

## ISWGNA Task Force on Islamic Banking

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### Introduction: IFSB Role in Islamic finance in the SNA

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## Introduction to IFSB

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- Islamic Financial Services Board (IFSB) founded in 2002
- Kuala Lumpur, Malaysia
- Established with prompting from IMF to act as international supervisor for Islamic banking and Islamic finance in general
- Activities parallel those of Basel Committee for Banking Supervision (BCBS) located at Bank for International Settlements in Basel, Switzerland
- Deliberates on supervisory issues and issues standards for adoption by countries with Islamic finance
- Also issued Core Principles for Islamic Financial Regulation (CPIFR) that provide best practices for national supervisors of Islamic financial institutions

## IFSB Macropprudential Statistics

- 2004 – Initiated program to compile macropprudential indices – Prudential and Structural Indices for Islamic Financial Institutions (PSIFI). Now covers 19 countries with 95% of global Islamic banking. Data are disseminated on IFSB website.
- Followed IMF's Financial Soundness Indicator (FSIs), which were designed to use monetary statistics methods (SNA) whenever possible.
- Methodology sought be comparable to SNA with appropriate adjustments to Islamic finance practice
  - Banking sector = ODCs (monetary policy linkage)
  - Other sectors and residency
  - Accrual standards
  - Stocks and flows (transactions, holding gains/losses, OCVA)
  - Exchange rate adjustment
- *Compilation Guide* developed – material presented in this meeting largely developed during drafting of the *Compilation Guide*

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## Islamic Soundness Indicators

- IFSB followed general model for FSIs – analytical ratios of strength or vulnerabilities of banking sector
- Compact set of indicator based on CAMELS model – Capital, Assets, Management, Earnings, Liquidity, Sensitivity to market risk
  - Many numerators and denominators are based on supervisory standards for which data cannot be drawn directly from SNA or standard financial accounting frameworks
- IFSB added a set of “structural indicators” (next pages) because of lack of statistics on size and structure of Islamic banking sector – the structural indicators are more closely linked to SNA

## Structural Islamic Financial Indicators (SIFIs)

ST01	Number of Islamic banks	
	Number of domestic branch offices	
	Number of ATMs	
ST02	Number of employees <sup>5/</sup>	
ST03	Total assets	
	Total Shari'ah-compliant financing (excluding interbank financing)	
	Sukuk holdings	
	Other Shari'ah-compliant securities	
	Interbank financing	
	All other assets	
ST04	Total funding/liabilities and equities	
	Profit-sharing investment accounts (PSIA) <sup>1/</sup>	
	Other remunerative funding (Murabahah, Commodity Murabahah etc.)	
	Nonremunerative funding (current account, Wadi'ah)	
	Sukuk issued	
	Other Shari'ah-compliant securities issued	
	Interbank funding/liabilities	
	All other liabilities	
	Capital and reserves	□4

## Structural Islamic Financial Indicators (SIFIs)

ST05	Total revenues	
	Financing based	
	Investment based (Sukuk, other Shari'ah-compliant securities etc.)	
	Fee based	
	Other	
ST06	Earnings before taxes and Zakat	
ST07	Value (or percentage) of financing by type of Shari'ah-compliant contract	
ST08	Assets held by domestic systemically important Islamic banks	



## Compilation Guide and Metadata

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- The IFSB has prepared a *PSIFI Compilation Guide* to assist in compilation of the indices and help in understanding and using them.
- A new *Guide* is nearing completion that reflects new Basel indicators (capital, leverage, liquidity, systemically important banks), current trends in analysis of soundness of Islamic banks, and recent changes in accounting, statistical (SNA 2008), and supervisory standards.
- In some areas, significant differences exist between countries in indicators and compilation standards and procedures – countries should provide “metadata” descriptions of such practices to help in analysis of data and for comparisons of country data.



## Expansion of coverage

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- New country coverage – Lebanon, Palestine, Qatar, and United Kingdom have been added recently
- Two new surveys are being introduced – Insurance (takaful) and Islamic capital markets.
  - First data expected in Spring 2018.
  - *Compilation Guide* will be expanded to cover these areas

