



Islamic Finance Task Team (IFTT)

Results of the Global Consultation

Joint Workshop on Statistical Treatment of Islamic Finance in National Accounts and External Sector Statistics and Experimentation and Testing of new recommendations in GCC countries

14-16 March 2022

IFTT research topics

<p><u>R-Topic 01</u></p> <p>Terminology for the investment income for Islamic deposits, loans and debt securities</p> 	<p>3 issues</p>		<p><u>R-Topic 04</u></p> <p>Classification of Islamic financial instruments and corresponding investment income</p>	<p>2 issues</p>
<p><u>R-Topic 02</u></p> <p>Sectorization and output of Islamic financial entities</p> 	<p>4 issues</p>		<p><u>R-Topic 05</u></p> <p>Reference rates and terminology to calculate Islamic FISIM</p>	<p>6 issues</p>
<p><u>R-Topic 03</u></p> <p>Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial corporations</p> 	<p>2 issues</p>		<p><u>R-Topic 06</u></p> <p>Islamic Insurance (Takaful and Retakaful)</p>	<p>3 issues</p>
<p>General recommendations to account for Islamic finance activities</p>				

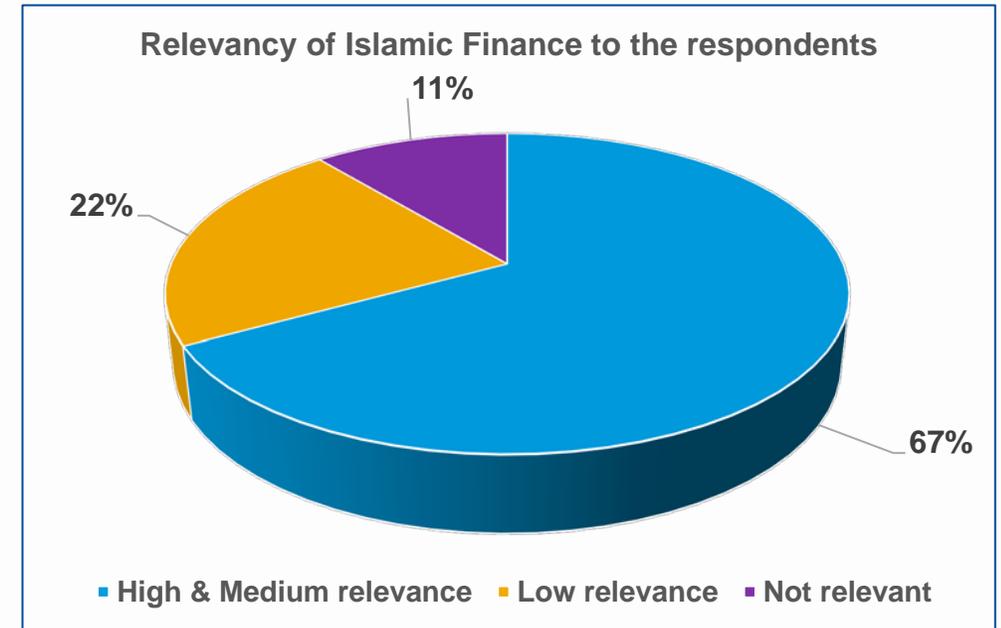
Results of the global consultation (summary)

- **Solid support for the recommendations** for the various topics in the GN.
- Reinforces the need for more flexibility for current macroeconomic statistical standards to account for Islamic finance activities.
- The respondents agreed with the recommendations to:
 - ▶ **Broaden the terminology** used for the investment income
 - ▶ **Sectorize** Islamic financial entities and calculate their output
 - ▶ Apply the concept of **Economic ownership** for Islamic financial arrangements
 - ▶ **Classify** Islamic financial instruments using a **slotting-in approach** and develop a decision tree
 - ▶ Sectorize **Islamic insurance** entities and calculate their output
- Use FISIM formula, but there are diverging views on the appropriate reference rate
- Strong support to include a special section on Islamic finance in the updated SNA and BPM and to develop a compilation guide on Islamic finance
- Volunteers to participate in testing and experimentation exercises

Results of the global consultation (summary)

- 36 respondents from 29 economies and regional/international organizations:
 - ▶ The majority were provided by Asian economies (19)
 - ▶ Followed by Africa (6), Europe and South America (4 each) and North America (3)

Respondents by Region and Relevancy						
Relevancy	Asia	Africa	Europe	South America	North America	Total
High relevance	12	1		1	1	15
Medium relevance	5	1	1	2		9
Low relevance	1	3	2	1	1	8
Not relevant	1	1	1		1	4
Total	19	6	4	4	3	36





Terminology for the investment income for Islamic deposits, loans and debt securities

