

For Global Consultation

**SNA Chapter 26 / BPM Chapter 17**  
**Chapter Title: Islamic finance: Annotated Outline**

## Chapter 26 2025 SNA / Chapter 17 BPM7 Islamic finance: Annotated Outline<sup>1</sup>

(New SNA/BPM chapter)

*This annotated outline has been prepared jointly to cover the full range of topics to be included in a chapter on Islamic finance. In the drafting stage, SNA and BPM editors will coordinate in such a way that only those issues that are relevant from the national accounts perspective will be included in the 2025 SNA; likewise, BPM7 will include only those issues that are relevant to external sector statistics.*

### Introduction

- This new SNA/BPM chapter will present complete and consistent guidance to properly account for Islamic finance and insurance in the national accounts and external sector statistics. In doing so, it will review the special types of financing arrangements (sale-based contract, lease-based contract, equity-based contracts, or profit/loss sharing) that characterize Islamic finance.
- It will reflect the distinct operations of Islamic finance and insurance and address issues such as the nature of income on certain financial instruments (deposits, loans, debt securities), the sector classification of Islamic financial institutions, the measurement of output, including FISIM, the treatment of insurance like business and the classification of select Islamic financial instruments. This chapter will also clarify the concept of economic ownership in the case of Islamic Finance, as well as Islamic insurance and reinsurance arrangements.

### I. General overview of Islamic finance and insurance

- Traditional and Islamic finance co-exist in several countries. Islamic finance and insurance are prevalent in some regions of the world, and certain reports estimate that it has grown significantly in the last 10 years<sup>2</sup>. This first section will provide an overview of the Islamic finance and insurance in relation to global financial system, to ensure that users of 2025 SNA/BPM7, mainly compilers in Islamic and non-Islamic countries, understand the need for and purpose of this chapter.

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<sup>1</sup> Prepared by Patrick O'Hagan (SNA editor) and Venkat Josyula (BPM lead) with inputs from Samah Torchani (Financial Institutions Division, IMF) and cleared by SNA/BPM Project Managers

<sup>2</sup> See [https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893\\_2100.pdf](https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893_2100.pdf).

- It will also explain that Islamic finance and insurance, indeed the whole Islamic financial system, follows the Shari'ah law (Islamic law). It will briefly discuss the specific set of key principles followed by Islamic finance, related to *riba* (equivalent to receipts and payments of interest), *gharar* (excessive uncertainty), *maysir* (gambling) and financing activities that are deemed harmful to society, as well as the Islamic concept that parties must share the risks and rewards of business activities. It will explain that Islamic financial institutions (IFIs), as well as Islamic financial standard setting institutions have adapted to these norms as a means of ensuring a sound Shari'ah compliant financial system.
- This section will also summarize how these principles impact measures of output and property income as well as the classification of financial instruments. They also bring up issues associated with the classification of institutional sectors. In addition, there are considerations with respect to the economic ownership of non-financial assets under certain arrangements to be accounted for.
- It will also overview some specific issues related to insurance business. It will introduce the main takaful models that are widely recognized, the types of takaful, the related regulations and basic accounting standards.
- Islamic finance and insurance is quite different from conventional finance and insurance in other parts of the world. As a result, it is essential to understand Islamic financing and insurance constructs and arrangements to properly reflect these into the SNA/BPM framework. This will facilitate compilation of the accounts in economies where Islamic Finance is relevant, preserving the universality of the international statistical standards, as well as improve the international comparability and interpretability of national accounts and external sector statistics.
- The chapter will have separate sections covering the general overview of Islamic finance and insurance (Section I), economic ownership of non-financial assets (Section II), Islamic financial institutions/entities' sectoring (section III), Islamic units' measures of output in the SNA production account (section IV), the nature of returns on Islamic investments in the primary income account of SNA/BPM (section V), and the classification of Islamic financial instruments in the accumulation accounts, including balance sheet (section VI). See the Schematic Overview at the end for further details.

