

Towards Enhancing Efficient Liquidity Management Framework

Importance of Liquidity Management - Market Players' Perspective

Badlisyah Abdul Ghani
CEO, CIMB Islamic Bank Berhad

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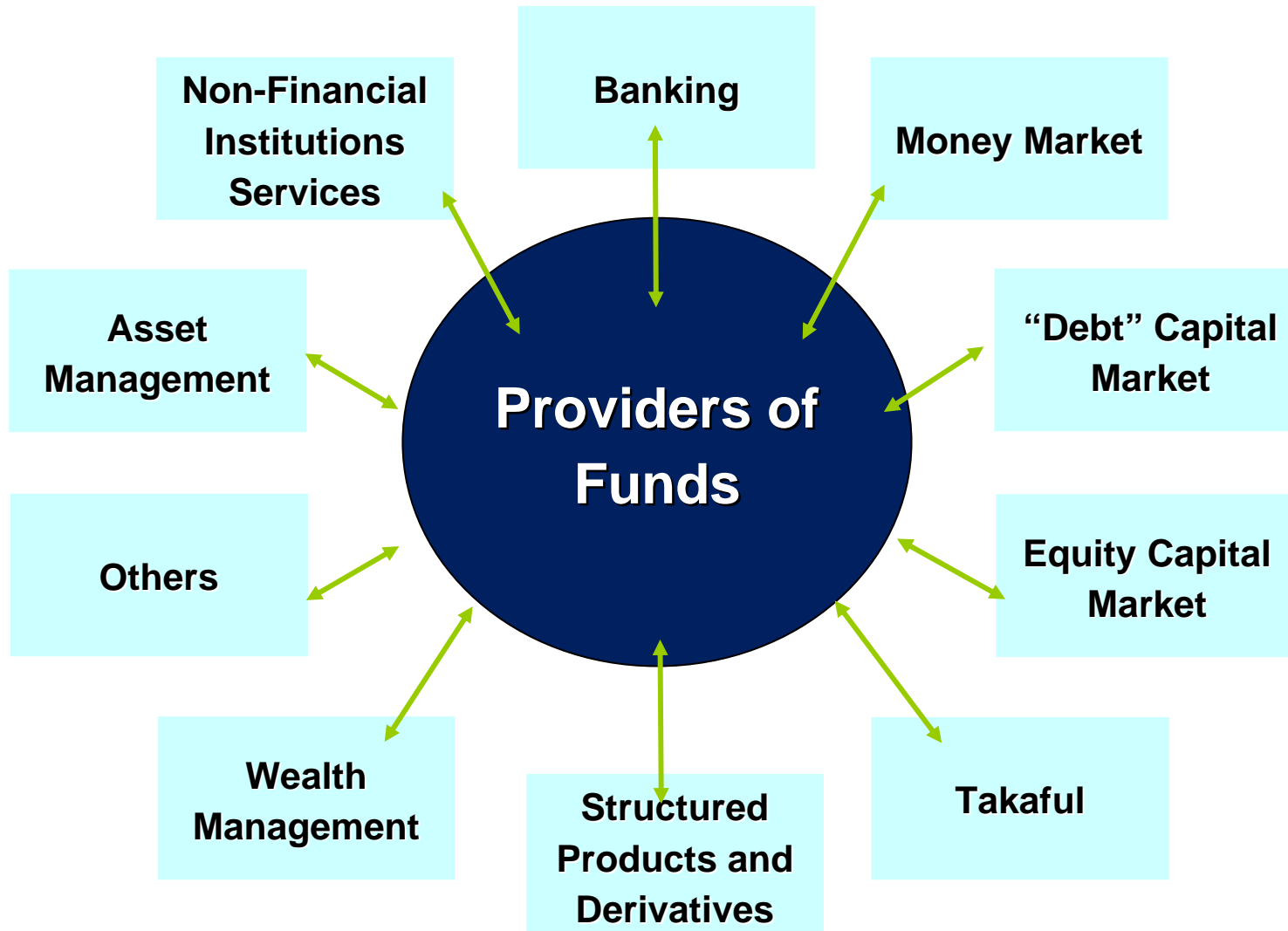
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Section 1

