

Bank of England Plans Liquidity Tool for Islamic Banks	2		Value	MoM	QoQ	YoY
			5/3/17	4/3/17	2/3/17	5/3/16
			Equity			
Islamic Development Bank Plans to Buy Stake in Borsa Istanbul	2	Dow Jones Islamic Index	3196.08	▲2.37%	▲6.21%	▲13.36%
		Dow Jones Global Index	352.70	▲1.81%	▲4.48%	▲14.26%
		MSCI Islamic Index	1208.64	▲1.46%	▲3.61%	▲9.22%
		MSCI World Index	1886.15	▲2.01%	▲4.47%	▲13.72%
Turkey's Sovereign Wealth Fund Signed Islamic Mortgage Deal with IDB	3	MSCI Emerging Market Index	988.19	▲2.39%	▲7.54%	▲20.35%
		Fixed Income				
		LIBOR 6 Month	1.4263	▲0.000	▲0.076	▲0.519
		Murabaha USD 6 Month	1.3181	▼-0.047	▲0.019	▲0.539
Bahrain's AAOIFI Launches Landmark Project <i>Waqf</i> Standards Packet	3	Dow Jones Sukuk Index	102.83	▲0.19%	▲0.65%	▼-0.05%
		Bloomberg Emerging Market Bond Index	163.29	▲1.32%	▲3.21%	▲8.69%
		Insurance				
		Bloomberg Takaful Index	140.69	▲1.77%	▼-1.57%	▲9.32%
GCC Islamic Banks: Funding Expected to Weaken, but Liquidity to Remain Sound	3	Mark-up Murabaha USD Rates		Murabaha Rate vs LIBOR		
Japan Keeps Making Inroads into Global Islamic Finance	4	Dow Jones Global vs Dow Jones Islamic Indices		Bloomberg Takaful Index		
Kenya Issues Licence to Shariah-compliant DIB Bank, First Since 2015	4	Dow Jones Sukuk Index vs Bloomberg Emerging Market Composite Bond Index		Sukuk and Islamic Financing*		
Saudi Arabia Lists Largest Ever Sukuk on Irish Stock Exchange	5					
Dubai's Sukuk Issuances Now Highest in World	5					
Kenya Says Could Issue Debut Islamic Bond Using Current Laws	5					
Upcoming Events	6					
New Publications	6					
Glossary	7					

* Bloomberg

Bank of England Plans Liquidity Tool for Islamic Banks

The Bank of England will develop a sharia-compliant liquidity tool for use by Islamic banks, underscoring efforts to attract business from the industry's core centres in the Middle East and South East Asia.

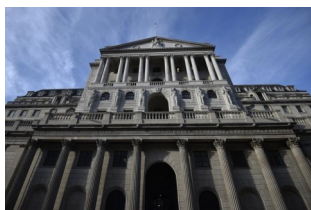


Photo Credit: reuters.com

London has long sought to position itself as a global hub for Islamic finance, going as far as issuing a sovereign Islamic bond in 2014, and tools to support its Islamic banking sector could help weather the economic impact of leaving the European Union.

The central bank has issued a consultation paper on a fund-based deposit model for the facility, which would help Islamic lenders meet regulatory requirements for liquid asset buffers.

The BoE said the facility is unlikely to be ready before the spring of 2018, while it has yet to decide on whether it will develop a liquidity insurance facility.

However, the proposed tool would be a welcome development for Britain's Islamic banks.

These include Gatehouse Bank, the Bank of London and the Middle East BLME.DI, Qatari-owned Al Rayan Bank and a unit of Qatar Islamic Bank QISB.QA.

The pricing of the proposed model would be comparable with conventional tools, making it attractive for Islamic banks, the BoE said in its consultation paper.

The central bank said feedback from a previous consultation paper found preference for a model using an agency contract known as '*wakala*'.

