



Islamic finance in the System of National Accounts

Consultative Meeting on Developing Islamic Financial Industry
Database of OIC Member Countries

24 September 2017

Mugla, Turkey

Benson Sim

United Nations Statistics Division



Outline of presentation

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- Background
- What needs to be done
- Looking forward



Background

- Islamic finance does not operate in the same way as conventional finance as it follows the Shari'ah Islamic law, principles and rules
- Shari'ah Islamic law does not permit
 - Receipt and payment of "riba" (interest)
 - Gharar (excessive uncertainty)
 - Maysir (gambling)
 - Short sales or financing activities that it considers harmful to society
- Instead, the parties must share the risks and rewards of a business transaction
- The transaction should have a real economic purpose without undue speculation, and not involve any exploitation of either party



Background

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- Issues on the implementation of the 2008 SNA recommendations for Islamic finance were raised during several meetings in the Arab region organized by ESCWA
- The Advisory Expert Group (AEG) on National Accounts discussed this issue at its 10th meeting and
 - Noted the differences in business arrangements between Islamic finance and conventional finance
 - Recognized the system importance of Islamic finance for some economies and their relative rapid growth
 - 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
- A working group was thus created with the aim to address the statistical treatment of Islamic finance in the national accounts



What needs to be done

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- Sectorization of Islamic financial corporations
- Classification of Islamic financial instruments
- Classification and recording of the associated property income
- Calculation and recording of the output of Islamic financial services



Sectorization of Islamic financial corporations

- Financial corporations consist of all resident corporations that are principally engaged in providing financial services, including insurance and pension funding services, to other institutional units
- The financial corporations sector comprises
 - All resident financial corporations (as understood in the SNA and not just restricted to legally constituted corporations), regardless of the residence of their shareholders
 - The branches of non-resident enterprises that are engaged in financial activity on the economic territory on a long-term basis
 - All resident NPIS that are market producers of financial services



What needs to be done

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Sectorization of Islamic financial corporations

- The 2008 SNA breaks down the financial corporations into the following nine sub-sectors:
 - Central Bank (S121)
 - Deposit-taking corporations except the central bank (S122)
 - Money market funds (MMF) (S123)
 - Non-MMF investment funds (S124)
 - Other financial intermediaries except insurance corporations and pension funds (ICPFs) (S125)
 - Financial auxiliaries (S126)
 - Captive financial institutions and money lenders (S127)
 - Insurance corporations (ICs) (S128)
 - Pension funds (PFs) (S129)



What needs to be done

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Sectorization of Islamic financial corporations

- Guidance will be developed on how to classify Islamic financial corporations using this classification scheme
- Guidance on the treatment of Islamic windows (i.e., Islamic financial operations of conventional banks) will also be developed



What needs to be done

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Classification of Islamic financial instruments

- Financial instruments comprise
 - Financial assets which consist of all financial claims, shares or other equity in corporations plus gold bullion held by monetary authorities as a reserve asset
 - Liabilities which are established when one unit (the debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (the creditor)



What needs to be done

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Classification of Islamic financial instruments

- The 2008 SNA classifies financial instruments into the following:

Monetary gold and SDRs Monetary gold SDRs	Equity and investment fund shares Equity Listed shares Unlisted shares Other equity Investment fund shares/units Money market fund shares/units Other investment fund shares/units
Currency and deposits Currency Transferable deposits Inter-bank deposits Other transferable deposits Other deposits	Insurance, pension and standardized guarantee schemes Non-life insurance technical provisions Life insurance and annuity entitlements Pension entitlements Claims of pension funds on pension managers Entitlements to non-pension benefits
Debt securities Short-term Long-term	Financial derivatives and employee stock options Financial derivatives Options Forwards Employee stock options
Loans Short-term Long-term	Other accounts receivable/payable Trade credits and advances Other accounts receivable/payable



What needs to be done

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Classification of Islamic financial instruments

- Guidance will be developed on how to classify Islamic financial instruments using this classification scheme
- Reference will be made to annex 4.3 of the IMF's Monetary and Financial Statistics Manual and Compilation Guide which classifies Islamic financial instruments within the framework of monetary and financial statistics



What needs to be done

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Classification and recording of the associated property income

- Property income accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units
- The income payable for the use of financial assets is called investment income
- The income payable for the use of a natural resource is called rent
- Property income is the sum of investment income and rent



What needs to be done

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Classification and recording of the associated property income

