

**12th Meeting of the Advisory Expert Group on National Accounts,
27-29 November 2018, Luxembourg**

Agenda item: 6.a.

Islamic finance in the national accounts

Introduction

At its 11th meeting in New York, USA, Advisory Expert Group on National Accounts discussed the recommendations of the Task Force on Islamic finance arising from its workshop in Beirut, Lebanon. The key recommendation was the formation of two working groups to streamline the work of the task force. A Workshop on Islamic Finance was subsequently held in Ankara, Turkey, from 31 October to 2 November 2018. The issues paper provides an update on the progress of the work of the task force and the conclusions and recommendations of the Ankara workshop.

Documentation

An issues paper on: Islamic finance in the national accounts

Main issues to be discussed

The AEG is requested to:

- Provide comments on the progress of the work of the task force.

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I. Introduction

1. At its 11th meeting in New York from 5-7 December 2017, the Advisory Expert Group (AEG) on National Accounts discussed the recommendations of the Task Force on Islamic Finance arising from the workshop which was organized in Beirut, Lebanon, in October 2017. The key recommendation was the formation of two working groups to streamline the work of the task force. One working group (known as the working group on sectorization and classification) aims to address the issues related to the use of income statements and balance sheets, sectorization, classification and the recording of Islamic finance transactions. The second working group (known as the working group on data collection and coordination) aims to coordinate the work of regional and international organizations on the collection of data on Islamic finance.
2. The working group on sectorization and classification has since developed draft recommendations on the classification of Islamic financial instruments and the corresponding property income, sectorization of Islamic financial corporations and methods to calculate the output of Islamic financial instruments. It has also developed diagrams to show the flows between Islamic financial corporations and their clients for various Islamic financial instruments to help better understand how to record these flows in the national accounts. These draft recommendations were discussed at a Workshop on Islamic Finance in the National Accounts in Ankara, Turkey, from 31 October to 2 November 2018. The workshop was jointly organized by the Statistics Division of Economic and Social Commission for Western Asia (ESCWA) and United Nations Statistics Division (UNSD), in collaboration with the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC).
3. Representatives from the national statistical offices and central banks of the working group on sectorization and classification), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Monetary Fund (IMF), Islamic Development Bank (IsDB), Islamic Financial Services Board (IFSB), Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), ESCWA and UNSD and individual experts from local universities participated in the workshop either in person or contributed to specific sessions via Skype.
4. This issues paper seeks comments from the AEG on the progress of the work of the task force.

II. Discussions at workshop

5. The workshop discussed the draft recommendations on classification of Islamic financial instruments and the corresponding property income, diagrams showing the flows between Islamic financial corporations and their clients for various Islamic financial instruments, sectorization of Islamic financial corporations and methods to calculate the output of Islamic financial services. International and regional organizations gave presentations on their initiatives to collect data on Islamic finance. In addition, country participants gave detailed presentations on the use of income statements and balance sheets of Islamic financial corporations or surveys to compile Islamic finance statistics in the national accounts. The workshop reached a number of outcomes. In particular, participants:

Classification of Islamic financial instruments and corresponding property income

6. Agreed with the proposed recommendations on the classification of Islamic financial instruments and their corresponding property income (see annex 1) except for those Islamic financial instruments which are classified as deposits, loans and debt securities. For these three groups of Islamic financial instruments, more research should be carried out on how to reconcile the classification of their property income as interest and the prohibition of interest in Shari'ah law.
7. Noted that, for completeness, the list of Islamic financial instruments should be expanded to include synthetic Islamic financial derivatives.
8. Agreed with the diagrams which have been prepared to illustrate the flows between Islamic financial corporations and their clients for various Islamic financial instruments to help better understand how to record these flows in the national accounts (see annex 2).
9. Agreed that AAOIFI's standards provided a useful reference to help in the classification of Islamic financial instruments.

Sectorization of Islamic financial corporations and calculation of output

10. Agreed with the proposed classification of Islamic financial corporations and the corresponding methods to calculate the output of Islamic financial services (see annex 3), except for the output of Islamic financial corporations which are allocated to the deposit-taking corporations except the central bank subsector (S122). For the output of these Islamic financial corporations, more research should be carried out on how interest on loans and deposits can be accommodated in the FISIM formula to calculate the financial intermediation services associated with Islamic financial instruments which are classified as deposits and loans; whether FISIM should be calculated for zero-return deposits and loans; and to evaluate the use of two reference rates (one for conventional FISIM and one for Islamic FISIM) versus a single reference rate for each currency type.
11. Agreed that Islamic financial corporations which take deposits (for example, Amanah, Hiba and Wadiah) should be sectorized to "the deposit-taking corporations, except the central bank (S122)" subsector and Islamic financial corporations which manage Shari'ah-compliant investment funds should be sectorized to the financial auxiliaries (S126) subsector, if separate institutional units are formed for these purposes.
12. Noted that, for completeness, the list should be expanded to include family-established units for investment purposes (i.e., waqf) and national-level Shari'ah advisory boards if they provide financial services and informal Islamic financial entities and activities such as Sadaka and Zakat.

13. Requested countries which have developed methods to measure the output, value added and other flows of Islamic windows to share their methods, ideally through the use of illustrative worked examples.

Input data for calculating Islamic finance statistics

14. Confirmed that income statements and balance sheets of Islamic financial corporations from the central bank and supervisory authorities should be used to derive Islamic finance statistics in the national accounts.
15. Requested countries which are conducting additional surveys to collect data to calculate Islamic finance statistics to share their survey forms so that an assessment can be made of how to develop a standard survey form which can be used by statistical agencies to collect data to calculate Islamic finance statistics.

International initiatives to collect data on Islamic finance

16. Noted the progress in the initiatives undertaken by international and regional organizations such as the partnership between IFSB and SESRIC to collect and disseminate statistics and indicators on Islamic finance.
17. Noted the need for the working group on data collection and coordination to undertake a stock-taking exercise using a matrix to determine the list of international and regional organizations which are collecting data and indicators on Islamic finance, the data and indicators which are collected and accompanying metadata and country coverage.

Possible future initiatives

18. Agreed that further work on how data on Islamic finance can meet policy and academic needs is needed and suggested to form a group comprising representatives from national statistical agencies, banking and supervisory authorities, central banks, international and regional organizations for this purpose.

