

International Islamic Financial Market (IIFM)

Overview

Since the completion of IIFM re-organization in 2006, IIFM has embarked on a revised and well focused business strategy while keeping intact its mandated objective of establishment, development, self-regulation and promotion of the Islamic Capital and Money Market.

The major change in IIFM approach is that the development projects are now market driven and it brings industry participants, mainly Financial Institutions (FI's) on a common platform through the creation of global working group structure. More specifically, IIFM is now exerting its efforts in assisting the industry in establishing and endorsing minimum documentation standards for certain money market and capital market products through the development of master agreements.

Vision

Active and well regulated trading and capital flows across the full spectrum of Shari'ah compliant financial instruments internationally.

Mission

To catalyze both national and international trading infrastructure, product innovation and information flow within strong, transparent and well regulated standards and guidelines, thereby promoting acceptance and integration with mainstream markets.

Objectives

The principle objective of the IIFM is to encourage self-regulation for the development and promotion of the Islamic capital and money market segment of the Islamic Financial Services Industry.

IIFM, in partnership with its member institutions, seeks to create initiatives that include issuance and trading guidelines, best practice procedures and standardisation of financial contracts - leading to product innovation, market recommendations and infrastructure development. In particular, IIFM promotes the emergence and integration of Islamic financial market into mainstream global financial markets.

In terms of projects implementation, IIFM is currently actively pursuing to finalize the following key initiatives:

1. IIFM Master Agreement for Islamic Treasury Placement

The Master Agreement for Islamic Treasury Placement will provide a standardized benchmark document for the industry as currently there are more than 20 different documents being used by the institutions. Absence of a unified document results into increase in cost, raises the issues of robustness and transparency, as well as diverse Shari'ah acceptance.

2. IIFM / ISDA Islamic Master Agreement (framework document on Ta-hawutt / Hedging)

IIFM is currently working on the first phase of the project i.e. creation of a framework document mainly covering Islamic hedging. It is expected, if requested by industry participants, that the second phase would be the product development itself.

3. IIFM / ICMA Shari'ah Compliant Repo Master Agreement (structure paper on I'aadat Al-Shira'a / Repurchase - under discussion)

This project is aimed towards resolving the non-availability of a viable Islamic Money Market instrument and will also provide an efficient liquidity management tool to the industry. Moreover, this tool will assist in fostering the secondary market on Sukuk.

In addition to the above mentioned projects, there are several other projects under consideration such as the Sukuk Primary and Secondary Market, Infrastructure improvement (including systems and procedures) and Database of Islamic capital market instruments.

In the medium term, IIFM aims to provide benchmark/standardized documents and best practices for certain products.

Established Global Working Groups

IIFM manages the following global working groups relating to a particular initiative:

- Documentary Convergence Working Group
- IIFM / ISDA Islamic Finance Working Group
- IIFM / ICMA Shari'ah Compliant Repo Core Working Group

In order to achieve efficiency and integration with conventional markets, IIFM's approach is to form alliances with other international organizations having similar role and objectives in the conventional markets.

IIFM benefits and deliverables to the Islamic Financial Services Industry

- **Market Body:** IIFM forms a link between Islamic Financial Market participants and regulatory bodies on the Islamic Capital and Money Market segment of the industry, where its working group structure brings the market participants on a common platform with support from regulatory institutions as well.
- **Knowledge sharing:** IIFM promotes active participation of both Islamic and Islamically-interested institutions, and industry professionals, for the exchange of knowledge and expertise on a global basis through IIFM's specialized forums and workshops on Islamic capital and money market.
- **Uniformity & Standardisation:** The production of unified documentation framework and products creates cost reduction for all FI's together with improved transactional security as well as the widely acceptable Shari'ah interpretations or rulings.

- Self Regulation: Members will benefit from IIFM's recommendations, guidelines and best practices on Primary and Secondary market issuance and trading activities as well as simplified and uniform contracts standard language.

Shari'ah

Shari'ah plays an important role in IIFM initiatives and to achieve its objectives IIFM relies on its 8 member Shari'ah Supervisory Panel/Committee as well as referral to Islamic Development Bank's Shari'ah Board.

Key factors determining the success of the IIFM

(i)The support of host, founding members and member institutions:

The support of the Central Bank of Bahrain (CBB) as a host has been instrumental in the re-launch and re-organization of the IIFM. In addition, the support of the IIFM founding members and member institutions has been critical in guiding the IIFM in its present direction.

(ii)The involvement of global market players in IIFM industry building initiatives:

Current membership strength stands at 40 institutions and increasing, plus more than 100 institutions actively involved in its global working groups.

(iii)The creation of a uniform secondary market and non-commercial products

In the development, creation, standardization and uniformity of the secondary Islamic capital and money market, IIFM is presently working on several master agreements as part of these core initiatives to provide for the development of the secondary market framework. Once the framework is in place, IIFM will embark into non-commercial product development for the industry.

(iv)The development of Islamic market infrastructure and system

In the development of the IFSI, IIFM is working on the possible areas of risk management through trade matching, connecting and reporting system and; a robust clearing and settlement system, including an Islamic management system, where areas of trading platform and trade clearing and settlement is expected to be addressed.

(v)The development of standard market practices

IIFM is focused on the areas for recommendation on standard market practices and self-regulation in the areas of primary and secondary market trades.