

THE INTERNATIONAL



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Islamic Treasury Management
Addressing the Short Term Deposits

versus

Long Term Assets

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SECTION 1 CURRENT DEPOSITS VERSUS ASSETS SCENARIO

Current Deposits (Liabilities) Versus Assets Scenario

➡ **Asset & Liability Management**

➡ **Liquidity Risk Management**

➡ **Focus: Short Term Deposits**

Current Deposits (Liabilities) Versus Assets Scenario (Cont.)

Causes of gaps :-

- Structural**
- Deposits (trend and behavior)**
- Treasury gaps**
 - Gapping activities**

SECTION 2 FUNDING & LIQUIDITY REQUIREMENT

Funding & Liquidity Requirement

- ➔ **(1) Changing the contractual maturities of the deposits.**
- ➔ **(2) Alternative source of deposits.**
- ➔ **(3) Management of the Deposits/Liquidity costs.**
 - Hedging
 - Derivatives application
- ➔ **(4) Liquidity risk management from the asset perspective.**

(1) Changing the Contractual Maturities of Deposits

- sourcing for medium and long term deposits.

Islamic Negotiable Instruments of Deposits (INID) :-

Example: - **Negotiable Islamic Debt Certificates (NIDC)**

- ➔ Zero Coupon Negotiable Certificates of Deposits (NCDs).
- ➔ Bai Bithaman Ajil (BBA),
- ➔ Underlying assets being used for one time, single transaction only.

(2) Alternative Source of Deposits

i) **Foreign Currency Borrowing**

Risk associated could be managed by applying the FX Swaps (FX Forward) :-

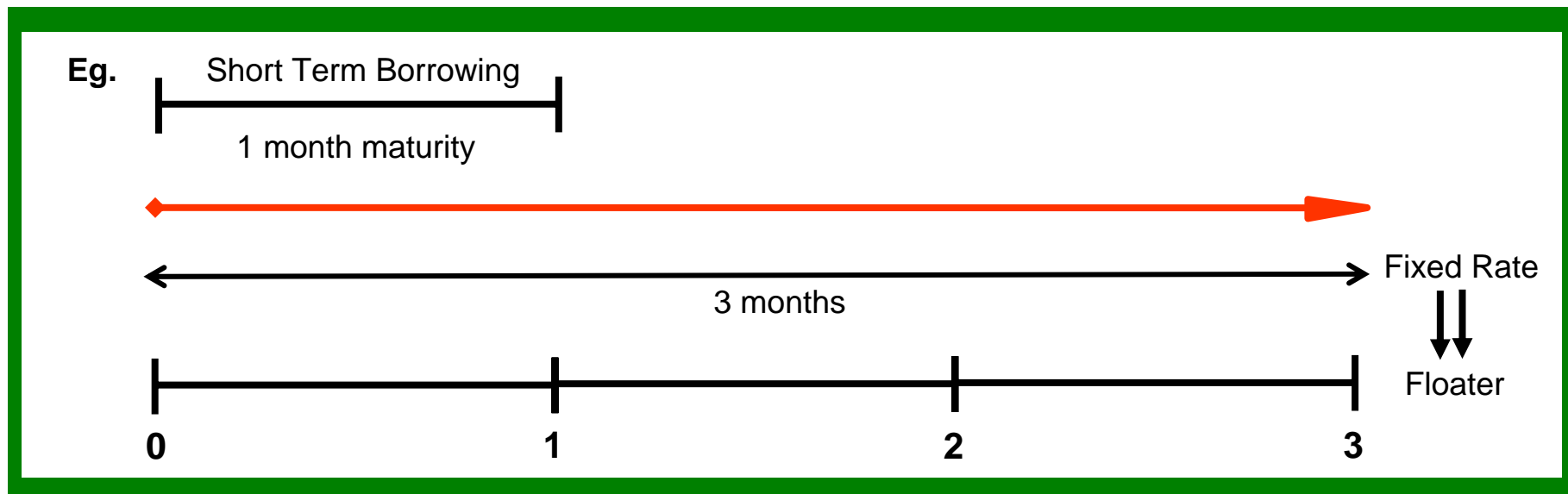
→ Agreement entered into to fix the rate on the second leg of a Foreign Exchange Swap transaction.

→ Wa'ad, Murabahah, Ijarah, etc.

ii) **Subordinated Loans / Inter-company loans**

(3) Management of the Deposit/Liquidity Costs

- Costs in changing the contractual maturities of the deposits (ie.borrow medium term or longer tenor, and lend short to meet immediate obligations due).



Hedged using the Islamic Profit Rate Swap (IPRS)

- depends on one's view of monetary rates.
- IPRS underlying concepts: Wa'ad and Murabahah.

(3) Management of the Deposits/Liquidity Costs (Cont...)

- Hedging both the “Rate” and “Currency” conversion.

Application of Islamic Cross Currency Profit Rate Swap (CCPRS)

→ An agreement between 2 parties :-

- To exchange a series of profit and/or principal payments denominated in one currency for another series of profit and/or payment denominated in another currency.
- Based on an agreed principal amount with an over & mutually agreed tenor.

→ Objective

- moving out from a certain currency exposure into another
- to lower all-in cost.

→ Concepts applied

- Bai al-Innah, Murabahah & Wa’ad.

(4) Liquidity Risk Management from the Asset Perspective

- Assets liquidation to meet obligations due.

Islamic REPO

➡ Sell and Buy Back Agreement (SBBA)

Secondary Trading

➡ Outright Buy & Sell (Bai al-Dayn)

Discounting Windows

➡ Regulators

SECTION 3

ISSUES IN MANAGING MISMATCHES

Issues in Managing Mismatches

i) Extra costs in Islamic product applications

- Required trade transactions.
- System/IT requirements.
- Documentary requirements.

ii) Acceptability of the underlying Islamic concept and transactions

- Commodities base for Commodity Murabahah.
- Varying interpretations on the underlying concepts.

Issues in Managing Mismatches (cont...)

iii) Counterparty limitations

- Mostly bilateral (limits exhaustion).
- Name : interested counterparties / amount / etc.
- Requires further transparencies & standardization of business practice & documentation.

SECTION 4 CONCLUSION

Conclusion

- ➔ **Mismatches, gap to stay.**
- ➔ **Need sound risk management in place.**
- ➔ **Islamic product research, innovation & development must continue.**
- ➔ **Treasury must continue to find Islamic solutions to improve risk management & not to resort to conventional methods.**

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