

# An Overview of IIFM Standards and Industry Development Initiatives

**IIFM Awareness Seminar on Islamic Finance Hosted by Bank Indonesia**

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**Multi Function Room, 3<sup>rd</sup> Floor, Building B, Bank Indonesia, Jakarta**

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## Islamic Standard-Setting Organizations

	Name of Institution	Head Office	Date of Establishment	Mandate
1	AAOIFI Accounting and Auditing Organization for Islamic Financial Institutions	Manama, Kingdom of Bahrain	26 February, 1990 in Algiers. Then registered on 27 March 1991 in the Kingdom of Bahrain	General Shari'ah, Accounting & Auditing and Governance & Ethics Standards
2	IFSB Islamic Financial Services Board	Kuala Lumpur, Malaysia	Inaugurated officially on 3 <sup>rd</sup> November 2002 and started operations on 10 <sup>th</sup> March 2003	Regulatory & Supervisory and Governance Standards
3	IIFM International Islamic Financial Market	Manama, Kingdom of Bahrain	Became officially operational on April 1, 2002 and re-organized in 2006	Financial Documentation and Product Confirmation Standards
4	CIBAFI General Council for Islamic Banks and Financial Institution	Manama, Kingdom of Bahrain	Established in 2001	Representing the Islamic financial services industry globally

# About IIFM

## History

IIFM is hosted in Manama by the Central Bank of Bahrain (CBB) and was established in 2002 under Royal Decree No (23) Year 2002 of the Kingdom of Bahrain as a neutral and non-profit Islamic infrastructure development institution by the collective efforts of the Islamic Development Bank, Autoriti Monetari Brunei Darussalam (formerly Ministry of Finance Brunei Darussalam), Bank Indonesia, Bank Negara Malaysia (delegated to Labuan Financial Services Authority), Central Bank of Bahrain (formerly Bahrain Monetary Agency) and the Central Bank of Sudan.

## IIFM Vision

Active and well regulated trading and capital flows across the full spectrum of Shari'ah-compliant financial instruments internationally.

## IIFM Mission

To achieve the Vision by catalyzing both national and international trading infrastructure, product innovation and information flow within strong, transparent and well regulated standards and guidelines. Promote acceptance and integration with mainstream markets.

## Mandate

To develop standardized Shari'ah-compliant Financial Documentation, Product Confirmations and Guidelines for the IFSI

## About IIFM *(continued)*

### IIFM Value Proposition

Focus on providing well defined services to the Islamic Financial Services Industry (IFSI) as follows:

- ❑ Publish practical and ready-to-use globally standardized Shari'ah-compliant Financial Documentation, Product Confirmations and related Guidance Notes, Shari'ah Pronouncements as well as jurisdiction specific Legal Opinions
- ❑ Create industry awareness and share technical knowledge on IIFM Standards by organizing specialized seminars, technical workshops and standardization specific industry consultative meetings
- ❑ Publish annual Sukuk Report and periodic Concept Papers on specific topics

## IIFM Standards - Benefits to the IFSI

- ❑ **Availability of Financial Documentation and Product Confirmations in a globally standardized form supported by Guidance Notes, Shari'ah Pronouncements, Legal Opinions etc.**
  - IIFM is addressing critical factors related to Islamic financial transactions such as reduction in legal documentation related costs, shortening of business negotiation time, minimizing operational risk, creating legal certainty, promoting market best practices and facilitating Shari'ah harmonization for the sustainable development of the IFSI
  
- ❑ **Cost Savings**
  - 100% cost saving related to Legal and Shari'ah expenses to users of IIFM Standards.
    - Point to note: IFI's, while implementing IIFM Standards, may have to incur certain internal or legal counsel expense of 5%-10% to align with their internal business and operational policies
  
- ❑ **Time Efficiency in execution of documentation**
  
- ❑ **Promoting transparency and facilitating Shari'ah harmonization through Standard documentation and product confirmations**
  
- ❑ **Identifying need for law reforms through IIFM Standards**
  
- ❑ **Awareness and promotion of uniform best practices**

**All IIFM Standards and other services are provided free of cost to all stakeholders!**

# IIFM Standards Development Process

IIFM Standards are comprehensive and provide complete solution so that the Islamic financial market participants particularly IFI's can easily adopt these Standards:

