



The Premier Islamic Bank

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Developing Islamic Finance Secondary Markets



By
Ahmed Ali Siddiqui
**Vice President & Manager, Product
Development
& Shariah Compliance (PDSC)**
Meezan Bank Limited

2nd IIFM Conference - June 18, 2007

Islamic Secondary Market



The Premier Islamic Bank

Key aim: Short term liquidity management esp shortfalls.

Solution:

Islamic Repo ?? or

Issue 1: Shariah Aspect: Repo or even Unilateral promise make the transaction Buy Back / Bai Inah.

Issue 2: Lack of good rated Sukuks to develop a market.

Islamic Secondary Market



The Premier Islamic Bank

Alternative Solutions to meet the requirements:

- Inter-bank Musharakah & Mudarabah model
- Islamic Placement Accounts
- Sale without linked promise



The Premier Islamic Bank

Inter-bank Musharakah/ Mudarabah based Acceptance

Inter Bank Acceptance



The Premier Islamic Bank

The need for acquiring funds from the Inter-Bank Call Market arises usually due to the following reasons:

- ✓ Withdrawals by existing Depositors
- ✓ New Disbursement/Financing Requirement
- ✓ General Liquidity Requirements

The above requirements can be met by an Islamic Bank through acceptance of funds based on the mode of Musharakah / Mudarabah

Product structure



The Premier Islamic Bank

Basic Mode:

- Specific Investment Pools (FI Pools) are created for acceptance of funds.
- Funds from Financial Institutions (FIs) are accepted under Musharakah or Mudarabah structure in these pools.
- Proper Profit Sharing Ratio is assigned to each partner.

Product structure



The Premier Islamic Bank

Specific F.I. Pool

- The F.I. Pools are specific investment pools, comprising of financing assets like Murabaha, Ijarah etc (ideally tangible assets) created to meet the short-term liquidity requirements of the bank.
- At maturity, normally these F.I. Pools are dissolved and assets are transferred back to other investment pools.

Product structure



The Premier Islamic Bank

Musharakah based F.I. Pools

In Musharakah based F.I. Pools, the FI participates in a special F.I. Pool as a 'sleeping partner' with IFI as 'working partner'. The risk and reward of the pool are shared as per the rules of Musharakah.

Mudarabah based F.I. Pools

In Mudarabah based F.I. Pools, the FI participates as Rabb-ul-Maal or Investor with IFI as Mudarib. The risk and reward of the pool are shared as per the rules of Mudarabah.

Pool Management



The Premier Islamic Bank

Income Calculation of the FI Pool

- Income generated by the assets is assigned accordingly to its related F.I. Pool with respect to the number of days an asset is linked to that pool.

Loss Sharing Ratio

- Losses, if any, are shared on pro-rata basis (in ratio of the investment shares of both the parties).

Pool Management



The Premier Islamic Bank

The Inter bank acceptance of funds based on Musharakah or Mudarabah has been successfully practiced at Meezan Bank with other Islamic & conventional financial institute in the market

However, this requires an effective **Asset Pool Management System** at the IFI.

Islamic Placement accounts



The Premier Islamic Bank

Meezan Islamic Institution Deposit Account (MIIDA)

Key Features

A Checking Account only available for IFIs.

Deposits invested under a Mudarabah arrangement

Minimum investment amount- PKR 10,000,000/- or multiples thereof

Maximum investment amount – PKR 1 billion

Withdrawals of funds :

- 24 hrs. notice for PKR 50 - 200M deposit
- 48 hrs. notice for 200M+ deposit

Profit disbursed on a monthly basis

Profit calculated on daily product basis



The Premier Islamic Bank

Thank You