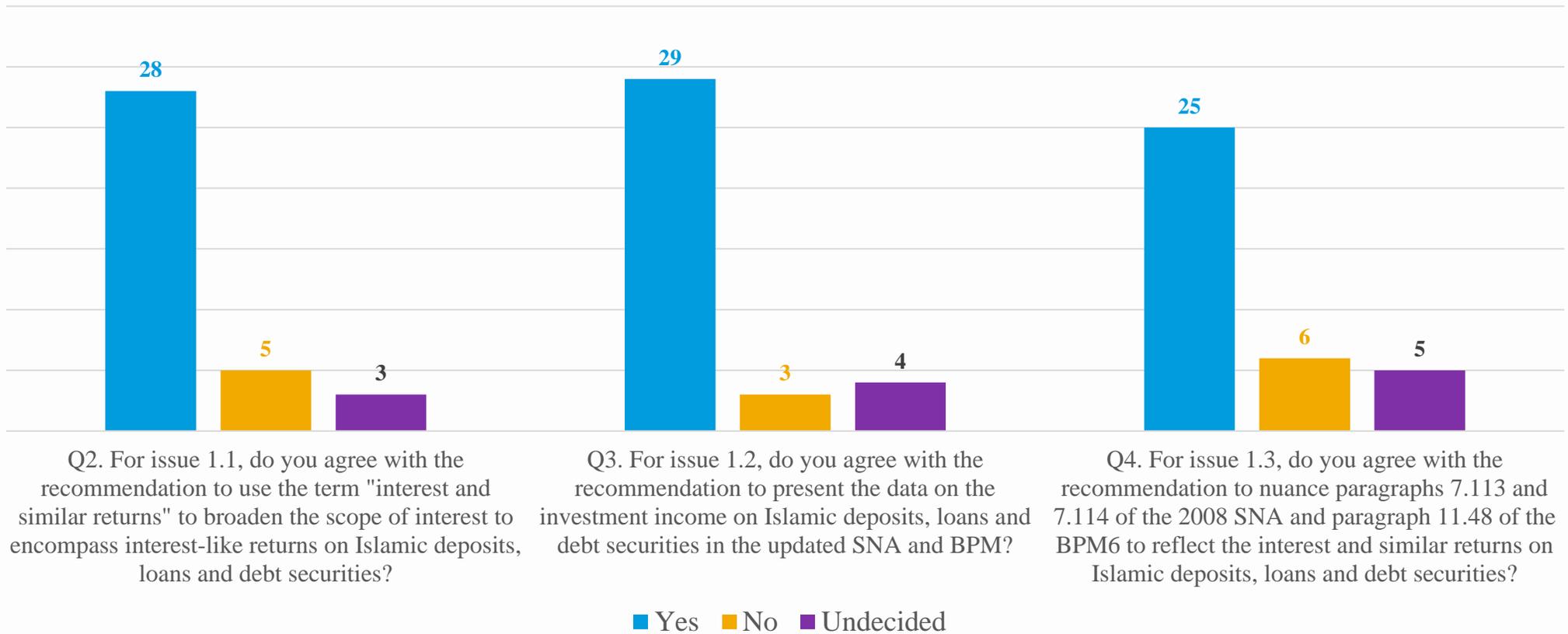
Recommendations:

- **(issue 1.1) Terminology to describe the interest-like returns on some Islamic debt instruments (i.e., Islamic deposits, loans and debt securities);**
 - ▶ **The GN recommends to use the term “interest and similar returns”**
 - ▶ The term “interest” ensures continuity with the current terminology
 - ▶ The second part “similar returns” should describe the broader interest-like returns on Islamic deposits, loans and debt securities
 - ▶ Avoid the alternative terminology “financing and investment income”
- **(issue 1.2) Presentation of the interest-like returns in the updated SNA and BPM;**
 - ▶ **The GN recommends to retain the current classification** of invest. income (option 2)
 - ▶ Rename "interest (D41)" to "**interest and similar returns (D41)**"
 - ▶ Possibility to create a sub-category within interest and similar returns (D41), to be reflected as **“of which: Returns on Islamic deposits, loans and debt securities”**
- **(issue 1.3) Proposed changes to the relevant paragraphs in the 2008 SNA and BPM6**
 - ▶ **The GN provide recommendation to change/nuance key paragraphs** in 2008 SNA and BPM6: SNA 7.113, SNA 7.114 & BPM 11.48



Terminology for the investment income for Islamic deposits, loans and debt securities

Results of global consultation:





Sectorization and output of Islamic financial entities

Recommendations:

Various economic activities and some separate entities are rather unique to Islamic finance

