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|  | **ISDA®**International Swaps and Derivatives Association, Inc |

**NEWS RELEASE**

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**For More Information, Please Contact:**

**Cesaltine Gregorio, ISDA New York, +1 212-901-6019,****cgregorio@isda.org**

**Deirdre Leahy, ISDA New York, +1 212-901-6021,****dleahy@isda.org**

**Donna Chan, ISDA Hong Kong, +852 2200 5906,****dchan@isda.org**

**Usman M. Naseer, IIFM Bahrain, + 973 17500161, usman.naseer@iifm.net**

**IIFM and ISDA Launch Tahawwut (Hedging) Master Agreement**

**BAHRAIN, Monday, March 1, 2010** – The International Islamic Financial Market (IIFM) and the International Swaps and Derivatives Association, Inc. (ISDA) today launched the ISDA/IIFM Tahawwut (Hedging) Master Agreement.

The development is a breakthrough in Islamic finance and risk management, and marks the introduction of the first globally standardized documentation for privately negotiated Islamic hedging products. The ISDA/IIFM Tahawwut (Hedging) Master Agreement is the first financial industry framework document that is applicable across all jurisdictions where Islamic finance is practiced. The launch of the Tahawwut Master Agreement was officially announced at a launch event in Bahrain hosted by IIFM and ISDA under the patronage of H. E. Rasheed Mohammed Al Maraj, Governor, Central Bank of Bahrain.

IIFM and ISDA jointly developed the Tahawwut documentation under the guidance and approval of the IIFM Shari’ah Advisory Panel for this project and in consultation with market participants. The published document consists of the Tahawwut Master Agreement and an Explanatory Memorandum, both of which are part of the official Shari’ah Pronouncement.

“Given the growing nature of the Islamic finance industry, the institutions operating on Shari’ah principles can no longer afford to leave their positions un-hedged,” said Khalid Hamad, Chairman of IIFM and Executive Director of Banking Supervision at Central Bank of Bahrain.  “Hence, some key hedging products are now becoming common across jurisdictions to mitigate risk. The ISDA/IIFM Tahawwut Master Agreement gives the industry access to a truly global framework document which is neutral in terms of treatment to both the transacting parties and at the same time strictly conforms to Shari’ah principles.  IIFM is honored to have achieved this milestone in collaboration with ISDA and I am confident that such joint efforts will continue in the future.”

“Demand for customized, privately negotiated hedging tools that conform to the principles of Islamic finance has increased in momentum,” said Eraj Shirvani, Chairman of ISDA and Managing Director, Head of Fixed Income for the EMEA Region, Credit Suisse. “The Tahawwut Master Agreement provides the critical framework for the growth and evolution of Shari’ah-compliant hedging instruments.”

The ISDA/IIFM Tahawwut Master Agreement provides the structure under which institutions can transact Islamic hedging transactions such as profit-rate and currency swaps, which are estimated to represent most of today’s Islamic hedging transactions.

It is designed to be used between two principal counterparties as a master agreement. Parties understand that no interest shall be pay­able or receivable and no settlement based on valuation or without tangible assets is allowed. Moreover, the counterparties to the Tahawwut Master Agreement make representations as to the fact that they enter into Shari’ah-compliant transactions only.

It is a completely new framework document though the structure of the document is similar to the conventional ISDA Master Agreement. However, the key mechanisms and provisioning such as early termination events, closeout and netting are developed based on the Islamic Shari’ah principles.

“Standardization is a key element in the progress of Islamic finance though it is not a simple process as evident from the efforts put in to the development of this master agreement,” said Ijlal Ahmed Alvi, Chief Executive Officer, IIFM.  “A record number of drafts - 24 drafts – were developed during the industry consultation and Shari’ah guidance process before ultimately reaching the final version, which is comprehensive as well as practical in terms of usage with no compromise to Shari’ah principles.  It was indeed a pleasure to work with such an experienced and dedicated execution team and the efforts were supplemented by exemplary understanding and cooperation shown by ISDA, our joint partner. We express our heartfelt thanks to the Central Bank of Bahrain for their continuous support and to all who were involved in completing this important project. ”

“ISDA is pleased to have partnered with the IIFM as part of its own on-going efforts to promote prudent risk management and to support the efficient development of privately negotiated hedging products,” said Robert Pickel, Executive Vice Chairman, ISDA.” The Tahawwut Master Agreement represents a major milestone in the development of risk management in Islamic finance.”

“IIFM  has taken a lead in preparing Shari'ah complaint Master Agreements for specific areas of Islamic finance, which a number of financial institutions globally have recognized and adopted in order to avoid misunderstanding, uncertainty, and confusion; and also to seek clarity and sound business activities. The adoption of these Master Agreements will pave the way not only for Shari'ah compliance but also product innovation” said Dr Ahmad Rufai, IIFM Shari'ah Head. “The IIFM Shari'ah Advisory Panel have considered the Tahawwut Master Agreement to be a necessary step forward for promoting global standardization for Islamic financial product standards, because the absence of a global Shari'ah compliant standardized agreement may lead to negative effect in the industry. On this occasion, the IIFM Shari'ah Department would like to thank the IIFM Shari'ah Advisory Panel for their indispensable and greatly appreciated support. We don't know where the TMA development would be without their invaluable help and patience in reviewing many of the drafts. Maybe it would not have seen the light.”

 In addition to developing documentation for Islamic transactions, ISDA in coordination with IIFM is in contact with various regulators in a number of Islamic jurisdictions, such as the Gulf Cooperation Council (GCC) region, namely UAE, Bahrain and Qatar, plus Pakistan to improve the local legal framework for hedging products and close-out netting provisioning.

