

Islamic Finance Task Team (IFTT)

IF.1 Islamic finance in the System of National Accounts and External Sector Statistics

**International Workshop on the Update of
the System of National Accounts, 2008**

(6-8 September 2022, Kunming, China)

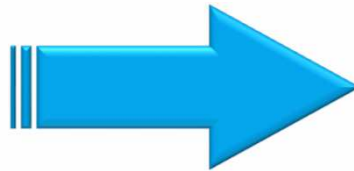
Outline

- **Background**
- **Islamic Finance Task Team**
- **Research issues**
- **Recommendations of the Guidance Note**
- **Results of Global consultation & discussion at Joint AEG/BOPCOM meeting**
- **Way forward**

Background

Principles of Islamic finance

- Islamic Law (Shari'ah) **does not permit** the receipt and payment of "riba" (interest), "gharar" (excessive uncertainty), "maysir" (gambling), and short sales or financing activities that it considers harmful to society
- Parties must **share the risks and rewards** of a business transaction
- Transaction should have a **real economic purpose** without undue speculation or any exploitation of either party



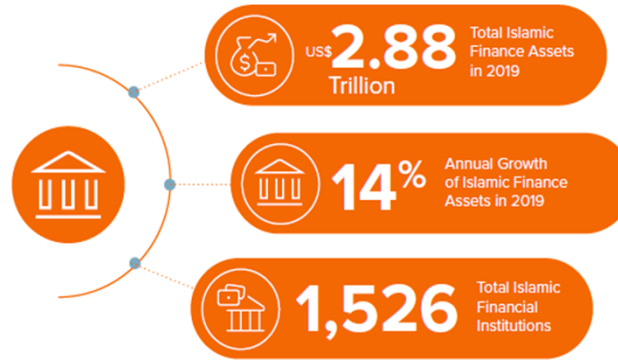
- Islamic financial institutions developed **innovative financing arrangements** to comply with its principles :
 - ▶ Undertake various economic activities
 - ▶ Offer alternative range of financial instruments and assets backed financing
 - ▶ Set up specific entities which may be unique to them

Background Highlights

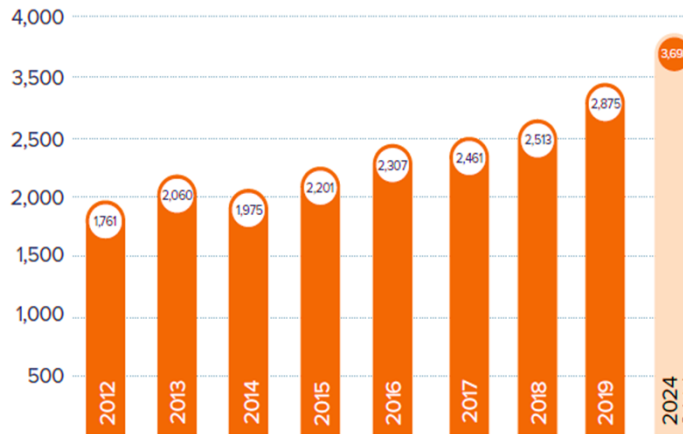
Islamic banking is considered as systemically important in 15 jurisdictions

(Islamic Financial Services Industry Stability Report 2021)

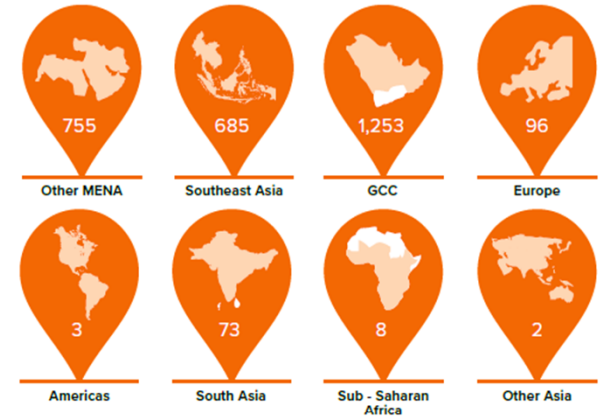
GLOBAL ISLAMIC FINANCE LANDSCAPE



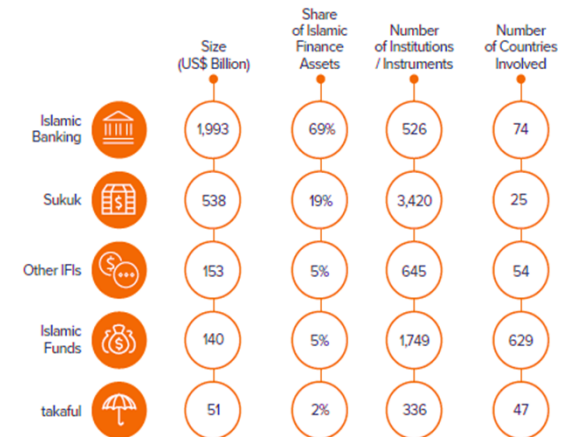
Islamic Finance Assets Growth 2012 - 2019 (US\$ Billion)