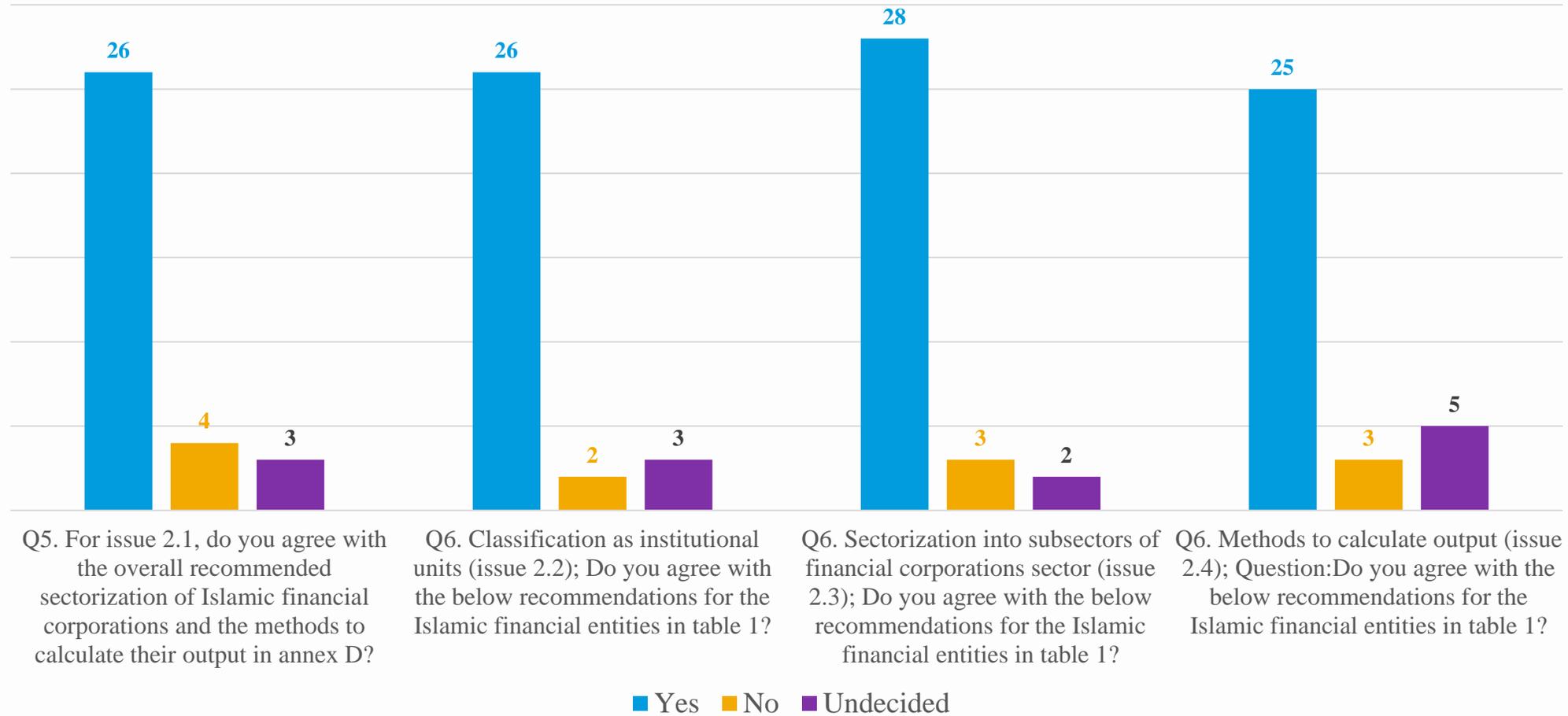
- **(issue 2.1) Update Annex D** which recommended sectorization of Islamic financial corporations and the methods to calculate their output
- Summary of recommendations for classifying, sectorizing and calculating output of newly identified Islamic financial entities

Entity	Are they institutional units (issue 2.2)?	Sectorization (issue 2.3)	Methods to calculate output (issue 2.4)
Off-balance sheet restricted investment accounts	Yes	Non-money market investment funds (S124)	Sum of costs and FISIM on financing arrangements such as Murabaha and Ijarah
Islamic windows in conventional banks	Yes	Deposit-taking corporations except the central bank (S122)	Combination of FISIM, fees and commissions
Waqf funds	Yes	Captive financial institutions and money lenders (S127)	Sum of costs
Hajj funds	Yes	Non-money market investment funds (S124)	Sum of costs



Sectorization and output of Islamic financial entities

Results of global consultation:





Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial corporations

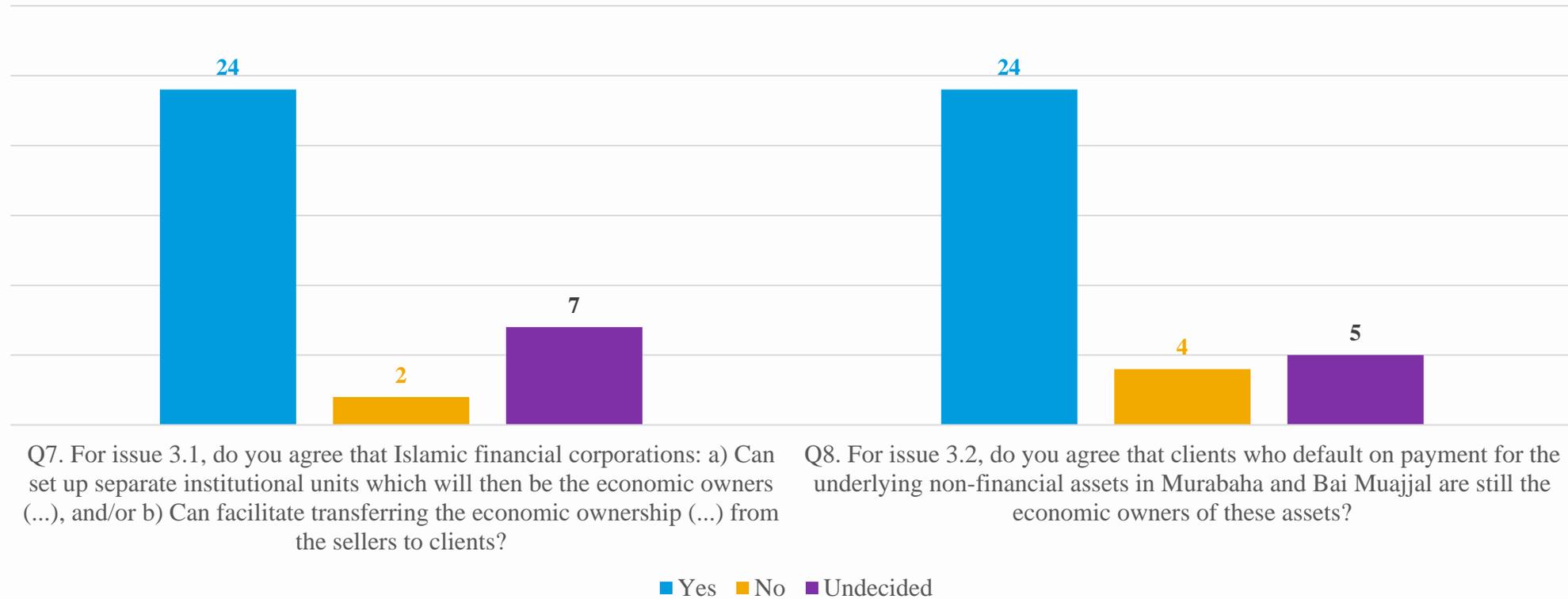
Recommendations:

