



# Short Term Sukuk and Islamic Liquidity Management

John Weguelin  
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- Islamic banking assets heading towards 20% of total banking assets in several GCC states, over 10% in Malaysia
- Improving regulatory, fiscal and political landscape, particularly in the UK
- Greater demand for Sharia'a compliant products
- Nascent but growing Islamic finance market in Europe, with Muslim population of 88 million (including Turkey)
- Ethically and environmentally friendly nature of Islamic finance increasingly attractive to non-Muslim

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- Parallels with other markets
  - Speed of transition is quicker
  - Change/ innovation happening all the time:
    - Mortgage Backed Sukuks
    - Exchangeable Sukuks
    - IIFM/ ISDA working on documentation
    - Move to improve liquidity in the Sukuk market
    - Work on standardising documentation
    - 1<sup>st</sup> Sharia'a Compliant Islamic Investment Bank to receive FSA authorisation

# Functions of Sukuk Market



- Risk Management
- Liquidity Management
- Balance Sheet Management

<b>Short Term Islamic Instruments</b>	<b>Medium-Long Term Islamic Instruments</b>	<b>Conventional Financial Instruments</b>
Murabaha	Murabaha	Credit Default Swaps
Short Term Sukuk	Musharaka	Negotiable Certificates of Deposit
Wakala	Ijara	Repos
	Istisna'a	Interest Rate Swaps
	Salam	Basis Swaps
	Sukuk	Senior & Subordinate Debt

# Drivers for Liquidity

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- Market Centres
- Transparency
- Credit Ratings
- Consistency of interpretation
- Ease of Access
- Size of Issues

# Government & Corporate Organisations Role

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- **Governments and quasi-governmental institutions:**
  - Critical to development of liquid secondary market
  - Help develop legal and regulatory framework
  - Standardisation of documentation
  - Are regulators, issuers and investors
- **Program Issues – volume and consistency**

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## **Short Term Liquidity Management**

- Commodity Murabaha
- Wakala

## **Long Term Sukuk Investment / Trading**

- Active participation in the primary Sukuk market
- Active role in the secondary Sukuk market
- Active participation in the Syndicated Term Financing
- Trade Finance
- Asset Management
- Partnerships with local banks

# Way Forward

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- Need to recognise that the Sukuk market is only 5 years old
- Evolution thus far has been exponential
- Develop the entire short end of the yield curve
- Sharia'a compliant derivatives