Respondents advised the central bank that another proposed model based on commodity '*murabaha*', a cost-plus-profit arrangement, could pose reputational risks because opinions on its sharia-compliance can vary.

Stakeholders have until May 23 to give their views, after which the Bank of England would begin work on the facility, including a set of standardised terms and contractual documentation.

Source: [Reuters](#)

Islamic Development Bank Plans to Buy Stake in Borsa Istanbul

The Saudi-based Islamic Development Bank (IDB) plans to take at least a 10 percent stake in Turkey's state-run stock exchange as the multilateral lender ramps up activities in the country, a senior official of the bank told Reuters.

IDB expects to finalize negotiations with Borsa Istanbul in two to three months as part of wider efforts to develop Islamic finance in Turkey, said Abdulhakim Elwaer, IDB's director of cooperation and resource mobilization.

Equity investments are rare for the AAA-rated IDB, which focuses primarily on extending trade financing and grants across its 57 member countries, but Turkey is seen as a key market to expand the reach of Islamic finance.

"The larger picture is IDB's cooperation with Turkey, this is only one engagement. We want to help develop Turkey as a global Islamic financial center," Elwaer told Reuters.

IDB and Borsa Istanbul signed a cooperation agreement in November, with discussions currently ongoing to decide on a specific size and time frame for the stake, he added.

The bourse has a share capital of 423 million lira

(\$115.6 million), implying a value of 42.3 million lira for a 10 percent stake.

The IDB has approved over \$10 billion in financing to Turkey since 1977, with around a third arriving in the past two years.

It extended financing worth \$1.5 billion in 2016 and \$1.4 billion in 2015, mostly in the financial and transportation sectors.

This included a \$270 million financing for Turkey's Eximbank and a \$300 million financing for a sharia compliant bank dedicated to Islamic endowments, Vakıf Katılım Bankası.

Speaking to BloombergHT, Borsa Istanbul Chairman Himmet Karadağ confirmed the plans, saying that the bank's stake will be lower and that 10 percent was a high rate.

Adding that the process will be completed within three months, Karadağ said, "We want the Islamic Development Bank (IDB) to become a partner in the stock exchange. IDB's stake will be lower, 10 percent is a high rate."

Source: [Daily Sabah](#)



Turkey's Sovereign Wealth Fund Signed Islamic Mortgage Deal with IDB

Turkey's new sovereign wealth fund has signed a framework agreement with an Islamic Development Bank (IDB) unit to develop Islamic mortgages and different types of cooperation with the bank will be on the agenda, the fund's head said.

Turkey's government has already transferred stakes worth billions of dollars in Turkish Airlines, major banks and other companies to the fund, which was set up last year, partly to help finance big-ticket infrastructure projects.

Fund chairman Mehmet Bostan told report-

ers that the fund had authority to support mega projects but its priority is to invest in leading global industries in areas like technology, telecoms and energy.

Bostan said financial technology was one of the fund's areas of operation, adding it was working on a joint payment platform and mobile banking and may buy or establish a company in this area.

The Turkish fund has received invites from other national funds and was negotiating with two of them after signing an agreement with the Russian Direct Investment Fund (RDIF), Bostan added.

Source: [Reuters](#)



Photo Credit: bigun.net

Bahrain's AAOIFI Launches Landmark Project *Waqf* Standards Packet

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) developed a package of standards covering Islamic endowments, known as *amqaf*.

The "Waqf Standards Packet", comprises development of three all-encompassing and detailed standards that are expected to cater to the global industry's practical and operational requirements. This consists of a Shari'ah standard, an accounting standard, and a governance standard, all aiming to ease out practical hardships confronting all parties

concerned such as *Waqf* donors/ founders, managers, beneficiaries as well as regulatory and supervisory authorities, etc. The standards under development will be comprehensive and based on sound scholarly and professional work which will set out all Shari'ah rulings, regulations, relevant accounting and governance standards in the area of *Waqf*, in addition to incorporation of latest development and emerging matters, taking in account various experiences and best practices in a bid to compile and internationalize such experiences and practices.