- **(issue 3.1)** Treatment of **economic ownership of non-financial assets in financing arrangements** such as: Murabaha, Bai Muajjal, Mudaraba, diminishing Musharaka, Bai Salam, Istisna'a, Operating Ijarah, Financing Ijarah and Tawarruq
 - ▶ The Islamic financial corporations can establish **a separate institutional unit** which will then be the economic owner of the underlying non-financial assets
 - ▶ If not, Islamic financial corporations are deemed acting as facilitators by transferring the economic ownership of the non-financial assets from the seller to the client and consequently, cannot be classified as the economic owner of the non-financial asset
 - ▶ The GN recommends **the ultimate purchasers of these assets to be the economic owners** of the underlying non-financial assets should be considered
 - ▶ The time of recording of the acquisition of the underlying non-financial assets is the moment when the economic ownership of these assets changes hands
- **(issue 3.2)** Economic ownership of non-financial assets **when clients default** on paying for these assets in financing arrangements such as: Murabaha and Bai Muajjal
 - ▶ The client remains the economic owner of the underlying non-financial asset



Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial corporations

Results of global consultation:





Classification of Islamic financial instruments and corresponding investment income

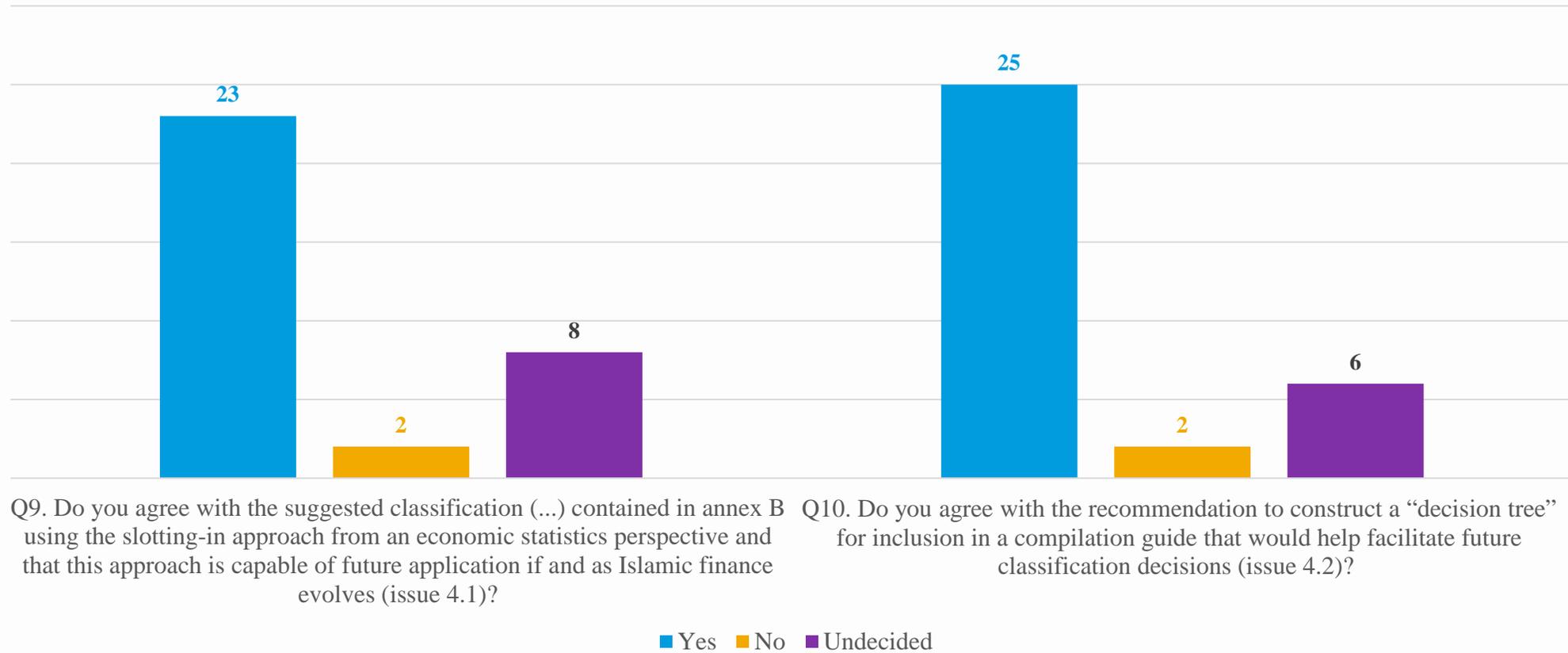
Recommendations:

