

Islamic Money Market and Importance of a Liquid Sukuk

12 September, 2006

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Introduction

- Islamic money market attempts
 - Malaysian model
 - Established 1994
 - Sudanese model
 - Since 1998
 - Bahraini attempts
 - Since 2000
 - Other countries

Islamic money market in making

- **Malaysian model (established 1994)**
 - Mudaraba Interbank Investment
 - Wadia Acceptance
 - Discounted-based Government Investment Issue
 - Profit-based Government Investment Issue
 - Sukuk Bank Negara Malaysia Ijara
- **The Sudanese model (since 1998)**
 - Central Bank Musharaka Certificates (CMCs)
 - Government Musharaka Certificates (GMCs)
 - Government Investment Certificates (GICs)
- **Bahraini model (since 2001)**
 - Sukuk al-Salam
 - Sukuk al-Ijara
- **The role of IIFM**

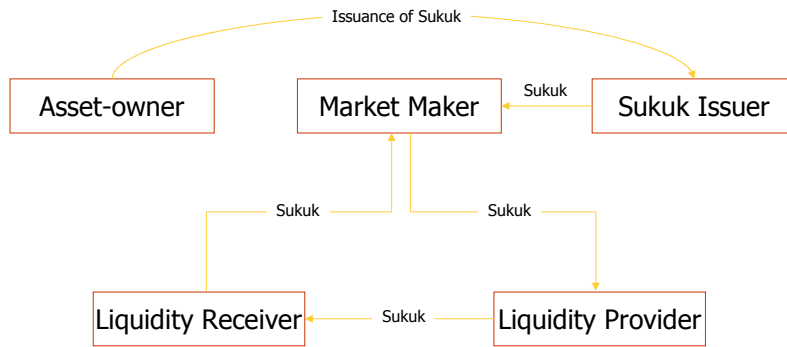
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Sukuk as a liquidity management tool

- Sukuk emerged as a panacea for all problems faced by Islamic banks, including liquidity management
 - But the vision has yet to materialise
 - Issues over tradability of some Sukuk
 - Demand exceeding supply
 - Good for investing but not so good for “borrowing”
- Short-term Sukuk (like monthly Sukuk al-Salam and Sukuk al-Ijara by BMA) serve the purpose of liquidity management
 - The issue of “borrowing” on a short-term basis remains unresolved
 - Sukuk al-Intifa can possibly be used for this purpose

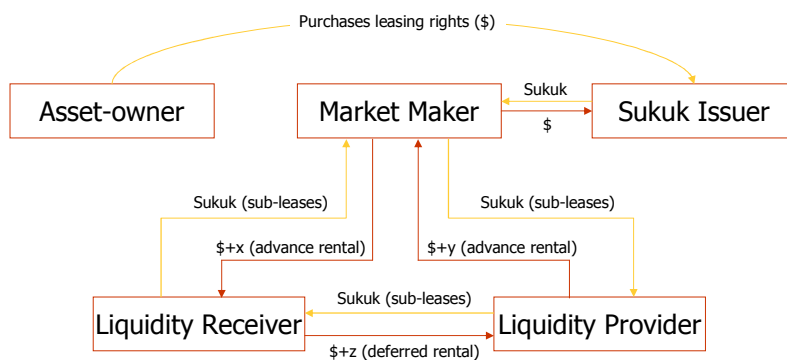
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Sukuk al-Intifa - structure



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Sukuk al-Intifa – cash flow



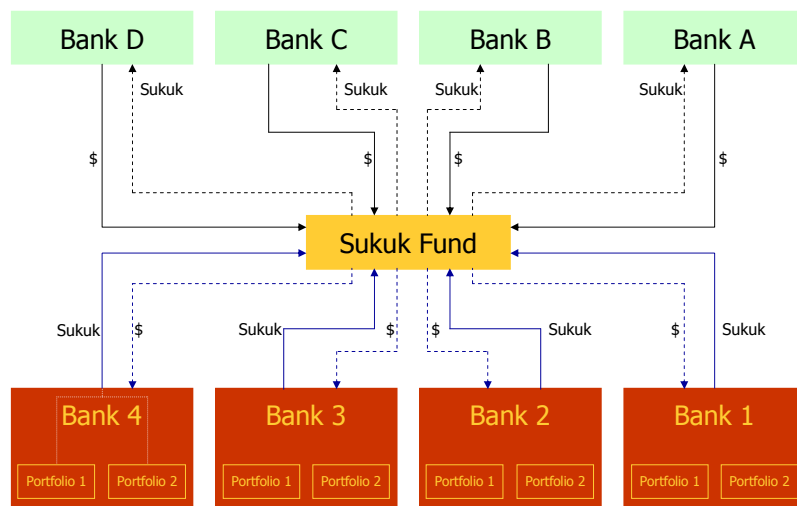
*** $z > y > x$; and each can be benchmarked with LIBOR, KLIBOR etc.

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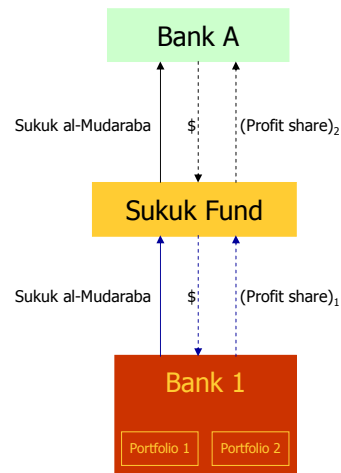
Features of Sukuk al-Intifa

- Based on Ijara
 - A real asset is required
- Can be used for investing and “borrowing”
- Tradable
- Similar to “commodity Murabaha” / Tawarruq

An alternative structure (1)



An alternative structure (2)



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Liquid Sukuk – salient features

- Almost daily liquidity
 - Use daily Mudarabas
 - Use point system for calculation of daily profits
 - Daily profit = $(\$/360) * \text{Profit Distribution Period} * \text{Annual Profit}$
 - Daily profit = $(\$/30) * \text{Profit Distribution Period} * \text{Monthly Profit}$
- Fixed returns / returns benchmarked with LIBOR, KLIBOR etc.
 - Fund can ask for a very high profit ratio in its favour, say 90%
 - Fund's profit share in excess of a benchmark-related return can always be "gifted" to the Mudarib
 - To curb the moral hazard problem on part of the Mudarib, he can always be made to indemnify the Rabb al-Maal for losses arising out of "unexpected" losses

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Liquid Sukuk – salient features

- Also, the Fund may have approval rights for the new financing to be undertaken by the receiving bank
- The Fund can also impose financing criteria on the receiving banks (Mudaribs)
- Market-based regulation of portfolios