

Repo & Hedging, Wa'd-based Instrument

*Instrument to Improve Liquidity Cost Efficiency &
to Hedge against Risks*

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At IIFM Specialized Session,
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Background of Transactions



REPO & SWAP : TO MEET LIQUIDITY NEEDS

No Liquid Asset

Illiquid Asset:
- Financing
- Fixed Asset

To switch illiquid asset into cash

Liquid Asset in different currency

IDR	USD
Cash & Bank	Illiquid Asset
Illiquid Asset	

To alter cash in one currency into the other

FORWARD: TO HEDGE FOREX POSITION

ASSET		LIABILITY	
IDR	USD	IDR	USD
[Green Box]	[Blue Box]	[Green Box]	[Blue Box]

Liability will grow more when USD exchange rate against IDR going up
To "lock" exchange rate fluctuation

Islamic banking has lower FDR



	2015		2016		2017	
	DES	MAR	JUN	SEP	DES	MAR
LDR (%)	92	89.5	91.1	91.5	90.5	88.9
FDR (%)	88	91.8	92.1	89.2	88.8	87.6

Limited Secondary Reserve

Low Yield : SIMA, Fasbis, SBIS, Reverse Repo

Higher Yield : Sukuk, Long term, and illiquid

Islamic banking
exposed to
higher Liquidity
Cost

Wa'd based Instrument



Repo

Al bay' ma'a 'l-wa'd bi 'l-syiraa.

Forward

- Al 'ttahaawuth 'l-baasith (al-mu'aawadah li 'aqdi 'l-sharfi 'l-fawri 'l-mustaqbal).

Swap

Al 't-tahaawuth 'l-murakkab (Al 'shsharf tsumma 'l-mu'aawadah li 'l-sharfi fii yaumi 'l-mustaqbal).

“Repo & Swap” as Alternatives

Both instrument has an underlying asset

It improve “borrower”
Credibility

It’s secured

The underlying has higher
yield

Price Efficient

A Long Journey....

27 SEP
2012

BI issued SEBI no. 14/28/DPM about Repurchase Agreement (Repo) procedure.

02 APR
2014

National Sharia Board issued Fatwa about Repurchase Agreement (Repo) based on sharia principles. No: 94 / DSN-MUI / IV / 2014.

29 MAY
2015

BI issued PBI No.17/4/PBI/2015 and SEBI No.17/10/DKMP about sharia interbank money market.

02 JUL
2015

Signing of the MRA Sharia Memorandum of Understanding (MoU), performed by all Sharia Bank directors in Indonesia in Bank Indonesia before Senior Deputy Governor of Bank Indonesia.

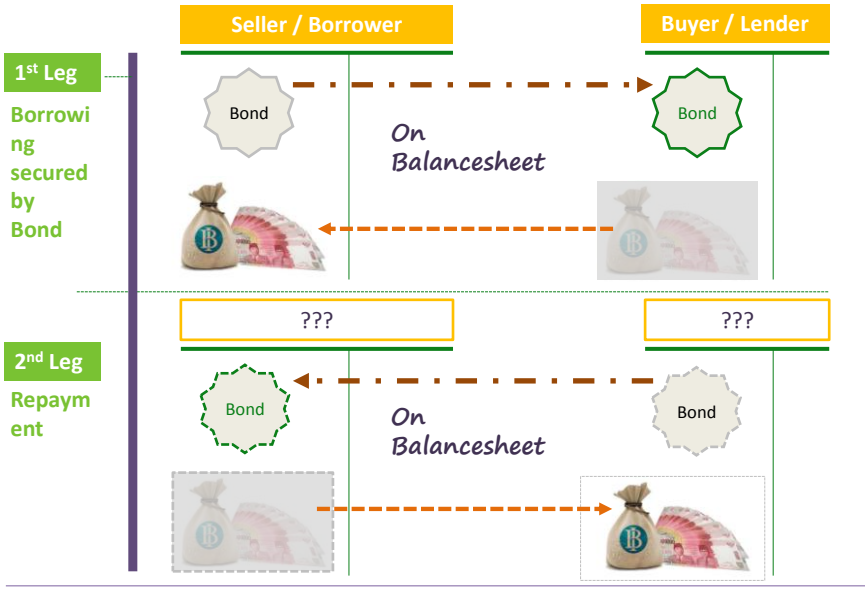
27 JUL
2016

Signing of a master repo sharia between Bank Muamalat and Bank Bukopin.