- **(issue 4.1)** The GN annex B provides recommended classification of the Islamic financial instruments and corresponding investment income based on the **slotting-in approach**
 - ▶ Source of funds (15 main types of instruments) and Use of funds (13 instruments)
 - ▶ The recommended classification is based on a series of deciding factors that can be used to classify other instruments
 - ▶ Recommendations are supported by Annex C which provides diagrams illustrating the flows between Islamic financial corporations and their clients for various instruments
- **(issue 4.2)** The GN suggests the construction of a “decision tree” incorporating the above deciding factors that will enable compilers to classify adequately any missing or new IF instrument



Classification of Islamic financial instruments and corresponding investment income

Results of global consultation:





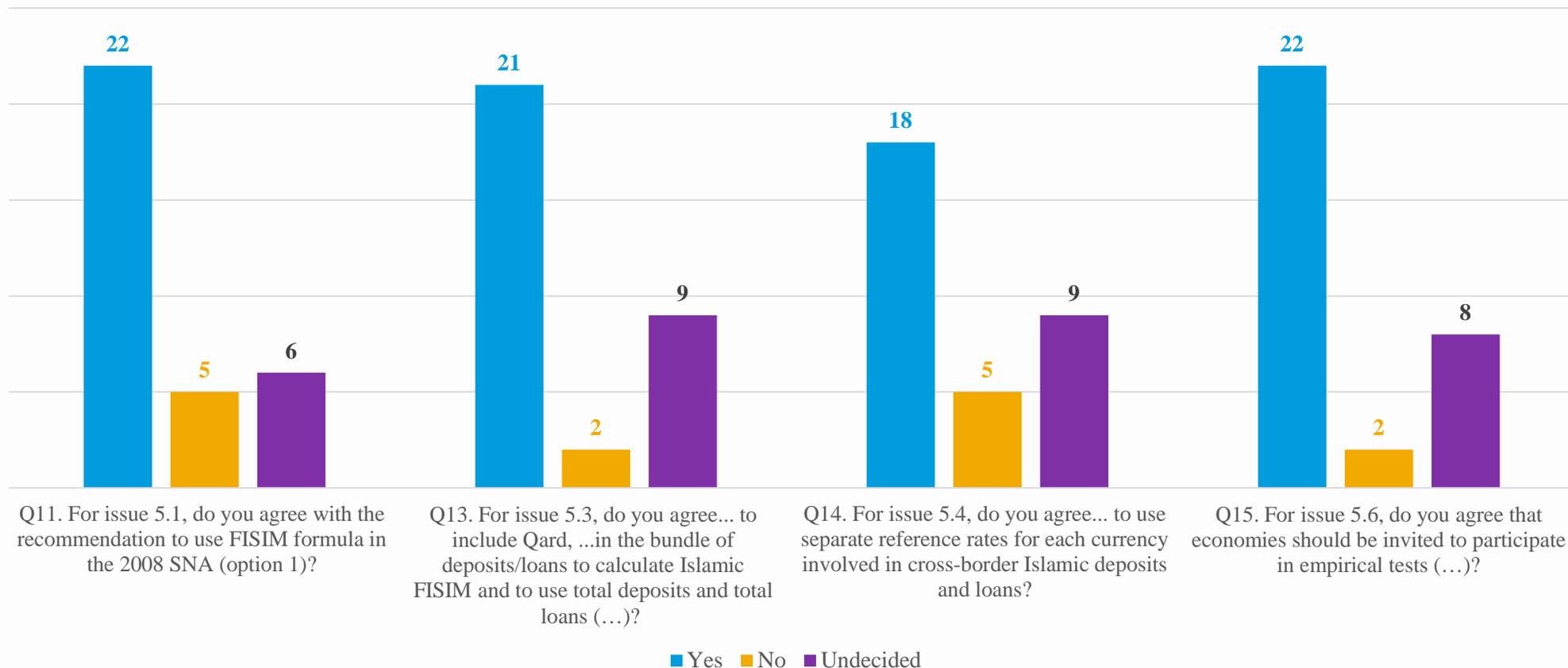
Reference rates and terminology to calculate Islamic FISIM Recommendations (1)

- **(issue 5.1)** The GN recommends that the FISIM formula should be used to calculate the financial intermediation services provided by Islamic deposit-taking corporations (option 1)
 - ▶ rejecting option 2 that considers the concept of FISIM not relevant to Islamic deposit-taking corporations and suggesting alternative measure for financial intermediation services (sum of income on loan-like instruments less distributions paid on deposit-like instruments)
- **(issue 5.3)** [Scope] The members show preference to use total deposits and total loans rather than the more complex instrument-by-instrument approach to calculate Islamic FISIM.
- **(issue 5.4)** The GN recommends that separate reference rates should be applied for each currency involved in cross-border Islamic deposits and loans
- **(issue 5.5)** The GN recommends to use the same terminology recommended on the issue on the terminology for investment income for Islamic deposits, loans and debt securities, for consistency
- **(issue 5.6)** The GN recommends to invite economies to participate in empirical tests on what reference rate(s) to use in the calculation of domestic and cross-border FISIM on Islamic deposits and loans, given the different views for issue 5.2



Reference rates and terminology to calculate Islamic FISIM

Results of global consultation:





