

**11th Meeting of the Advisory Expert Group on National Accounts,
5-7 December 2017, New York, USA**

Agenda item: 5.1

Islamic finance in the national accounts

Introduction

The 10th meeting of the Advisory Expert Group (AEG) on National Accounts discussed issues on the implementation of the 2008 SNA recommendations for Islamic finance. The AEG noted the differences in business arrangements between Islamic finance and conventional finance and recognized the systemic importance of Islamic finance for some economies and their relative rapid growth. The AEG agreed that further research on the statistical implications of Islamic finance in the national accounts is required and that practical guidance on the treatment of Islamic finance transactions needs to be developed. Consequently, the Statistics Division of the Economic and Social Commission for Western Asia (ESCWA) and United Nations Statistics Division (UNSD) created a Task Force on Islamic finance under the auspices of the Intersecretariat Working Group on National Accounts (ISWGNA) to address the statistical treatment of Islamic finance in the national accounts. A Workshop on Islamic Finance was subsequently held in Beirut, Lebanon, October 2017. The workshop resulted in a number of key recommendations to take the work forward.

Documentation

An issues paper on: Islamic finance in the national accounts

Main issues to be discussed

The AEG is requested to:

- Provide guidance on the recommendations presented in paragraphs 28-32 of the issues paper.

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Islamic finance in the national accounts

I. Introduction

1. Islamic finance does not operate in the same way as conventional finance as it follows the Shari'ah Islamic law, principles and rules. The Shari'ah Islamic law does not permit receipt and payment of "riba" (interest), "gharar" (excessive uncertainty), "maysir" (gambling), and short sales or financing activities that it considers harmful to society. Instead, the parties must share the risks and rewards of a business transaction and the transaction should have a real economic purpose without undue speculation, and not involve any exploitation of either party.
2. At its 10th meeting in Paris, France, from 13 to 15 April 2016, the Advisory Expert Group (AEG) on National Accounts discussed issues on the implementation of the 2008 SNA recommendations for Islamic finance. These issues had also been raised during several meetings in the Arab region organized by the Statistics Division of the Economic and Social Commission for Western Asia (ESCWA). The AEG noted the differences in business arrangements between Islamic finance and conventional finance and recognized the systemic importance of Islamic finance for some economies and their relative rapid growth. The AEG agreed that further research on the statistical implications of Islamic finance in the national accounts is required and that practical guidance on the treatment of Islamic finance transactions needs to be developed. Consequently, the Statistics Division of ESCWA and United Nations Statistics Division (UNSD) created a Task Force on Islamic Finance under the auspices of the Intersecretariat Working Group on National Accounts (ISWGNA) to address the statistical treatment of Islamic finance in the national accounts. The Task Force comprises representatives and experts from countries where Islamic finance is important, international and regional organizations and academia.
3. Subsequently, the Statistics Division of ESCWA and UNSD jointly organized a Workshop on Islamic Finance in the National Accounts, in Beirut, Lebanon, from 24 to 26 October 2017. The workshop discussed existing recommendations and guidance on how to account for Islamic finance in the national accounts and the issues arising from these recommendations. The workshop was attended by 17 participants from the national statistical offices of countries with Islamic finance activities. Staff members from the Bank for International Settlements, International Monetary Fund (IMF), Islamic Development Bank (IsDB), Islamic Financial Services Board (IFSB), Statistical Centre for the Cooperation Council for the Arab Countries of the Gulf (GCC-STAT), Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), United Nations Statistical Institute for Asia and the Pacific (SIAP), ESCWA and UNSD and individual experts from universities and other organizations in the ESCWA and other regions also participated in the workshop either in person or contributed to specific sessions via WebEx.

4. This issues paper seeks guidance from the AEG on the key recommendations of the workshop.

II. Discussions at workshop

5. The workshop saw presentations and draft recommendations on the use of income statements and balance sheets of Islamic banks for compiling national accounts, sectorization of Islamic financial corporations, classification of Islamic financial instruments, classification of the corresponding property income associated with Islamic financial instruments, and calculation of output and value added of Islamic financial services. There were also presentations on various international initiatives to collect data on Islamic finance, while country participants shared their experiences on the challenges they encountered in compiling Islamic finance statistics and recommendations and solutions to overcome these challenges. The workshop reached a number of conclusions, while several issues were also raised. In particular, participants:

Relevance of the 2008 SNA framework

6. Recognized that the 2008 SNA provides the overarching integrating framework to measure the activities of Islamic finance.
7. Agreed that the accompanying international classification schemes such as ISIC Rev. 4 and CPC Ver. 2.1 are meant to provide general guidance and recommendations. Thus, they should not be amended to specifically accommodate the various elements of Islamic finance. Rather, compiling agencies can consider disaggregating the relevant categories in international classification schemes to the relevant Islamic finance sub-categories in the national reporting of data.