III. Immediate next steps

19. Recommended to consult and the task force and AEG on the outcomes of the workshop.

IV. Questions for AEG discussion

20. The AEG is requested to provide comments on the progress of the work of the task force.

Classification of Islamic financial instruments and corresponding property income

Sources of funds

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Proposed classification of property income in 2008 SNA |
|----|--|--|---|---|--|
| 1 | Qard, Wadiah, Amanah | Deposits that can be withdrawn, at par, without penalty or restriction, and are generally usable for making payments by check, draft, giro, or other direct payment facilities. Are not linked to any profit-making ventures and are not part of profit and loss sharing schemes. | Transferable deposits (F22) if they are directly usable for making payments by check, draft, giro order, direct debit, or direct payment facility. Otherwise, classified as Other deposits (F29) | Usually offer no or very small returns to depositors on the basis of gift (hibah) | Interest (D41) |
| 2 | Mudaraba (also known as profit-sharing investment account) | <p>A contract between investors and an IFI that, as a silent partner, invests the deposits in a commercial venture. Profit sharing of the venture is pre-determined on the basis of risk and return, and the IFI and investors share any profit generated from the venture. A Mudaraba can be entered into for a single investment or on a continuing basis with the IFI acting as a fiduciary. There are two types of Mudaraba investment accounts according to the AAOIFI FAS No. 27 (Investment Accounts), namely Restricted Mudaraba (2a) and Unrestricted Mudaraba (2b).</p> <p>(2a) Restricted Mudaraba is where the investor restricts the manner as to where, how, and for what purpose the funds are invested. No mixing of funds is allowed from other sources to ensure proper</p> | <p>(2a) Restricted Mudaraba – Other deposits (F29)</p> <p>(2b) Unrestricted Mudaraba</p> <p>i. Unrestricted Mudaraba without fixed period – Other deposits (F29)</p> <p>ii. Unrestricted Mudaraba accepted for a fixed period but not negotiable – Other deposits (F29)</p> <p>iii. Unrestricted Mudaraba accepted for fixed period and arranged through negotiable instruments – Debt securities (F3) unless it provides a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51)</p> | Share of profit | <p>Interest (D41) if classified as deposits or debt securities</p> <p>Dividends (D421) if classified as equity</p> |

Classification of Islamic financial instruments and corresponding property income

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Proposed classification of property income in 2008 SNA |
|----|--------------------------------------|--|---|--|--|
| | | <p>management and accountability of the funds. A separate disclosure (off-balance sheet) in the form of Statement of Restricted Mudaraba is required to be kept by the IFIs.</p> <p>(2b) Unrestricted Mudaraba is where the investor fully authorizes an IFI to invest the funds without restrictions as to where, how, and for what purpose the funds should be invested as long as it is deemed appropriate. Mixing of funds from other sources (including shareholders' funds) is permitted and separate disclosure in the financial statement is therefore required. Similar to the case of deposits at conventional financial institutions, Unrestricted Mudaraba can be divided into the following types:</p> <p>i. Mudaraba accepted without a fixed time period. The investors are free to withdraw their money at any time.</p> <p>ii. Mudaraba accepted for a fixed period that provides an opportunity for IFIs to invest in more profitable long-term projects. This type of Unrestricted Mudaraba is similar to time deposits at conventional financial institutions and</p> | | | |

Classification of Islamic financial instruments and corresponding property income

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|----|--------------------------------------|---|--|--|---|
| | | <p>usually generates higher profits in comparison to the former type.</p> <p>iii. Mudaraba accepted for fixed periods and arranged through negotiable instruments (called investment deposit certificates or Mudaraba Certificates). This type of Unrestricted Mudaraba has characteristics similar to those of debt securities unless it provides a claim on the residual value of the issuing entity, in which case it is classified as equity.</p> | | | |
| 3 | Qard-hasan | Return-free deposits voluntarily placed by depositors, to participate in the financing for needy individuals or for social purposes. | Other deposits (F29) | No return | Interest (D41) |
| 4 | Participation term certificates | Long-term investment instruments that entitle the holder to a share of a corporation's profit. | <p>Other deposits (F29) if certificate treated as debt liabilities</p> <p>Equity (F51) if part of the capital base</p> | Share of profit | <p>Interest (D41) if classified as debt liabilities</p> <p>Dividends (D421) if classified as equity</p> |
| 5 | Profit and loss sharing certificates | Investors' deposits that somewhat resemble shares in a company but do not provide a claim on the residual value of the IFI and participation in its governance. | <p>Other deposits (F29) if it is not negotiable</p> <p>Debt securities (F3) if it is negotiable</p> | Share of profit | <p>Interest (D41) if classified as other deposit</p> <p>Interest (D41) if classified as debt securities</p> |

Classification of Islamic financial instruments and corresponding property income

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Proposed classification of property income in 2008 SNA |
|----|--------------------------------------|--|---|--|---|
| 6 | Sukūk | Known as Islamic bonds and considered as an alternative to conventional bonds, are investment certificates issued by IFIs as a way to obtain funding. According to the IFSB-15 (Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services), Sukūk (plural of sakk) are certificates, with each sakk representing a proportional undivided ownership right in tangible and intangible assets, monetary assets, usufruct, services, debts or a pool of predominantly tangible assets, or a business venture (such as Mudaraba or Musharaka) | Debt securities (F3) unless it provides a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51) | Share of revenue | Interest (D41) if classified as debt securities Dividends (D421) if classified as equity |
| 7 | Wakalah | The bank acts as an agent for investments of depositor's funds in exchange for a fee, usually in the 1.5 to 2 percent range. The depositors are offered an indicative return, but if the actual return is lower, the depositors will receive only the actual return. Conversely, if the actual return is higher, the IFI pays only the indicative return and keep any excess as an incentive fee. | Other deposits (F29) – not classified in annex 4.3 of MFSMCG | Return earned from incentive fee | Interest (D41) |

Classification of Islamic financial instruments and corresponding property income

Uses of funds

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Classification of property income |
|----|--------------------------------------|--|---|--|-----------------------------------|
| 1 | Qard-Hasan financing | Return-free financing that is made to needy individuals or for some social purpose and the debtors are required only to repay the principal amount of the financing. | Loans (F4) | No return | Interest (D41) |
| 2 | Murabaha financing | A type of financing provided by an IFI to its client by supplying desired goods or services at cost plus an agreed profit margin with deferred payments. In a Murabaha contract, an IFI purchases goods upon the request of a client, who makes deferred payments that cover costs and an agreed-upon profit margin for the IFI. The IFI handles payments to the supplier including direct expenses incurred (delivery, insurance, storage, fees for letter of credit, etc.). Operating expenses of the IFI are not included. Under Murabaha contracts, disclosure of cost of the underlying goods is necessary. | Loans (F4) | Profit margin | Interest (D41) |
| 3 | Bai Muajjal | A type of financing provided by an IFI to its client by supplying desired goods or services with deferred payments. The difference with Murabaha is that the initial cost of the goods or service does not need to be disclosed by the IFI. | Loans (F4) | Profit from higher good/service price | Interest (D41) |
| 4 | Bai Salam | A short-term agreement in which an IFI makes full prepayments (spot payment) | Loans (F4) | Profit from a higher price for the goods | Interest (D41) |

Classification of Islamic financial instruments and corresponding property income

