Intersecretariat Working Group on National Accounts/Balance of Payments Committee Joint Task Team on Islamic Finance
Terms of Reference

Introduction

1. Islamic finance 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. The Islamic financial standard setting bodies, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), have developed Islamic finance standards, including standards on accounting, auditing, governance, regulatory framework, capital adequacy, and risk management framework. These efforts are aimed at harmonizing practices and principles of operation and recording within the Islamic financial system and ensuring effective integration into the international financial system.

3. The international statistical standards, however, do not sufficiently cover the integration of Islamic finance into macroeconomic and financial statistics. The only reference and brief guidance is provided in Annex 4.3 of the International Monetary Fund's (IMF) *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*), which provides a detailed description of how Islamic financial corporations (IFIs) operate under the Islamic principles and how the instruments they use differ from conventional financial instruments. The *MFSMCG* describes the principal characteristics of Islamic financial assets and liabilities, and their classification by type of conventional financial instrument within the framework of monetary and financial statistics in line with the *System of National Accounts* 2008 (2008 SNA).

4. There is a need for further integration of Islamic finance and related principles/concepts into macroeconomic and financial statistics, necessitating the development of additional methodological and practical guidance. In the context of the implementation of the *2008 SNA* recommendations for Islamic finance as well as the need for guidance on the statistical treatment of Islamic instruments and income, questions were raised during several meetings in the Arab Region organized by the United Nations Economic and Social Commission for Western Asia (ESCWA). More recently, the issue of statistical treatment of Islamic finance has gained also attention as the international statistical community agreed to launch an update of international statistical standards at the 51st session of the United Nations Statistical Commission in March 2020.

5. Different positions emerged during these meetings/discussions can be summarized and grouped into the following two broad approaches:

- **Position 1:** The principles/concepts of Islamic finance, Islamic financial instruments and their corresponding property income, and Islamic financial corporations and their output can be fully integrated and bridged into the conventional statistical frameworks, without necessarily a need to revisit those frameworks.

- **Position 2:** The full integration and proper capturing of principles/concepts of Islamic finance, Islamic financial instruments and their property income, and Islamic financial corporations and their output warrant additional methodological articulations and perhaps consideration of new or hybrid types of financial instruments and property income and additional instrument and/or sector breakdowns. This is because certain Islamic financial instruments and financial corporations have different features as compared to those defined in the current statistical standards. Therefore, the creation of additional instruments and/or categories in the income and financial accounts or disaggregation between Islamic and conventional finance may be required to fully reflect the unique features of Islamic finance.

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

7. 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 finance needs to be developed.

8. During the 2019 meeting of the IMF Balance of Payments Committee (BOPCOM), it was agreed that there is a need for guidance on the statistical treatment of Islamic finance in macroeconomic statistics in general and in external sector statistics (ESS) in particular. BOPCOM agreed to establish a dedicated taskforce to develop the necessary guidance for its consideration. Given the existence of the Task Force on Islamic finance under the Inter Secretariat Working Group on National Accounts (ISWGNA) and the need for consistent guidance across different macroeconomic datasets, the ISWGNA and BOPCOM agreed to join forces in the same task team that includes both members selected by the ISWGNA and by BOPCOM. This joint task team will prepare a joint guidance note on the treatment of Islamic finance in national accounts and in ESS, building on the work carried out by the Task Force in the past couple of years, for consideration by both the ISWGNA and BOPCOM.

Objectives

9. The joint task team on Islamic finance has been established by the ISWGNA and BOPCOM to carry out further research and develop methodology/guidance on the treatment of Islamic finance in national accounts and ESS.

10. The specific objectives of the joint task team are the following:

- Review the current practices, structure, classification of Islamic financial instruments and their property income;
- Assess whether changes in the methodology of national accounts and ESS are required to allow for full and proper reflection of Islamic finance in macroeconomic and financial statistics;
- 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 above; and

- Based on the outcomes of the above assessments, provide detailed guidance on the classification and recording of the Islamic financial instruments and their property income, Islamic financial transactions, and Islamic financial corporations and their output in the national accounts and ESS.

Governance and participation

11. The joint task team is established by the ISWGNA and BOPCOM and is co-chaired by the State of Palestine and Morocco, with UNESCWA and UNSD as secretariat.

12. The membership of the joint task team should include experts in the areas of national accounts, ESS, financial accounts, and other macroeconomic statistics from countries where Islamic finance is prevalent, and experts from relevant international/regional organizations. It is expected that members of the joint task team will actively engage in the discussions and the drafting of guidance notes and recommendations for discussion.

13. The working arrangements are expected to consist mainly of electronic communication through the circulation of documentation and the collection of comments on specific topics. Face-to-face meetings of the joint task team could be organized if necessary.

Reporting

14. The joint task team will report to the ISWGNA and BOPCOM in accordance with the SNA update procedures as established by the United Nations Statistical Commission[1] and the balance of payments update procedures established by the IMF, respectively.

Timeline

15. The work will take place during April 2020–September 2021. The following key deliverables and timetable are currently envisaged:

a. Preliminary joint guidance notes (ISWGNA/BOPCOM) submitted to the next AEG and BOPCOM meetings in October 2020.
b. Final joint guidance notes (ISWGNA /BOPCOM) to be presented at the October 2021 AEG and BOPCOM meetings.

[1] See http://unstats.un.org/unsd/nationalaccount/uProc.asp.