ISLAMIC INTERBANK BENCHMARK RATE
PULSE OF THE ISLAMIC CAPITAL MARKETS

20 FREQUENTLY ASKED QUESTIONS (FAQ)

1. How long has the industry been discussing an 'Islamic LIBOR?'

The Islamic Finance industry has been searching for an Islamic equivalent to LIBOR for more than three decades now, but widespread discussions within the Islamic finance customer base only became a common phenomenon as Islamic finance became a mainstream part of the financial system of Muslim majority countries in last decade.

2. Why has this not been created before? Why Thomson Reuters?

To establish an industry wide benchmark requires the acceptance and buy-in of all the major stakeholders in addition to the infrastructure required to facilitate daily calculation and publication of the rates. Thomson Reuters is the only institution in the world that combines the widest network of financial institutions as customers in its global transaction community, in addition to possessing the required infrastructure to facilitate the calculation and widespread distribution to financial markets participants. It took almost two years for Thomson Reuters working with the industry to ensure that all key elements were in place to launch the benchmark.

3. Is the Islamic Interbank Benchmark Rate (IIBR) de-linking from an interest rate index (LIBOR)?

The establishment of the IIBR is the first step, not necessarily the last, towards de-linking from conventional benchmark rates. Given that Islamic finance and the global financial markets are inevitably intertwined, there is every likelihood that the IIBR will have some level of correlation with conventional benchmarks such as LIBOR. However, it establishes itself as independently moving from LIBOR and thereby empowers the Islamic finance industry to determine rates that reflect its own unique characteristics and market conditions as opposed to those of banks in London.

4. Why is being independent important for Islamic finance?

It is important for two reasons. On an economic level, now more than ever, conditions in Europe or the United States do not necessarily reflect the conditions in the Middle East funding market, although there will be inevitably be connection as global financial markets are also intertwined. On an industry level, the use of an interest-based benchmark has long remained a point of contention, resulting in negative perceptions of the industry on the part of consumers. The IIBR will remove a lot of the doubts and hesitation in the minds of customers of Islamic finance.

5. Why the IIBR is termed a leading indicator?

Unlike historical or lagging indicators such as consumer price index (CPI), equity indexes, or gross domestic product, the IIBR is a leading indicator derived from the contributors' cost of raising Shariah compliant funds on that specific day, rather than what it was for the past month or any other period in the past.

6. Will the IIBR assist in stopping the known leakage, which is in the hundreds of billion dollars, in Islamic finance?

Leakage refers to the flow of Shariah sensitive funds pre-dominantly from Islamic banks into the interest based financial system. Such flows occur primarily through deposits that Islamic banks place with conventional banks. By producing a daily rate that is transparently calculated and aligned to global financial markets, the IIBR gives the Islamic finance industry the necessary visibility to become a recipient of funds from the conventional financial system. This is already occurring as more and more funds are deployed to Islamic fixed income (sukuk) instruments issued from within the region. While a rate cannot resolve the liquidity mobilization challenges of the Islamic finance industry, the IIBR will go a long way in giving the Islamic finance the necessary credibility to attract institutional money from global financial markets.

7. Are the members of the Shariah Committee of IIBR paid a fee to certify Shariah compliance?

No, as this is an industry initiative to develop the necessary infrastructure for a Shariah based financial system which is offered to the public at no cost, all of the respected prominent scholars on the Shariah Committee of the IIBR have voluntarily committed their time and efforts without charging any fees.

8. How do you decide to choose a contributing bank?

The Islamic Benchmark Committee has agreed upon a transparent and objective mechanism for the selection and admission of new members. This can be found in the document 'Governance Procedures to Select, Admit and Exclude Contributor Banks' found here.

Among other things, it focuses on the nominated financial institution's rating quality and the approval of a quorum of Islamic Benchmark Committee members.

9. How is IIBR different than LIBOR? What is IIBR measuring?

The principle differences are as follows:

- IIBR measures expected profit while conventional benchmarks such as LIBOR measure interest rates
- The IIBR question for contributors explicitly refers to the cost of raising Shariah compliant funding
- The IIBR is based on returns generated by Islamic assets, hence a reference to an Islamic asset risk profile
- Although there is invariably some correlation to global markets, the IIBR is linked to the economies of the Islamic world and not to the macro-economic events and financial risks of Europe and the US

10. Please provide sample IIBR and LIBOR rates for same tenors?

	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR	IIBR	LIBOR
	ON		SW		1M		2M		3M		6M		9M		1Y	
14/11/2011	0.1067	0.1428	0.2150	0.1922	0.3083	0.2548	0.4100	0.3639	0.4833	0.4794	0.6933	0.6892	0.8500	0.8450	1.1483	1.0076
15/11/2011	0.1136	0.1417	0.1943	0.1919	0.2757	0.2517	0.3800	0.3571	0.4686	0.4711	0.7014	0.6769	0.8857	0.8322	1.1329	0.9970
16/11/2011	0.1093	0.1439	0.1943	0.1919	0.2571	0.2517	0.3529	0.3537	0.4443	0.4656	0.6629	0.6697	0.8314	0.8249	1.0157	0.9919
17/11/2011	0.1181	0.1428	0.2025	0.1922	0.2713	0.2548	0.3663	0.3639	0.4763	0.4794	0.6550	0.6892	0.8038	0.8450	1.0375	1.0076