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Classification of property income |
|----|--------------------------------------|--|---|---|---|
| | | for future (deferred) delivery of a specified quantity of goods on a specified date. Bai Salam is typically used to provide short-term financing of agricultural products. | | | |
| 5 | Istisna'a | A partnership between an IFI and an enterprise, usually manufacturer or construction company, in which the IFI places an order and provides financing to the enterprise to manufacture/construct and or supply certain goods or buildings. | Loans (F4) if the produced goods/building are not for IFI's own use Other account receivable (F8) if goods or building are for IFI's own use | Profit from a higher price for the goods | Interest (D41) |
| 6 | Ijarah | A lease-purchase contract in which an IFI purchases capital equipment or property and leases it to an enterprise. The IFI may either rent the equipment or receive a share of the profits earned through its use. Under Operating Ijarah the title for the underlying asset is not transferred to the client (lessee). A financing Ijarah involves two contracts (i.e., a lease over the lease period and transfer of ownership at the end of the contract). | Operating Ijarah – operating lease Financing Ijarah – Loans (F4) | Benefit from using the assets in productive activity Share of profit earned through using assets | Interest (D41) |
| 7 | Musharaka | A partnership between an IFI and an enterprise in which both parties contribute to the capital (<i>rab al maal</i>) of partnership. | Loans (F4) unless the IFI acquires a claim on the residual value of the enterprise, in which case it is classified as Equity (F51) | Share of profit | Interest (D41) if classified as loans Dividends (D421) if classified as equity |

Classification of Islamic financial instruments and corresponding property income

| No | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Classification of property income |
|----|--------------------------------------|--|--|--|-----------------------------------|
| 8 | Mudaraba financing | A partnership between an IFI and a client in which the IFI provides capital (<i>rab al maal</i>) and the client provides skillful labor whereby skill and money are brought together to conduct business. Profits generated from the business are shared according to the agreement, while losses are borne fully by the IFI as the capital provider, except when losses were due to misconduct, negligence or violation of the agreed conditions by the client. | Loans (F4) Although Mudaraba financing has features of equity, it has a fixed-term claim on the client rather than a claim on any residual value. | Share of profit | Interest (D41) |
| 9 | Tawarruq | A type of financing provided by an IFI with the intent to supply cash to its client. Tawarruq contracts are comprised of two parts: 1) A Murabaha contract where the client purchases a product from the IFI for a marked-up price on a deferred payment basis. 2) The client sells the good to a third party on a spot payment basis. In practice the IFI sells the good to the third party on behalf of the customer. This results in the client receiving cash on the spot with the obligation to pay the initial marked-up price of the good either in installments or as a deferred lump sum payment to the IFI. | Loans (F4) | Profit margin | Interest (D41) |

Classification of Islamic financial instruments and corresponding property income

Takaful

| NO | Type of Islamic financial instrument | Description | Classification according to annex 4.3 of MFSMCG | Type of return payable to asset holder | Classification of property income |
|----|--------------------------------------|--|--|--|---|
| 1 | Takaful | An agreement between persons exposed to specific risks in order to avoid damages through creating a fund in which contributions are deposited on a voluntary basis. Participants receive compensation for damages from the occurrence of the insured risk. | Insurance, pension and standardized guarantee schemes (F6) | Investment income | Investment income attributable to insurance policy holders (D441) |

Notes

1. Interest (D41) on deposits and loans refers to SNA interest in the allocation of primary account and actual interest in the financial account.



Classification of Islamic financial instruments and corresponding property income

Workshop on Islamic Finance in the National Accounts

31 October – 2 November 2018

Ankara, Turkey

United Nations Statistics Division



What have we done?

United Nations Statistics Division

- Looked at classification of Islamic financial instruments in annex 4.3 of IMF's Monetary and Financial Statistics and Compilation Guide
 - Sources of funds
 - Uses of funds
- Proposed classification of corresponding property income using the 2008 SNA framework
- Developed diagrams to illustrate the flows associated with each Islamic financial instrument



Questions to consider

United Nations Statistics Division

- Who is the economic owner of the assets?
- Are returns ex-ante or ex-post calculated?
- Can the term interest be used for the return of instruments classified as loans, deposits, and debt securities?
- Are there any Islamic financial derivatives?
- How are prices of negotiable Islamic financial instruments such as Sukuk calculated?
- Have any instruments been left out?
- How would differences between Islamic and conventional finance affect the following in Islamic finance:
 - Measurement of money supply?
 - Measurement of debt?
 - Conduct of monetary policy?



1) Qard, Wadiah, Amanah



- Transferable deposits (F22) if they are directly usable for making payments by check, draft, giro order, direct debit, or direct payment facility. Otherwise, classified as Other deposits (F29)
- Property income: Interest (D41)