The ISDA/IIFM Tahawwut Master Agreement will be available at IIFM’s website [www.iifm.net](http://www.iifm.net/) or at ISDA’s website [www.isda.org](http://www.isda.org/).

**About IIFM**

IIFM is the global standard setting body for the Islamic Capital & Money Market segment of the IFSI. Its primary focus lies in the standardization of Islamic products, documentation and related processes. IIFM was founded with the collective efforts of Central Bank of Bahrain, Central Bank of Indonesia, Central Bank of Sudan, Labuan Offshore Financial Services Authority (Malaysia), Ministry of Finance (Brunei Darussalam) and Islamic Development Bank (Saudi Arabia).  Besides the founding members, IIFM is supported by its permanent members namely State Bank of Pakistan and Dubai International Financial Centre (UAE). IIFM is further supported by a number of regional and international financial institutions as well as other market participants as its members. Information about IIFM is available at [www.iifm.net](http://www.iifm.net/).

**About ISDA**

ISDA, which represents participants in the privately negotiated derivatives industry, is among the world’s largest global financial trade associations as measured by number of member firms. ISDA was chartered in 1985, and today has over 810 member institutions from 57 countries on six continents. These members include most of the world’s major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities.  Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org/).

**KEY COMMENTARY:**

Below is some key commentary from IIFM Shari’ah Scholars and IIFM Board Members on the ISDA/IIFM Tahawwut Master Agreement:

**Shari’ah Scholars:**

**Shaikh Nizam Yaquby**: “IIFM and ISDA have done a great service to the Islamic Financial Institutions by this document. This is the second standard document issued by IIFM and it is the right example to follow in future documentations. The amount of time, efforts, and resources put to achieve this standard document will only be appreciated by those who understand the difficult and complex discussions and research phases that this document was subjected to. Congratulations IIFM and ISDA and keep up the good job!”

**Shaikh Esam Mohammed Al Shaikh Ishaq**: “This ISDA/IIFM Tahawwut Master Agreement has been the end result of a long and difficult process, in which meetings between scholars, practitioners and others took place for a period of over three years. The process was arduous, involving tight-rope walking, navigation on many Shari’ah issues and concerns, while keeping in mind the interests of the industry simultaneously. I pray Allah blesses this document with proper understanding and implementation by all involved. This document is definitely an addition of great value to Islamic Finance & Banking.”

**Shaikh Dr Mohammed Daud Bakar**:  “Risk management or hedging which is compliant to Shari’ah principles is a must in Islamic finance industry. Standard documentation on this aspect by IIFM and ISDA is not only timely but also evidence that standardization is always possible in this young and promising industry. This ground breaking achievement will be the start of many more institutional achievements.”

**Shaikh Dr Mohammed Burhan Arbouna**: “This Islamic hedging document is a milestone for the Islamic banking and finance industry. The birth of this document shows the flexibility of Islamic legal principles to attend to the need of societies as they conduct daily commercial activities according to the tenets of Islam. The document has passed through an extensive scholarly discussion and scrutiny for the past few years, the reason being to ensure that the mechanisms employed in the hedging industry are fully agreed upon by the majority of the IIFM Shari’ah Advisory Panel. We wish that this document will shape the road for other developments in the Islamic banking and finance industry.”

**IIFM Board Members:**

**Dato’ Azizan Abdul Rahman**, Director General, Labuan Offshore Financial Services Authority (LOFSA): “The global financial crisis has underscored the importance of sound risk management, primarily related to hedging transactions. The Tahawwut Master Agreement provides the needed consistency and predictability to ensure deep and liquid international Islamic financial markets. Such standardization initiative undertaken by IIFM and ISDA is a testament to the greater convergence in Shari’ah interpretations of universal recognition and acceptance. Labuan FSA will continue to support and provide impetus towards such endeavors.”

**Farhan Al Bastaki**, Executive Director, Islamic Finance, DIFC Authority: “DIFC is very happy to have been associated with the development of the Tahawwut Master Agreement. We are keen to promote and support initiatives that drive standardization in the Islamic finance industry. As DIFC evolves further into a global hub for institutional finance and a gateway for capital and investment in emerging markets, Islamic finance is one of the key sectors we are focusing on. The Tahawwut Master Agreement will help in boosting the growth of the Islamic financial services industry and the development of the Islamic capital & money markets across the world.”

**Afaq Khan**, Chief Executive Officer, Standard Chartered Saadiq: “This is a great accomplishment as this will allow Islamic banks to offer end-to-end solutions to their customers and it will allow better treasury risk management tools for Islamic financial institutions to competitively manage the market risks. Standard Chartered Saadiq is proud to have been part of the development of this market standard and will continue to play a positive and proactive role in industry development initiatives.”

**Naveed Khan**, Managing Director, ABC Islamic Bank: “It is encouraging that the IIFM and ISDA are launching this ground breaking initiative, which will not only provide the market with an essential tool for hedging but will also remove the currentdisadvantage experienced by Shari’ah-compliant customers versus their conventional competitors. That they can do it in a way that carries the blessings of a regulatory authority which is interested in enhancing industry benchmarks and standards is also really remarkable. ABC Islamic Bank is proud to have been associated with the IIFM as a part of this initiative.”

**Lilian Le Falher**, Executive Manager, Treasury & Financial Institutions, Kuwait Finance House:  “Hedging products are becoming mainstream products for Islamic financial institutions. Too often, transactions in our industry face delays in their execution due to the lack of standardization. The ISDA/IIFM Tahawwut Master Agreement will provide practitioners with an appropriate and globally recognized legal framework for hedging transactions.”