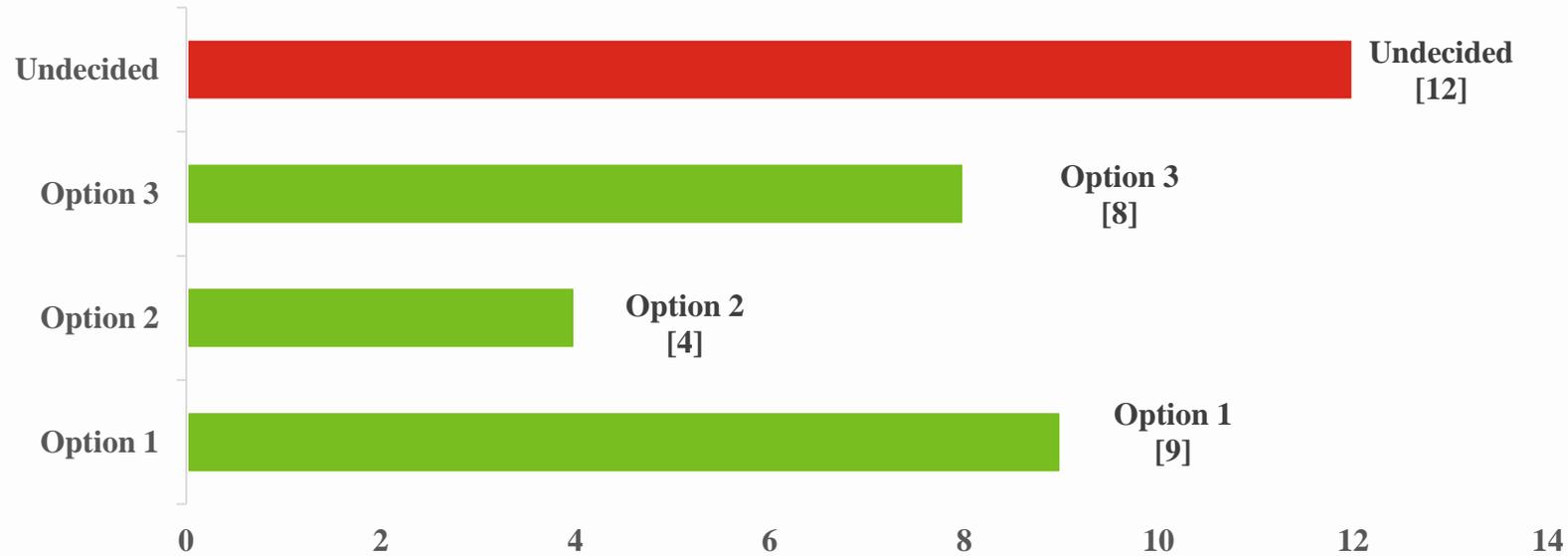
Reference rates and terminology to calculate Islamic FISIM Recommendations (2)

- **(issue 5.2)** Which reference rate to use if the FISIM formula is to be used to calculate the FISIM on Islamic deposits and loans.
No agreement reached as various arguments support divergent views of members:
 - ▶ For option1 (Only one unique reference rate is recognized for conventional and Islamic FISIM), the reference rate is a service-free rate and unique one that's used to derive the SNA interest and FISIM on conventional deposits and loans with varying characteristics
 - ▶ For option 2 (One unique reference rate is recognized, with the explicit recognition of different risk profiles for Islamic deposit-taking corporations), this will provide flexibility to consider the variance between conventional and Islamic finance arising from the differences in their financing arrangements
 - ▶ For option 3 (Different reference rates are recognized for conventional and Islamic FISIM), because the Islamic activity tend to be limited to an Islamic finance subsector comprising entities that seek to deposit in Islamic banks and choose to obtain Shari'ah-compliant financing



Reference rates and terminology to calculate Islamic FISIM

Results of global consultation:



Option 1: Only one unique reference rate is recognized for conventional and Islamic FISIM

Option 2: One unique reference rate is recognized, with the explicit recognition of different risk profiles for Islamic deposit-taking corporations

Option 3: Different reference rates are recognized for conventional and Islamic FISIM