Islamic Finance Assets by Region 2019 (US\$ Billion)



Distribution of Global Islamic Finance Assets 2019 (US\$ Billion)



Islamic Finance Task Team

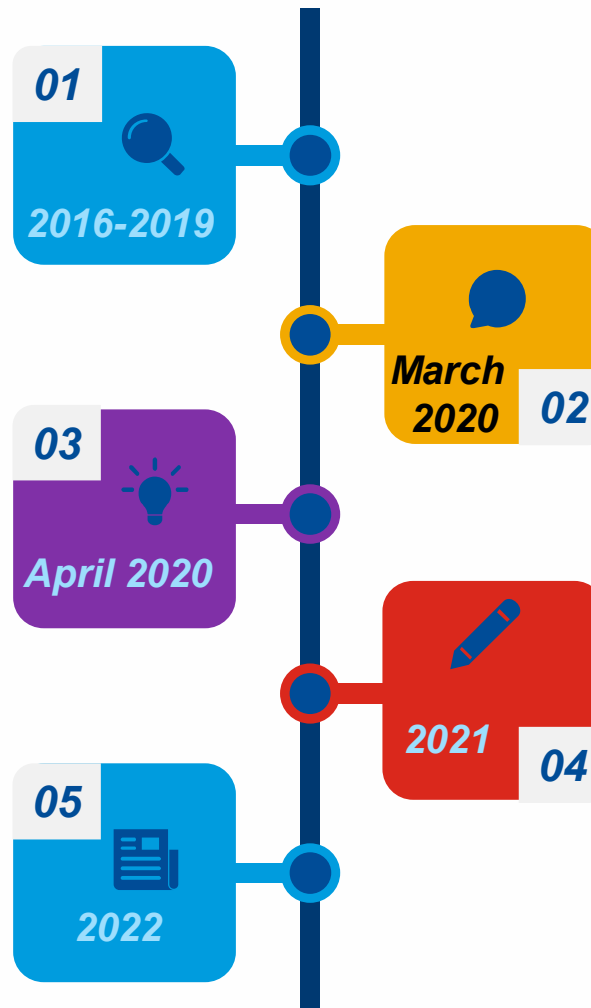


Early research on Islamic Finance:
- 10th-13th AEG meeting
- 2019, ISWGNA Task Force on IF

ISWGNA & BOPCOM formed the Joint Task Team on Islamic finance (IFTT)
Information note presented to both bodies meetings in October 2020

Global consultation (14 Dec 2021 to 25 January 2022)

Outcome of GC presented at joint AEG/BOPCOM meeting (7-10 March 2022)



- UNSC 51st session: request to update the 2008 SNA
- IMF BOPCOM launch a parallel process to update the BPM6

Jan-June 2021> Advanced research:

- Six Research topics (Sub-Task Teams)
- Consolidation

Sep 2021> First draft of the IFTT consolidated guidance note

Dec 2021> launch of global consultation (& supporting webinar)

Islamic Finance Task Team (IFTT)—Current Members

Chairs:

Ms. Amina Khasib (PCBS, State of Palestine)

Mr. Mounir Rhandi (FEO, Morocco)

Secretariat:

Ms. Wafa Aboul Hosn (ESCWA)

Mr. Omar Hakouz (ESCWA)

Mr. Herman Smith (UNSD)

Mr. Benson Sim (UNSD)

International Organizations:

Ms. Farida Cassim (AAOIFI)

Mr. Omar Mustafa Ansari (AAOIFI)

Mr. Mohammad Majd Bakir (AAOIFI)

Mr. Rizwan Malik (AAOIFI)

Dr. Muhammad Bilal (CIBAFI)

Mr. Rachid Ettaai (CIBAFI)

Mr. Alick Mjuma Nyasulu (ESCAP)

