



BANK FOR INTERNATIONAL SETTLEMENTS

# Reporting practices of Islamic financial institutions in the BIS locational banking statistics

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# Outline

- BIS locational banking statistics
- Global Islamic banking assets
- A questionnaire on reporting practices:
  - Type and size of Islamic banking institutions
  - Classification of financial institutions
  - Classification of financial instruments
- Developing international guidance

# BIS locational banking statistics

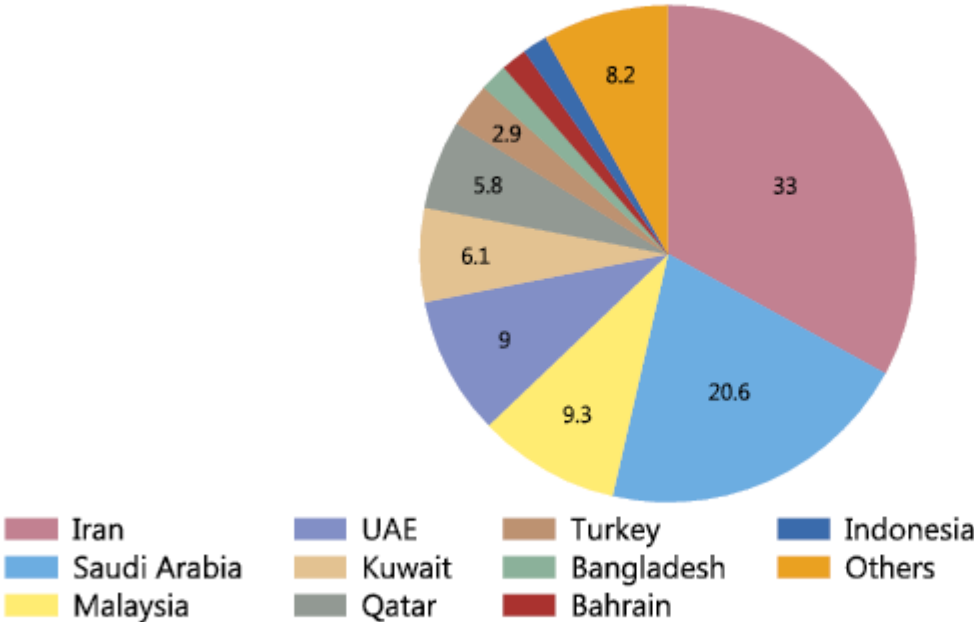
- Banks located in 46 reporting countries
- Capture outstanding claims and liabilities
- Based on the “residence” of reporting entities
  - same principles as national accounts and balance of payments
- Aggregated at country level

# Global Islamic banking assets

Global Islamic banking assets<sup>1</sup>

Percentage share, as of end-June 2016

Graph 1



<sup>1</sup> Shares are apportioned in US dollar terms.

Source: Islamic Financial Services Industry Stability Report 2017 (Chart 1.1.6)

# Questionnaire on reporting practices of Islamic financial institutions

- LBS-reporting countries:
  - Bahrain, Indonesia, Malaysia, Saudi Arabia, Turkey and United Kingdom
- Questionnaire to understand:
  - Islamic banking business models in different countries
  - How central banks treat IFIs
  - How transactions of Islamic financial instruments are captured in statistical reporting

# Responses to questionnaire

## - Islamic banking business model and size

Table 1

| Country        | Type of Islamic banking institutions <sup>1</sup>               |   |   | Assets of Islamic banking assets as a percentage of total assets of the domestic banking system (approximate size, %) |
|----------------|---|---|---|---|
|                | Stand-alone institutions not affiliated with conventional banks | Islamic banking subsidiaries affiliated with conventional banks | Islamic windows that are part of conventional banks |   |
| Bahrain        | Yes   |   |   | ≈17   |
| Indonesia      | Yes   | Yes   | Yes   | ≈6  |
| Malaysia       | Yes   | Yes   | Yes   | ≈24   |
| Saudi Arabia   | Yes   |   | Yes   | ≈26   |
| Turkey         | Yes   |   |   | ≈5  |
| United Kingdom | Yes   |   | Yes   | <0.1  |

<sup>1</sup> "Yes" indicates types of Islamic banking institutions that are available in respective LBS reporting country.