## Appendix:

# PSIFIs and Detailed Financial Statements

## Core Prudential Islamic Financial Indicators (PIFIs)

CP01ao	CAR	Total regulatory capital	
		Risk-weighted assets (RWA)	
CP02a	Tier 1 capital to RWA	Tier 1 capital	
		RWA	
CP03a	Common Equity Tier 1 (CET1) capital to RWA	CET1 capital	
		RWA	
Capital Adequacy: IFSB Formula			
CP01b	CAR (IFSB)	Total regulatory capital	
		RWA	
CP02b	Tier 1 capital to RWA (IFSB)	Tier 1 capital	
		RWA	
CP03b	Common Equity Tier 1 (CET1) capital to RWA (IFSB)	CET1 capital	
		RWA	
Asset Quality			
CP04	Gross nonperforming financing (gross NPF) ratio	Gross NPF	
		Total financing	
CP05	Net nonperforming financing (net NPF) to capital	Net NPF	
		Total regulatory capital	
CP06	Provisions for gross nonperforming financing (gross NPF)	Provisions	
		Gross NPF	
Earnings			
CP07	Return on assets (ROA)	Net income (before extraordinary items, taxes, and Zakat)	
		Total assets	
CP08	Return on equity (ROE)	Net income (before extraordinary items, taxes, and Zakat)	
		Equity	
CP09	Net profit margin <sup>3/</sup>	Net income (before extraordinary items, taxes, and Zakat)	
		Gross income	
		Cost to income <sup>3/</sup>	
CP10		Operating costs	
		Gross income	
Leverage			
CP11	Capital to assets (balance sheet definition)	Tier 1 capital	
		Total assets	
CP12	Leverage (regulatory definition)	Tier 1 capital	
		Exposure	
Liquidity			
CP13	Liquid assets ratio	Liquid assets <sup>6/</sup>	
		Total assets	
CP14	Liquid assets to short-term liabilities	Liquid assets <sup>6/</sup>	
		Short-term liabilities	
CP15	Liquidity coverage ratio (LCR)	Stock of Shari'ah-compliant high quality liquid assets	
		Total net cash outflows over the next 30 calendar days	
CP16	Net stable funding ratio (NSFR)	Available stable funding (ASF)	
		Required stable funding (RSF)	
Sensitivity to Risks			
CP17	Net foreign exchange open position to capital	Net FX open position	
		Total regulatory capital	
CP18	Large exposures to capital	Value of large exposures	
		Total regulatory capital (or balance sheet capital)	
CP19	Growth of financing to private sector	Total financing at end of current period	
		Total financing at end of same period in previous year	

## Additional Prudential Islamic Financial Indicators (PIFIs)

AD01	Income distributed to investment account holder (IAH) out of total income from assets funded by profit-sharing investment accounts (PSIAs)
	Income distributed to IAH
	Total income from assets funded by PSIA
AD02	Total off-balance sheet items to total assets
	Off-balance sheet items
	Total assets
AD03	Foreign-currency denominated funding to total funding
	FX funding
	Total funding
AD04	Foreign-currency denominated financing to total financing
	FX financing
	Total financing
AD05	Value of Sukūk holdings to capital
	Sukūk holdings
	Total regulatory capital (or balance sheet capital)
AD06	Value (or percentage) of Shari'ah-compliant financing by economic activity
AD07	Value (or percentage) of gross NPF by economic activities
AD08	Value (or percentage) of returns by major type of Shari'ah-compliant contract

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## Structural Islamic Financial Indicators (SIFIs)

ST01	Number of Islamic banks
	Number of domestic branch offices
	Number of ATMs
ST02	Number of employees <sup>59</sup>
ST03	Total assets
	Total Shari'ah-compliant financing (excluding interbank financing)
	Sukūk holdings
	Other Shari'ah-compliant securities
	Interbank financing
	All other assets
ST04	Total funding/liabilities and equities
	Profit-sharing investment accounts (PSIA) <sup>61</sup>
	Other remunerative funding (Murābahah, Commodity Murābahah etc.)
	Nonremunerative funding (current account, Wadi'ah)
	Sukūk issued
	Other Shari'ah-compliant securities issued
	Interbank funding/liabilities
	All other liabilities
	Capital and reserves
ST05	Total revenues
	Financing based
	Investment based (Sukūk, other Shari'ah-compliant securities etc.)
	Fee based
	Other
ST06	Earnings before taxes and Zakat
ST07	Value (or percentage) of financing by type of Shari'ah-compliant contract
ST08	Assets held by domestic systemically important Islamic banks

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## DETAILED FINANCIAL STATEMENTS

- Detailed financial statements will cover total Islamic banks and windows.
  - Income and expense statement
  - Balance sheet
  - Memorandum items
- The IMF FSI program introduced collection of these detailed statements – they provide much more structural information for analytical purposes. The IMF reported that the availability of the statements improved the quality of the indicators in nearly all countries.
- The IFSB is now beginning collection of such statements
- Could be an important source for SNA data and for comparison of Islamic banking systems between countries.

