

Concept Note
**Webinar on the Statistical Treatment of Islamic Finance in the
National and International Accounts**
Supporting the Global Consultation for the 2008 SNA and BPM6 update

16 December 2021, 6:00 to 9:00 am, New York time, 1:00 to 4:00 pm Beirut Time

I. Background

The System of National Accounts (SNA) is designed to provide a realistic and compact view of the economy that is suitable for policy and analytical use. As the economy changes and policy and analytical needs evolve, the SNA needs to be reviewed to ensure its continuing relevance for the purposes of economic analysis and policymaking. Periodic updates allow the better reflection of real socio-economic changes taking place within and between the countries, the evolution of financial and fiscal instruments, and the improvements of accounting methodologies. At its 51st session, the United Nations Statistical Commission requested the Intersecretariat Working Group on National Accounts (ISWGNA) to develop a roadmap for the revision of the 2008 SNA for adoption by the Commission in 2025. Dedicated task teams composed of macroeconomic experts from various member states, regional and international organizations and academia were established to undertake the technical research and draft Guidance Notes (GNs) on key statistical issues, including Islamic finance, that, after broad global consultation, will be incorporated into the SNA.

At around the same time, the IMF Committee on Balance of Payments Statistics (BOPCOM) also decided to launch a parallel process to update the sixth edition of the *Balance of Payments and International Investment Position Manual*, (BPM6). The BOPCOM also recognized the need for guidance on the statistical treatment of Islamic finance in external sector statistics. Thus, the ISWGNA and BOPCOM have formed a joint task team on Islamic finance (IFTT) to develop a guidance note on the consistent treatment of Islamic finance in the national accounts and external sector statistics.

II. Summary of the IFTT guidance note:

Comprehensive internationally-endorsed recommendations to account for Islamic finance in the national accounts and external sector statistics, using a holistic and integrated macroeconomic statistical framework based on the System of National Accounts, 2008 (2008 SNA), are absent. Islamic finance does not operate in the same way as conventional finance as it follows the Shari'ah (or Islamic law) principles and rules. Shari'ah does not permit the receipt and payment of "riba" (normally translated as 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. Accordingly, Islamic financial corporations have developed special types of financing arrangements to comply with these principles. Some examples include profit and loss sharing joint ventures, profit and loss sharing partnerships and leasing.

There is a need to develop recommendations to resolve a number of issues arising from the intrinsic nature of Islamic finance and its specific provisions. One main issue to address is how to classify the Islamic financial instruments underlying the various types of financing arrangements within the 2008 SNA and the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) frameworks. Also, the 2008 SNA classifies the investment income for deposits, loans and debt securities as interest. Thus, one immediate and obvious implication of Shari'ah is the need for appropriate terminology to describe the investment income for those Islamic financial instruments that are classified as deposits, loans and debt securities. Another implication is whether the 2008 SNA FISIM formula can be used to calculate the implicit financial services associated with Islamic deposits and loans. If so, questions on what terminology and reference rate should be used in the FISIM formula will need to be addressed. In addition, there is a need to sectorize and determine how to calculate the output of a number of entities which are rather unique to Islamic finance and, indeed, the broader Islamic community. Further, there is a need to determine the economic ownership of non-financial assets underlying various sales, equity and leasing arrangements under Islamic finance. Moreover, the statistical treatment of Islamic insurance and reinsurance, another component of Islamic finance, needs to be addressed.

The current coordinated initiatives to update the 2008 SNA and BPM6 present the opportunity to develop comprehensive and coherent recommendations to account for Islamic finance in the national and international accounts. Accordingly, an Islamic finance task team (IFTT) was formed in 2020 for this purpose and it has since developed a set of recommendations to resolve the above-mentioned and other issues. These recommendations, which have leveraged on the initial work of an Islamic finance force formed by the ISWGNA, are summarized in section IV of the guidance note.

III. Objectives of the webinar

UNESCWA in coordination with the IFTT and UNSD are organizing a “Webinar on the statistical treatment of Islamic finance in the national and international accounts”, on 16 December 2021, 6:00 am to 9:00 am, New York time, to support the global consultation for the IFTT guidance note. The global consultation is expected to be launched on 13 December 2021 and end on 24 January 2022.

The webinar aims to achieve the following main objectives:

- Inform compilers about the progress with the Islamic Finance guidance note under the SNA and BPM update programme
- Introduce the research topics of the Islamic finance to foster informed participation in the global consultation on the Islamic Finance GN
- Elicit views on the user demand on the new recommendations
- Explore potential volunteers for the early implementation of the new recommendations and the experimental testing

The webinar material as well as the recording of the webinar will be posted online for further reference by users, including interested parties that could not attend the meeting.

IV. Participants

Target audience includes representatives from Statistical Offices and Central Banks worldwide including countries from the Arab region, Africa, and Asia that provide Islamic Finance. as well as experts from UNSD, the regional Commissions, the IMF, and experts from the financial sector and academia, from major organizations working on Islamic Financial Statistics and National Accounts such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), GCC-Stat, the Islamic Development Bank Group (ISDB), the Islamic Financial Services Board (IFSB), the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), the Arab Monetary Fund (AMF), The General Council for Islamic Banks and Financial Institutions (CIBAFI) and others.

V. Logistical information

Date and venue: The workshop will hosted by ESCWA and held on-line on 16 December 2021, from 6:00 am - 9:00 am, New York time, 1:00 pm to 4:00 pm, Beirut Time.

Platform: The meeting will be held on-line on Zoom.

Please register in advance for this meeting on:

https://us06web.zoom.us/join/91012020000?pwd=ZlVlc0RrjotGNBjkn3fd_-ygtwLO7ARAdAM

The information required for the registration the following: Country, First Name, Last Name, Title, Organization, Email, Mobile.

After registering, you will receive a confirmation email containing information about joining the meeting.

Languages: Arabic and English are the official languages of the webinar. The presentations will be available in English while interpretation service will be available in Arabic and English. For more convenience, the IFTT guidance note was translated to Arabic for the purpose of the global consultation and its supporting webinar.

VI. Correspondence

Correspondence related to the webinar is to be sent to either of the below addresses:

<p>UNESCWA Statistics, Information Society and Technology Cluster Ms. Wafa Aboul Hosn Chief of Economic Statistics Section Email: aboulhosn@un.org</p> <p>Mr. Omar Hakouz. Regional Advisor on National Accounts and Economic Statistics Email: hakouzo@un.org</p> <p>Mr. Wassim Hammoud Statistics Assistant Economic Statistics Section Statistics Division ESCWA Phone: +9611-978349 Email: hammoudw@un.org</p> <p>Ms. Nadine Al-Hallak Administrative Assistant E-mail: al-hallak@un.org</p>	<p>UNSD Mr. Benson Sim National Accounts Section Economic Statistics Branch United Nations Statistics Division Email: simb@un.org</p>
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