## **II. Economic ownership of non-financial assets under specific Islamic financial arrangements**

- Economic ownership, and the financial arrangements that give rise to its consideration, provide a good background for the subsequent sections of this chapter. This section will first briefly discuss the concepts of economic and legal ownership in the SNA/BPM.
- It will then turn to the issue of how ownership applies to certain Islamic finance arrangements. It will note that Islamic financial corporations can generate income through various arrangements where they provide financing, typically through sales, lease trade credits and equity participation. The regulatory framework will be briefly reviewed. Islamic accounting standards recommend recording the ownership of non-financial assets related to certain financial schemes to the legal owners (IFIs).
- This section will next discuss the recommended treatment of economic ownership of non-financial assets in a series of financing arrangements that are "similar to" sales/lease/equity financing,

including arrangements such as Murabaha, Bai Muajjal, Mudaraba, Istina and operating or financing Ijarah.

- Lastly, the economic ownership of non-financial assets when clients default on paying for these assets in financing arrangements will be considered.
- Illustrations will be provided as required, sourced to a large extent from the Annexes in GN IF.1 (Annex F.3).

### III. Islamic financial institutions/entities sectoring

- As a next step to understanding Islamic finance and insurance, it is useful to profile the characteristics of Islamic financial institutions (IFIs) as well as to relate them to the subsectors of financial corporations in the SNA/BPM. A basic description of the types of IFIs and their activities and terminology will be included in this section.
- **Islamic Finance.** IFIs span many financial corporations' subsectors. Deposit-taking corporations in S122 can include Islamic banks, Commercial and development banks, Islamic microfinance Banks, Online banks, and Islamic windows in conventional banks. S124 can include non-MMF investments funds, off-balance sheet restricted investment accounts, and Hajj Funds. It will be explained that IFIs, as well as standard setting institutions in Islamic countries have adapted to these norms as a means of ensuring a sound Shari-ah compliant financial system.
- **Islamic Insurance.** With respect to insurance and re-insurance like business (commonly referred to as takaful and re-takaful), operators are classified to S126 (financial auxiliaries), while takaful funds (including takaful windows) are classified to S128 (insurance corporations). This sub-section will introduce the core concepts underlying the various takaful undertakings and how the fulfilment of Shari'ah principles results in three groups of units that need to be considered distinctively in the SNA and BPM frameworks. It will also clarify the main takaful models that are widely recognized, the types of takaful, the related regulations and basic accounting standards.
- Illustrations will be provided as required, sourced to a large extent from the Annexes in GN IF.1 (Annexes D and F.2 on sectoring).

### IV. Islamic financial institutions' measures of output in the SNA production account

- The output of IFIs by institutional sector/subsector will be presented. For some institutional units in the subsectors of financial corporations, this will include output related to both explicit charges and implicit service charges (i.e., FISIM-type of output).
- The discussion will elaborate on FISIM (reference rate and terminology) noting that the FISIM formula in the *2008 SNA/BPM6* should be used to calculate the financial intermediation services provided by Islamic deposit taking corporations<sup>3</sup>.

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<sup>3</sup> The decision on which reference rates to use for calculating Islamic FISIM is subject to testing and further discussion with the AEG/BOPCOM.

- Further discussion on the underwriting surplus in takaful arrangements will help to better rearrange the sub-processes of Islamic insurance in the macroeconomic statistics that would be handled differently from conventional insurance, especially regarding the identification of the service component.
- Illustrations will be provided as required, sourced to a large extent from GN IF.1 (Annexes D and F.4).

#### **V. The nature of returns on Islamic investments in the primary income account of SNA/BPM**

- This section will discuss the concepts of interest and similar returns<sup>4</sup>, with reference to investment income on Islamic financial instruments that are very similar to deposits, loans, debt securities and equity securities. This is specifically relevant for economies with significant Islamic financial activities.
- It will introduce the possibility of new breakdowns in the property income sub-account to accommodate returns on Islamic instruments. These “of which” breakdowns are specifically considered to provide more flexibility for economies with significant Islamic financial activities.
- Illustrations will be provided as required, sourced to a large extent from the Annexes in GN IF.1 (Annexes F1, B and C).