- ❑ **IIFM Standards Development – A comprehensive process consists of the following stages:**
  - I. Development of a Concept Paper for deliberation at the Industry Consultative Meeting (participants comprising bankers, regulators, Shari'ah scholars, academics/experts, lawyers, key market players)**
  - II. Approval by IIFM Board of Directors, Budget allocation and Appointment of External Legal Counsel**
  - III. Formation of Global Working Group for market consultation, comments and feedback exercise**
  - IV. Coordination with External Legal Counsel and Drafting of Documentation**
  - V. IIFM Shari'ah Board Guidance and Approval**



# IIFM Published Standards

To date, IIFM has published 12 Documentation and Product Confirmation Standards:

## 3 IIFM Liquidity Management Standards

- ✓ Master Agreements for Treasury Placement (Murabahah and Agency Agreements)
- ✓ Interbank Unrestricted Master Investment Wakalah Agreement
- ✓ Master Collateralized Murabahah Agreement (Islamic Alternative to Repo)

## 7 ISDA-IIFM Islamic Hedging Standards

- ✓ Tahawwut Master Agreement
- ✓ Islamic Profit Rate Swap (2 Standards), Islamic Cross Currency Swap and Islamic FX Forward (2 Standards)
- ✓ Islamic Credit Support Deed for Cash Collateral (Variation Margin)

## 2 IIFM-BAFT Trade Finance Standards

- ✓ Master Participation Agreement for Unfunded Trade Finance Transactions
- ✓ Master Participation Agreement for Funded Trade Finance Transactions

## Supporting Documents for All Standards

- ✓ Shari'ah Pronouncements
- ✓ Guidance Notes and Product Descriptions covering Market Practice, Operational Process and key Legal Features
- ✓ Legal Opinions on Tahawwut Master Agreement for England & Wales, Malaysia and Singapore

## Adoption of IIFM Standards

- ❑ Adoption of IIFM Standards is voluntary and generally there is no mandatory requirement imposed by regulators, however regulatory push towards adoption of IIFM Standards as market best practice is helpful.
  
- ❑ There is usually a time lag between publication of Standard and its actual adoption by IFI's due to:
  - Internal review and approval process (operational, legal, credit and Shari' ah)
  - IFI's may decide to move to IIFM Standard at the time of renewal of counter-party credit lines.
  
- ❑ Regulatory Support by way of encouraging financial institutions can assist in faster adoption of IIFM standards
  - Central banks to adopt and use IIFM standards when dealing with Sharia compliant institutions as part of its liquidity management.
  - Encourage financial institution to adopt IIFM standards allowing the market to be transparent and lending itself to creating a level playing field.





## Implementation of IIFM Published Standards by Financial Institutions – Country Wise Breakdown as of August 2019 (Estimates based on IIFM Survey and Feedback from Other Sources)

### Hedging Standards

No	Country	Tahawwut MA	IPRS Single Sale	IPRS Two Sale	Islamic Cross Currency Swap	IFX Single Binding Waad	IFX Two Unilateral Waad	ICSD for Cash Collateral
1	Bahrain	5	5	5	4	4	4	4
2	Brunei	1	1	1	1	1	1	1
3	Japan	2				2		2
4	Jordan	2	1	1	1	2	2	2
5	Kuwait	4	2	2	2	4	4	4
6	Malaysia	8	2	1	2	1	1	8
7	Oman							
8	Qatar	4	2	2	2	4	4	4
9	Saudi Arabia	8	4	4	4	7	7	8
10	Singapore	3	3	3	3	3		3
11	Turkey	2				2	2	2
12	UAE	18	16	15	15	15	16	17
13	ICD (IsDB Group)	1	1	1	1	1	1	1
14	ITFC (IsDB Group)	1	1	1	1	1	1	1
15	Sudan							
16	UK Islamic Banks	2	1	1	1	1	2	2
17	Major International Banks (EU, UK, US, SA &Others)	26	25	25	25	25	25	25
	<b>Total</b>	<b>87</b>	<b>61</b>	<b>62</b>	<b>62</b>	<b>73</b>	<b>70</b>	<b>84</b>



## Implementation of IIFM Published Standards by Financial Institutions – Country Wise Breakdown as of August 2019 (Estimates based on IIFM Survey and Feedback from Other Sources)

