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Published: Oct 8,2010 2:17PM

Islamic Market Short-Term Liquidity Products to Boost Cross-Border Flows

The Islamic Financial Services Board, a global standard-setting body for the industry with \$1 trillion in assets, is forming an institution that will issue short-term products to help Shariah-compliant banks manage funds.

Central bank governors and representatives from multinational institutions signed the agreement to establish the International Islamic Liquidity Management Corp. in Washington yesterday during a meeting between the International Monetary Fund and the World Bank, IFSB said in an e-mailed statement today.

“The IILM will provide liquid short-term Shariah-compliant instruments” and “facilitate greater investment flows of Shariah-compliant instruments across borders,” IFSB said. The institution will be formally established on Oct. 25 in Kuala Lumpur, where IFSB is based, it said.

Regulators of the Islamic financial industry are trying to develop products for Islamic banks and borrowers to boost trading. Demand for services complying with Shariah law is increasing about 15 percent annually as Muslim wealth rises, according to ISFB, which forecasts the industry’s assets will climb to \$1.6 trillion by 2012.

The International Islamic Financial Services Market, another global body founded by the central banks of Bahrain, Indonesia and Malaysia, said Aug. 17 it was working to create Shariah-compliant repurchase agreements. The liquidity management products will use a profit rate, unlike conventional repos, where traders post securities as collateral for cash and agree to buy them back at a specified price and date, earning or paying the difference as interest.