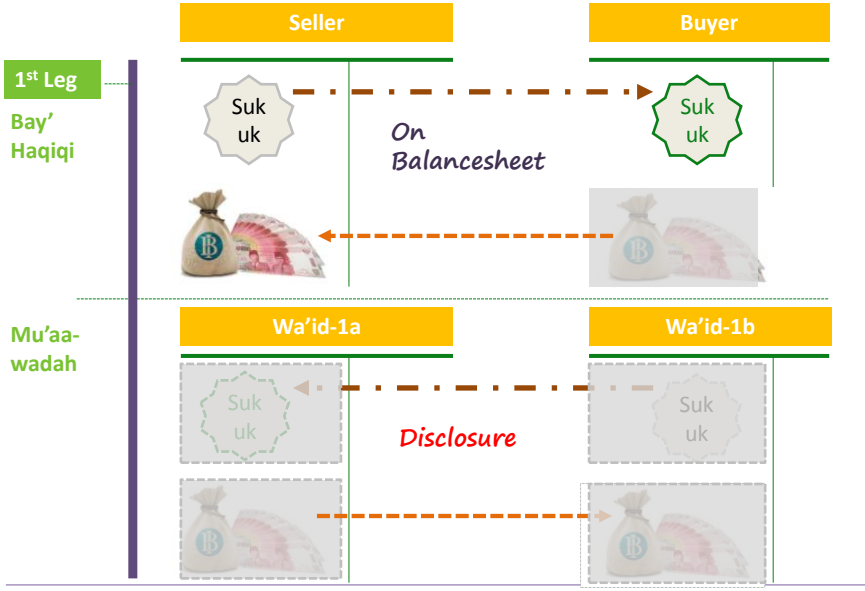
28 SEP
2016

Bank Muamalat and Bank Bukopin executed Repo transaction, amounting IDR 100 billion.

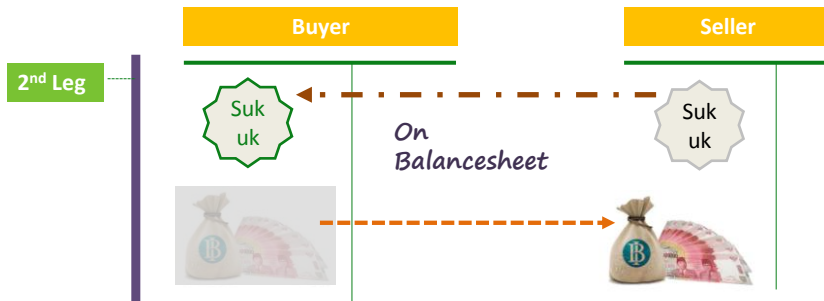
Conventional Repo



Sharia-Compliant Repo #1



Sharia-Compliant Repo #2



Some notes...

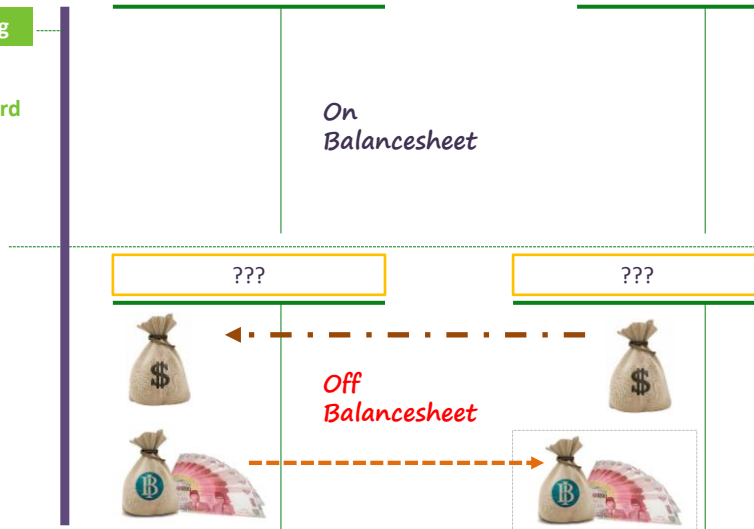


1. Sukuk should be traded by all market participant in compliance with Sharia.
2. All entitlement (un-paid dividend) goes to Buyer. Buyer may forgo the unpaid dividend, and will be compensated upon terminal payment (at the second leg).
3. It is buyer's call to book Sukuk under Trading/AFS/HTM.
4. Buyer shall bear all risks associated with the Sukuk being traded (ie. Market Risk and Credit Risk).
5. Buyer may require Seller to Top Up by way of margin deposit or additional Sukuk.
6. Ta'widh may be imposed to both parties.