Use of income statements and balance sheets of Islamic banks

8. Noted the important differences between the income statements and balance sheets of Islamic banks and conventional banks.
9. Recognized that a thorough understanding of these differences is needed to determine how to use the income statements and balance sheets of Islamic banks in the compilation of national accounts.
10. Noted that the Islamic bank framework of the IFSB potentially provides a good source of information for compiling Islamic finance statistics in the national accounts.
11. Agreed that there is a need to determine whether Islamic banks or its clients are the economic owners of the non-financial assets related to sales, lease and equity financing which are reported on the balance sheets of Islamic banks.

12. Agreed that there is a need for worked examples to illustrate how to make use of these income statements and balance sheets to calculate the various elements of Islamic finance such as property income and output in the national accounts.
13. Agreed that solutions to obtain separate data on Islamic windows need to be developed as such data are typically not collected by regulatory or supervisory authorities.

Sectorization of Islamic financial corporations

14. Agreed that in general, Islamic financial corporations can be allocated to the subsectors of the financial corporations sector as outlined in the 2008 SNA. However, the allocation of Islamic financial corporations to the deposit-taking corporations except the central bank subsector will need to be reconciled with the consequent classification of at least one of their financial instruments on the liabilities side as deposits and the corresponding property income payable as interest.
15. Agreed that sovereign wealth funds if they are institutional units and provide financial services on a market basis to the government are allocated to the captive financial institutions and moneylenders subsector.
16. Agreed that Islamic insurance corporations should be allocated to the insurance subsector given that the nature of their economic activity is no different from that of conventional insurance corporations.

Classification of Islamic financial instruments

17. Noted that the existing sectorization of Islamic financial corporations and classification of Islamic financial instruments for compiling monetary and financial statistics using the classification schemes in the 2008 SNA are intended to obtain major macroeconomic aggregate indicators such as money supply (broad money) and credit.
18. Agreed that there is a need to reconcile the existing sectorization and classification with the perceptible shift to second era Islamic finance such as profit and loss sharing accounts, Islamic financial instruments with hybrid features and the classification of the associated property income in the national accounts.
19. Agreed that the reconciliation exercise will also need to assess the impact on the measurement of debt and money supply arising from classifying Islamic financial instruments as equity and non-equity in the 2008 SNA framework.

Classification of corresponding property income

20. Recognized the need to assess whether the current concept of interest in the 2008 SNA can be interpreted to include the property income associated with Islamic financial instruments that are classified as deposits, loans or debt securities.
21. Recognized the need to reconcile the classification of the investment income payable to holders of unrestricted profit-sharing investment accounts and the subsequent reinvestment of a portion of this investment income in the profit equalization reserves.

Output and value added of Islamic financial services

22. Recognized the need to assess whether it is appropriate to calculate the output of the financial intermediation services provided by Islamic financial corporations which are classified as deposit-taking corporations using the FISIM formula, and if yes, determine the appropriate reference and financing rates to be used in the calculation of these services.
23. Recognized the need to develop practical guidance on how to calculate the quarterly output of Islamic financial services whose returns are only known ex-post annually.
24. Recognized the need to develop methods to estimate the intermediate consumption of Islamic financial corporations and Islamic windows in order to calculate their value added.

International initiatives to collect data on Islamic finance

25. Recognized the need for regional and international organizations which are collecting data on Islamic finance to explore collaborative efforts in order to reduce duplication and respondent burden.
26. Suggested that links to the databases of these international organizations be included on UNSD's Islamic finance website to enhance user accessibility to the data which are collected.
27. Recognized the need for regional and international organizations which are collecting data on Islamic finance to consider standardizing their data collection and dissemination methods using internationally-endorsed standards such as SDMX protocols.

III. Key recommendations

28. Recommended the formation of two working groups to streamline the work to tackle the issues which were raised during the workshop.
29. Recommended that the first working group work on the issues on the use of income statements and balance sheets of Islamic banks for compiling national accounts, the sectorization of Islamic financial corporations, classification of Islamic financial instruments, classification of the corresponding property income associated with Islamic financial instruments, calculation of output and value added of Islamic financial services. To this end, a corporation-by-corporation and instrument-by-instrument analysis of the characteristics of Islamic financial corporations and Islamic financial instruments and their transactions will be summarized in a matrix in order to determine the appropriate sectorization of Islamic financial corporations and classification of Islamic financial instruments, the recording of these transactions in the integrated national accounts framework and the development of a standard questionnaire to collect the input data.
30. Recommended that the second working group assess how to coordinate the work of regional and international organizations which are collecting data on Islamic finance to maximize synergies and minimize duplication and respondent burden; assess how the

data can be used to compile Islamic finance statistics in the national accounts; and explore how to standardize their data collection and dissemination methods using internationally-endorsed standards such as Statistical Data and Metadata eXchange (SDMX) protocols.

31. Recommended that the two working groups coordinate their activities to ensure the development of recommendations in an integrated approach.
32. Recommended that the development of recommendations and guidance of these two groups should include inputs from stakeholders including central banks, compilers of monetary and financial statistics, regulatory and supervisory authorities, Islamic accounting standards setting agencies and practitioners in the Islamic finance industry and that these stakeholders be invited to future workshops if they are organized.

IV. Questions for AEG discussion

33. The AEG is requested to provide guidance on the key recommendations presented in paragraphs 28-32 of the paper.