

MIDDLE EAST

A “First” for the IF industry

The world of Islamic finance has much to rejoice with the launch this week of the world’s first standardized Master Agreement to facilitate Commodity Murabahah transactions.

Hailed as “a global first for the Islamic finance industry”, the International Islamic Financial Market (IIFM) Master Agreement for Treasury Placement (MATP) comprises a standalone Master Murabahah Agreement, Master Agency Agreement and Letter of Understanding for use by financial institutions across the globe for over-the-counter (OTC) Commodity Murabahah transactions.

IIFM CEO Ijlal Alvi told Islamic Finance *news* that the MATP was specifically created for financial institutions to manage their liquidity especially when transacting in Commodity Murabahah. “We aim to provide benchmark documents for the transaction. So institutions, whether big or small, can adopt it. It was designed in that way it can even be used over the counter,” he said.

With an estimated value of more than US\$100 billion, Commodity Murabahah currently is the most widely used Islamic money market product in the GCC and other jurisdictions for liquidity management purposes.

Asked how the project came about, Alvi said IIFM was approached about two years ago on the matter. He said the Central Bank of Bahrain, which attempted to put together a set of standardized documents, had also passed on relevant information and requested IIFM to handle this project.

The development of the MATP culminates a year of intense work spearheaded by the IIFM Secretariat and involving several Islamic financial institutions (IFIs) from member jurisdictions as well as Shariah scholars, legal experts and other market practitioners.

Alvi said previously financial institutions were dealing with 20 to 30 versions of agreements and the large financial institutions having their own processes. This had caused delays. He said IIFM had put together a plan to standardize documents for the Commodity Murabahah for the wider market, with core institutions like KFH Malaysia, Bank Islam, Calyon and Standard Chartered Bank playing a pivotal role in the project.

“Standardization of certain broader market documentation, products and practices has become a critical need for the Islamic finance industry, which has been growing strongly in many regions of the world. The utilization of a standardized agreement for such a widely used product will result in tremendous cost and resource savings for IFIs. Most importantly, it will enable transparency, robustness and consistency in Islamic financial transactions,” said Alvi.

Alvi said since the launch, six to seven institutions are in the process of getting approval to implement the MATP and he expects more to apply for it in the coming months. The MATP documents are available in English and the Arabic version will be made available upon the clearance of the Shariah panel. (2)

By Raphael Wong

GLOBAL

Islamic finance withstands crisis

In the aftermath of the US financial crisis, the future is bright for Islamic investment. Blood may have spilt on Wall Street in the past month, but in Islamic finance it was a minor cut. That’s according to figures from the Dow Jones Islamic Market Financials Index which measures the performance of around 70 stock markets around the world that are Shariah compliant. This means it rules out many of the assets a conventional investor may consider.

“Conventional banks and insurance companies are banned from the DJIM universe,” says Gerard al-Fil, a Dubai-based financial journalist and portfolio manager. “Non-Islamic or haram sectors, such as alcohol, tobacco, weapons, pornography and gambling companies, are likewise excluded.”

The Index lost just 2.74% in September – a month where conventional stock markets saw a fifth of their value chopped off as Wall Street went into meltdown and the credit squeeze claimed a number of high profile victims. In that month, AIG, Fannie Mae and Freddie Mac all became de facto state owned enterprises, while Lehman Brothers declared bankruptcy and Bank of America took over Merrill Lynch.

As stock markets around the world were rattled, Islamic stocks also felt the impact, but were sheltered by a historical and theological tendency to avoid credit. “Islamic stocks operated in the wider global stock markets, so the effects of the crisis will be felt,” says Hussain Rammal, a lecturer in international business at the University of Adelaide. “But due to restrictions placed by these Islamic markets, such as restrictions on investment in conventional banks and other lending institutions, the impact would be lower.”

Rammal believes Islamic indices are in a stronger position than conventional stock markets because of the Shariah compliant financing sector’s reluctance to embrace wholesale credit. “The entire Islamic financing system is based on asset financing,” he explains. “Islamic institutions do not lend money; rather they invest in the assets required.”

Rammal points out that based on historical performance, Islamic stock markets are likely to be in a stronger position to weather the effects of the credit squeeze. “The results so far indicate that Islamic indices are better prepared,” he says. “Even during the Asian crisis of 1997, the Islamic financial system performed better than the conventional financing system.”

As US politicians scramble to fix the mess and leaders on both sides of the American political divide call for changes to financial regulatory frameworks, could Wall Street learn from Shariah compliant financing? Al-fil refers to the decision by the US Securities Exchange Commission to ban short-selling (that is, selling a stock you don’t actually own, to profit from falling prices).

He describes this decision as “in line with Shariah. The message of Islamic finance is yes, you can earn money, even if you deny short-selling and exclude options, swaps and hedge funds from your portfolio.” (2)

By Nasya Bafen