Source: [Zawya](#)



Photo Credit: pressreleasepoint.com

GCC Islamic Banks: Funding Expected to Weaken, but Liquidity to Remain Sound

Customer deposits which is a major cost effective funding source of Gulf Cooperation Council (GCC) Islamic banks have been weakening during the last two years and is expected to deteriorate further in 2017-18.

Growth in customer deposits slowed to 6 per cent in 2016, compared with 9 per cent in 2015 for the Islamic banks.

The funding profiles of GCC Islamic banks remain strong by international standards. Core customer deposits mostly dominate in funding profiles, and banks' use of wholesale funding sources remains limited. The use of *sukuk* as a funding source is limited, and this is unlikely to change dramatically anytime soon. Recent *sukuk* issues by GCC banks were mostly capital-boosting *sukuk* (primarily in the form of Tier 1 *sukuk*) as their pricing was attractive compared with banks' cost of common equity, but not many *sukuk* issues from GCC Islamic

banks are expected in 2017-2018.

Overall, GCC Islamic banks' liquidity remains strong by international standards. Banks tend to keep sizeable amounts of cash and money market instruments, owing to the lack of high-quality liquid assets.

Despite the deterioration in operating environment, the GCC Islamic banks continue to display strong capitalisation by international standards, with an unweighted average Tier 1 ratio of 17.2 per cent at year-end 2016.

A few GCC banks have issued capital boosting *sukuk*, primarily in the UAE, Qatar, and Saudi Arabia. The common characteristic of these *sukuk* is that they allow for loss absorption at some point. Analysts see these *sukuk* helping the industry to inch closer to one of Islamic finance's cardinal principles, profit and loss sharing

Source: [Zawya](#)

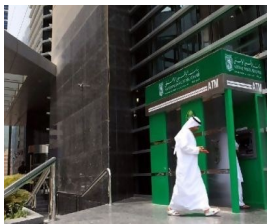


Photo Credit: thenational.ae

Japan Keeps Making Inroads into Global Islamic Finance



Photo Credit: isfin.net

The world's third-largest economy, Japan, continues foraying into the global Islamic finance sector in order to benefit from previously untapped opportunities in this rapidly growing industry. Earlier this month, Mizuho Bank, one of the largest financial services companies in Japan, through its Malaysian subsidiary became the next Japanese commercial bank to enter an Islamic finance deal with a foreign banking institution by signing a *murabaha* credit facility agreement valued at \$300mn with the Islamic Corp for the Development of the Private Sector (ICD), a unit of Saudi Arabia-based Islamic Development Bank. The two-year financing term will be used to fund projects undertaken by ICD in its member countries and is the first cross-border bilateral Islamic facility for Mizuho Bank.

The agreement follows a similar deal between the ICD and Bank of Tokyo-Mitsubishi UFJ on a \$100mn *murabaha* facility back in 2014. The development financing deals are seen as Japan's first responses to the newly established, China-backed Asian Infrastructure Investment Bank (AIIB) in its the goal to counter the AIIB's growing influence by investing more in tangible infrastructure assets in Asia.

But not only infrastructure investments are on the roadmap of Japan's Islamic finance strategy. The country is actively debating the potential utilisation of Islamic finance on its domestic market and also the possibility to attract petrodollar investments from Gulf states.

As of late, Japan has also been embracing local Muslim culture and its banking sector seeks ways to meet the needs of this growing niche. Bank of Tokyo-Mitsubishi UFJ has so far been the most active Japanese bank in Islamic finance and also issued a \$25mn *sukuk* in Malaysia through its Kuala Lumpur branch in 2014 and in July 2015 obtained a license from the Dubai Financial Services Agency to operate an Islamic window in the emirate.

