Liquidity risk management guidelines for Islamic banks in the Philippines

THE PHILIPPINES

By Rafael A Morales

The Bangko Sentral ng Pilipinas (BSP) has drafted the guidelines on the management of liquidity risk by Islamic banks and Islamic banking units, cognizant of the fact that the viability of financial institutions (including Islamic banks and Islamic banking units) is heavily influenced by their ability to manage their liquidity positions.

Under the proposed guidelines, Islamic banks and Islamic banking units are to establish their separate liquidity management arrangements, taking into account certain guidelines.

Firstly, Islamic banks and Islamic banking units must not assume that Shariah compliant instruments used to meet liquidity requirements are identical to their conventional counterparts. For instance, Sukuk held as liquidity assets may be less liquid than conventional bonds held for the same purpose.

In this regard, Sukuk issued by the International Islamic Liquidity Management Corporation and other similar organizations as may be determined by the BSP can be treated as though issued by multilateral development banks.

Secondly, in developing a funding strategy, Islamic banks and Islamic banking units must consult their respective Shariah Advisory Council (SAC). Any instrument to be used for liquidity purposes should be acceptable to the SAC and appropriate to the specific context being addressed.

Thirdly, any risk transformation that may occur at different stages must be assessed.

For instance, if a customer has an option to cancel a transaction, Islamic banks and Islamic banking units must realize that the exercise of that option may entail their holding of an asset that may need to be disposed "even under stressed market conditions".

Lastly, any and all Shariah limitations must be considered in the transfer of liquidity between entities within a banking group, or between an Islamic banking unit and the conventional bank proper.

For Islamic banking units, their assets and liabilities must be segregated from those of the conventional bank proper.

An Islamic banking unit need not submit a separate liquidity coverage ratio report to the BSP, save when Islamic banking is a "significant activity" of the bank (ie at least 5% of the bank's total liabilities as of measurement date).

The BSP will "continuously review and keep an open line with stakeholders to ensure that the regulatory framework remains appropriate and relevant".

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Unity returns to the GCC

QATAR

By Amjad Hussain

On Tuesday, the 5th January 2021, Qatar, Saudi Arabia, the UAE, Bahrain, Kuwait and Oman signed a landmark declaration during the 41st GCC summit held in Al-Ula, Saudi Arabia, bringing an end to the three-year blockade against Qatar. As a result, the formerly blockading countries have now reopened their air, land and sea routes to Qatar, allowing the unrestricted movement of people and goods throughout the region once again.

Soon after the declaration was announced, the Qatar Stock Exchange witnessed a significant rise in trading. On the 5th January, the Qatar Stock Exchange index reached 10,618.39 points, closing with a 114% gain. The general index increased to 165% and the market index reached QAR614 billion (US$167.17 billion).

Some of the major beneficiaries of this agreement are expected to be Islamic banks in Qatar, as well as the transportation and tourism sectors. In a recent press release, Aventicum Capital stated that "the biggest beneficiary and perhaps the fastest will be Islamic banks because traditionally they used to draw lots of interest in deposits from Saudi Arabia and other Gulf countries because of the higher interest rate regime in Qatar".

Masraf Al Rayan and Al Khalij Commercial Bank (Al Khaliji) announced that they have entered into a merger agreement, whereby Masraf Al Rayan will be the surviving entity, and will continue to operate in accordance with Islamic Shariah principles.

The merger is subject to, among other things, regulatory approvals and approval from the banks' shareholders. Once effected, the merger will create one of the largest Shariah compliant banks in Qatar and the region with consolidated assets worth around QAR172 billion (US$47 billion).

The chairman of Masraf Al Rayan, Ali Ahmad Al Kuwari, said that: "This is a landmark transaction that will contribute to the State of Qatar's economic growth, vision and ambitions and is a testament to our commitment to creating a more robust Qatari banking system."

Throughout the last few years, as a result of the blockade, Qatar had to diversify its economy, trading partners and supply chains to improve the resiliency of its economy. With the recent restoration of diplomatic and trade links in the region, we are optimistic that 2021 will be a year of growth and opportunity for various sectors in Qatar, including the Islamic banking sector.

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