



International Islamic Financial Market (IIFM) Progress Report

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About IIFM



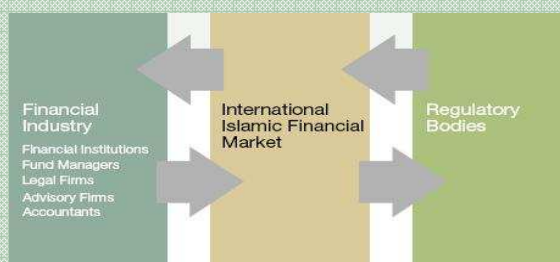
IIFM is a non-profit international development institution supported by the central banks and government agencies of Bahrain, Brunei, Dubai, Indonesia, Malaysia, Saudi Arabia, Sudan, Pakistan as well as number of regional and international financial institutions

The objective of IIFM is to take part in the establishment, development and promotion of the Islamic Capital and Money Market (ICMM)

IIFM's primary focus lies in the advancement and standardization of Islamic Financial Services Industry (IFSI) documentation, structures and instruments; processes and infrastructure; and recommendations for the enhancement of ICMM

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About IIFM



- Standard setting body with regulatory heritage
- Addressing the standardization needs of the industry
- Providing universal platform to market participants through 'Global Working Groups' for the development of ICMM
- Shariah harmonization in documentation, products and processes

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IIFM Approach to Standardization



- IIFM's approach to standardization is market driven through research and testing of market requirements
- Once need is established, then formation of project specific Global Working Groups
- IIFM Board of Directors and member institutions take lead role in finalization and implementation of the initiative
- IIFM Shariah Advisory Panel plays a critical role throughout the process of development

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IIFM Global Market Unification Initiatives



IIFM Documentation Standardization Initiatives

- IIFM Master Agreements for Treasury Placement (MATP) – completed
- IIFM Tahawwut (Hedging) Master Agreement – advanced stage
- Repurchase and Collateralization prospects – under consideration
- Other initiatives

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IIFM Master Agreements for Treasury Placement (MATP)

completed Oct 2008



Standardization of Documentation

- Global - IIFM
- Jurisdictional – eg: Malaysia, Saudi Arabia

It is true that majority of Shariah interpretations and applications are similar but does that translate into documentation, products and procedures in a unified manner?

Key Benefits

- Greater transparency and consistency
- Improves confidence of all stakeholders
- Results in time and cost savings
- Uniform approach removes confusion and misperceptions
- Allows more time to stakeholders specially Scholars to innovate
- Reduces fragmentation and leads to integration of the IFSI

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IIFM Master Agreements for Treasury Placement (MATP)

completed Oct 2008



Commodity Murabaha as a product – Facts

➤ Positives

- ❑ Credit Intensive
- ❑ Balance Sheet item

➤ Negatives

- ❑ No Shariah Issues but excessive use raises concerns
- ❑ No Secondary Market trading options
- ❑ Doubts on amount of commodities vs transaction volume
- ❑ Low Returns
- ❑ Pilferage of Islamic Funds

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IIFM Master Agreements for Treasury Placement (MATP)

completed Oct 2008



Commodity Murabaha – Why Standardize

- Commodity Murabaha plays a dominant role in some jurisdictions
 - industry requires an alternative to make it supplemental product
- Frequent legal, Shariah, operational and other costs
- Lengthy negotiation time and constant Shariah involvement
- Variations in documentation processes and procedures leads to divergence of Shariah and practices
- Moving away from costly bilateral documentation to efficient standardization approach..... **IIFM MATP**

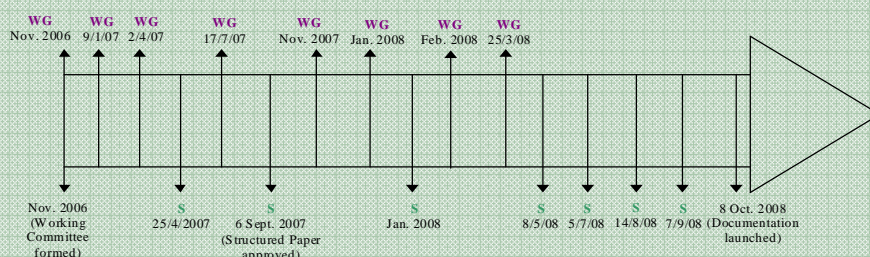
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IIFM Master Agreements for Treasury Placement (MATP)