11. What happens when LIBOR is cheaper/expensive than IIBR? How do you prevent arbitrage?

Arbitrage is an inevitable consequence of open financial markets. There are numerous benchmarks for US dollar funding depending on the markets which the benchmarks represent. However, given that Islamic finance is inevitably linked to real money transactions, the key outcome of the IIBR is to provide visibility of Islamic markets as a source for liquidity absorption, as opposed to being open to abuse by arbitrageurs.

12. Why are Murabaha contribution rates utilized and why did you choose US Dollars?

Murabaha is currently the predominant form of funding for Islamic banks. However, the IIBR is instrument-neutral as decided by the Islamic benchmark committee and in the future, when other instruments such as Wakala or Mudaraba become more widespread, a higher proportion of contributions could be derived from other rates.

The US Dollar (USD) is the world's most liquid currency, most countries in the Gulf Cooperation Council are pegged to the USD, and financial institutions worldwide have large dollar reserves. Therefore, to establish a market accepted benchmark across several Muslim countries, the USD was the natural choice by the Islamic benchmark committee. In the future and subject to demand, it is expected that local currency Islamic benchmarks will also be launched.

13. Are regulators and central banks in Muslim countries aware of the IIBR?

The Central Bank of Kuwait, Central Bank of Bahrain and the Central Bank of the United Arab Emirates have all been notified and are invited to all the meetings of the Islamic Benchmark Committee meetings as observers. Thomson Reuters and the Benchmark Committee will make every effort to work with regulators in order to explain the workings and significance of this unique industry benchmark.

14. How does Thomson Reuters assure the integrity of the IIBR going forward?

Thomson Reuters has employed the best of its global fixings infrastructure along with the governance of the Islamic benchmark committee to ensure the integrity of the IIBR on an on-going basis.

Rates contributed are monitored on a daily basis by Thomson Reuters' Global Fixings Support Team through both automated and manual audit checks. The following steps are taken at a minimum to review the rates:

- Errors in bank contributions are notified to Global Fixings Support Team
- Tolerance review, wherein a bank's contributed rate is flagged if outside of pre-defined confidence levels. The confidence level is based on the difference between the contributed rate and the corresponding moving average.
- Standard deviation review, wherein a bank's contribution is flagged if outside of upper and lower level based on a pre-defined confidence level of standard deviations.

Further, if there is any suspicion during the review process that the rates are either fictitious or there is some attempt at manipulation, Thomson Reuters will notify the Islamic Benchmark Committee, which may refer the matter to a disciplinary committee. More details can be found on the Islamic Benchmark Committee Terms of Reference.

15. How will the IIBR be utilized by Islamic banks and financial institutions?

The IIBR will principally be utilized as the go to reference price rate for Shariah compliant instruments such as:

- Common overnight to short term treasury investment and financing instruments such as Murabaha, Wakala and Mudaraba.
- Retail financing such as property finance, car finance and other asset financing etc.
- Corporate finance and investment assets.
- Sukuk and other Shariah compliant fixed income instruments.

- Official incorporation onto confirmations/annexes related to the Shariah Compliant Hedging Master Agreements

16. What about Corporates wishing to raise Shariah compliant funding?

Yes. The IIBR may be the most appropriate mechanism for measuring such funding.

17. Is IIBR only for Islamic financial institutions?

IIBR, like Islamic finance, is for all people and institutions for all times. As an accurate and transparent measure of market activity, it is suitable for a variety of uses in the modern financial markets of the world.

18. How can/will conventional banks benefit from IIBR?

Conventional banks will now have more confidence in their counterparty Islamic banks because their rates will be benchmarked and publicly available. Islamic banks that are the subject of this benchmark do not deal with in CDOs, CDS, etc., areas associated with the credit crisis.

19. What Shariah compliant 'products' can be launched off IIBR?

- Murabaha Deposit Products
- Profit Rate Swaps
- Capital Protected Notes

20. What is the chronological importance of the IIBR in the contemporary history of Islamic finance?

The Islamic Benchmark is the latest of a series of milestones that the Islamic finance industry has successfully established for itself over the past 40 years. These include

1975	Launch of the first Islamic commercial bank: Dubai Islamic Bank; and the Muslim world's World Bank: Islamic Development Bank
1991	Establishment of the AAOIFI: the global consensus standard setter for the industry
1999	Launch of the world's first Islamic equity index, DJ Islamic market Index
2001	Issuance of the world's first international corporate and sovereign sukuk
2004	Issuance of the first Islamic banking license in a G-7 country: Islamic bank of Britain
2011	Launch of the Islamic Interbank Benchmark Rate

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