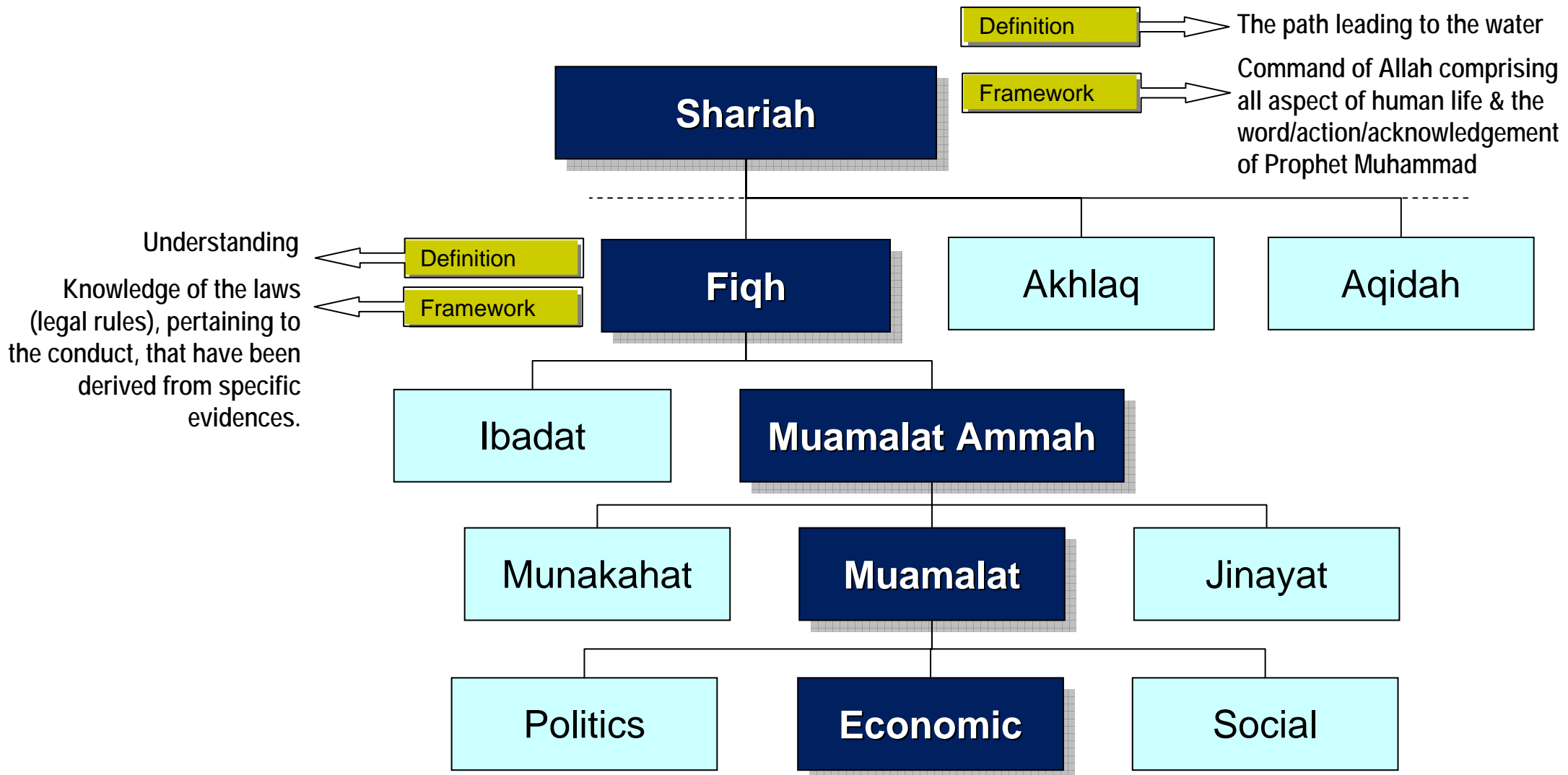
Introduction to Islamic Finance, Its Foundation and Core Driver

Islamic Finance Universal Framework...



- Islamic finance comprise all types of financial activities under various industry components that are essential for a country to have a robust and sound financial system
- Liquidity Management is key to its success
- Islamic finance is governed by man made law and Shariah

The Foundation of Islamic Finance Activities...



The Basic Shariah Parameters Governing Islamic Finance Activities...

