

Published: Jan 01,2011

## **Liquidity Management Solutions for Islamic Banks**

In the last issue of this publication there were several articles that touched on the problems experienced by Islamic banks in the matter of liquidity instruments. Many of the instruments approved by regulatory bodies in the West are not open to Islamic banks, because they are not Shari'ah compliant. The establishment of the International Islamic Liquidity Management Corporation (IILM) is an attempt to resolve this problem. The primary objective of the IILM is to issue Shari'ah-compliant financial instruments in order to facilitate more efficient and effective liquidity management solutions for institutions offering Islamic financial services (IIFS), as well as to facilitate greater investment flows of Shari'ah-compliant instruments across borders.

This initiative, facilitated by the Islamic Financial Services Board (IFSB) is in line with the IFSB mandates to enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management and to encourage cooperation amongst member countries in developing the Islamic financial services industry. IFSB claims the establishment of the IILM is a major breakthrough in the development of the Islamic financial industry as it will provide liquid short-term Shari'ah-compliant instruments that would promote further the competitiveness and resilience of IIFSs globally.

The articles of agreement were signed at the end of October in Kuala Lumpur, Malaysia by 11 central banks, including one European organisation, Luxemburg's central bank and two multilateral banks. Speaking in London in mid November, Raja Teh Maimunah, Global Head Islamic Markets at Bursa Malaysia, said the first outputs from the IILM could be expected in March 2011.