

# ISWGNA Task Force on Islamic Banking

## Terms of Reference

### Introduction

1. Islamic Banking does not operate in the same way as conventional banking 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. Annex 4.3 of the Monetary and Financial Statistics Manual and Compilation Guide (IMF, 2016) provides a detailed description of how Islamic financial institutions (IFIs) operate under the Islamic principles and how the instruments they use differ from conventional financial instruments. The Guide describes the principal characteristics of financial assets and liabilities, and their classification by type of financial instrument within the framework of monetary and financial statistics in line with the System of National Accounts 2008 (2008 SNA).

3. However, issues on the implementation of the 2008 SNA recommendations for Islamic Banking were raised during several meetings in the Arab Region organized by the United Nations Economic and Social Commission for Western Asia (ESCWA). Two positions emerged during these meetings and can be summarized as follow:

Position 1: Islamic banks produce financial services that should be indirectly measured (FISIM) and the deposits and loans are similar to conventional banks (in line with IMF, 2016). In this case further research is needed to: (a) measure the input cost of trade arrangements in the case of mark-up (Murabaha); and (b) how to interpret the management fees paid by depositors (investors) to the bank.

Position 2: Islamic Banking should not be considered as conventional banking, rather should be classified as managers of mutual funds or non-money market funds. This would imply a different classification and recording of the financial instruments of Islamic Banking.

4. The issue of Islamic Banking was discussed by the Advisory Expert Group (AEG) on National Accounts at its 10th meeting, 13-15 April 2016, Paris, France. Further information on this issue is available at: <http://unstats.un.org/unsd/nationalaccount/aeg/2016/M10.asp>.

5. The AEG noted the difference in business arrangements between Islamic Banking and conventional banking and recognized the systemic importance of Islamic Banking for some economies and their relative rapid growth. The AEG agreed that further research on the statistical implications of Islamic Banking in the national accounts is required and that practical guidance on the treatment of Islamic Banking transactions needs to be developed.

### Objectives

6. The Task Force on Islamic Banking has been established by the ISWGNA to further research on the statistical implications of Islamic Banking in the national accounts and develop practical guidance on the treatment of Islamic Banking transactions.

7. The specific objectives of the Task Force are the following:
- Assess whether or not the Islamic Banks should be considered in the same way as conventional banks, or as managers of mutual funds or non-money market funds;
  - Assess the statistical implications of either choice; and
  - Depending on this assessment, provide detailed guidance on the recording of the financial instruments and transactions of Islamic Banking in line with the 2008 SNA.

### **Governance and participation**

8. The Task Force is established by the Inter Secretariat Working Group on National Accounts (ISWGNA) and is chaired by UNSD. The Secretariat will be provided by ESCWA.

9. The membership of the Task Force should include experts in the areas of national accounts and financial accounts and statistics from countries where Islamic banking is prevalent, and experts from relevant international/regional organizations. It is expected that members of the Task Force will actively engage in the discussions and the drafting of notes and recommendations. It is expected that an Editor will be appointed to take the lead in drafting relevant notes and prepare the outcome document of the Task Force.

10. The working methods are expected to consist mainly of electronic communication through the circulation of documentation and the collection of comments on specific topics. A face-to-face meeting of the Task Force will be organized in the second half of 2017 to assess the progress of work and agree on an initial set of recommendations on Islamic Banking.

### **Reporting**

11. The Task Force will report to the ISWGNA in accordance with the SNA update procedures as established by the United Nations Statistical Commission<sup>1</sup>. The Task Force will report to the AEG at its 11<sup>th</sup> meeting in December 2017 before the final conclusions are presented to the ISWGNA.

### **Timeline**

12. It is expected that consultation within the Task Force be held electronically in the first half of 2017; a meeting of the Task Force be held in the second half of 2017 to assess progress made and agree on an initial set of recommendations on Islamic Banking; consultation with the AEG to take place at the 11<sup>th</sup> meeting of the AEG which is tentatively scheduled in December 2017; submission of the final report of the Task Force to the ISWGNA in the first quarter of 2018.

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<sup>1</sup> See <http://unstats.un.org/unsd/nationalaccount/uProc.asp>