Mr. Ahmed Al Farid (GCC-Stat)

Dr. Abideen Adeyemi Adewale (IFSB)

Dr. Aminath Amany (IFSB)

Mr. Ali Rashed (IsDB)

International Organizations (continued):

Dr. Atilla Karaman (SESRIC)

Mr. Abdulhamit Ozturk (SESRIC)

Ms. Samah Torchani (IMF)

Mr. Levan Gogoberishvili (IMF)

Mr. Artak Harutyunyan (IMF)

Mr. Malik Bani Hani (IMF)

Countries:

Dr. Muhammad Amir Hossain (Bangladesh Bank)

Ms. Pujiastuti Abassuni (Bank Indonesia)

Mr. Suswandi (Statistics Indonesia)

Mr. Mohd Yazid Kasim (Department of Statistics, Malaysia)

Ms. Norhayati Razi (formerly Central Bank of Malaysia)

Ms. Bouchra Farghsaoui (High Commission for Planning, Morocco)

Ms. Derya BAŞ Sonbul (TurkStat, Turkey)

Mr. Abd El Shafi El Ashmawy (FCS Authority, UAE)

Mr. Perry Francis (Bank of England, United Kingdom)

Mr. Michael Lyon (Bank of England, United Kingdom)

Universities/Others:

Mr. Ragheed I. Moghrabi (RH University, Lebanon)

Dr. Tawfik Azrak, (Social Sciences University of Ankara, Turkey)

Mr. Russell Krueger (Independent Expert)

Research issues

Issue 01

Terminology for the investment income for Islamic deposits, loans and debt securities



Issue 04

Classification of Islamic financial instruments and corresponding investment income



Issue 02

Sectorization and output of Islamic financial entities



Issue 05

Reference rates and terminology to calculate Islamic FISIM



Issue 03

Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial corporations



Issue 06

Islamic Insurance (Takaful and Retakaful)



Recommendations of the Guidance Note



Terminology for the investment income for Islamic deposits, loans and debt securities

- **(issue 1.1)** Terminology to describe the interest-like returns on some Islamic debt instruments (i.e., Islamic deposits, loans and debt securities);
 - ▶ **The GN recommends to use the term “interest and similar returns”**
 - ▶ The term “interest” ensures continuity with the current terminology
 - ▶ The second part “similar returns” should describe the broader interest-like returns on Islamic deposits, loans and debt securities
 - ▶ Avoid alternative classification frameworks
 - ▶ Avoid to use the term “investment” which has a broad meaning in FA and IIP
- **(issue 1.2)** Presentation of the interest-like returns in the updated SNA and BPM
 - ▶ **Retain the current classification** of investment income for Islamic returns
 - ▶ Rename "interest (D41)" to "interest and similar returns (D41)"
 - ▶ Give economies with significant Islamic financial activities the option to create a sub-category within interest and similar returns (D41), to be reflected as “of which: Returns on Islamic deposits, loans and debt securities”



Terminology for the investment income for Islamic deposits, loans and debt securities

- **(issue 1.3)** Proposed changes to the relevant paragraphs in the 2008 SNA and BPM6
 - ▶ **The GN provide recommendation to change/nuance key paragraphs** in 2008 SNA and BPM6: SNA 7.113, SNA 7.114 & BPM 11.48

SNA 7.113: {“**Interest and similar returns**” is a form of **investment income or interest-like investment income** that is receivable by the owners of certain kinds of financial assets, **including Islamic financial instruments**, namely: deposits (**or sources of funds**), debt securities, loans (**or uses of funds**) and (possibly) other accounts receivable for putting the financial asset at the disposal of another institutional unit. Income on SDR holdings and allocations is also treated as **interest and similar returns**. The financial assets giving rise to **interest and similar returns** are all claims of creditors over debtors. Creditors lend funds to debtors that lead to the creation of one or other of the financial instruments listed above. The amount the debtor owes the creditor is known as the principal. Over time, the amount due to the creditor declines as the debt is repaid and increases as **interest and similar returns** accrues. The balance at any time is referred to as the principal outstanding.