### Liquidity Management & Trade Finance Standards

No	Country	MA's for Treasury Placement	Inter-Bank Unrestricted Wakalah	Collateralized Murabahah
1	Bahrain	15	15	5
2	Brunei	1	1	1
3	Japan	4		
4	Jordan	2	1	2
5	Kuwait	4	3	3
6	Libya		1	
7	Malaysia			
8	Oman		3	
9	Qatar	4	3	
10	Saudi Arabia	10	1	2
11	Singapore	3		
12	Turkey	5	5	3
13	UAE	20	15	18
14	ICD (IsDB Group Entity)	1	1	1
15	ITFC (IsDB Group Entity)	1	1	1
16	Sudan	3	3	3
17	UK Islamic Banks	2	3	1
18	Major International Banks (EU, UK, US, SA &Others)	41	1	
	<b>Total</b>	<b>115</b>	<b>57</b>	<b>40</b>

**Note:**

IIFM/BAFT Master Participation Agreement Standards for Trade Finance business were published during early 2019 and implementation process by financial institutions is currently in progress.

Hence, the survey results will be included during Q4 2019.

## IIFM Other Services

### Papers

- IIFM Reference Paper on I'aadat Al Shira'a (Repo Alternatives)
- IIFM-ISDA Concept Paper on Islamic Hedging Products Standardization
- IIFM Concept Paper on Unrestricted Wakalah & IIFM Accounting Assessment on Unrestricted Wakalah
- Summary of Proceedings of the IIFM-IRTI Industry Consultative Seminar on Sukuk Restructuring
- IIFM Concept Paper on Sukuk Standardization
- IIFM-WGC Discussion Paper on Development of Standardized Shari'ah-complaint Documentation for the Gold Industry
- Presentations on Islamic Liquidity Management, Hedging, Sukuk, Trade Finance, FinTech & Smart Contracts, Benchmark Reference Rate Reforms, Margin Maintenance Regulations, Law Reforms etc.

### Awareness Seminars, Specialized Workshops and Industry Consultative Meetings

- Generally, 4 events each year supported by regulators such as:
  - 2017: Malaysia, London, Indonesia and Bahrain
  - 2018: Turkey, Malaysia, Kuwait and Bahrain
  - 2019: UAE, Oman, Malaysia, Indonesia and Bahrain
  - 2019: IIFM-ISDA Consultative Meeting on Islamic Hedging, UAE

### Annual Sukuk Report

- Regular publication since 2010 and 8<sup>th</sup> Edition was published on 31<sup>st</sup> July 2019



# Upcoming IIFM Standards and Initiatives

## - Current Priority Areas

- ❑ Sukuk Standard Documentation and Guidelines
  - I. Sukuk Al Ijarah Standard Suite of Documentation (Industry consultation concluded & currently Shariah guidance process is progressing)
  - II. Sukuk Al Mudarabah Standard Suite of Documentation (Industry consultation nearing completion and Shariah Guidance Process to commence during Q4 2019)
  - III. Sukuk General Market Guidelines (in drafting process)
- ❑ Gold related Products and Documentation Standardization
  - Industry Consultative Meeting held on 28<sup>th</sup> March 2018 in Istanbul
  - IIFM, WGC and LBMA to commence development of Standard Shari'ah-compliant Gold Allocation Agreement during Q4 2019
- ❑ New Islamic Hedging Product Standards and Review of Existing Standards
  - IIFM-ISDA Industry Consultative Meeting held on 9<sup>th</sup> September 2019
- ❑ Global Benchmark Reference Rates Reforms & Impact on Islamic Industry
  - Roundtable to be organized during Q1 2020
- ❑ Islamic Syndication Documentation
  - Industry Consultative Meeting under planning for 2020
- ❑ Translation of IIFM Published Standards into French Language
  - Phase 1 commenced in July 2019 and expected completion is January 2020



## Challenges to Standard-Setting Organizations

- ❑ Standardization is a enormous task and it requires proper **resources**, stable sources of **funding** and **strong commitment** from all industry stakeholders
- ❑ Regulatory support for **promotion and wider implementation** of international Standards and Membership
- ❑ Financial institutions are the main beneficiaries of industry Standards and their **senior management** must ensure **continuous involvement**, commitment and support from the FI' s in industry wide standardization initiatives
- ❑ Proper **representation** from major FI' s, Regulators and others industry experts **on technical committees and working groups** of standard-setting organizations



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