

By Fintan Ng

Published: Wednesday, Oct 27, 2010

Formation of IILM timely to address volatility in financing

PETALING JAYA: The Islamic Financial Services Board-initiated move to set up International Islamic Liquidity Management Corp (IILM) to address volatility in financing at national level and across borders is timely as the newly-formed body will help make the industry more sustainable in the long term.

The articles of agreement for the establishment of the IILM was signed by 11 central banks and two multilateral organisations on Monday.

The memorandum of participation was signed on Oct 7 in Washington, DC on the sidelines of the International Monetary Fund – World Bank annual meetings.

CIMB Group Holdings Bhd group chief executive Datuk Seri Nazir Razak said the move was timely as it addressed the issue of ensuring the long-term growth of Islamic finance.

He said the industry was not as badly affected by the recent global financial crisis but this would change as its presence grew and the industry matured.

The IILM aims to assist institutions offering Islamic financial services in addressing their liquidity management in an efficient and effective manner as well as facilitate greater investment flows.

To achieve those ends, the IILM would issue, in an integrated manner, high-quality syariah-compliant financial instruments at both the national level and across borders to enhance the soundness and stability of the jurisdictions in which they operate.

According to Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz yesterday, these financial instruments would be short-term papers denominated in international reserve currencies like US dollar or euro to facilitate cross-border transactions.

OCBC Al-Amin Bank Bhd director and chief executive officer Syed Abdull Aziz Syed Kechik said the initiative provides a credible and stable platform for market participants across various jurisdictions to manage foreign currency positions in a syariah-compliant basis.

It would also enable the effective and sustainable conduct of more cross-border business with each other more efficiently, he said.

“It is hoped that the IILM will also facilitate broader effective development of cross-currency hedging solutions for Islamic market needs,” he said in an e-mail reply to *StarBiz*.

Citibank Bhd head of regional Islamic structuring, corporate sales and Asia-Pacific markets structuring, Ahmad Shahrman Mohd Shariff, said this was a key step in creating a complete global Islamic financial system as the facility would be a key component of a structured international Islamic money market.

He said the creation of the ringgit Islamic money market by Bank Negara led to the “phenomenal growth of Islamic finance in Malaysia which eventually evolved into a complete financial system covering banking, takaful and asset management”.

Ahmad Shahrman said for the IILM to be effective, besides a strong credit rating, there must be an ability to accommodate a wide range of transactions in terms of currency and tenor.

It must also be offered in the multiple regions where Islamic financial institutions operate and had a good transactional platform to accommodate the needs of a modern financial system, he said.

“The contracts used should also have wide syariah acceptance,” he added.