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## INCOME AND EXPENSE STATEMENT *(to be renumbered)*

<b>1. Income</b>	
	(i) Income from financing
	(ii) Income from investments
	(iii) Less provisions for accrued income on nonperforming assets
<b>2. Less</b>	
	(i) Share of income attributable to unrestricted investment account holders
	(ii) Share of bank's profit held as profit equalisation reserves (PER)
<b>3. Net Financing and investment income (= 1 - 2)</b>	
	o/w Bank's income from restricted investment account as Mudarib
<b>4. Fees and commission income</b>	
<b>5. Gains or losses on financial instruments</b>	
<b>6. Other income</b>	
<b>7. Gross income (= 3 + ....+7))</b>	
<b>8. Personnel expenses (including administrative and general expenditures)</b>	
<b>9. Depreciation</b>	
<b>10. Other expenses (including fees payable)</b>	
<b>11. Provisions (net)</b>	
	(i) Provisions for non-performing financing
	(ii) Other financial asset provisions
<b>12. Net income (before extraordinary items, Zakat, and Taxes) (= 8 - (9+...+12)</b>	
<b>13. Extraordinary items</b>	
<b>15. Provision for Zakat</b>	
<b>14. Income tax</b>	
<b>16. Net income after extraordinary items, taxes, and Zakat / Net income before minority interest (= 13 - (14+15+16)</b>	
<b>17. Income attributable to Minority interest</b>	
<b>18. Net income after minority interest</b>	
<b>19. Dividends</b>	
<b>20. Retained earnings (= 18-19)</b>	

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## CONSOLIDATED STATEMENT OF BALANCE SHEET

21. Total assets (= 23+...+28 = 29)	IFRS	IMF	AAOIFI
22. Cash and cash equivalents	√	√	√
23. Total Sharī'ah-compliant financing (excluding interbank financing)	Loans and advances	Loans	√
24. Interbank financing	√	√	-
25. Sukūk holdings	Investment securities	Debt securities	Investments
26. Other Sharī'ah-compliant securities	-	-	Investments
27. Shares and other equity	√	√	Investments
28. Fixed assets (net)			
1. Fixed assets held against Ijara and other financial contracts	√	Non-financial assets	√
2. Plant, property, and equivalent		Non-financial assets	-
29. Intangible assets	√	-	-
30. Derivatives	√	√	-
31. Deferred tax assets	√	-	-
33. All other assets	√	√	√

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## CONSOLIDATED STATEMENT OF BALANCE SHEET

34. Total funding/liabilities and equities (=35+...+45)	IFRS	IMF	AAOIFI
35. Profit-sharing investment accounts (PSIA)	Deposits from customers	Customers deposits	Current accounts and saving accounts
36. Other remunerative funding (Murābahah, Commodity Murābahah etc.)	Deposits from customers	Customers deposits	Current accounts and saving accounts
37. Nonremunerative funding (current account, Wadī'ah)	Deposits from customers	Customers deposits	Current accounts and saving accounts
38. Sukūk issued	Debt securities issued	Debt securities	-
39. Other Sharī'ah-compliant securities issued	-	-	-
40. Interbank funding/liabilities	√	-	-
41. Payables	√	-	√
42. Proposed dividends	√	-	√
43. All other liabilities	√	√	√
44. Equity of Unrestricted Investment Account Holders (If AAOIFI)			
Of which, Profit Equalisation Reserve (PER)	-	-	√
Investment Risk Reserve (IRR)			
45. Capital and reserves			Owners equity
of which, (i) Narrow capital and reserves (Tier 1)	√	√	Paid-up capital
ii) Retained earnings	√	√	√
(iii) Bank's share in PER	-	-	-
(iv) Minority interests	√	-	√



## MEMORANDUM ITEMS

### Supervisory data

- 47. Tier 1 Capital
  - (i) Common Equity Tier 1
    - (i.i) CET1 Regulatory deductions and adjustments
    - (ii) Additional Tier 1 Capital
- 48. Tier 2 Capital
- 49. Other supervisory deductions
- 50. Total regulatory capital (= 32 + 33 - 34)
- 51. Risk-weighted assets (RWA)
  - (i) RWA for Credit Risk
  - (ii) RWA for Market Risk
  - (iii) RWA for Operational Risk
  - (iv) RWA funded by restricted PSIA
  - (v) RWA funded by unrestricted PSIA
    - o/w CRWA funded by PER of UPSIA
    - o/w MRWA funded by PER of UPSIA

### Series for further analysis of the balance sheet

- 52. Liquid Assets
  - o/w Cash in hand
  - o/w Balance with central bank
  - o/w Balance with other banks and financial institutions
- 53. Shari'ah-compliant HQLA
  - o/w Level 1 Assets
  - o/w Level 2A Assets
  - o/w Level 2B Assets

### Additional series for Shari'ah income Distribution

- 54. Total income from assets funded from PSIA
  - o/w Income from restricted PSIA
  - o/w Income from unrestricted PSIA
- 55. Income distributed to IAH from assets funded by PSIA
  - o/w Income distributed to restricted PSIA
  - o/w Income distributed to unrestricted PSIA

### Additional series for Leverage Indicators

- 56. Derivative exposures
- 57. Securities financing transaction exposures

### Additional series Sensitivity to market risks

- 58. Number of large exposures