IIFM and ISDA publish Islamic Credit Support Deed for Variation Margin

MANAMA, BAHRAIN, March 30, 2017 – The International Islamic Financial Market (IIFM) and the International Swaps and Derivatives Association, Inc. (ISDA) today published a new credit support deed for Islamic hedging transactions in response to global margin requirements for non-cleared trades.

The ISDA/IIFM Wathiqah Hamish al Rahn al Naqdi (Credit Support Deed for Cash Collateral (VM)) governs the exchange of collateral for hedging transactions under the ISDA/IIFM Tahawwut (Hedging) Master Agreement, and follows the rollout of variation margin requirements for non-cleared transactions in multiple jurisdictions from March 1, 2017. The regulatory push for initial and variation margin exchange is part of a Group of 20 commitment to make global financial markets safer and more resilient.

The new credit support deed is the latest initiative by the two associations to provide the Islamic finance industry with documentation and product standards to manage and mitigate the risk arising from currency and rate-of-return mismatches. Islamic hedging transactions are widely used to help manage the exposure of Islamic financial institutions and mitigate risks associated with capital market instruments, trade finance and corporate banking activities.

“Use of Islamic finance is extending to new jurisdictions and territories, and this has led to a pressing demand for Shari‘ah compliant hedging products, as well as collateral documentation in order to manage credit risk. Recent regulatory requirements for the exchange of variation margin on non-cleared derivatives transactions has created an urgent need for the Islamic finance industry to develop standard credit support documentation. The ISDA/IIFM Credit Support Deed for Cash Collateral (VM) will undoubtedly benefit all stakeholders of the industry, and the efforts of IIFM and ISDA are commendable achievements,” said Khalid Hamad, Chairman of IIFM.

“Regulators across the globe are implementing margin requirements for non-cleared trades, which will require in-scope market participants to either set up or amend credit support documentation. The ISDA/IIFM Credit Support Deed for Cash Collateral (VM) responds to this development, and will further support the development of the Islamic hedging market,” said Scott O’Malia, ISDA’s Chief Executive.

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“The new collateral requirements are part of a worldwide regulatory response to the global financial crisis, and will have an impact on certain Islamic finance transactions. IIFM and ISDA have developed this standard credit support deed in response to this regulatory requirement, with the active involvement of their member institutions, regulators, legal firms and other industry stakeholders, in coordination with external legal counsel Clifford Chance,” said Ijlal Ahmed Alvi, Chief Executive of IIFM.

Alvi added: “This achievement would not have been possible without the indispensable and greatly appreciated support of the honorable Scholars on the IIFM Shari’ah Board, the IIFM Board of Directors, IIFM member institutions and market participants.”

IIFM and ISDA acknowledge the support of The Waqf Fund (Bahrain) for providing financial assistance in the development of this important legal document.

IIFM and ISDA will continue to assess the industry’s requirements for new products and documentation standards, including the possible publication of credit support documentation for other types of collateral, such as Sukuk.

The ISDA/IIFM Credit Support Deed for Cash Collateral (VM) relating to the Tahawwut Master Agreement is available on IIFM’s website www.iifm.net and on ISDA’s website www.isda.org.

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About IIFM
IIFM is a standard-setting body of the Islamic Financial Services Industry (IFSI) focusing on standardization of Islamic financial contracts and product templates relating to the capital and money markets, corporate finance and trade finance segments of the IFSI.

IIFM plays its role in market unification by developing best practices at the global level and achieving Shari’ah harmonization through its efforts to create a robust, transparent and efficient Islamic finance industry. IIFM also contributes to creating industry awareness by organizing specialized seminars and technical workshops, as well as publishing research reports.

IIFM was founded in 2002 by the collective efforts of the Islamic Development Bank, Autoriti Monetari Brunei Darussalam (formerly Ministry of Finance Brunei Darussalam), Bank Indonesia, Bank Negara Malaysia (delegated to Labuan Financial Services Authority), Central Bank of Bahrain (formerly Bahrain Monetary Agency) and the Central Bank of Sudan as a neutral and non-profit organization. Besides the founding members, IIFM is also supported by certain regulatory and government bodies, such as Indonesia Financial Services Authority, Dubai International Financial Centre Authority, Nasdaq Dubai, State Bank of Pakistan, The National Bank of Kazakhstan, and by a number of international and regional financial institutions active in Islamic finance as well as other market participants.
IIFM was formed under Royal Decree No (23) Year 2002 of the Kingdom of Bahrain.

Information on IIFM and its activities is available on www.iifm.net

About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

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