

Rasheed Mohammed Al Maraj: Developing the global Islamic financial markets

Speech by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the 2nd International Islamic Financial Markets Conference, Manama, 18 June 2007.

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Your Excellencies, Distinguished Guests, Ladies and Gentlemen – Good Morning.

It is a great pleasure for me to welcome you all today, and to help inaugurate the start of this important event, the 2nd International Islamic Financial Markets Conference, here in Bahrain.

I should like to take this opportunity to express my own personal appreciation for the distinguished panel of speakers.

I should also like to commend the IIFM, and the Islamic Research and Training Institute, for putting together a stimulating programme of topics for the next two days, and for their active support of the development of the Islamic finance industry.

Thanks are also due to the many corporate sponsors of this event, for making this event possible, and to the many attendees, whose participation is also essential to the success of such events.

The theme of this conference – “Developing the Global Islamic Financial Markets” – is particularly pertinent. The Islamic finance sector continues to demonstrate strong growth, and higher levels of market penetration. It is also fast internationalizing.

But it has also reached a stage where it faces some interesting challenges, if it is to really take off as a major component of global financial market activities.

These challenges revolve around the continuing need to achieve greater alignment and convergence, without which the vision of deep and liquid global Islamic financial markets risks being compromised.

By greater alignment and convergence, I am referring specifically to the need for further progress in terms of aligning the accounting standards and prudential regulations applied to Islamic finance, as well as the development of standardized instruments and market practices.

Greater harmonization in these areas is critical, in my view, in order to help sustain the rapid growth and internationalization of Islamic finance.

To state the obvious, such differences create additional costs for internationally-active firms and competitive distortions, as well as reduce transparency for investors and counter-parties.

Of course, this is a challenge facing conventional finance as well. But the relative newness of modern-day Islamic finance means that the disparities in approaches in these areas are somewhat greater in this industry.

This issue has already been widely aired, and efforts are of course being made to narrow these differences – more on this in a moment. But broadly speaking further progress continues to be required, and I therefore call on all jurisdictions to intensify their commitment to achieving greater alignment. For its part, the Central Bank of Bahrain will continue to provide its own strong support to initiatives aimed at narrowing these differences.

With respect to accounting standards, the policies set by AAOIFI, the Accounting and Auditing Organisation for Islamic Financial Institutions, provide a solid framework for Islamic financial institutions. Bahrain is one of the few jurisdictions to have made its standards mandatory, although others use them as guidelines. Further promulgation of these standards would help increase consistency in accounting and sharia standards.

Similarly, in the field of financial regulation, we support the work of the Islamic Financial Services Board in developing various prudential standards, and would encourage other jurisdictions to also commit to implementing these standards over time.

And finally, the third critical pillar under this heading is that of developing standard contract designs and associated documentation. Progress here will help address the concerns sometimes expressed about the impact of different sharia rulings on the structuring of instruments, and the lack of certain types of instruments. It will also be instrumental in encouraging more liquid Islamic capital markets.

This critical third pillar, of course, is in many ways why we are here today, and I should like to pay tribute to the sterling efforts now under way within the industry, with the leadership of the IIFM, to tackle these issues. I am now hopeful that real progress in this area is now within our grasp.

You will hear during this conference updates on the initiatives now underway, in conjunction with the International Capital Market Association and the International Swaps and Derivatives Association, to develop Sharia compliant hedging instruments, as well as standardized repo and commodity murabaha contracts. These will be important breakthroughs for the industry, and we very much look forward to their realization later this year.

These initiatives have gained good support from the industry, but I would also call on regulators to help support these initiatives: we too can also play an important role in bringing about greater alignment, by encouraging the use of standardized contracts and documentation, where appropriate.

On this positive note, I should like wish you a productive conference, and to thank you for your kind attention.