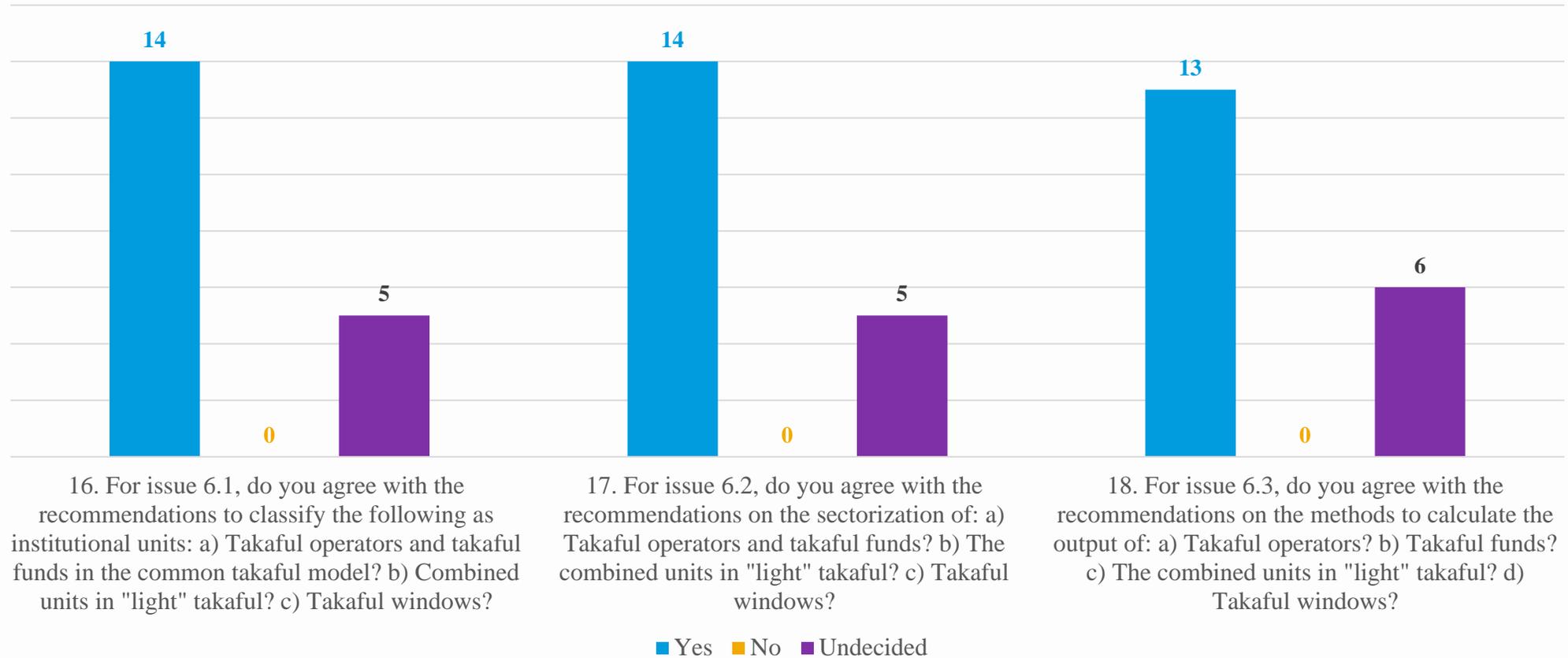
Islamic insurance (takaful and retakaful)

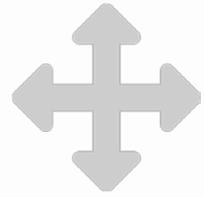
Recommendations:

- **(issue 6.1)** The GN recommends to classify takaful operators and takaful funds as **separate institutional units** in the compilation of national and international accounts statistics
 - ▶ Which apply also to retakaful operators, retakaful funds and to takaful/retakaful windows
 - ▶ Does not apply to “light” version of takaful and retakaful
- **(issue 6.2)** The GN recommends to sectorize takaful operators into the financial auxiliaries subsector (**S126**) and other entities (takaful funds, combined unit of “light” takaful and the takaful windows) into the insurance corporations subsector (**S128**)
- **(issue 6.3)** The GN recommends the following calculation of output of takaful operators and takaful funds if they are classified as institutional units:
 - ▶ Output of takaful operators: as the wakalah fees they charge to administer takaful funds and/or the share of profits earned from investing takaful funds
 - ▶ Output of takaful funds: as sum of costs as the wakalah fees they pay to takaful operators and/or the share of profit payable to takaful operators plus other intermediate consumption, if any
 - ▶ For the “light” takaful, the GN recommends to calculate the output of the combined unit using the existing methods that are used to calculate the output of conventional insurance



Islamic insurance (takaful and retakaful) Results of global consultation:

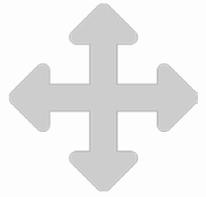




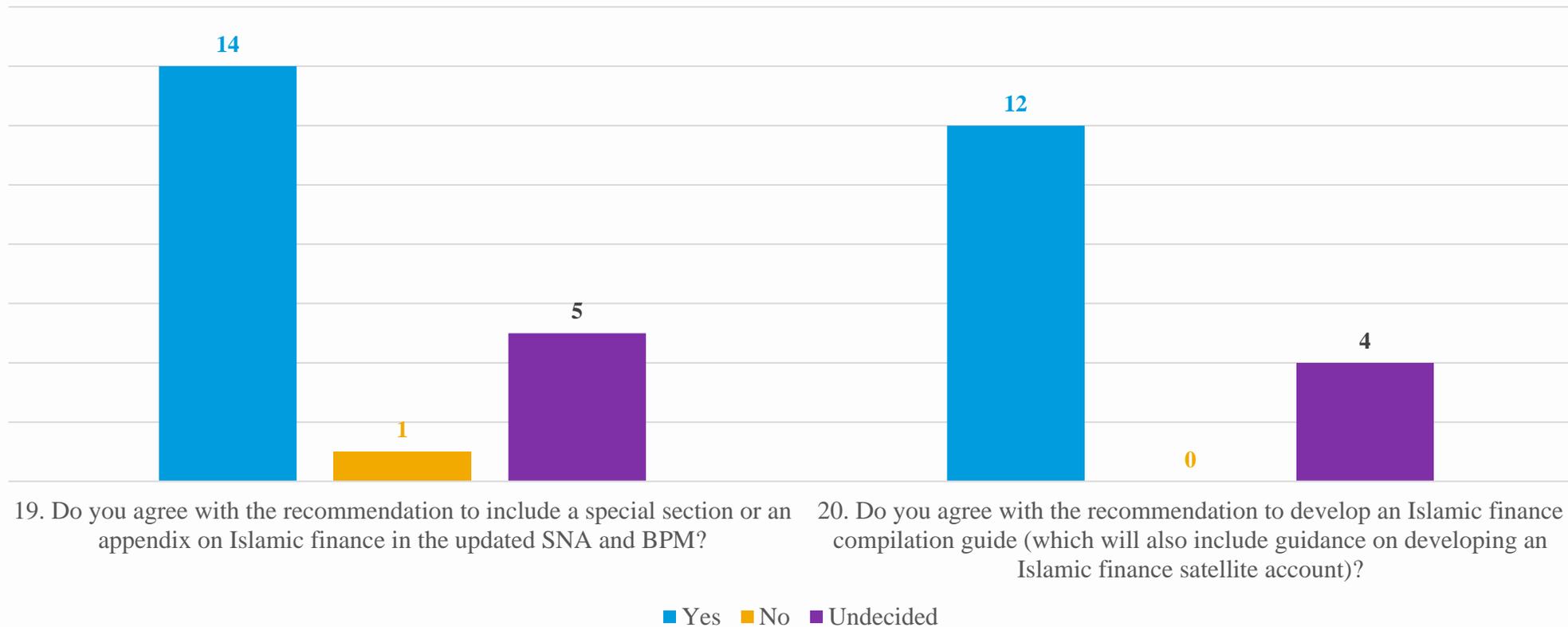
General recommendations:

