

## **Yaseen Anwar stresses the need for the development of robust Shariah compliant risk management infrastructure in Pakistan**

Mr. Yaseen Anwar, Deputy Governor, State Bank of Pakistan has stressed the need for the development of a robust Shariah compliant risk management infrastructure in Pakistan's Islamic banking industry that will enable both the Islamic banks and their clients to mitigate genuine business risks.

Inaugurating a workshop on 'Hedging in Islamic Finance and Master Hedging Agreement,' which was organized by International Islamic Financial Market (IIFM) in collaboration with the State Bank of Pakistan in Karachi today, Mr. Anwar said that while conventional banks have access to a variety of sophisticated risk management and hedging instruments, there has been a dearth of Shariah compliant hedging products in the country for mitigating risks arising out of genuine business transactions that put Islamic Banking Institutions (IBIs) at a disadvantageous position viz a viz their conventional counterparts.

Describing the pace of growth and development of the Islamic banking industry in Pakistan as encouraging, he said that at present it constitutes over 7 percent of the country's banking system. Given the healthy growth for the past several years, the enabling regulatory and Shariah compliance framework, the growing HR capacity of IBIs and increasing awareness of the masses about Islamic banking, the share of the industry is likely to increase manifold in the future, he added.

Mr. Anwar, however, observed that despite these positive developments and trends, we need not be complacent as the industry still faces numerous challenges, including development of a robust Shariah compliant risk management infrastructure. 'Moreover, the absence of standardized documentation invariably results in significantly higher transaction costs thus making the transaction unviable,' he added.

SBP Deputy Governor noted that notwithstanding the dire need of Shariah compliant risk management and hedging instruments for Islamic banks, it should be explicitly understood that such instruments should cover/hedge the genuine risks arising due to real business and economic transactions and should in no way allow transactions for speculative motives. 'I presume, the same is the spirit of the Tahawwut (Hedging) Master Agreement (TMA). This workshop, I believe, will enable our Islamic banking industry to better understand the objectives, the underlying transactions and legal documentation etc suggested in the TMA,' he said, adding that it will also enable our market to develop and offer Shariah compliant hedging instruments.

He said the IIFM has played an active role in the standardization of documentation for liquidity management and hedging products over the past few years, which will greatly facilitate the development of Islamic Capital and Money Markets across the globe. He said that the Tahawwut Master Agreement (TMA) developed by IIFM in collaboration with International Swaps and Derivatives Association (ISDA) has been received well globally and is likely to provide a big boost to the Shariah compliant derivatives market.

Mr. Anwar said that the Tahawwut Master Agreement (TMA), which is the focus of today's briefing by IIFM, is a major initiative to standardize the hedging document and thus minimize the transaction costs. 'Also at the institutional level, the TMA will hopefully pave the way for players to provide Shariah compliant and financially viable products as well as broaden the range of risk management instruments available at their disposal,' he added.

While giving a presentation on Tahawwut Master Agreement (TMA), Mr. Ijlal Ahmed Alvi, Chief Executive Officer, IIFM said that although in recent years Islamic hedging market has grown, yet it is still in the development phase. He said that TMA is a framework risk mitigating document for hedging transactions and is developed for the entire Islamic finance industry especially for Islamic financial institutions (IFIs) as well as for Islamic windows.

Mr. Habib Motani, Partner, Clifford Chance LLP, London gave a presentation from London through video link and highlighted the key features (legal and documentation) of Tahawwut Master Agreement. Mr. Peter M Werner, Senior Director, International Swaps and Derivatives Association, Inc. (ISDA) gave a presentation on 'Islamic Jurisdictions– the Need for Law Reform.'

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