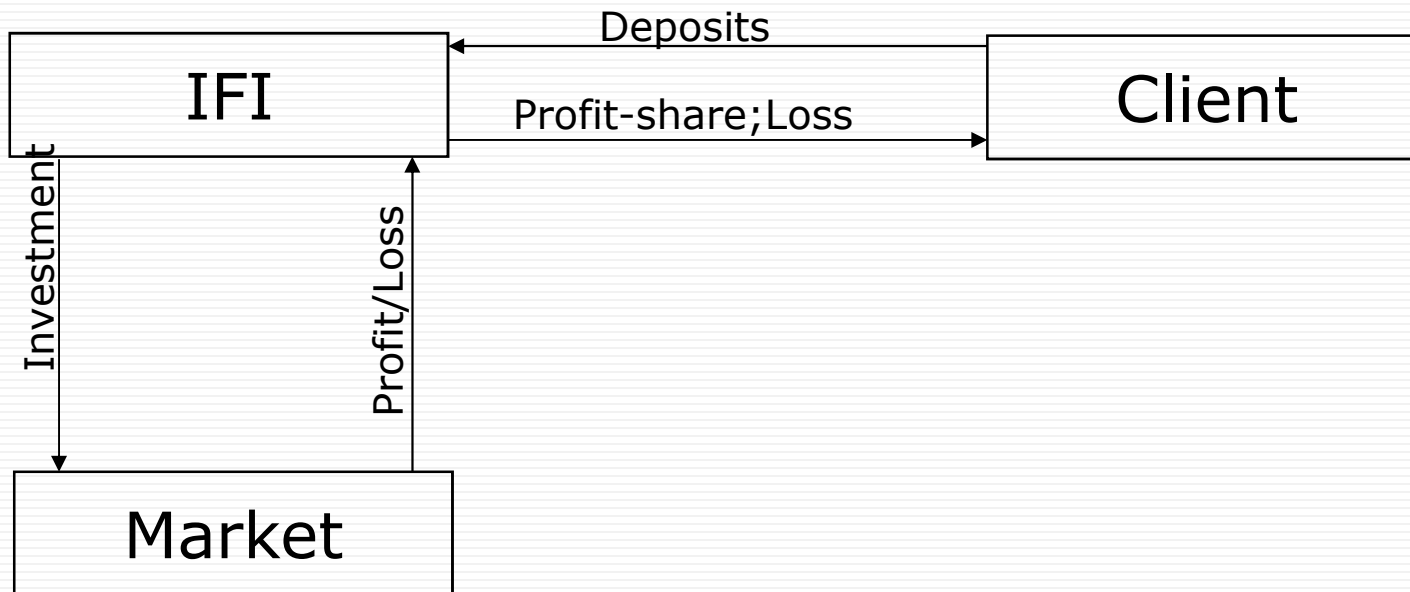
Sources of funds

United Nations Statistics Division

2a) Restricted Mudaraba

2bii) Unrestricted Mudaraba without fixed period

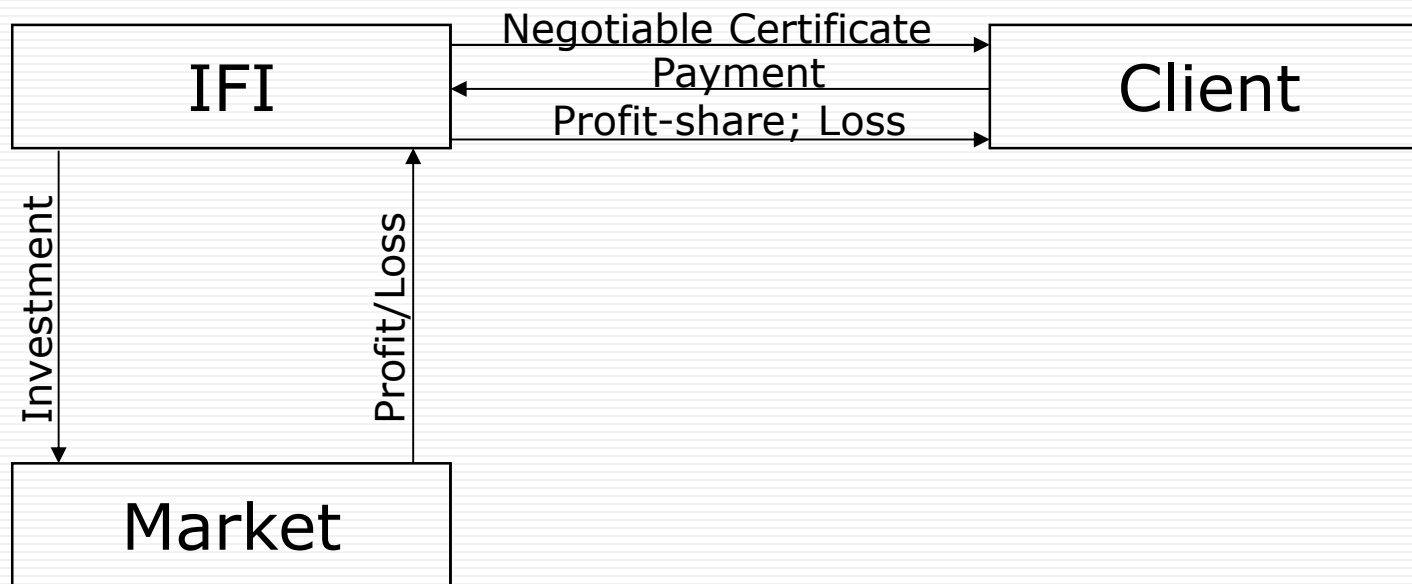
2biii) Unrestricted Mudaraba with fixed period but not negotiable



- Other deposit (F29)
- Property income: Interest (D41)



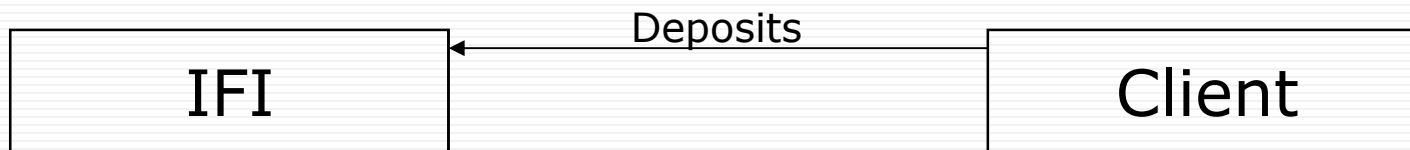
2biii) Unrestricted Mudaraba with fixed period and negotiable



- Debt securities (F3) unless the certificate provides a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51)
- Property income: Dividends (D421) if classified as equity; Interest (D41) if classified as debt securities



3) Qard-Hasan



- No actual return but there may be SNA interest
- Other deposits (F29)
- Property income: Interest (D41)



4) Participation term certificates



- Other deposits (F29) if certificate is treated as debt liability and issued by IFIs
- Equity (F51) if part of the capital base of non-financial enterprises
- Property income: Interest (D41) if classified as other deposits; Dividends (D421) if classified as equity



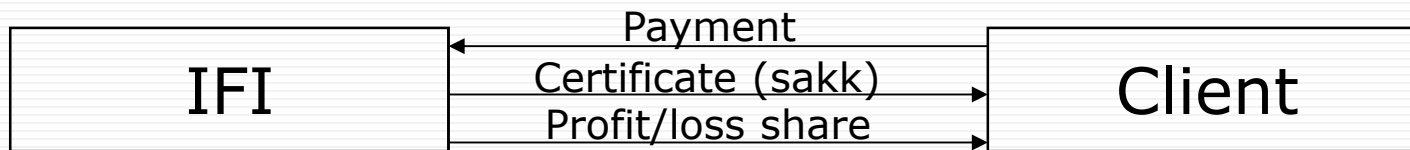
5) Profit and loss sharing certificates



- Other deposits (F29) if not negotiable
- Debt Securities (F3) if negotiable
- Property income: Interest (D41)