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Project Time Line



WG = Working Group
S = Shari'a Meeting

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IIFM Master Agreements for Treasury Placement (MATP)

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Documentation

- Master Murabaha Agreement (MMA)
- Master Agency Agreement (MAA)

Important Clauses

- Rebate and Early Termination
- Governing Law
- Late Payment
- Language
- Set procedures to ensure compliance

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IIFM Master Agreements for Treasury Placement (MATP)

completed Oct 2008



Benefits & Utilization

- In line with rulings of other standard setting bodies
- Best market practices
- High quality and comprehensive documentation
- Reducing transaction arrangement cost (critical factor in present environment)
- Improving documentation standard and bringing smaller institutions on same level as large International banks
- Improving transparency
- MMA and MAA, with addition/changes in clauses can be utilized for other products involving Murabaha contracts and Agency arrangements
- Reduces burden on Shariah scholars – will free up time to concentrate on other more flexible and innovative liquidity management products thereby making Commodity Murabaha **supplemental product (IIFM aim)**

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IIFM / ISDA Tahawwut (Hedging) Master Agreement

Advanced Stage



Background

- Islamic Financial Institution's require hedging to mitigate risks
- Framework Master Agreement's functions and risk management role
- Net Risk Management
- Early Termination
 - ❑ Concluded transactions
 - ❑ Future transactions

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IIFM / ISDA Tahawwut (Hedging) Master Agreement

Advanced Stage



Framework Document

- The Framework Document sets out general terms on the basis of which the parties can then enter into individual hedging transactions for risk mitigation
- The current project is addressing only the Framework Document; not individual products

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IIFM / ISDA Tahawwut (Hedging) Master Agreement Advanced Stage



Transactions under the Framework Document

- Only for the purpose of hedging an actual risk of the relevant party
- No speculation
- Real transactions, involving the actual transfer of ownership of real assets, actual risk and real settlement
- The asset must be Halal
- Interest must not be chargeable under the transaction

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IIFM / ISDA Tahawwut (Hedging) Master Agreement Advanced Stage



Benefits of Framework Document

- Clear and agreed terms and conditions governing hedging transactions
- The ability to early terminate and net out on early termination allows each party to limit its risk legally, in the event of default or insolvency of the counterparty, to the net exposure, and therefore to treat its credit risk exposure during the life of the agreement as a **net risk management position** in respect of its transaction with the counterparty, thereby enabling it to calculate its credit risk exposure on this net basis for credit risk and accounting purposes throughout the life of the transaction
- The ability to early terminate and net out on early termination also allows each party to calculate its **regulatory capital requirement on the net risk management position**, thereby reducing its regulatory capital requirement

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Repurchase and Collateralization Prospects



Repurchase possibilities in Islamic finance

- Bilateral Repurchase
- Tri Partied Repurchase

Collateralization using Sukuk

- Transfer of ownership (classic Repo)
- Netting of obligations

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Other Unification Initiatives Explored / Under Consideration



- | | | |
|------------------------------|---|--|
| ➤ Wakala Master Agreement | - | Issues and areas of improvement |
| ➤ Sukuk | - | Terms and conditions |
| ➤ Systems and Infrastructure | - | IT and process improvements in transactions such as Murabaha |
| ➤ Unit Trust | - | Standard Documentation |
| ➤ REITs | - | Standards Requirement |
| ➤ Sukuk Trading Platform | - | Feasibility |
| ➤ Research | - | Sukuk structures and database of Sukuk issuance |
| ➤ Industry Building Events | - | Conferences, Briefing Sessions, Consultative Meetings etc |

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Thank You!

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