SNA 7.114: “**Interest and similar returns**” may be a predetermined sum of money (**or profit**) or a fixed or variable percentage of the principal outstanding **or the profit share from the sources and uses of funds**. If some or all of the interest accruing to the creditor is not paid during the period in question, it may be added to the amount of the principal outstanding or it may constitute an additional, separate liability incurred by the debtor. However, the **interest and similar returns** may not necessarily be due for payment until a later date and sometimes not until the loan, or other financial instrument matures.}

- ▶ No structural changes to the SNA and BPM are proposed while the term "interest and similar returns" is able to accommodate with Islamic finance and comply with Shari'ah principles



Sectorization and output of Islamic financial entities

Various economic activities and some separate entities are rather unique to Islamic finance

- **(issue 2.1) Update Annex D** which recommended sectorization of Islamic financial corporations and the methods to calculate their output
- Summary of recommendations for classifying, sectorizing and calculating output of newly identified Islamic financial entities

Entity	Are they institutional units (issue 2.2)?	Sectorization (issue 2.3)	Methods to calculate output (issue 2.4)
Off-balance sheet restricted investment accounts	Yes	Non-money market investment funds (S124)	Sum of costs and FISIM on financing arrangements such as Murabaha and Ijarah
Islamic windows in conventional banks	Yes	Deposit-taking corporations except the central bank (S122)	Combination of FISIM, fees and commissions
Waqf funds	Yes	Captive financial institutions and money lenders (S127)	Sum of costs
Hajj funds	Yes	Non-money market investment funds (S124)	Sum of costs



Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial corporations

- **(issue 3.1)** Treatment of **economic ownership of non-financial assets in financing arrangements** such as: Murabaha, Bai Muajjal, Mudaraba, diminishing Musharaka, Bai Salam, Istisna'a, Operating Ijarah, Financing Ijarah and Tawarruq
 - ▶ The Islamic financial corporations can establish **a separate institutional unit** which will then be the economic owner of the underlying non-financial assets
 - ▶ If not, Islamic financial corporations are deemed acting as facilitators by transferring the economic ownership of the non-financial assets from the seller to the client and consequently, cannot be classified as the economic owner of the non-financial asset
 - ▶ The GN recommends **the ultimate purchasers of these assets to be the economic owners** of the underlying non-financial assets should be considered
 - ▶ The time of recording of the acquisition of the underlying non-financial assets is the moment when the economic ownership of these assets changes hands
- **(issue 3.2)** Economic ownership of non-financial assets **when clients default** on paying for these assets in financing arrangements such as: Murabaha and Bai Muajjal
 - ▶ The client remains the economic owner of the underlying non-financial asset



Classification of Islamic financial instruments and corresponding investment income

- **(issue 4.1)** The GN annex B provides recommended classification of the Islamic financial instruments and corresponding investment income based on the slotting-in approach
 - ▶ Source of funds (15 main types of instruments) and Use of funds (13 instruments)
 - ▶ The recommended classification is based on a series of deciding factors that can be used to classify other instruments
 - ▶ Recommendations are supported by Annex C which provides diagrams illustrating the flows between Islamic financial corporations and their clients for various instruments

- **(issue 4.2)** The GN suggests the construction of a “decision tree” incorporating the above deciding factors that will enable compilers to classify adequately any missing or new IF instrument



Reference rates and terminology to calculate Islamic FISIM

- **(issue 5.1)** The GN recommends that the FISIM formula should be used to calculate the financial intermediation services provided by Islamic deposit-taking corporations (option 1)
- **(issue 5.2)** Which reference rate to use if the FISIM formula is to be used to calculate the FISIM on Islamic deposits and loans.

No agreement reached as various arguments support divergent views of members:

- ▶ For option 1 (Only one unique reference rate is recognized for conventional and Islamic FISIM), the reference rate is a service-free rate and unique one that's used to derive the SNA interest and FISIM on conventional deposits and loans with varying characteristics
- ▶ For option 2 (One unique reference rate is recognized, with the explicit recognition of different risk profiles for Islamic deposit-taking corporations), this will provide flexibility to consider the variance between conventional and Islamic finance arising from the differences in their financing arrangements
- ▶ For option 3 (Different reference rates are recognized for conventional and Islamic FISIM), because the Islamic activity tend to be limited to an Islamic finance subsector comprising entities that seek to deposit in Islamic banks and choose to obtain Shari'ah-compliant financing



Reference rates and terminology to calculate Islamic FISIM

- **(issue 5.3)** The members show preference to use total deposits and total loans rather than the more complex instrument-by-instrument approach to calculate Islamic FISIM.
- **(issue 5.4)** The GN recommends that separate reference rates should be applied for each currency involved in cross-border Islamic deposits and loans
- **(issue 5.5)** The GN recommends to use the same terminology recommended on the issue on the terminology for investment income for Islamic deposits, loans and debt securities, for consistency
- **(issue 5.6)** The GN recommends to invite economies to participate in empirical tests on what reference rate(s) to use in the calculation of domestic and cross-border FISIM on Islamic deposits and loans, given the different views for issue 5.2