Rules to be Observed

Avoidance of prohibitions:

1. Riba
2. Gharar
3. Impure goods
4. Gambling
5. No value/use

While Shariah law prohibits interest (or Riba) this does not mean that capital is costless in an Islamic system. Islam recognizes capital as a factor of production but it does not allow the factor to make a prior or predetermined claim on the productive surplus in the form of interest. Any predetermined payment over and above the amount of principal is prohibited.

Observing that every contract possesses all its essential elements and that every essential element meets the necessary conditions

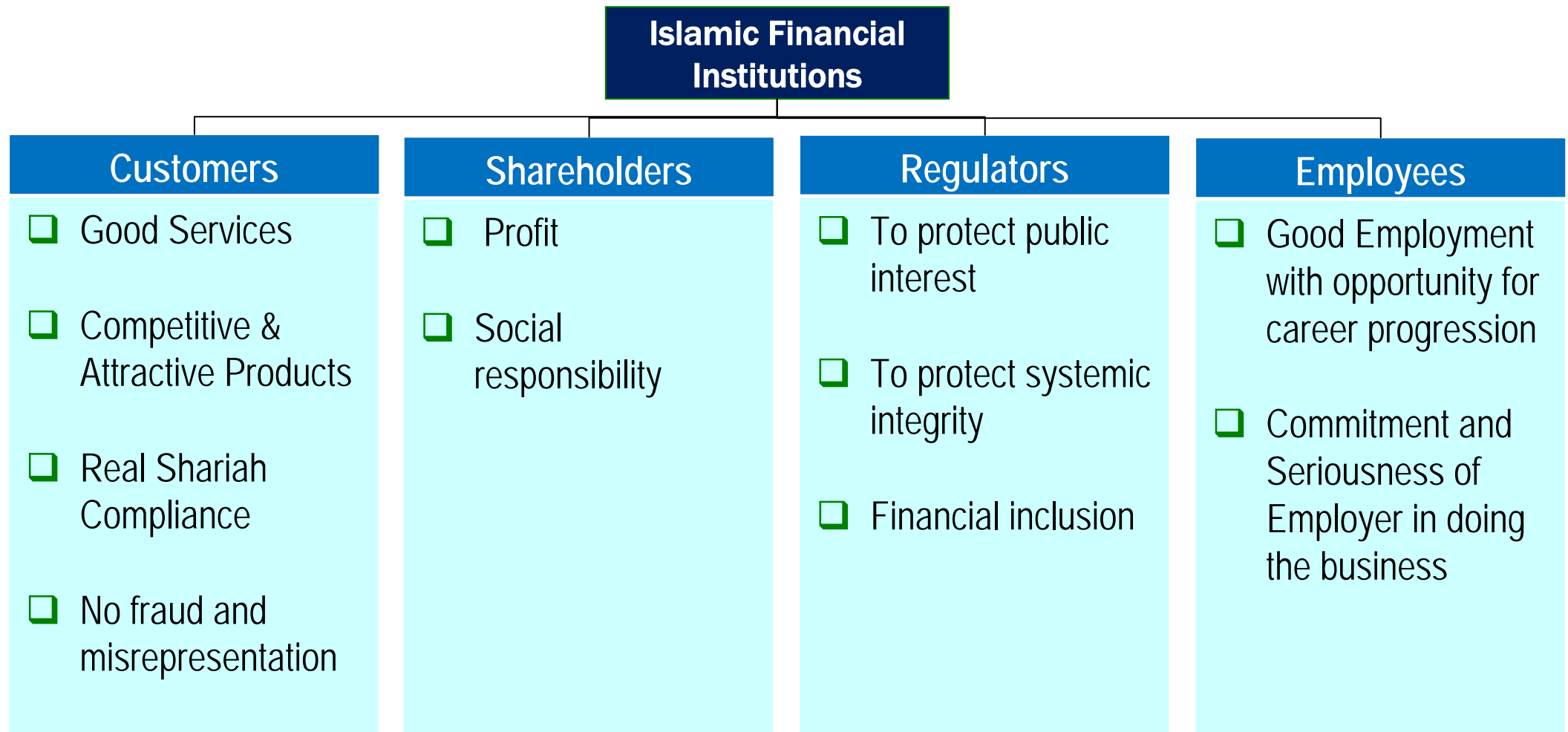
The impure activities prohibited are very limited such as:

- financial services based on riba (interest);
- entertainment activities that are non-permissible according to Shariah;
- manufacture or sale of non halal products (e.g. pork, tobacco-based, alcoholic beverages)

Clear express prohibition not to gamble but no prohibition on speculation

The activities done must be of value to the parties

Core Drivers of Islamic Finance Activities...



