



## Short Term Sukuk and Islamic Liquidity Management

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### Islamic Finance Today



- Islamic banking assets heading towards 20% of total banking assets in several GCC states, over 10% in Malaysia
- Improving regulatory, fiscal and political landscape, particularly in the UK
- Greater demand for Sharia'a compliant products
- Nascent but growing Islamic finance market in Europe, with Muslim population of 88 million (including Turkey)
- Ethically and environmentally friendly nature of Islamic finance increasingly attractive to non-Muslim

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## Parallels



- Parallels with other markets
- Speed of transition is quicker
- Change/ innovation happening all the time:
  - Mortgage Backed Sukuks
  - Exchangeable Sukuks
  - IIFM/ ISDA working on documentation
  - Move to improve liquidity in the Sukuk market
  - Work on standardising documentation
  - 1<sup>st</sup> Sharia'a Compliant Islamic Investment Bank to receive FSA authorisation

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## Functions of Sukuk Market



- Risk Management
- Liquidity Management
- Balance Sheet Management

Short Term Islamic Instruments	Medium-Long Term Islamic Instruments	Conventional Financial Instruments
Murabaha	Murabaha	Credit Default Swaps
Short Term Sukuk	Musharaka	Negotiable Certificates of Deposit
Wakala	Ijara	Repos
	Istisna'a	Interest Rate Swaps
	Salam	Basis Swaps
	Sukuk	Senior & Subordinate Debt

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## Drivers for Liquidity



- Market Centres
- Transparency
- Credit Ratings
- Consistency of interpretation
- Ease of Access
- Size of Issues

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## Government & Corporate Organisations Role



- **Governments and quasi-governmental institutions:**
  - Critical to development of liquid secondary market
  - Help develop legal and regulatory framework
  - Standardisation of documentation
  - Are regulators, issuers and investors
- **Program Issues – volume and consistency**

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## EIIB's Role



### Short Term Liquidity Management

- Commodity Murabaha
- Wakala

### Long Term Sukuk Investment / Trading

- Active participation in the primary Sukuk market
- Active role in the secondary Sukuk market
- Active participation in the Syndicated Term Financing
- Trade Finance
- Asset Management
- Partnerships with local banks

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## Way Forward



- Need to recognise that the Sukuk market is only 5 years old
- Evolution thus far has been exponential
- Develop the entire short end of the yield curve
- Sharia'a compliant derivatives

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