Conventional Forward #1

1st Leg

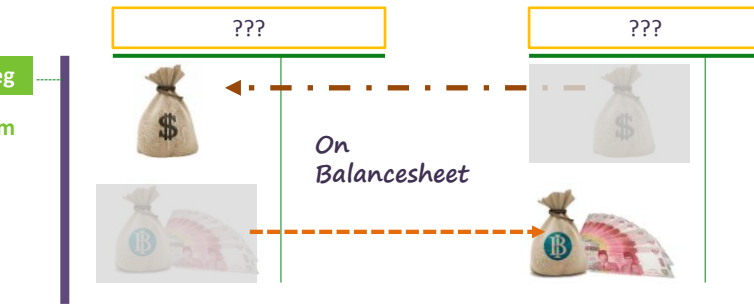
Buy Forward



Conventional Forward #2

2nd Leg

Settlement



Sharia-Compliant Forward

1st Leg

Mu'aa-wadah

On
Balancesheet

Wa'id-1a

Wa'id-1b



Disclosure



Sharia-Compliant Forward

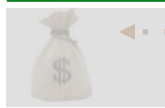
2nd Leg

Sharf

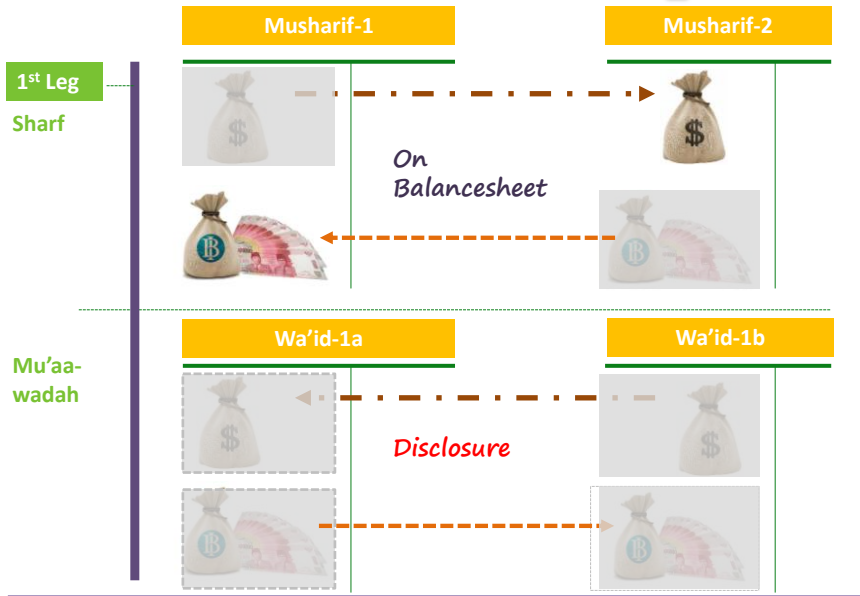
Musharif-1

Musharif-2

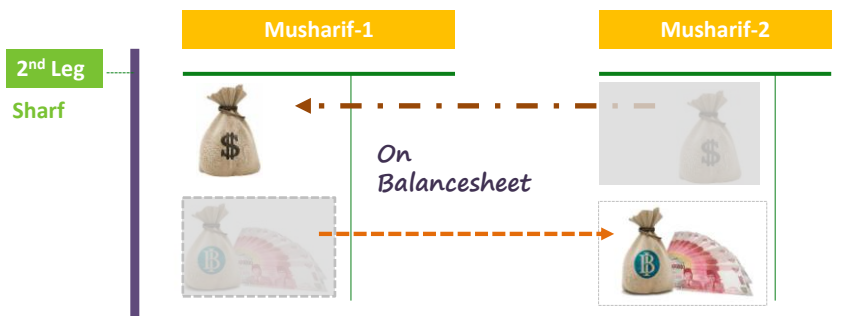
On
Balancesheet



Sharia-Compliant Swap #1



Sharia-Compliant Swap #2

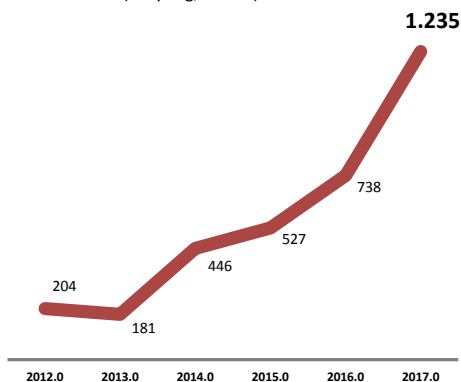


Some notes ...

1. Underlying document is compulsory.
2. Counterpart may be sharia bank or conventional, provided Asking bank must a sharia bank.
3. Ta'widh may be imposed to both parties.
4. Disclosure on administrative item, should be affirmed by banking regulator.

To date...

REPO's volume (daily avg, IDR Bn)



Sharia-compliant Repo:
#1 Sept 2016: Rp 100 bio.
#2 Des 2016: Rp 800 Bio.

No single Sharia compliant Swap or Hedging has been recorded.

Why



1. Limited Player.
 2. Forex transaction volume is decreasing.
 3. There's no standard Agreement.
 4. Lack of learning incentive.
 5. Accounting treatment... ?
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Alhamdulillah.
end of presentation.