

*Towards Enhancing Efficient
Liquidity Management
Framework – Industry Forum*

Bank Negara Malaysia High Level Conference
on Financial Stability, November 24, 2009

Today's Topics

- ✓ Asset & Liquidity Management for Islamic Financial Institutions.
- ✓ Importance of Liquidity Management for Islamic Perspective: A Practitioner's Perspective
- ✓ Addressing Liquidity Issues for Cross Border Transactions
- ✓ Liquidity Management in Islamic Finance: Challenges for Design and Implementation



Tan Sri Dato' Dr. Zeti

- the need for a comprehensive legal, regulatory and supervisory framework to meet the present challenges, and its regular adaptation to keep pace with the evolution and transformation of the financial system;
 - the need for an integrated crisis management framework to ensure that any emerging crisis in the Islamic financial system will be promptly and efficiently managed;
 - the need for institutional arrangements for resolution of troubled international IFIs;
 - the enhancement of the risk management capability of IFIs, through additional capital requirements to cushion the inventory risks of underlying assets and equity positions that are embedded in partnership contracts, therefore bringing the capital requirements closer to the true economic risks in the portfolio of the IFIs;
 - the need for a mechanism for cooperation between regulators across jurisdictions for resolution and for containing potential systemic risks beyond the national boundaries; and
 - mutual recognition of financial standards and products across jurisdictions.
- **The hardening of the arteries of global and regional liquidity was a primary outcome of failure to manage the issues at the heart of Tan Sri Dato' Dr. Zeti's concerns.**

Re-constituting some of Dr. Zeti's remarks into our topic:

- Regulatory Framework requires order and certainty in the “*murabaha*” market & reliability in the *mudaraba/wakala* markets.
- Sufficient transparency that interbank operations are not disrupted, accelerating a crisis.
- Definition of standards, *Sharia'a* and regulatory to define when risk is shared and when risk moves in a secular direction

Our Presenters

- Ahmed Adil – apologies due to missed connection.
- Badlisyah Abdul Ghani – long a leading light shaping the local and regional markets with a clear impact on the global Islamic space.
- Iqbal Khan – an important early innovator, who put global banks into the field in a sustainable way, and new promises new innovation at Fajr Capital
- Brandon Davies – Gatehouse represents capital market skills in the London endpoint of the Islamic capital market axis.

Asset & Liquidity Management for Islamic Financial Institutions – Ahmed Adil.

- Term Mismatch
 - My institution's challenge
- Yield Mismatch & Expectation Risks
 - My portfolio challenge and the market's perception:
 - Displaced Commercial Risk
- Regulatory Risk
 - FSA imposes minimum liquidity requirements, but the five Islamic banks have an issue!
- Are there universally accepted hedging tools?

From Doha International Airport

Firstly, it is now proven that liquidity risk should be regarded as a separate class of risk and its management needs to be the top priority for banks and central banks;

Secondly, quantitative liquidity risk is as imperative as that of credit, market and ops risks. Techniques for ALM need to be sharpened and modeling of these risks should be put in place;

Thirdly, profit rate risk should also be rigorously profiled and modeled by Islamic banks based on the term structure of interest rates used as a benchmark, i.e the yield curve; and

Fourthly, a distinction should be made between *gharar* and coverage of risks, and separation of part of the risk for coverage should be allowed by *Sharia'a* as it relates to genuine business risks.



Importance of Liquidity Management for Islamic Perspective: A Practitioner's Perspective – Badlisyah Abdul Ghani

- If it is possible that PLS and PSIA instruments reduce systemic risk, but increase unique institutional exposure risk, then how critical is it to understand liquidity management?
- What are the issues relating to DCR and liquidity?
- What benefits can a pro-active central bank bring to the market?



Addressing Liquidity Issues for Cross Border Transactions – Iqbal Khan

- What happened to the GCC *sukuk* market in 2008?
- And, then the GCC Islamic interbank market in 2009?
- What are the ways forward to sustain liquidity and activity? Any lessons from Malaysia?
- How can interdependence be reshaped to preserve regional independence?



Liquidity Management in Islamic Finance: Challenges for Design and Implementation – Brandon Davies

- Commodity House
- Master Hedge
- Master *Murabaha*
- Master *Wakala*
- Islamic Repo



- All of these buzzes and more represent inter-regional cooperation at the highest levels, what else is required by institutions to effectively and efficiently bring new, effective solutions to the Islamic market.

And, now....