# Classification of financial institutions - BIS's Guidelines

- Section B.2.2

Reporting institutions cover mainly internationally active **banks**. In particular, they cover institutions located in each reporting country whose business it is to receive deposits (and/or close substitutes for deposits) and to grant credits or invest in securities on their own account ("banks" or "banking offices" in these Guidelines). Thus, the reporting institutions include not only commercial banks but also savings banks, savings and loan associations, credit unions or cooperative credit banks, building societies, and post office giro institutions, other government-controlled savings banks and other financial institutions if they take deposits or issue close substitutes for deposits.

- Reporting institutions generally should not include money market funds

# Classification of institutional sectors - 2008 SNA

## S1 Total economy

S11 Nonfinancial corporations<sup>1</sup>

S12 Financial corporations

S121 Central bank<sup>2</sup>

S122 Deposit-taking corporations, except the central bank<sup>1</sup>

~~S123 Money market funds (MMFs)<sup>1</sup>~~

S124 Non-MMF investment funds<sup>1</sup>

S125 Other financial intermediaries, except insurance corporations and pension funds<sup>1</sup>

S126 Financial auxiliaries<sup>1</sup>

S127 Captive financial institutions and money lenders<sup>1</sup>

S128 Insurance corporations<sup>1</sup>

S129 Pension funds<sup>1</sup>

S13 General government

General government classification—alternative A

S1311 Central government

S1312 State government

S1313 Local government

S1314 Social security funds

General government classification—alternative B

S1321 Central government<sup>3</sup>

S1322 State government<sup>3</sup>

S1323 Local government<sup>3</sup>

S14 Households

S15 Nonprofit institutions serving households

## S2 Rest of the world

May be classified in the same way as resident institutional sectors, with the addition of:

International organizations

International financial organizations

Central bank of currency union<sup>4</sup>

Other

International nonfinancial organizations

Note: The SNA sector classification also includes scope for a subsector for foreign-controlled corporations, defined similarly, but not identically, to direct investment subsidiaries. It also allows for separate identification of nonprofit institutions and for-profit institutions within the corporations sectors.

<sup>1</sup>Supplementary "of which" items may be provided for public corporations.

<sup>2</sup>Additional subsector may be identified for monetary authorities, where needed, as discussed in paragraph 4.70.

<sup>3</sup>Including social security funds of this level of government.

<sup>4</sup>If the reporting economy is a member state of a currency union.





# Classification of institutional sectors - BPM6

Central bank [S121]<sup>1</sup>

Deposit-taking corporations except the central bank [S122]<sup>2</sup>

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General government [S13]

Other sectors

Other financial corporations

Money market funds (MMFs) [S123]<sup>2</sup>

Non-MMF investment funds [S124]<sup>2</sup>

Other financial intermediaries except insurance corporations and pension funds (ICPF) [S125]<sup>2</sup>

Financial auxiliaries [S126]<sup>2</sup>

Captive financial institutions and money lenders [S127]<sup>2</sup>

Insurance corporations [S128]<sup>2</sup>

Pension funds [S129]<sup>2</sup>

Nonfinancial corporations, households, and NPISHs

Nonfinancial corporations [S11]<sup>2</sup>

Households [S14]

Nonprofit institutions serving households [S15]

Additional sectors for counterpart data:

International organisations

International financial organisations

Central bank of currency union

Other international organisations

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<sup>1</sup> Square brackets indicate the 2008 SNA sector codes. Additional subsector may be identified for monetary authorities, where needed, as discussed in paragraph 4.70.

<sup>2</sup> Supplementary "of which" items may be provided for public corporations, as discussed in paragraph 4.108-4.112.