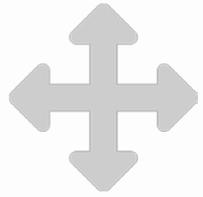
The guidance note focuses on main conceptual aspects to capture Islamic financial transactions, other flows and positions. Further guidance on practical aspects may be needed for implementation in countries with widespread Islamic financial activities. Two general recommendations are therefore suggested:

- Include a **special section or an appendix on Islamic finance** in the updated SNA and BPM which highlights the differences between conventional and Islamic finance, brings together all the entries in the accounts connected with Islamic finance and explains their interconnections
- Develop an Islamic finance **compilation guide**



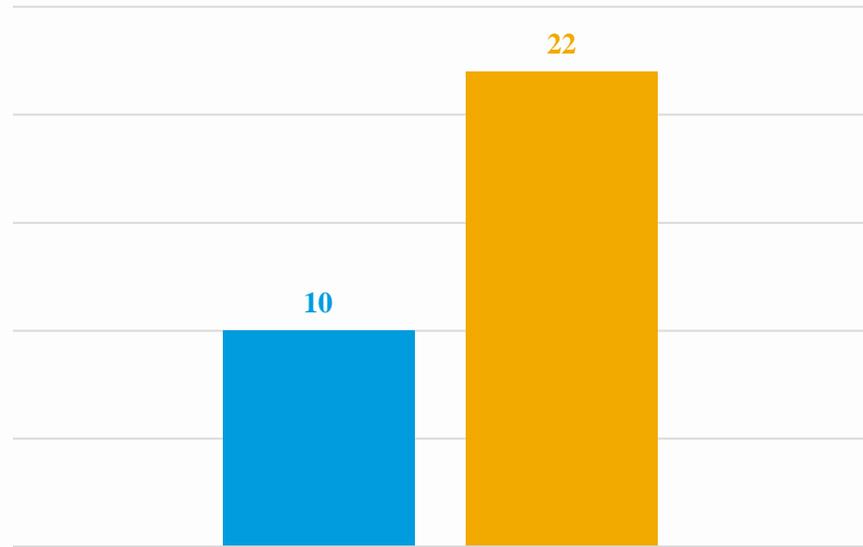
Results for the general recommendations:





Testing and experimentation exercises

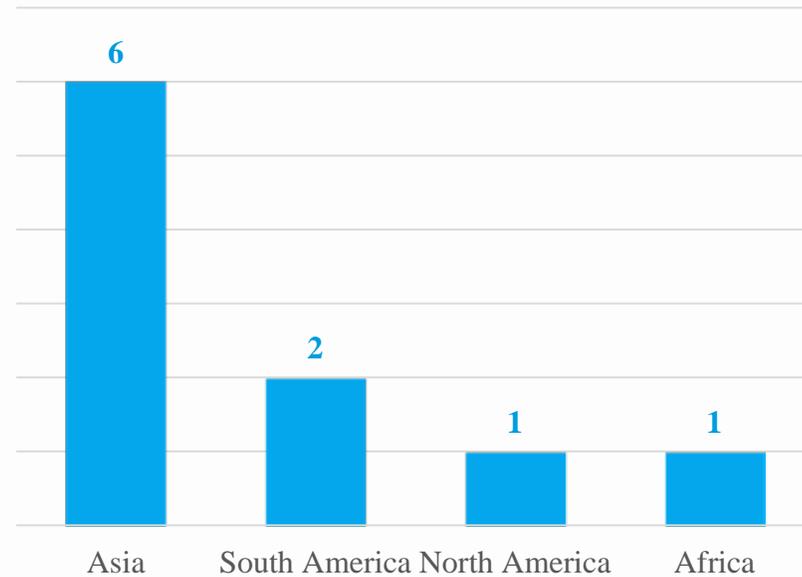
Volunteers



Q22. Would your institution be interested in participating in an experimental estimate exercise?

■ Yes ■ No

Volunteering institutions by region



Thank you

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