Islamic insurance (takaful and retakaful)

- **(issue 6.1)** The GN recommends to classify takaful operators and takaful funds as **separate institutional units** in the compilation of national and international accounts statistics
 - ▶ The two groups of units have the main attributes of institutional units, including the existence of a complete set of accounts
 - ▶ The recommendation applies also to retakaful operators and retakaful funds
 - ▶ This apply also to takaful/retakaful windows that have distinctly identified assets and liabilities, separate from those of the conventional operation of the belonging financial entity
 - ▶ Does not apply to “light” version of takaful and retakaful in some economies where these arrangements remain similar to conventional insurance and thus, the GN recommends to consider the combined unit as one institutional unit
- **(issue 6.2)** The GN recommends to sectorize takaful operators and takaful funds if they are classified as institutional units, respectively, into the financial auxiliaries subsector (**S126**) and insurance corporations subsector (**S128**)
 - ▶ The combined unit of “light” takaful and the takaful windows are recommended to be sectorized into the insurance corporations subsector (**S128**)



Islamic insurance (takaful and retakaful)

- **(issue 6.3)** The GN recommends the following calculation of output of takaful operators and takaful funds if they are classified as institutional units:
 - ▶ Output of takaful operators: as the wakalah fees they charge to administer takaful funds and/or the share of profits earned from investing takaful funds
 - ▶ Output of takaful funds: as sum of costs as the wakalah fees they pay to takaful operators and/or the share of profit payable to takaful operators plus other intermediate consumption, if any
 - ▶ For the “light” takaful, the GN recommends to calculate the output of the combined unit using the existing methods that are used to calculate the output of conventional insurance



General recommendations


The guidance note focuses on main conceptual aspects to capture Islamic financial transactions, other flows and positions. Further guidance on practical aspects may be needed for implementation in countries with widespread Islamic financial activities. Two general recommendations are therefore suggested:

- Include a **special section or an appendix on Islamic finance** in the updated SNA and BPM which highlights the differences between conventional and Islamic finance, brings together all the entries in the accounts connected with Islamic finance and explains their interconnections
- Develop an Islamic finance **compilation guide**

Results of Global consultation

<https://unstats.un.org/unsd/nationalaccount/RAconsultation.asp?clD=20>

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IF.1 Islamic finance in the System of National Accounts and External Sector Statistics

Consultation paper: [Please click here to complete the online response survey](#)

Supplements: [IF1_GN_Islamic_Finance_ENG.pdf](#) [IF1_GN_Islamic_Finance_ARA.pdf](#) [IF1_Q_Islamic_Finance_ENG.pdf](#) [IF1_Q_Islamic_Finance_ARA.pdf](#)

Posted: 12/14/2021

Comment deadline: 1/25/2022

Consultation status: Closed

Consultation report: [Please click here](#)

GN & annexes **Arabic version** **Questions for global consultation**

Detailed results

GN & annexes

Arabic version

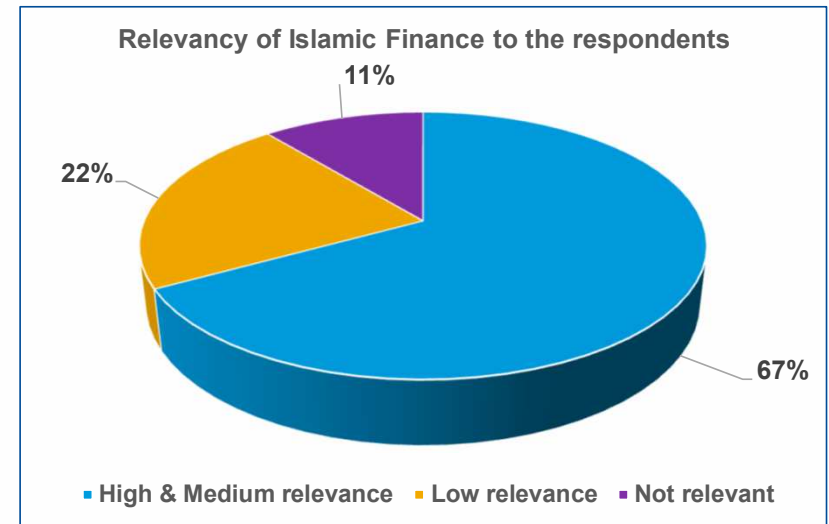
Questions for global consultation

Detailed results

Results of the global consultation (summary)