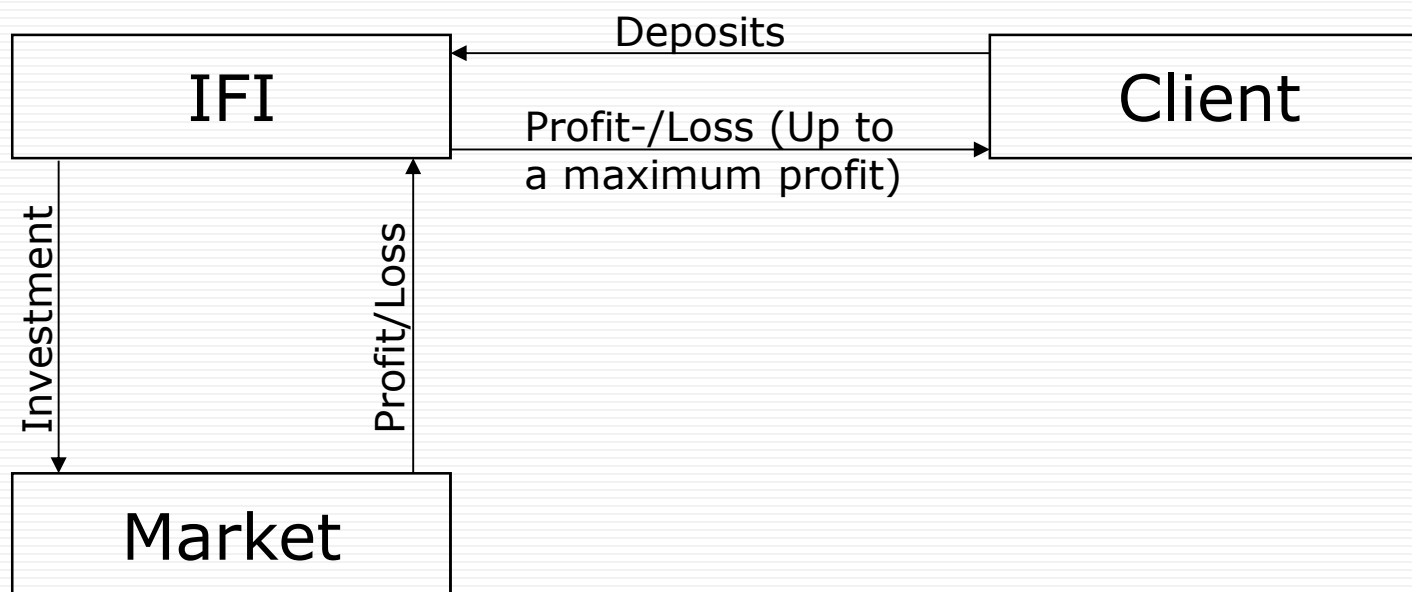
6) Sukuk



- Debt securities (F3) unless the owner of the security has a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51)
- Property income: Interest (D41) if classified as debt securities; Dividends (D421) if classified as equity.



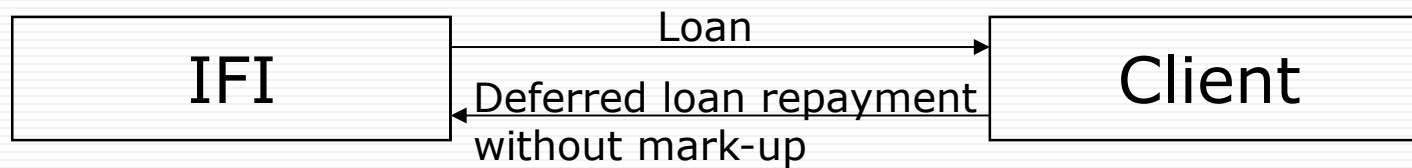
7) Wakalah



- Other deposits (F29)
- Property income: Interest (D41)



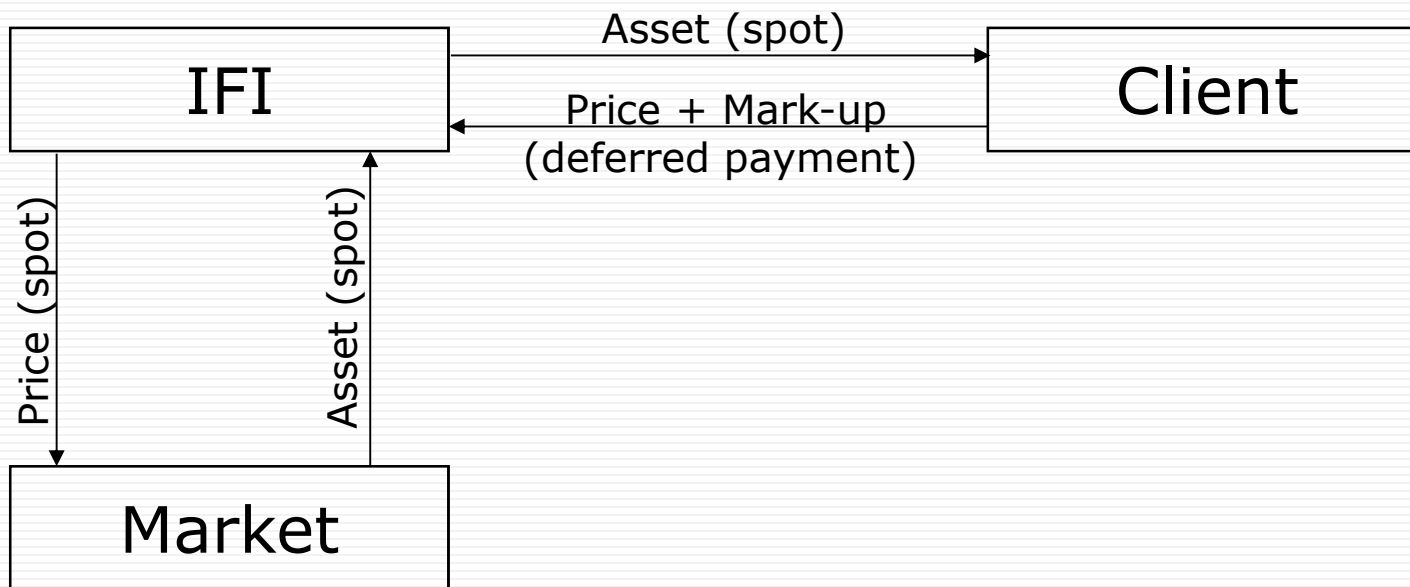
1) Qard-Hasan financing



- Return-free financing for needy individuals or for some social purpose
- Loans (F4)
- Property income: SNA Interest (D41)



