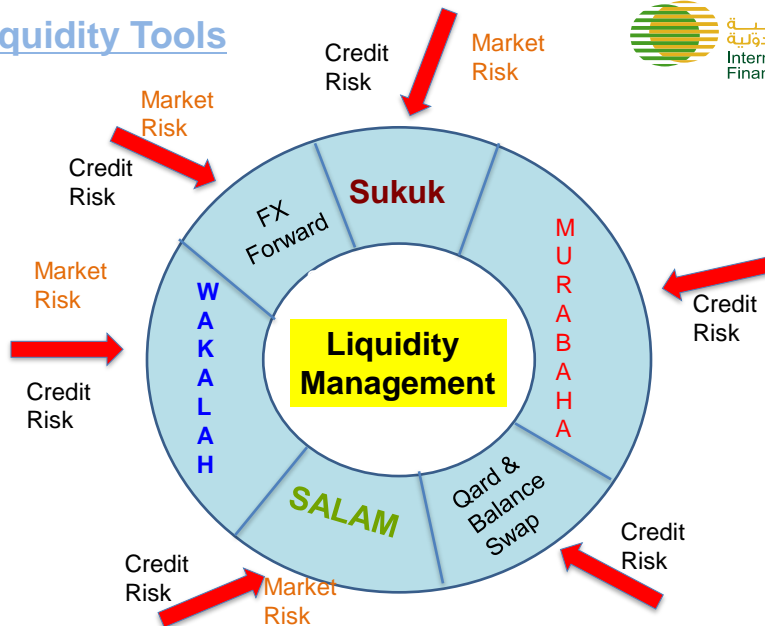


Collateralization Liquidity Management Tool

*IIFM Workshop
April 10th 2017,
Kula Lumpur, Malaysia*

Ismail Dadabhoy
Advisor - IIFM

Liquidity Tools

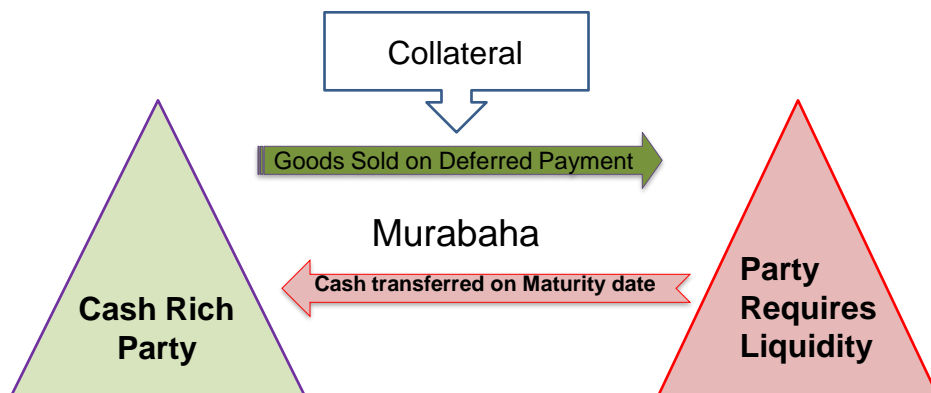


Tools to Minimise Risk

- ✓ **COLLATERALISATION**
- ✓ **Proper Documentation**
- ✓ **Market to Market**

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Murabaha



3



It is NOT a REPO

Coll Pledged

Arrahn

Coupon

Reuse of Posted Collateral

Acceptable Collaterals

Mark to Market

Substitution

Tri - Party

What about two way Murabaha Flow

Master Collateralised Murabaha Agreement

MCM Agreement

Type of
Collateral

Bi- Lateral

Arrahn
Pledged Collateral

Governing Law

Sharia Qualification

Benefits Collateralized Product



Credit Risk Management

As long as the extra collateral is managed, Counterparty exposure is reduced to the margin threshold plus Sukuk execution risk, rather than a full clean exposure. It allows for efficient capital treatment.

Development of Sukuk

Allowing Financial institutions to maintain less cash and allocate more in income generating Sukuk. Giving rise to greater take up of Sukuk by Islamic investors

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Benefits Collateralized Product



Alternative to Clean Lending

Collateralized financing offers a structure that requires some extra operational task but does provide credit enhancement as well as providing an effective liquidity management tool for use with the Collateral Management Agent.

Flexibility

Having the comfort of collateral allows the institutions to finance for a longer duration and or larger quantum as the credit risk is reduced.

Central Bank Market Intervention

CB can include Islamic Banks as part of its market liquidity actions (Add or Remove Cash from the system. Also, Islamic Financial Institutions can use this liquidity instrument to raise funds from the CB

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Some Central Banks Has Set Up Sharia Compliant Short-term Facility



Malaysia

Bahrain

Turkey

Indonesia

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Latest Central Bank to Offer Sharia compliant Short-term Facility



Central Bank
Liquidity

UAE CB has started started offering overnight liquidity to Islamic Banks under Collateralised Murabaha structure.

Acceptable
Collateral
Type

Eligible assets that can be used as collateral include Sukuk and other Sharia compliant securities issued by the UAE Federal Government or authorities in individual emirates, as well as banks and corporations that are based in the UAE.

Tri-Party
& Acceptable
Foreign
Issuers

UAE CB has adopted a Tri- Party settlement structure with the Global Custodians . Securities issued by foreign governments, banks, -corporates and supranational agencies will also be accepted as collateral, but must carry a minimum A rating from agencies

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Commonly used Tools In Islamic Finance



- Murabaha
- Wakala
- Tahawwut Agreement (Hedging)
- Profit Rate Swaps
- Cross Currency Swap
- Forward FX – Single Wa’ad and Two Independent Wa’ad
- Islamic Credit Support Deed
- Collateralised Murabaha

Well , you will be pleased to know that IIFM has developed Standardised Agreement for these products for the market to use

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Thank you

*Do Not Forget To Download
The IIFM Agreements*



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