The Foundation and Driver of Islamic Finance Compels IFIs to Observe...

❑ The Issue of **Integrity**

- ✓ Full Shariah Compliance – compliant at business level rather than product level only
- ✓ Clear Business Segregation – Islamic vs. Conventional “Riba Based” Businesses

❑ The Issue of **Good Corporate Governance**

- ✓ Effective Shariah Management – Ultimate accountability resides with Board of Directors
- ✓ Effective Regulation – Regulators must regulate Islamic banking and finance activities

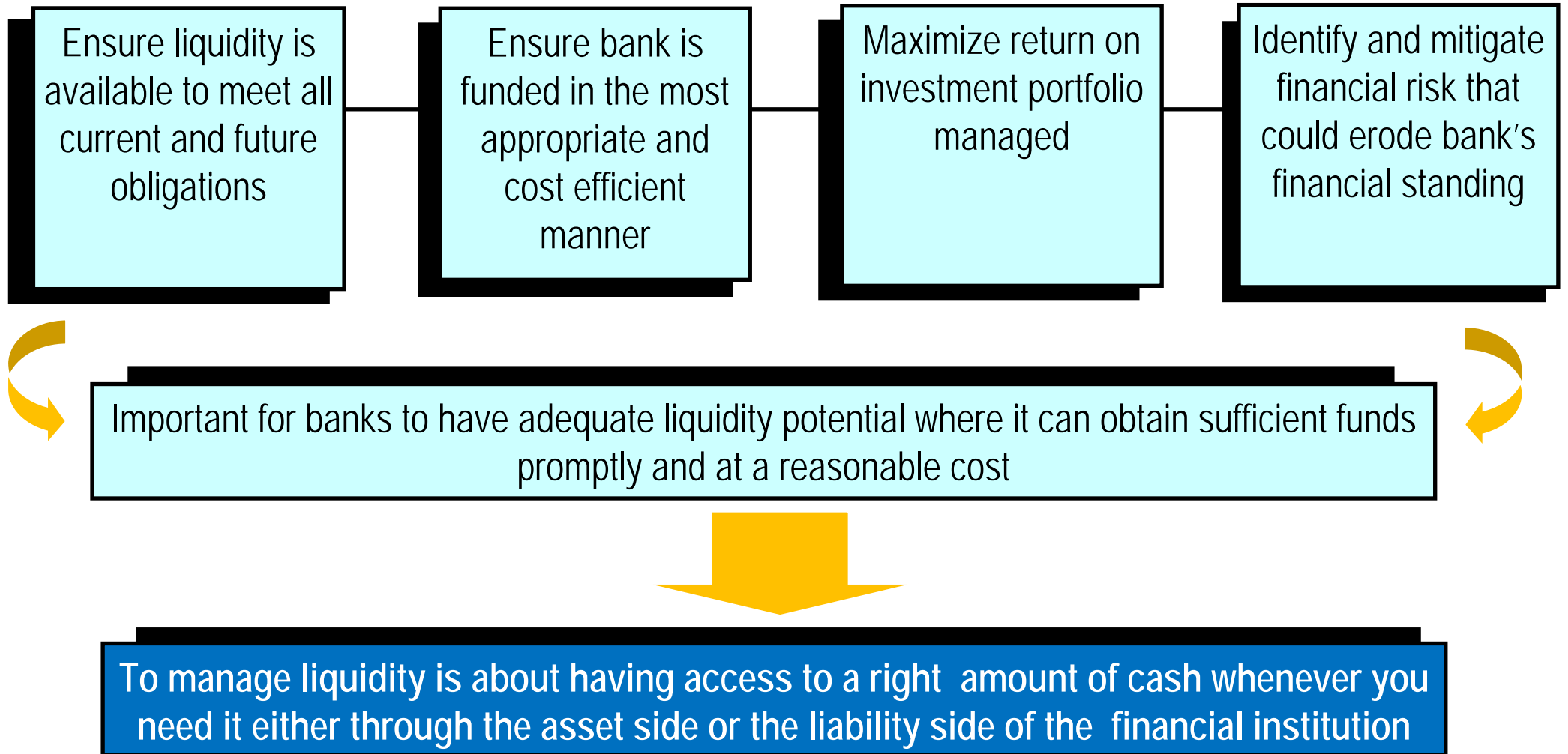
❑ The Issue of **Real Commercial Benefits**