Japan's capital market regulator Financial Services Agency supports Japanese banks to conduct Islamic finance business on foreign markets by allowing their foreign subsidiaries to take Islamic deposits. Currently, the sector is waiting for amended banking regulations that would enable banks to provide Islamic finance and banking products on the domestic market for the first time. The move to allow *sukuk* and similar products to be bought and sold in Japan, Asia's largest bond market, would certainly give the entire Islamic finance sector a boost. However, possible regulation changes are still in the consultation stage, mainly to sort out taxation issues and a legal framework to clarify in how far a bank should be allowed to buy goods on behalf of its customers under the *murabaha* concept. At least the terms have been coined: Japanese *sukuk* are now known as J-*sukuk* (*sukuk* potentially issued by Japanese banks or financial institutions to Islamic investors) and Samurai *sukuk* (issued by foreign banks or companies in Japan).

Source: [Gulf Times](#)

Kenya Issues Licence to Shariah-compliant DIB Bank, First Since 2015



Kenya's central bank has issued a licence to DIB Bank Kenya Ltd, which is owned by United Arab Emirates-based Dubai Islamic Bank, the first by the central bank since 2015, when it placed a moratorium on approving new banks.

The announced move will make DIB Bank Kenya the third fully shariah-compliant lender to operate in the East African nation, the central bank said.

"DIB intends to exclusively offer shariah-compliant banking services in Kenya," the Cen-

tral Bank of Kenya said in a statement. "DIB's entry will expand the offerings in the market, particularly in the nascent shariah-compliant banking niche."

Dubai Islamic Bank PJSC also holds stakes in banks in Pakistan, Sudan, Jordan, Bosnia and Indonesia. Other fully shariah-compliant institutions in Kenya are Gulf African Bank Limited and First Community Bank.

Source: [Reuters](#)

Saudi Arabia Lists Largest Ever *Sukuk* on Irish Stock Exchange



Photo Credit: themiddleeastmagazine.com

Saudi Arabia has listed the world's largest ever *sukuk* issuance through two listings on the main securities market of the Irish Stock Exchange (ISE), raising \$9 billion (€8.27 billion).

The government issued a \$4.5 billion bond maturing in April 2022 at 2.894 per cent and a \$4.5 billion bond maturing in April 2027 at 3.628 per cent.

The arrangers of the *sukuk* include HSBC and JP Morgan while one of the dealers is Deutsche Bank.

The issuance has been listed through KSA Sukuk Limited, a special purpose vehicle incorporated in the Caymen Islands and wholly owned by the government of Saudi Arabia.

Source: [The Irish Times](#)

Dubai's *Sukuk* Issuances Now Highest in World at \$53.31bln

Since Dubai first announced its intention to become the capital of the Islamic economy, much progress has been made. The key pillars of Islamic finance have each developed in different ways, but *Sukuk* may be the pillar that shines the most brightly. This was exemplified in the first quarter of 2017, with Nasdaq Dubai seeing some marquee listings pop up one after another.

Global *Sukuk* issuance reached \$72.9 billion globally in 2016 according to RAM Ratings Services, with Islamic finance assets as a whole valued at more than \$2 trillion, and thus far, 2017 has continued that momentum.

February saw the announcement of Dubai Islamic Bank (DIB)'s latest \$1 billion *Sukuk*, which was carried out under DIB' \$5 billion

Sukuk Programme, and was the largest senior *Sukuk* issuance by a financial institution globally.

Soon after DIB's landmark *Sukuk* issuance, Nasdaq Dubai welcomed the listing of a \$1 billion *Sukuk* issued by the Government of Hong Kong on 1 March. Soon after, the Government of Indonesia listed two *Sukuk* with a total value of \$3 billion on Nasdaq Dubai. In mid-April, Nasdaq Dubai welcomed a listing of a \$1.25 billion *Sukuk* issued by the Islamic Development Bank (IDB).

The move pushed Nasdaq Dubai's record even higher. Dubai's *Sukuk* listings have now reached a total nominal value of \$53.31 billion, the highest total of any listing venue in the world.