#### **VI. The classification of Islamic financial instruments in the accumulation accounts, including balance sheets**

- The section will focus on the recommended slotting-in approach trying to make Islamic financing arrangements fit into SNA/BPM instruments, including the criteria for the classification. It will discuss the corresponding relationship to investment income.
- In doing so, it will define and state the purpose of Islamic instruments, such as Qard, Wadia, Mudaraba, Restricted Mudaraba, types of Sukuk, Ijara, Musharaka, etc.
- It will also link specific instruments to the relevant financial corporations’ subsectors to complete the picture of Islamic Finance.
- Further, there will be a separate sub-section that discusses the links between the Islamic financial instruments and functional categories of BPM7, and related investment income.
- Illustrations will be provided as required, sourced to a large extent from the Annexes in GN IF.1 (See Annexes B and C).

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<sup>4</sup> IFTT has recommended to refine the wording of the proposed definition of the (revised) term “interest and similar returns” in consultation with the editors of the 2025 SNA and BPM7 (see the [Summary of Discussions of the March 2022 joint AEG/BOPCOM meeting](#)).



## Schematic Overview

<p><b>I</b></p>	<p><b>General overview of Islamic finance and insurance</b></p> <p>Background</p> <p>Key principles of Islamic Finance and insurance, and relevance for the national accounts/external sector statistics measures</p> <p>Outline of the chapter</p>
<p><b>II</b></p>	<p><b>Economic ownership of nonfinancial assets under specific Islamic financial arrangements</b></p> <p>Overview of legal ownership versus economic ownership</p> <p>Special considerations in Islamic Finance and the regulatory framework</p> <p>Economic ownership under different types of financial arrangements</p> <p>Sales financing types</p> <p>Lease financing types</p> <p>Equity participation financing types</p> <p>Etc.</p> <p>Economic ownership of non-financial assets when clients default</p>
<p><b>III</b></p>	<p><b>Islamic financial institutions/entities and sectoring</b></p> <p>Islamic Finance by business type</p> <p>Islamic insurance Institutions by business type</p> <p>Allocating the Islamic Financial institutions (IFIs) to specific institutional subsectors</p> <p>Deposit-taking institutions (S122)</p> <p>Non-MMF investment funds (S124)</p> <p>Other financial intermediaries (S125)</p> <p>Financial auxiliaries (S126)</p> <p>Captive financial institutions and money lenders (S127)</p> <p>Insurance corporations (S128)</p>
<p><b>IV</b></p>	<p><b>Islamic Financial Institutions' measures of output in the production account</b></p> <p>Output of ISIs by subsector, including direct and indirect services</p> <p>FISIM methodology</p> <p>Reference rate and terminology</p> <p>Alternative perspective on output measurement specific to Islamic Finance</p>

<b>V</b>	<p><b>The nature of returns on Islamic investments in the primary income account</b></p> <p>Concept of interest and similar returns, based on the breakdowns Investment income on instruments that closely resemble</p> <ul style="list-style-type: none"> <li>Deposits</li> <li>Loans</li> <li>Debt securities</li> <li>Equity securities</li> </ul>
<b>VI</b>	<p><b>The classification of Islamic Financial Instruments in the accumulation and balance sheet accounts</b></p> <p>Factors for deciding the classification of Islamic Financial Instruments</p> <p>Classification in national accounts and the links to investment income</p> <ul style="list-style-type: none"> <li>Instruments classified as currency and deposits</li> <li>Instruments classified as loans</li> <li>Instruments classified as debt securities</li> <li>Instruments classified as trade credits and advances</li> <li>Instruments classified as equity</li> <li>Instruments classified as receivables</li> </ul> <p>Financial instruments linked to specific financial corporations</p> <p>Islamic Finance financial instruments under the functional classification of <i>BPM7</i> and related investment income</p>
	<p><b>Annex:</b> Islamic Finance and Insurance arrangements, and its recording in the sequence of accounts (a summary of what is covered in the sections)</p>

## References

GN IF.1 Islamic Finance in the National Accounts and External Sector Statistics

UN paper Perspectives on Islamic Finance in the National Accounts

Annex 4.3 of the IMF Monetary and Financial Statistics Manual and Compilation Guide, 2016

## Key Stakeholders Consulted

- SNA and BPM Editors
- Islamic Finance Task Team
- IMF Statistics Department, Financial Institutions Division