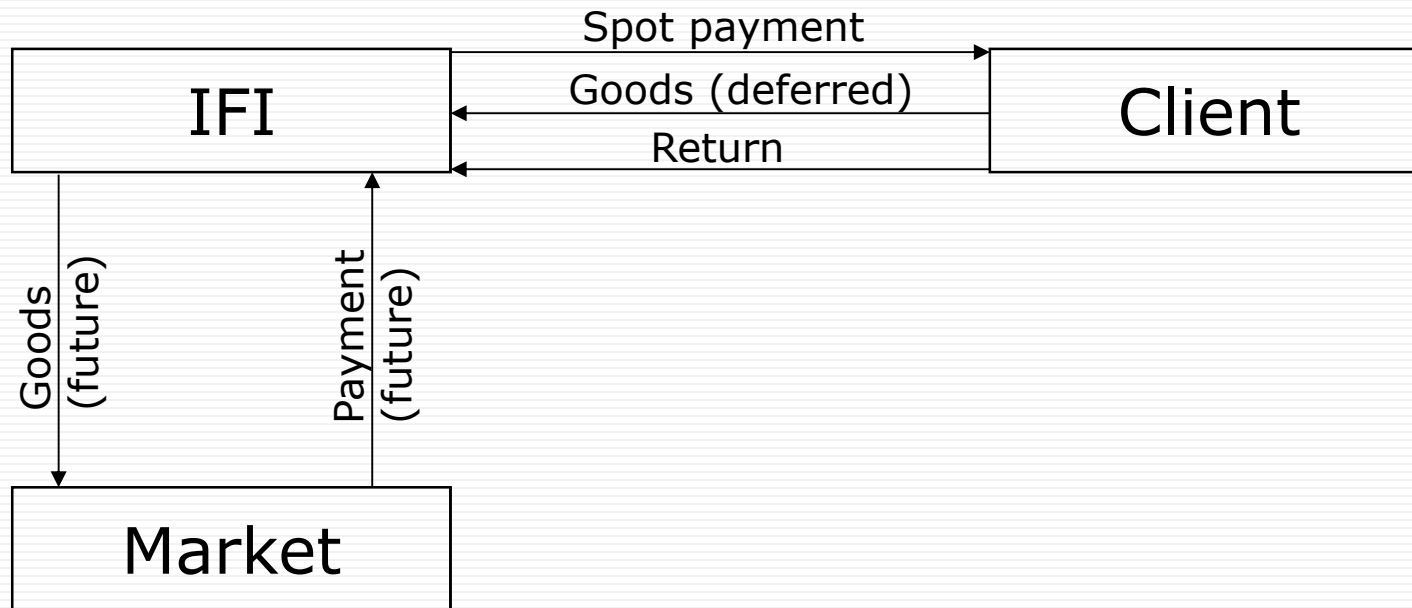
2) & 3) Murabaha/ Bai Muajjal



- In Bai Muajjal the initial price does not need to be disclosed to the client
- Loans (F4)
- Property income: Interest (D41)
- Question to consider:
 - Who is the economic owner of the asset at which point in time?



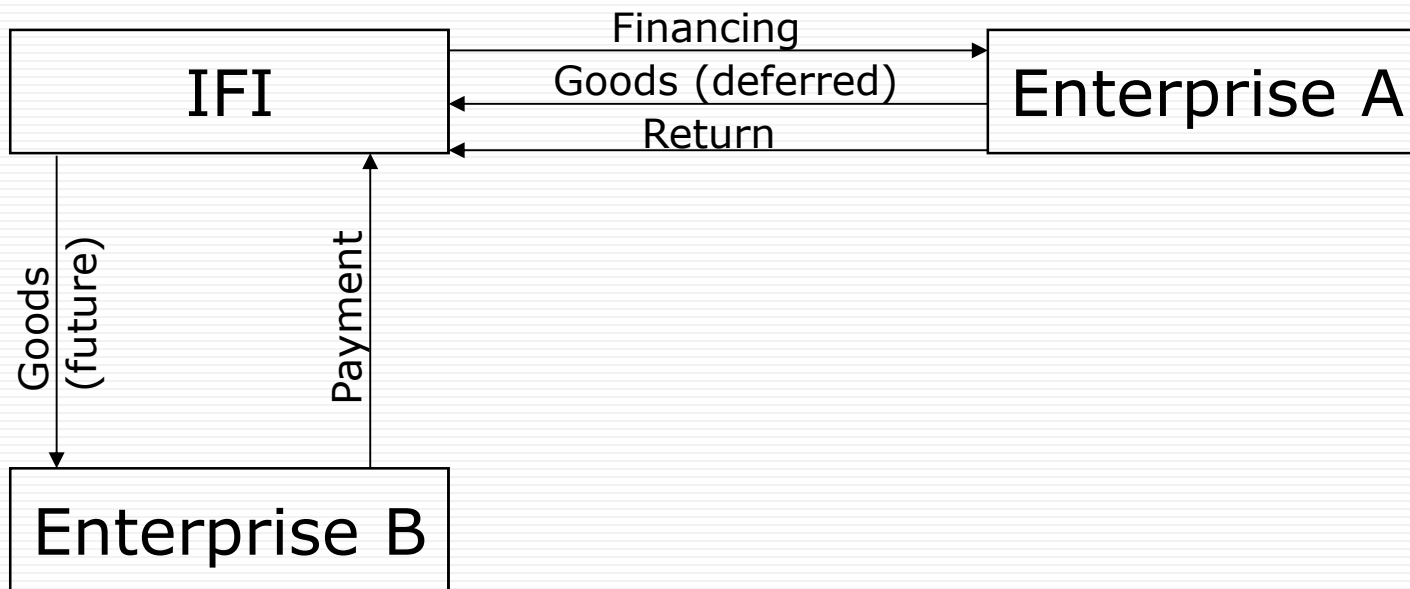
4. Bai Salam



- The return is the difference between the spot payment and the actual value of the goods
- IFI generally pays less (spot) than the future/actual value of goods
- Typically used to provide short-term financing of agricultural products
- Loans (F4)
- Property income: Interest (D41)



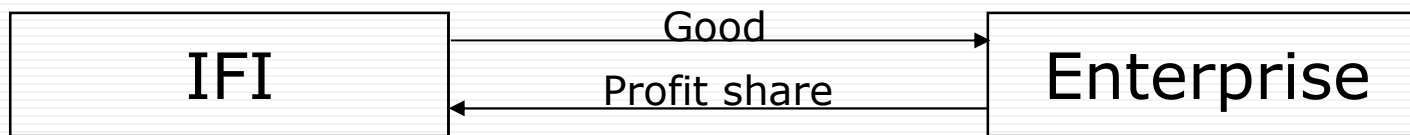
5) Istisna'a



- The return is the difference between the spot payment and the actual value of the goods
- Typically used to finance construction
- Loans (F4)
- Other account receivable (F8) if goods or building are for IFI's own use
- Property income: Interest (D41)



