

By Mushtak Parker

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IFSB's debut summit in Europe attracts widespread interest

This year's 8th annual summit of the Islamic Financial Services Board (IFSB), scheduled to be held at the New Conference Centre Kirchberg in Luxembourg on May 10-13, is already making an impact.

The summit, hosted by the Banque Centrale de Luxembourg, is attracting particular interest from the European Union in addition to the traditional markets in the Middle East and Asia.

The summit indeed will be held for the first time in a EU country and Luxembourg is threatening to overtake the UK and France in spearheading Islamic finance in Europe.

For various reasons, the UK model of Islamic Finance is dissipating following hesitation by the UK Treasury in issuing a debut sovereign benchmark sukuk in the wholesale sterling market. At the same time, the five UK Islamic banks have had a tough two years and only one, the Bank of London and the Middle East, has reported a profit for 2010.

Indeed, Luxembourg remains the only EU country to accede to membership of the IFSB and is also a founding member and equity subscriber of the recently established International Islamic Liquidity Management Corporation (IILM).

The summit will also be the last one over which IFSB Secretary General Rifaat Abdel Karim will preside. He is leaving an institution that he has served in the above capacity since it was established in 2002.

Under his watch, the IFSB has grown from a handful of few founding members to a staggering current membership of 195 institutions comprising 53 supervisory and regulatory authorities from the banking, capital markets and Islamic insurance (Takaful) sectors in 41 jurisdictions, six international inter-governmental organizations, and 136 market players (financial institutions, professional firms and industry associations).

Rifaat will be succeeded by Jaseem Ahmed, until recently a director of the Southeast Asia department of the Asian Development Bank (ADB).

A bevy of prominent participants will converge on the Duchy next month. They include Mulyani Indrawatim, managing director of the World Bank Group; Zeti Akhtar Aziz, governor of Bank Negara Malaysia; Yves Mersch, governor of the Banque Centrale de Luxembourg; Rasheed Mohammed Al-Maraj, governor of the Central Bank of Bahrain; Faris A. Sharaf, governor of the Central Bank of Jordan; Sanusi Lamido Aminu Sanusi, governor of the Central Bank of Nigeria and Sultan bin Nasser Al-Suwaidi, governor of the Central Bank of the United Arab Emirates.

Other prominent executives who have confirmed their participation include Huseyin Erkan, chairman of the Istanbul Stock Exchange, Turkey; Paul Koster, chief executive, Dubai Financial Services Authority, UAE; Makoto Utsumi, president and chief executive officer of the Japan Credit Rating Agency Ltd. and former vice minister of finance; Philipp Wackerbeck, principal, Booz & Company in Germany.

In the aftermath of the 2008-2009 financial crisis, the global financial industry is considering and in the throes of implementing several changes in prudential controls, stricter supervision and better governance, all to promote financial stability and to preempt the excesses of market practice that undermined the system so badly.

Although the Islamic financial sector was less affected by the crisis, the industry did not escape its economic impact.

This year's summit theme, "Enhancing Global Financial Stability: Challenges and Opportunities for Islamic Finance" embodies the increasing globalization of Islamic finance and its ambitions and aspirations of seeking a legitimate role in contributing to global financial stability and economic growth in the aftermath of the devastating financial crisis in market capitalism which brought the global financial system to the brink of collapse.

The five session topics of the summit include international developments in regulatory landscape and its implications for Islamic finance; financial stability: regional and global cooperation; developing capacity building to enhance financial stability in the Islamic financial services industry; enhancing transparency and market discipline and information environment; and a panel discussion on issues in enhancing global financial stability.

The main proceedings will be preceded by three traditional pre-summit events, including a workshop on Islamic finance and IFSB standards for institutions offering Islamic financial services and Islamic capital markets; IFSB country showcases by Luxembourg and Malaysia; and a special session on liquidity management in the Islamic financial services industry that the IFSB is organizing on May 10-11.

The workshop on Islamic finance will cover concept and contracts of Islamic finance and the guiding principles on conduct of business for institutions offering Islamic Financial services as well as examine case studies.

It will be followed by concurrent sessions comprising an overview and recommended case studies on the standard on capital adequacy requirements for Sukuk, securitizations and real estate investments and an overview and case studies on guiding principles on governance for Islamic collective investment schemes.

Mersch will open the Luxembourg country showcase, which is being organized by international auditing firm PwC (Luxembourg) and FWU International (Luxembourg) SA, the subsidiary of the German FWU AG Group, a leading finance service provider with system solutions in the investment field.

Similarly, Aziz will give the welcome address at the Malaysia country showcase, which is also organized by the Malaysian central bank in conjunction with its dedicated entity, the Malaysia International Islamic Finance Centre (MIFC).

In the first country showcase, the emphasis will be on sukuk and listings, Islamic funds and on Takaful. According to data from international auditing and consultancy firm Ernst & Young, Islamic investment funds assets under management currently amount to almost \$52 billion comprising 700 funds worldwide, most of which are dedicated to equities.

Prominent Shariah scholars such as Mohammed Daud Bakar are urging the international Islamic funds industry to offer more innovative areas of investment and to expand into hitherto untapped geographical markets.

In the Malaysia country showcase, prominent international fund manager, Mark Mobius, executive chairman of Templeton Emerging Markets Group, will deliver a special lecture following Zeti's opening address. Mobius's lecture will be followed by a question and answer session and a Malaysia business panel moderated by John Lee, group chief risk officer, Maybank Group.

The showcases will be followed by a special session on liquidity management in the Islamic financial services industry organized jointly by the IFSB and Banque Centrale de Luxembourg.

The timing of this session is extremely pertinent given the Islamic liquidity management challenge, especially cross-border short-term liquidity management, in the global industry and the commencement on Feb. 1, 2011 of operations by the multilateral International Islamic Liquidity Management Corporation (IILM), an initiative by the IFSB.

The urgency of a Shariah-compliant liquidity management mechanism cannot be overstated. Markets all over are demanding a well-established short-term hard currency international liquidity management scheme to meet their various overnight, daily, monthly and even yearly requirements.

In fact, the lack of a global Islamic interbank market and a liquidity management scheme according to several Islamic bankers has hampered the systemic development of the Islamic finance industry.

But in the aftermath of the global financial crisis and the credit crunch, a renewed effort has been initiated to come up a mechanism that is truly global, effective, efficient and Shariah-compliant.

This effort culminated in the establishment of the IILM in October 2010, following the publishing of a report on Islamic liquidity management by the IFSB, which maintains that the IILM “is a major breakthrough in the Islamic financial industry development as it will provide liquid short-term Shariah-compliant instruments that would promote further the competitiveness and resilience of international Islamic financial services globally.”

IILM will issue papers periodically in tranches in different currencies. The first two tranches will be in the US dollar and the euro.