

Introduction to IIFM

Robust Standards for Islamic Capital & Money Market

Morning Parallel Session, WIBC Pre-Conference Day

6th December 2009, Bahrain

Mr. Ijlal Ahmed Alvi, Chief Executive Officer, IIFM



About IIFM

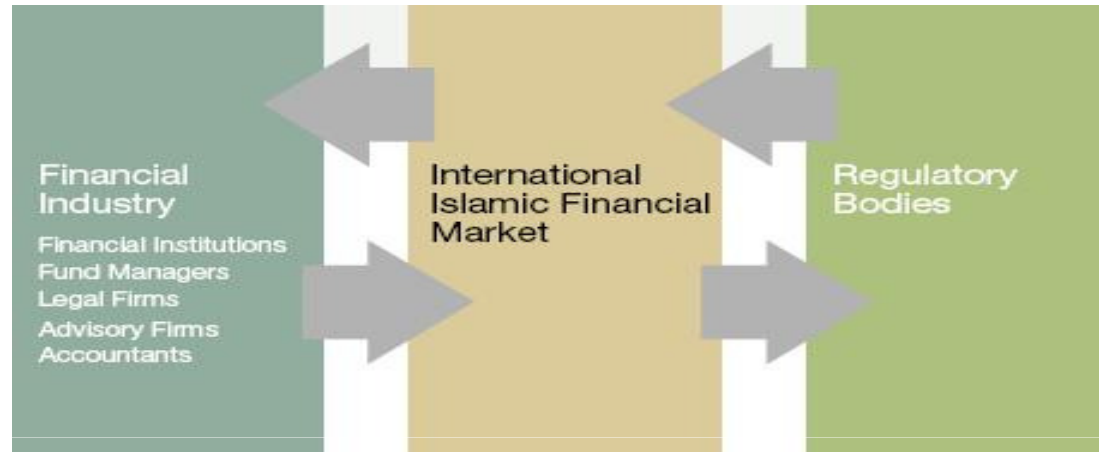
IIFM is a non-profit market standard setting body of the Islamic Financial Services Industry (IFSI). It is supported by several central banks/government agencies and leading financial institutions

The objective of IIFM is to unify the Islamic Capital and Money Market (ICMM) segment of the IFSI

IIFM's primary focus lies in the standardization of products, documentations and related processes



About IIFM



- Market 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 unification of ICMM
- Shari'a harmonization in documentation, products and processes



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 Shari'a Advisory Panel plays a critical role through out the process of development



International Islamic
Financial

advanced st

➤ **Other initiatives** – under considera

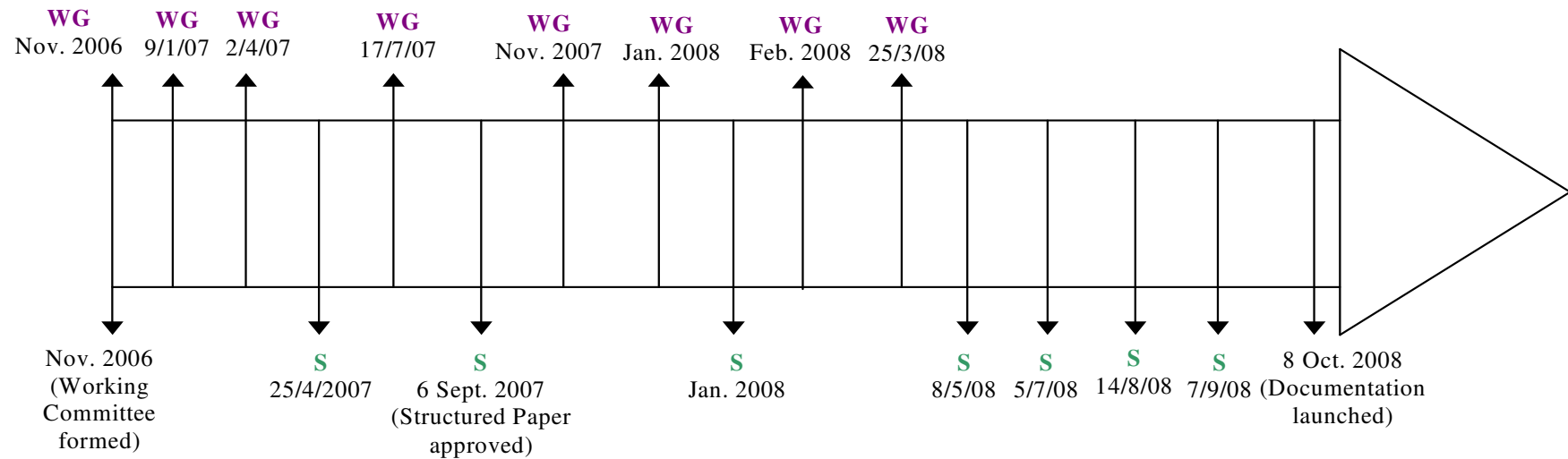
IIFM Master Agreements for Treasury Placement (MATP)

i) Commodity Murabaha – Why Standardize

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

IIFM Master Agreements for Treasury Placement (MATP)

ii) Project Time Line



WG = Working Group
S = Shari'a Meeting

IIFM / ISDA Tahawwut (Hedging) Master Agreement



السوق المالية
الإسلامية الدولية
International Islamic
Financial Market

i) Background

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

IIFM / ISDA Tahawwut (Hedging) Master Agreement



ii) 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

IIFM / ISDA Tahawwut (Hedging) Master Agreement



السوق المالية
الإسلامية الدولية
International Islamic
Financial Market

iii) 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

IIFM / ISDA Tahawwut (Hedging) Master Agreement

iii) 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



السوق المالية
الإسلامية الدولية
International Islamic
Financial Market

THANK YOU

www.iifm.net