- The 2008 SNA breaks down property income into the following:

Investment income	Interest Distributed income of corporations Dividends Withdrawals from income of quasi-corporations Reinvested earnings on foreign direct investment Other investment income Investment income attributable to insurance policyholders Investment income payable on pension entitlements Investment income attributable to collective investment fund shareholders
Rent	

- Guidance will be developed on how to classify and record the property income associated with Islamic financial instruments



What needs to be done

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Calculation and recording of the output of Islamic financial services

- Financial services comprise
 - Financial intermediation
 - Financial risk management
 - Liquidity transformation
 - Auxiliary financial activities
- Because the provision of financial services is typically subject to strict regulation, it is usually the case that units providing financial services do not produce other goods and services and financial services are not provided as secondary production



What needs to be done

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Calculation and recording of the output of Islamic financial services

- Financial services may be paid for explicitly or implicitly
- Some transactions in financial assets may involve both explicit and implicit charges
- The 2008 SNA considers four main ways in which financial services are provided and charged:
 - Financial services provided in return for explicit charges
 - Financial services provided in association with interest charges on loans and deposits
 - Financial services associated with the acquisition and disposal of financial assets and liabilities in financial markets
 - Financial services associated with insurance and pension schemes

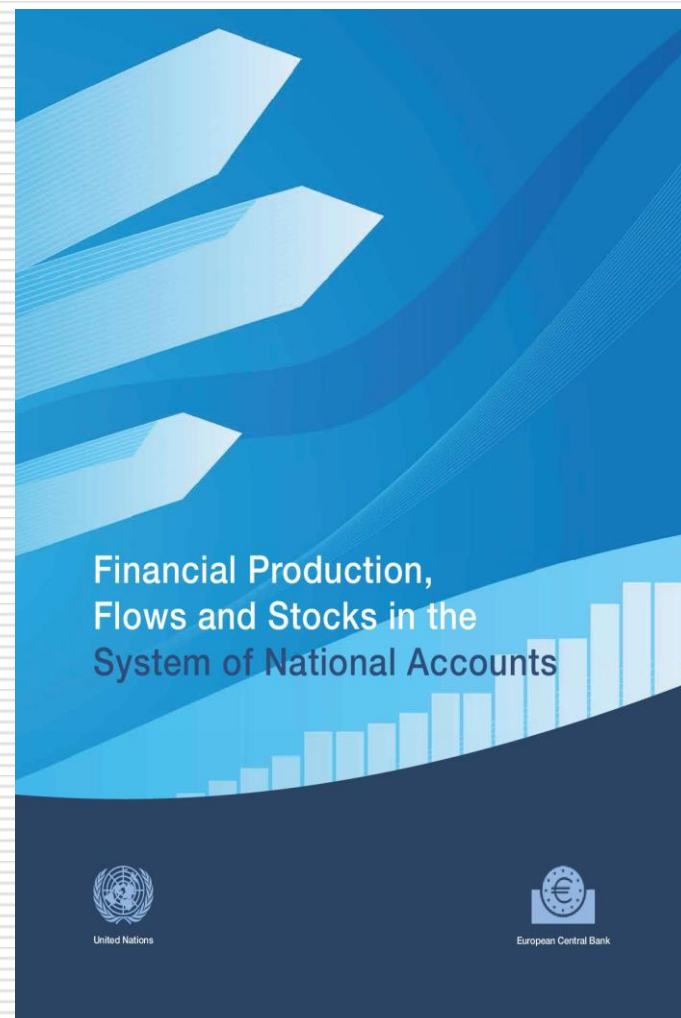


What needs to be done

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Calculation and recording of the output of Islamic financial services

- Chapter 3 of United Nations/European Central Bank “Handbook on Financial Production Flows and Stocks in the System of National Accounts” has illustrative worked examples on calculation and allocation of output of financial services
- Handbook is available on <http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB.pdf>





What needs to be done

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Calculation and recording of the output of Islamic financial services

- Guidance will be developed on how to calculate and record the output of Islamic financial services using the practical guidance in the handbook



Looking forward

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- A workshop will be organized in Beirut, Lebanon
- Participating countries will make presentations on the current approach to accounting for Islamic finance in their national accounts and the challenges and issues involved
- Experts will present papers on how to account for Islamic finance in the national accounts
- Draft guidance and recommendations will be developed and then discussed at the AEG meeting in December 2017



Thank you