

Working Groups on Islamic Finance Terms of Reference

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 recommended the formation of two working groups to streamline the work streams: (a) to address the issues related to the use of income statements and balance sheets, sectorization, classification and the recording of Islamic finance transactions; and (b) to coordinate the work of regional and international organizations on the collection of data on Islamic finance.

4. At its 11th meeting in New York from 5 to 7 December 2017, the AEG welcomed the work of the Task Force and recognized that its future work will contribute to the development of statistical guidance on the treatment of Islamic finance in the national accounts. It supported the recommendations to form the two working groups to streamline the work streams and requested the Task Force to provide an update on the progress of the work of the two working groups at a future meeting of the AEG.

Objectives of working group on sectorization and classification

5. The first working group will be known as the working group on sectorization and classification and will comprise members of the Task Force who have extensive practical experience in the compilation of national accounts statistics on Islamic finance.
6. This first working group will develop practical guidance and recommendation on the:
 - a. Use of income statements and balance sheets of Islamic banks for compiling national accounts;
 - b. Sectorization of Islamic financial corporations;
 - c. Classification of Islamic financial instruments;
 - d. Classification of the corresponding property income associated with Islamic financial instruments;
 - e. Calculation of output and value added of Islamic financial services, including those provided by Islamic windows.
7. To facilitate its work, this working group will develop a corporation-by-corporation and instrument-by-instrument analysis of the characteristics of Islamic financial corporations and Islamic financial instruments and summarize their corresponding transactions in a matrix in order to determine the appropriate sectorization of Islamic financial corporations and classification of Islamic financial instruments and the recording of these transactions in the integrated national accounts framework. Where appropriate, it will develop the matrix based on available existing materials. It will also explore the feasibility of developing a standard questionnaire to collect the input data.

Objectives of working group on data coordination and collection

8. The second working group will be known as the working group on data coordination and collection and will comprise representatives of international and regional organizations who are collecting or intend to collect data on Islamic finance.
9. This working group will:
 - a. Review the data on Islamic finance that each organization is collecting or intends to collect;
 - b. Assess how to coordinate the data collection initiatives of these organizations to maximize synergies and minimize duplication and respondent burden;
 - c. Assess the data can be used to compile Islamic finance statistics in the national accounts;
 - d. Explore how to standardize the data collection and dissemination methods of each organization using internationally-endorsed standards such as Statistical Data and Metadata eXchange (SDMX) protocols;
 - e. Prepare a report summarizing the results of its work.

Working methods

10. Members of both working groups are expected to actively engage in the discussions and the preparation of guidance and recommendations. The two working groups should also coordinate their activities to ensure the development of guidance and recommendations in an integrated approach. Where appropriate, the two working groups should consult 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 in the development and review of the guidance and recommendations.

11. The working methods of both working groups are expected to consist mainly of electronic communication through the circulation of documentation and the collection of comments on specific topics.

Timeline

12. The work of the two working groups is expected to last from March to September 2018. Depending on the progress of the work, a physical meeting of the Task Force is scheduled to be organized in the fourth quarter of 2018 for the working groups to present their draft guidance and recommendations. The recommendations of the physical meeting will then be presented at the next meeting of the AEG.

Reporting

13. Both working groups will report to the Statistics Division of ESCWA and UNSD on the progress of their work bimonthly.