Source: [Zawya](#)

Kenya Says Could Issue Debut Islamic Bond Using Current Laws

Kenya will issue its debut Islamic bond planned for the fiscal year starting in July under existing laws as it pushes legal reforms aimed at boosting Islamic finance, a senior government official said.

Henry Rotich, the finance minister, said last month the East African nation planned to amend its laws to enable issuance of the Shariah-compliant bond, part of a plan to mobilise local funds and set up Nairobi as a regional hub for the sector.

Githu Muigai, the attorney general, who is the government's chief legal adviser, said the issuance could go ahead, even if all planned legal reforms are not completed in time.

"We will continue with the bond within the institutions that exist right now but we will transition into the new framework sometime next year," Muigai told Reuters.

He said the proposed changes include the consolidation of financial regulations, which are pending before parliament.

"This will then give us an opportunity to come back to sector specific problems like deepening and broadening Islamic banking and the various products that are on offer," he said.

Kenya has two Islamic banks, established a decade ago, and several Islamic banking windows, offered by some commercial lenders.

Source: [Reuters](#)



Photo Credit: cio.co.ke

Upcoming Events (May—June 2017)

Islamic Finance and Public-Private Partnerships for Infrastructure Development	Kuala Lumpur, Malaysia	8-9 May 2017	Event Details
Takaful Sukuk - A New Strategy for Industry Growth and Competitiveness	Manama, Bahrain	14 May 2017	Event Details
12th IDB Global Forum on Islamic Finance: Empowering Youth Entrepreneurship and Access to Islamic Finance	Jeddah, Saudi Arabia	15 May 2017	Event Details
DB-WB-SDGCA-WSF-ADFIMI Joint Panel on “SDG Financing: Enhancing the Role of National and Regional Development Finance Institutions”	Jeddah, Saudi Arabia	16 May 2017	Event Details
Webinar: Making Islamic Finance Work for SMEs	Webinar	17 May 2017 8:00 - 9:00 EDT	Event Details
2nd Global Islamic Economy Entrepreneurship Convention	Kuala Lumpur, Malaysia	11 May 2017	Event Details

New Publications

Shariah-compliant Trade Finance: Developments and Opportunities	Download Publication
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Description of Data:

Dow Jones Sukuk Index: The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari'ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari'ah-compliant fixed-income investments. The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) Indices, which are monitored to ensure their continued adherence to Shari'ah principles.

Bloomberg USD Emerging Market Composite Bond Index: The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH. The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar. The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

Dow Jones Islamic Market World Index: The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

Dow Jones Global Index: The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

MSCI World Islamic Index: The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

MSCI World Index: The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

MSCI Emerging Markets Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

Bloomberg Takaful Index: Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognised companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009

Murabaha Deposit Rates: Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

Glossary Of Key Terms

<i>Ijara</i>	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the
<i>Mudaraba</i>	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
<i>Murabaha</i>	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
<i>Musharaka</i>	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
<i>Shari'ah Board</i>	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of <i>Shari'ah</i> compliance.
<i>Sukuk</i>	An Islamic financial certificate, similar to a bond in Western finance, that complies with <i>Shari'ah</i> , Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a <i>sukuk</i> sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
<i>Salam</i>	<i>Salam</i> is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of <i>Salam</i> creates a moral obligation on the <i>Salam</i> seller to deliver the goods. The <i>Salam</i> contract cannot be cancelled once signed.
<i>Takaful</i>	The term ' <i>takaful</i> ' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a <i>takaful</i> arrangement, the participants contribute a sum of money as wholly or partially <i>tabarru'</i> (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the <i>takaful</i> .
<i>Istisna'</i>	<i>Istisna'</i> is the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of <i>istisna'</i> comes into existence. But it is necessary for the validity of <i>istisna'</i> that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
<i>Wakala</i>	<i>Wakala</i> is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a <i>Murabaha</i> transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

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