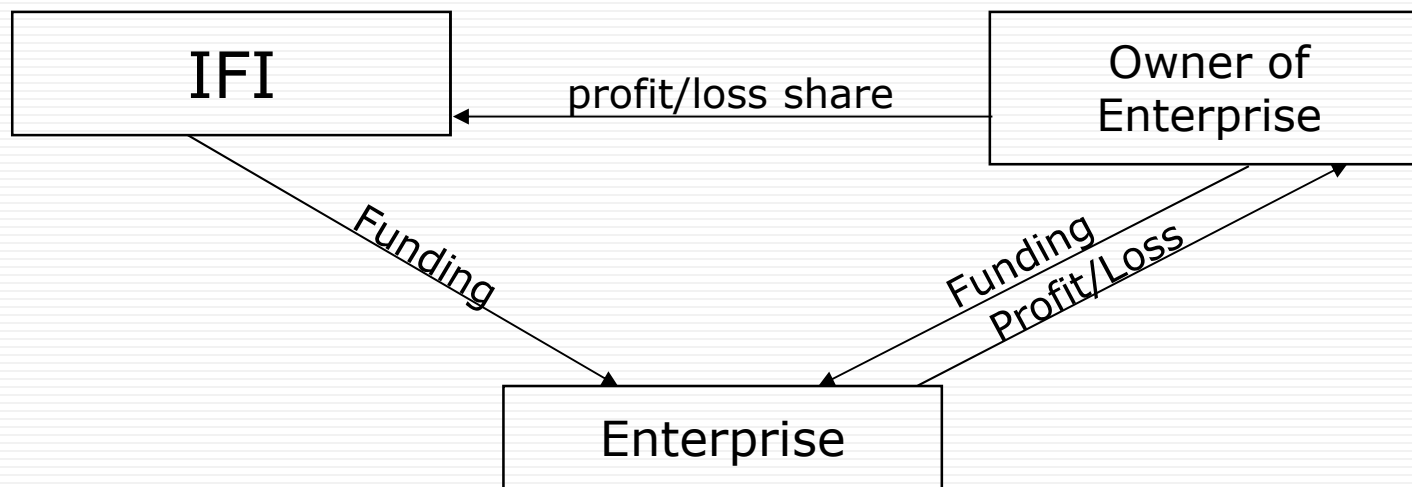
6) Ijarah



- Operating Ijarah – operating lease
- Financing Ijarah – Loans (F4)
- Property income: Interest (D41)



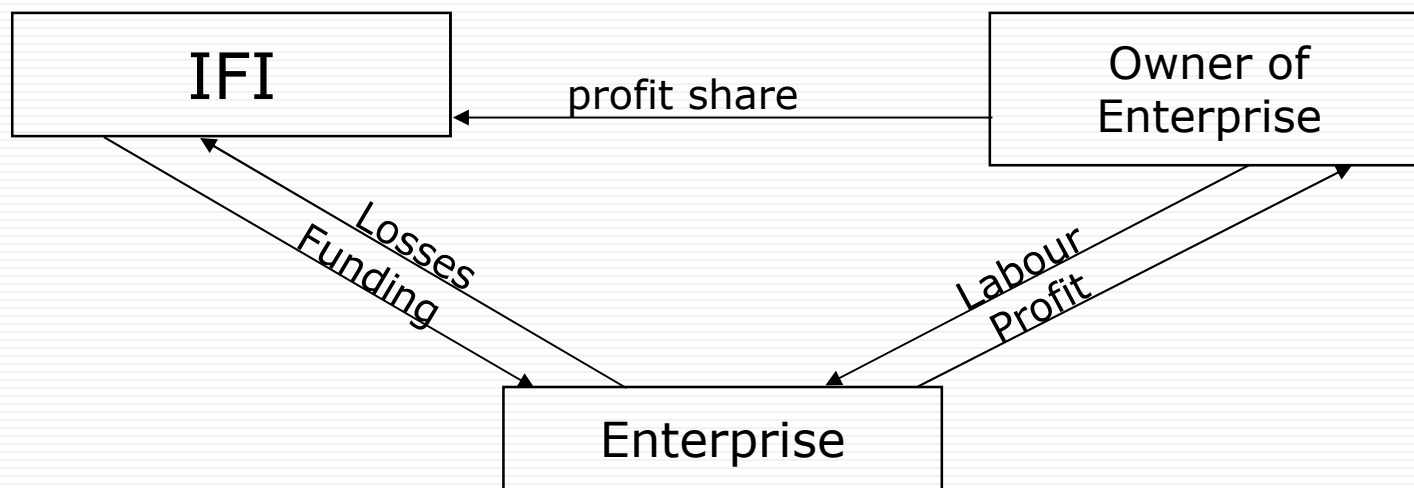
7) Musharaka



- Loans (F4) unless the IFI has a claim on the residual value of the enterprise then it is classified as Equity (F51)
- Property income: Interest (D41) if classified as loans; Dividends (D421) if classified as equity.



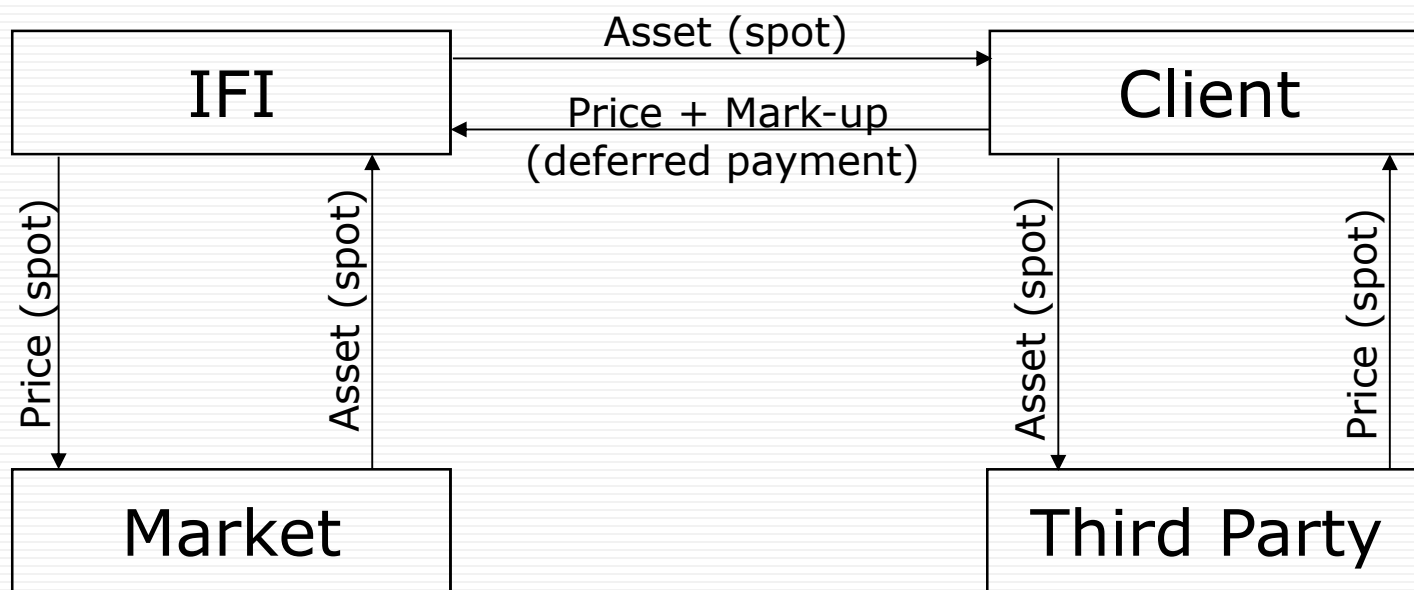
8) Mudaraba financing



- Loans (F4)
- Property income: Interest (D41)



