

## **Islamic Finance** *news* **ROADSHOW**



# **RISING UP TO THE CHALLENGES IN ISLAMIC LIQUIDITY MANAGEMENT**

## **An Exchange's Perspective**

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## Contemporary Issues

- Managing liquidity is arguably the most critical element in the risk management framework of the financial industry
- Managing liquidity is even more challenging for IFIs due to limited availability of Shari'ah compliant instruments
- Managing short term Islamic liquidity is especially challenging for IFIs due to the absence of an international Islamic money market
- IFIs worldwide rely heavily on commodity murabaha for short term investment and liquidity management
- In some markets, IFIs also rely on government and central bank's short term Shari'ah compliant issues e.g. Bahrain, Malaysia and Sudan
- Sukuk has also emerged as a tool for managing liquidity though the market is relatively small at around USD130bn when compared to total IFI assets of approx USD830bn
- Other liquidity management solutions remain underdeveloped

## Challenges

- Absence of a uniform regulatory framework to facilitate the development of an international Islamic markets
- Limited diversity in investment tools
- Lack of price transparency resulting in pricing difficulties
- Absence of global benchmark issues
- Maturity mismatch due to limited maturity profiles of instruments
- Limited access to counterparties to trade with
- Secondary markets lack depth and breadth
- Limited connectivity between IFIs as markets tend to be very insular
- No lender of last resort facilities
- Lack of standard documentation
- Different Shari'ah interpretations and acceptance





## Initiatives to date

- The recent establishment of the International Islamic Liquidity Management Corporation (IILM) by IFSB with the objective *to issue Shari'ah-compliant financial instruments to facilitate more efficient and effective liquidity management solutions for IFIs & facilitate investment flows of Shari'ah-compliant instruments across borders.*
- The establishment international standard-setting bodies e.g. AAOIFI for the development of accounting and auditing standards for IFIs, IFSB for the issuance of global prudential standards and guiding principles for the Islamic Finance industry and IIFM which focuses on the standardization of Islamic products, documentation and related processes
- Issuance of benchmark sukuk by IDB and GCC & Asian sovereign
- Issuance of short term instruments by governments and central banks e.g. CBB Sukuk Al-Salam & Al-Ijara, Sudan Musharaka Certificates and Malaysian Islamic Treasury Bills, GILs and BNM Islamic Notes

## **An Exchange can facilitate ....**

- Secondary market liquidity
- Access to a wider array of Shari'ah compliant products e.g. sukuk, equities and commodities
- The promotion of organized trades and documentation
- Cross border trades
- Price transparency
- The promotion of the introduction and distribution of new products e.g. i-ETFs, i-REITs & Commodity ETFs
- The establishment of regulatory frameworks for trading and product offering
- Mitigating counterparty risks thus expanding trading network
- The promotion of Shari'ah governance and integrity

# THANK YOU

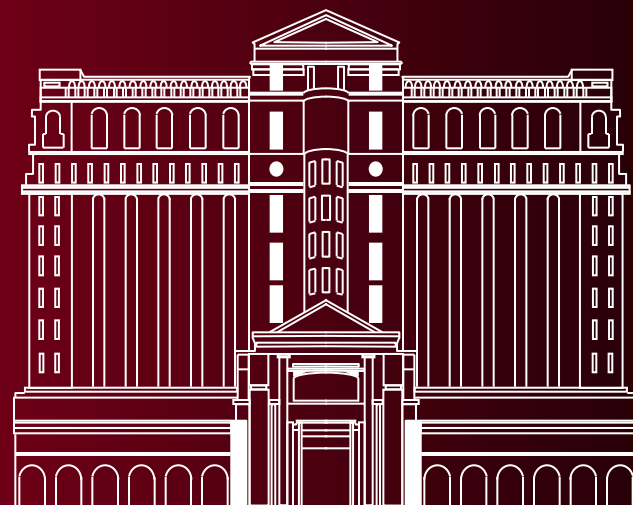
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