- 36 respondents from 29 economies and regional/international organizations:
 - ▶ The majority were provided by Asian economies (19)
 - ▶ Followed by Africa (6), Europe and South America (4 each) and North America (3)

Respondents by Region and Relevancy						
Relevancy	Asia	Africa	Europe	South America	North America	Total
High relevance	12	1		1	1	15
Medium relevance	5	1	1	2		9
Low relevance	1	3	2	1	1	8
Not relevant	1	1	1		1	4
Total	19	6	4	4	3	36



Results of the global consultation (summary)

- **Solid support for the recommendations** for the various topics in the GN.
- Reinforces the need for more flexibility for current macroeconomic statistical standards to account for Islamic finance activities.
- The respondents agreed with the recommendations to:
 - ▶ **Broaden the terminology** used for the investment income
 - ▶ **Sectorize** Islamic financial entities and calculate their output
 - ▶ Apply the concept of **Economic ownership** for Islamic financial arrangements
 - ▶ **Classify** Islamic financial instruments using a **slotting-in approach** and develop a decision tree
 - ▶ Sectorize **Islamic insurance** entities and calculate their output
- Use FISIM formula, but there are diverging views on the appropriate reference rate
- Strong support to include a special section on Islamic finance in the updated SNA and BPM and to develop a compilation guide on Islamic finance
- Volunteers to participate in testing and experimentation exercises

Discussion at Joint AEG/BOPCOM meeting

Single guidance note

Commended the Islamic finance task team for the excellent work done in conceptualizing and grouping the issues, and developing and consolidating the recommendations in a **single guidance note** for global consultation

Outcome of global consultation

Unanimously agreed with the **outcome of the global consultation**, that supported all recommendations of the IFTT, apart from issue 5.2 related to reference rates for calculating Islamic FISIM

Issue 5.2

Agreed with the recommendation to undertake experimentation and testing on which reference rates to use for calculating Islamic FISIM (**issue 5.2**)

Section on Islamic Finance

Supported the recommendation to include a **section on Islamic finance** in the updated SNA and BPM

Islamic finance compilation guide

Supported the recommendation to prepare an **Islamic finance compilation guide** (including guidance to compile an Islamic finance satellite account)

Interest and similar returns

Noted that the proposed wording of the definition of “**interest and similar returns**” may need to be refined to avoid inconsistencies with other terms in the SNA

Way forward

Interest and similar returns

- Refine the wording of the proposed definition of “**interest and similar returns**”, in consultation with the editors of the SNA and BPM

Revised guidance note


- **Revise the guidance note** to reflect the outcome of the joint AEG/BOPCOM meeting
- Post revised guidance note on 2008 SNA and BPM6 update websites

Experimentation and testing

- Conduct **experimentation and testing** of issue 5.2
- Revise guidance note to incorporate results of experimentation and testing
- Circulate revised guidance note to AEG and BOPCOM for final approval

<https://unstats.un.org/unsd/nationalaccount/snaupdate/iftt.asp>

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Joint Islamic Finance Task Team (IFTT)

The Joint Islamic Finance Task Team (IFTT) deals with issues arising from the need for the further integration of Islamic finance and related principles/concepts into macroeconomic and financial statistics, necessitating the development of additional methodological and practical guidance within the framework of the revision.

Further details on the mandate and operations; guidance notes and working procedures; composition; and key issues to be addressed by the IFFT are provided in the [Terms of Reference](#).

After an initial draft of the guidance note is approved by the AEG and Balance of Payments Task Team, guidance notes will be posted for [Global Consultation](#) to receive feedback from worldwide compilers and users of macroeconomic statistics. The outcome of the consultation is further informing the proposals to be presented for formal endorsement to BOPCOM and AEG/ISWGNA. Endorsed guidance notes will be considered for the update of the 2025 SNA and BPM7.

Guidance Notes	Initial draft	Consultation	Endorsed
Islamic Finance (IFTT)			
IF.1 Islamic Finance in the National Accounts and External Sector Statistics	ENG	ARA ENG	ARA* ENG*

↑
Endorsed English
version of the GN
(current)

Thank you for your attention

Discussion

- Questions/reactions