



THE INTERNATIONAL

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Uniformity and integration in Islamic finance & IIFM approach

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TRENDS IN THE ISLAMIC FINANCE INDUSTRY

- Commercial Banking
- Project Finance & Syndications-
investment banking
- Equity/ Securities/ Indexes
- Sukuks (common & hybrid)
- Structured Alternative Assets
- Liquidity Management Tools
- Takaful & Retakaful

- Commercial Banking
- Project Finance & Syndications
- Equity
- Ijarah
- Sukuk (Ijarah, Musharaka, Istisna)
- Structured Alternative Assets

2007

- Commercial
Banking
- Project Finance &
Syndications
- Equity
- Ijarah

2000's

- Commercial
Banking
- Project Finance &
Syndications

1990's

- Commercial
Banking

1980's

1970's

BENEFITS OF UNIFICATION/ STANDARDIZATION

- **Market Robustness & Transparency**
- **Corporate Governance & Accountability**
- **Credibility & International Acceptance**
- **Harmonization of Shari'a**
- **Creation of liquidity and cost reduction**
- **Mitigation of legal risk**
- **Integration opportunities**

PARAMETERS OF STANDARDIZATION

- **Well defined objectives (mandatory & self regulation)**
- **Continuation of Innovation & Sustainable Growth**
- **Common platform to achieve consensus**
- **Wider Shari'a acceptance**

BENCHMARKING, SELF REGULATION & DEVELOPMENT INSTITUTIONS

- **Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)**
- **Islamic Financial Services Board (IFSB)**
- **International Islamic Financial Market (IIFM)**
- **Islamic Research & Training Institute (IRTI)**

OTHER DEVELOPMENT INSTITUTIONS

- **Islamic International Rating Agency**
- **General Council for Islamic Banks & Financial Institutions**
- **Liquidity Management Centre**
- **Arbitration Centre**
- **Islamic Indexes (Dow Jones, S&P's, FTSE/DIFC)**

MANDATORY STANDARDS IN ISLAMIC FINANCE

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Number of standards

- 68 standards on accounting, auditing, governance, ethical, and Shari'a Standards, including a statement on capital adequacy
 - o 25 Financial Accounting Standards
 - o 5 Auditing Standards
 - o 6 Corporate Governance
 - o 2 Code of Ethics
 - o 30 Shari' a Standards
- Uses International Accounting Standards as basis

MANDATORY STANDARDS IN ISLAMIC FINANCE

Islamic Financial Services Board (IFSB)

Present Standards

- 1) The Guiding Principles of Risk Management
 - 15 Guiding Principles divided into 7 parts
- 2) Capital Adequacy Standard
 - This Standard is divided into seven sections, C1 to C7
- 3) The Guiding Principles of corporate governance
 - 7 Guiding Principles which are divided into four parts

INTERNATIONAL ISLAMIC FINANCIAL MARKET



Services & Initiatives

IIFM is a non-profit international development institution founded due to the collective efforts of several regulatory bodies and Islamic Development Bank (IDB), to take part in the development of Islamic Capital and Money Market (ICMM).

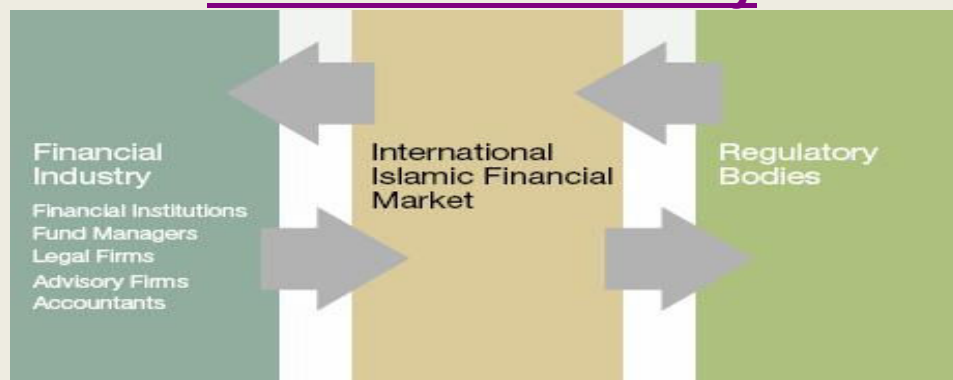
Restructured Mid 2006 and Islamic financial institution's are taking more active and controlling role.

IIFM's primary focus lies in the advancement and unification of Islamic financial documents, structures, contracts, instruments, infrastructure and recommendations for the enhancement of ICMM.

INTERNATIONAL ISLAMIC FINANCIAL MARKET



Benefits to the industry



- *Market Body with regulatory heritage*
- *Wider Shari'a Acceptance*
- *Self Regulation*
- *Uniformity & Standardization*
- *Knowledge Sharing*
- *Infrastructure Development*

INTERNATIONAL ISLAMIC FINANCIAL MARKET



Projects and approach

- ***Initiatives in progress***
 - ISDA / IIFM Islamic Master Agreement
 - Master Agreement for Islamic Treasury Placement
 - ICMA / IIFM alternative to conventional Repo
- ***Initiatives under consideration***
 - Sukuk Primary Market
 - Specific Research and Database
 - Coordination in training for professionals
 - Islamic Capital Market System

INTERNATIONAL ISLAMIC FINANCIAL MARKET

Projects and approach

■ **Global Working Groups Structure**

Industry driven – bringing IFI's and other participants together to achieve uniformity on

- Documentation
- Products
- Best practices
- Infrastructure and systems

■ **Existing IIFM Working Groups**

- Islamic Finance Working Group (ISDA/IIFM)
- Documentary Convergence Working Group
- Islamic Repo Working Group (ICMA/IIFM)

IIFM IMPACT ON INTEGRATION & UNIFICATION

ISDA / IIFM Islamic Master Agreement

- Islamic alternative to conventional Documentation developed by ISDA
- Key Shari'a issues deliberation and problem solving
 - Early termination and Close out netting
 - Single Agreement
 - Cross default
 - Transfers
 - Shari'a compliance between transacting parties

IIFM IMPACT ON INTEGRATION & UNIFICATION



ICMA / IIFM alternative to conventional Repo

- Structuring widely acceptable Shari'a Compliant Repo
- A new and challenging initiative

Tasks and Issues

- Identification of issues and finding solutions
- Shari'a solution to no-riba
- Identification of instruments and Shari'a acceptability
- Critical issues such as netting
- Number of counter parties

IIFM IMPACT ON UNIFICATION

IIFM Master Agreement for Islamic Treasury Placement

- Absence of standard benchmark documents and procedures lead to:
 - Duplication
 - Time and cost
 - Bilateral and no consensus
- Will also address and provide recommendation:
 - Operational issues on OTC and On Exchange trades
 - Agency and Principal arrangement
 - Other critical issues concerning commodity trades

IIFM IMPACT ON UNIFICATION

Other areas of unification

- 20+ Sukuk structures in use and increasing complexity
- Total Global Sukuk issued US\$97 billion
- Sukuk in pipeline 2007/2008 US\$66 billion
- 2010 Global Sukuk market IIFM estimate US\$225+ billion
- Largest Islamic Bond issuing jurisdiction's 60%+ issuance not accepted in the GCC and other

**Need to identify most commonly used
Structure(s) for unification**

CONCLUSION

- Standardization has a positive impact on the development of the IFSI
- Basel II accord, if taken in the right context, will further strengthen Sukuk issuance
- Uniformity and standardization allows IFSI's to be robust, transparent and credible in the face of challenges



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