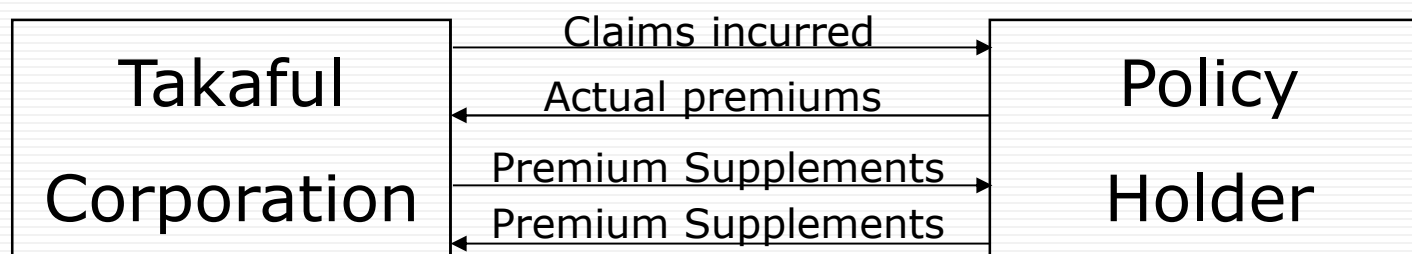
9) Tawarruq



- Loans (F4)
- Property income: Interest (D41)



Takaful



- Insurance, pension and standardized guarantee schemes (F6)
- Property income: Investment income attributable to insurance policy holders (D441)
- Question to consider:
 - Are the operations of takaful similar to conventional insurance?



Thank you

Methods to calculate output of Islamic financial corporations

| Subsector | Generic examples | Examples of financial services provided | Proposed method to calculate output |
|--|---|---|---|
| Central Bank (S121) | Central Bank Monetary Authority | Monetary policy services Financial intermediation services Borderline cases, such as supervisory services | Sum of Cost FISIM formula Market output – explicit fees Non-market output – Sum of cost |
| Deposit-taking corporations except the central bank (S122) | Islamic Banks Commerce and Development Banks Online Banks Commercial Banks Islamic microfinance banks | Mudaraba Quard Tawarruq Murabaha Musharaka Ijarah Sharī ah-compliant savings and current accounts | Output is a combination of the following: (a) For loans(financing) and deposits is calculated using the FISIM formula, i.e., $(r_L - rr) \times Y_L + (rr - r_D) \times Y_D$, where r_L , r_D , rr , Y_L and Y_D represent the rate of return on loan, rate of return on deposits, reference rate, average stock of loans and average stock of deposits respectively (b) Explicit fees |
| Money market funds (MMFs) (S123) | Sharia'a compliant MMFs | Sharia'a compliant investment services | For purposes of calculating the output, and thereby the value added, of Islamic MMFs, and based on the nature of ownership of shares, they could be treated in the same way as conventional MMFs. As such, output may be computed as the sum of various fees that MMFs charge investors on transactions, namely purchase and redemption fees, exchange fees, account fees, and operating fees. |
| Non-MMF investment funds (S124) | Sharia'a compliant Non-MMF investment funds | Sharia'a compliant investment services | For purposes of calculating the output, and thereby the value added, of Islamic non-MMFs, and based on the nature of ownership of shares, they could be treated in the same way as conventional non-MMFs. As such, output may be computed as the sum of various fees that non-MMFs charge investors on transactions, namely purchase and redemption fees, exchange fees, account fees, and operating fees. |

Methods to calculate output of Islamic financial corporations

| Subsector | Generic examples | Examples of financial services provided | Proposed method to calculate output |
|---|---|--|---|
| Other financial intermediaries except insurance corporations and pension funds (S125) | Islamic investment banks Investment companies | Sharia'a compliant (advisory) investment banking services such as structured finance (Istisna or Ijarah), investment placement, raising funds (often on the basis of joint Mudaraba) in equity and debt markets and trade finance (Murabaha contracts being the dominant Sharia'a principle) Murabaha or Baj Ajel installment sales | Output is a combination of the following: (a) Explicit fees (b) Implicit financial service charge, which is calculated as calculated as $(r_L - rr) \times Y_L$, where r_L , rr and Y_L represent the rate of return on loans, reference rate and average stock of loans respectively |
| Financial auxiliaries (S126) | Asset management corporations including Sharia'a | Management of Sharia'a-compliant investments and funds Brokerage (e.g. Takaful products) Provision of infrastructure for financial markets such as, financial software or capital market hubs | Explicit fees |
| Captive financial institutions and moneylenders (S127) | Holding companies Sharia'a-compliant money lenders | Holding of assets (i.e., controlling-levels of equity) of subsidiary corporations which provide Islamic financial services | Output is calculated as the value of explicit fees or sum of costs Output is a combination of the following: (a) Explicit fees (b) Implicit financial service charge, which is calculated as calculated as $(r_L - rr) \times Y_L$, where r_L , rr and Y_L represent the lending return, reference rate and average stock of loans respectively |

Methods to calculate output of Islamic financial corporations

| Subsector | Generic examples | Examples of financial services provided | Proposed method to calculate output |
|-------------------------------|----------------------|---|---|
| | | Sharia'a-compliant money lending services | |
| Insurance corporations (S128) | Takaful Retakaful | Life takaful Non-life takaful Retakaful | <p>Nature of takaful business does not differ much than conventional except for profit/risk sharing.</p> <p>Proposed recommendation for calculating output:</p> <p>Life takaful</p> <p>Output is calculated as actual premiums earned plus premium supplements minus benefits due minus increase (plus decrease) in actuarial reserves and reserves for with-profits insurance</p> <p>Non-life takaful</p> <p>Output can be calculated using either one of the three following methods:</p> <p>(a) Output is calculated as actual premiums earned plus expected premium supplements minus expected claims incurred, where expected claims and premium supplements are estimated from past experience (expectations approach);</p> <p>(b) Output is calculated as actual premiums earned plus premium supplements minus adjusted claims incurred, where adjusted claims are determined by using claims due plus the changes in equalization provisions and, if necessary, changes to own funds (accounting approach);</p> <p>(c) Output is calculated as the sum of costs (i. e., intermediate consumption, compensation of employees,</p> |

Methods to calculate output of Islamic financial corporations

| Subsector | Generic examples | Examples of financial services provided | Proposed method to calculate output |
|----------------------|---|---|---|
| | | | <p>capital costs and other taxes (less subsidies) on production) plus an allowance for “normal profit”.</p> <p>Retakful Output is calculated as actual premiums earned less commissions payable plus premium supplements minus both adjusted claims incurred and profit sharing</p> |
| Pension funds (S129) | Defined contribution pension funds Defined benefit pension funds | Pension fund services | Sum of costs |