, a pool containing tangible and other assets, a specified project or a Sharīʿah-compliant investment activity.
Ijārah	A contract for the lease of the usufruct of a specified asset for an agreed period in return for a specified rental.
Istiṣnāʿ	A sale contract under which the seller undertakes to manufacture or construct a specified asset and deliver it on an agreed date for an agreed price.
Wakālah	An agency contract under which a principal appoints an agent to undertake specified activities on the principal’s behalf, with or without a fee.