- ✓ Profitable Business – Entities doing Islamic finance must make money
- ✓ Sound Products and Good Returns – Customers must not be disadvantaged/jeopardised

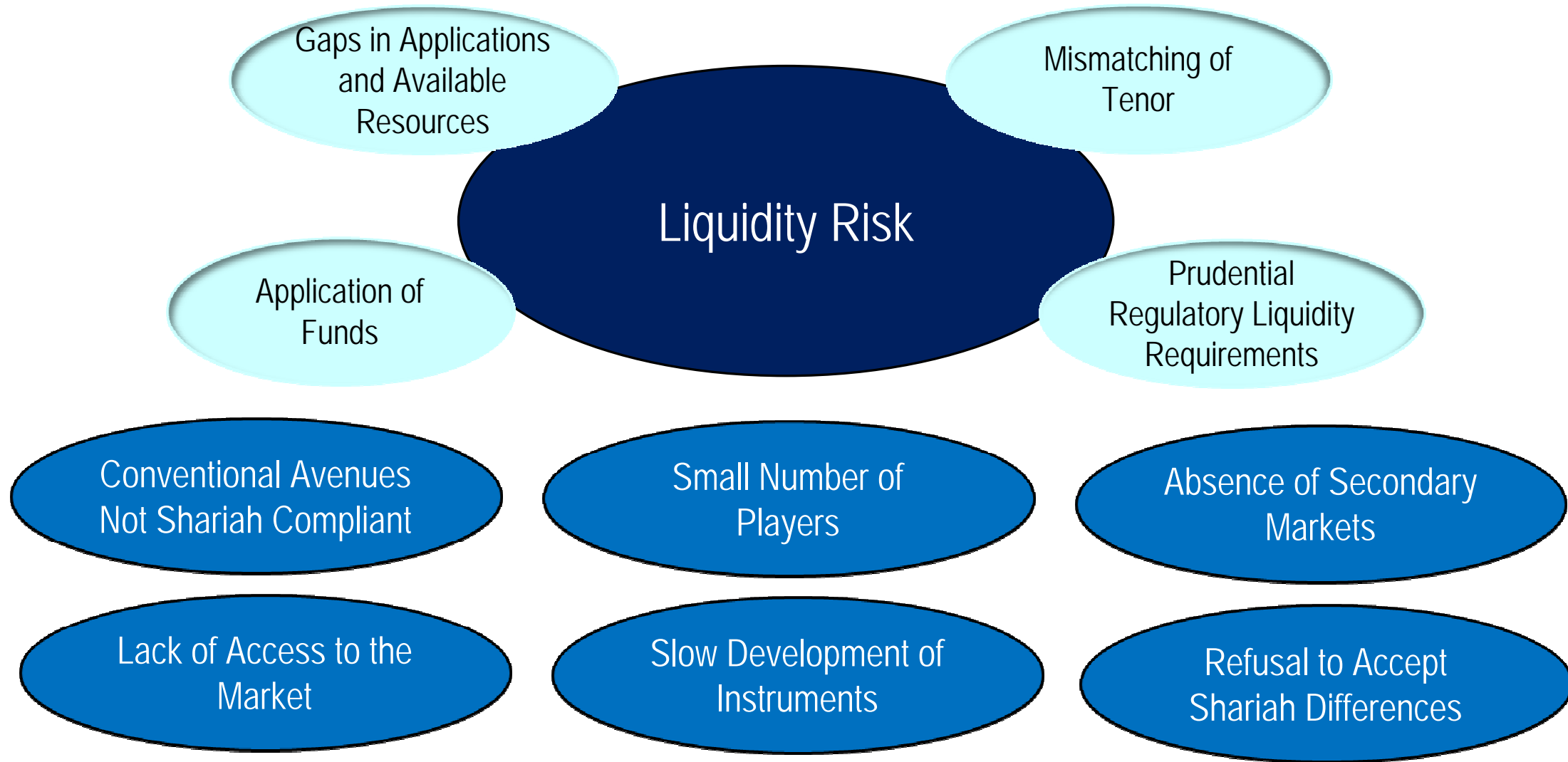
Section 1

Liquidity Management in Islamic Finance

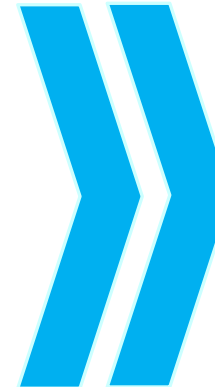
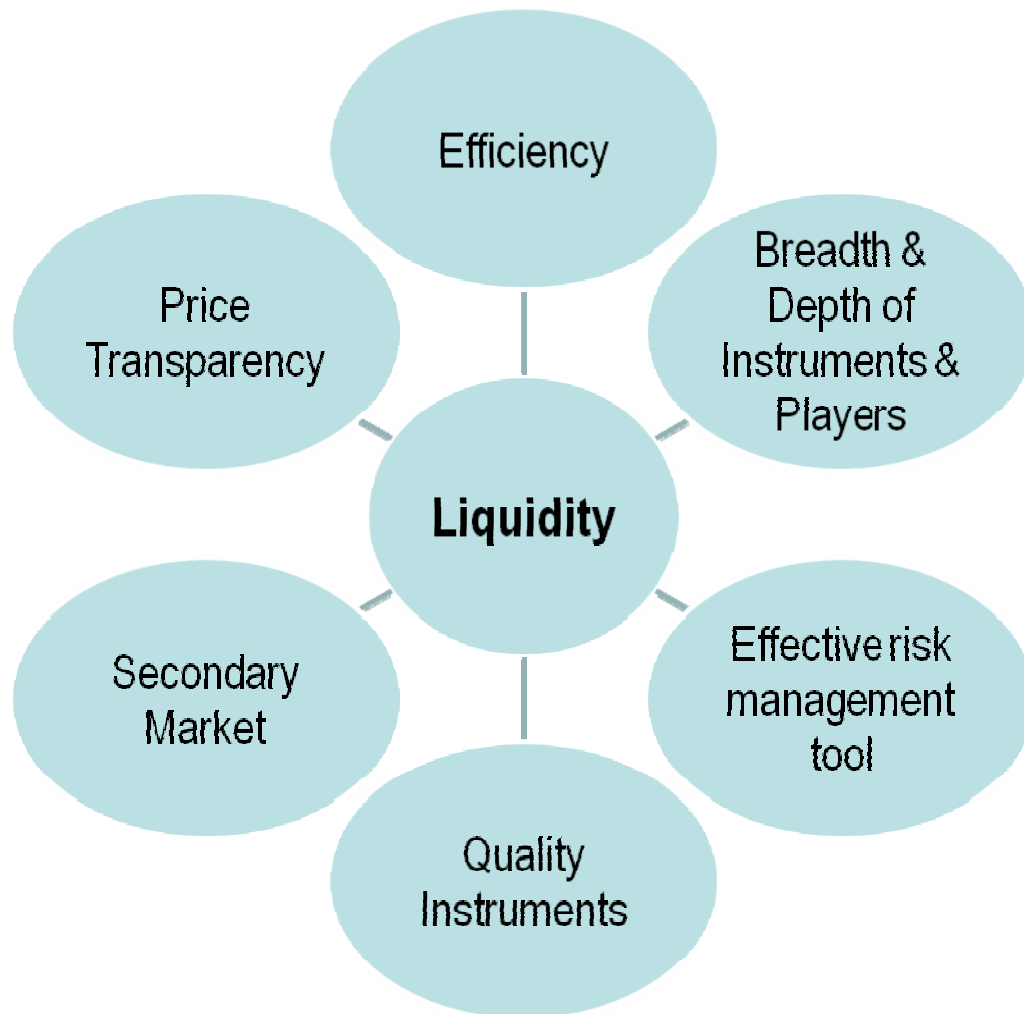
Overview of Islamic Liquidity Management



LM Issues in Islamic Finance...



What Is Needed...



Ultimately, we need all the requirements to create a liquid market...where IFIs can enter/exit and interact with a large pool of players at any time ...to have access to a wide variety of quality and liquid Islamic financial instruments.

How To Fulfill Needs for LM in Islamic Finance...

Build The Right and
Appropriate LM
Framework

Government
Investment
Issue (GII)

Islamic
Money
Market

Wakalah
Placement

Islamic
Bonds

Bank Negara
Negotiable
Notes
(BNNN)

Islamic Repo

Cagamas
Mudharabah
Bonds

Islamic
Accepted
Bills (IAB)

Negotiable
Islamic Debt
Certs (NIDC)

Islamic
Derivatives

Commodity
Murabahah
Prog (CMP)

Islamic
Negotiable
Instruments
(INI)

SBBA &
many
others...

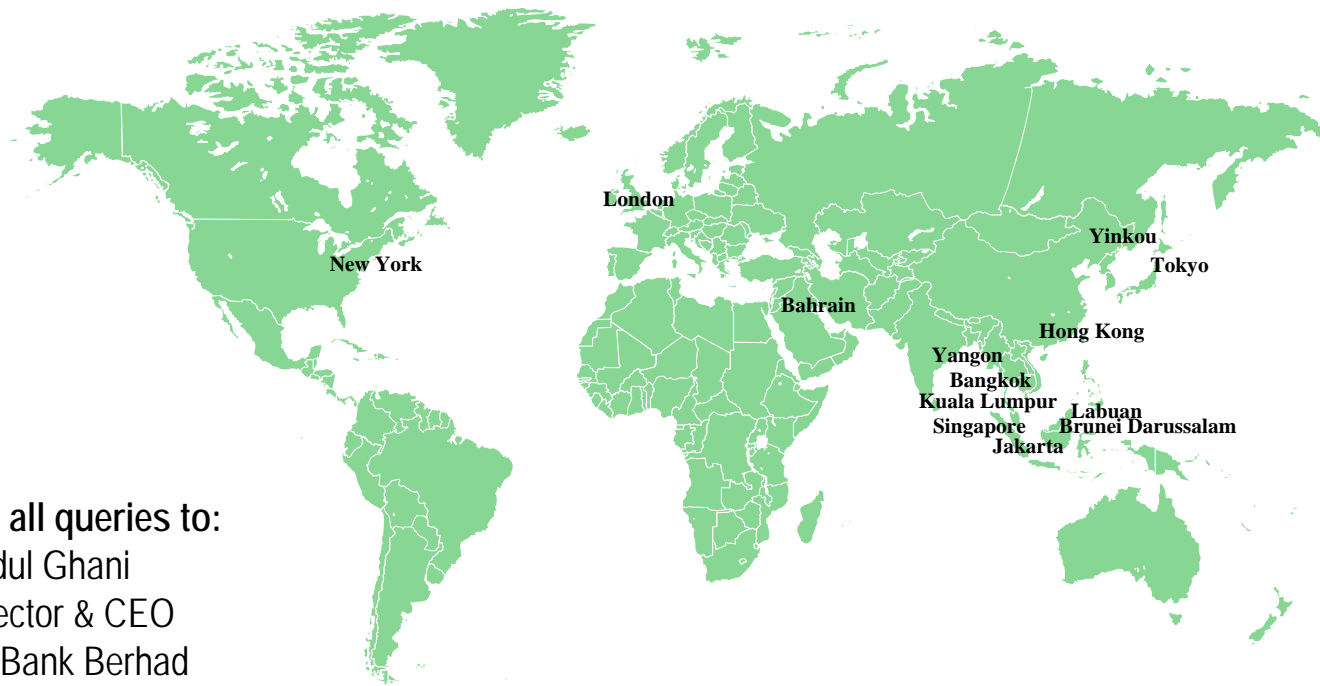
Conclusion

- Liquidity Risk applies equally to IFIs as to their conventional counterparts. IFIs have the same requirements to undertake effective asset liability management
- In markets where ability to do effective asset liability management is non-existence, often, the solution for IFIs is to run a surplus liquidity position leading to:
 - Underutilisation of financial resources;
 - Lower Income / Higher Costs;
 - Lost of Competitiveness.



THANK YOU

Contact Details



Please direct all queries to:

Badlisyah Abdul Ghani

Executive Director & CEO

CIMB Islamic Bank Berhad

36th Floor, Menara Bumiputra-Commerce, 11 Jalan Raja Laut,

50350 Kuala Lumpur, Malaysia.

Tel: +603 2619 1678, Fax: +603 2691 3657

Email: badlisyah.abdulghani@cimb.com

Website: www.cimbislamic.com

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