# Classification of institutional sectors - MFSCG

## Financial corporations

### Depository corporations

Central bank

Other depository corporations

### Other financial corporations

Other financial intermediaries

Insurance corporations and pension funds

Insurance corporations

Pension funds

Financial auxiliaries

## Nonfinancial corporations

Public nonfinancial corporations

Other nonfinancial corporations

## General government

Central government

State government

Local government

Social security funds<sup>1</sup>

## Households

Nonprofit institutions serving households (NPISHs)

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<sup>1</sup> Alternatively, social security funds can be allocated to the other subsector of general government on the basis of the level at which they are organised.

# Classification of institutional sectors – ESA 2010

## Financial corporations [S12]

### Monetary financial institutions (MFIs)

#### Central bank [S121]

#### MFIs other than central bank

#### Deposit-taking corporations except the central bank [S122]

#### Money market funds (MMFs) [S123]

### Financial corporations other than MFIs

#### Non-MMF investment funds [S124]

#### Other financial corporations

#### Other financial intermediaries except insurance corporations and pension funds (ICPF) [S125]

#### Financial auxiliaries [S126]

#### Captive financial institutions and money lenders [S127]

### Insurance corporations and pension funds

#### Insurance corporations [S128]

#### Pension funds [S129]

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<sup>1</sup> Square brackets indicate the 2008 SNA sector codes.

# Responses to questionnaire

## - how central banks treat IFIs

- IFIs are treated as “deposit-taking corporations except the central bank” (S.122) in LBS
- No information on factors that determine these institutions be classified S.122

# Classification of financial instruments - BIS's Guidelines

- Section B.3.1

The banks' financial assets, or claims, should be broken down into:

- (a) "loans and deposits", which comprise interbank deposits and loans and advances (to banks or non-banks), including reverse repurchase agreements;
- (b) "holdings of debt securities"; and
- (c) "other claims", including financial derivatives with a positive market value.

Similarly, banks' liabilities should be broken down into:

- (a) "loans and deposits", which comprise interbank loans received and deposits (from banks or non-banks), including repurchase agreements;
- (b) "own issues of debt securities"; and
- (c) "other liabilities", including financial derivatives with a negative market value and equity.

- LBS does not distinguish between loans and deposits

# Classification of financial instruments – LBS vs BPM6

| LBS financial assets and liabilities classification  | Balance of Payments - broad category   |
|--|--|
| Assets   |  |
| <ul style="list-style-type: none"> <li>Loans and deposits</li> </ul>   | <ul style="list-style-type: none"> <li>Currency and deposits</li> <li>Loans (including financial lease)</li> </ul>         |
| <ul style="list-style-type: none"> <li>Debt securities holdings</li> </ul>   | <ul style="list-style-type: none"> <li>Debt securities</li> </ul>  |
| <ul style="list-style-type: none"> <li>Other assets (<i>ie equity investment, equity securities, participations, derivatives instruments, any other residual on-balance sheet financial claims</i>)</li> </ul> | <ul style="list-style-type: none"> <li>Other accounts receivable</li> <li>Equity</li> <li>Financial derivatives</li> </ul> |
| Liabilities  |  |
| <ul style="list-style-type: none"> <li>Loans and deposits</li> </ul>   | <ul style="list-style-type: none"> <li>Currency and deposits</li> <li>Loans (including financial lease)</li> </ul>         |
| <ul style="list-style-type: none"> <li>Debt securities issuance</li> </ul>   | <ul style="list-style-type: none"> <li>Debt securities</li> </ul>  |
| <ul style="list-style-type: none"> <li>Other liabilities (<i>ie equity capital, retained earnings, equity securities, derivatives instruments, any other residual on-balance sheet liabilities</i>)</li> </ul> | <ul style="list-style-type: none"> <li>Other accounts payable</li> <li>Equity</li> <li>Financial derivatives</li> </ul>    |

# Responses to questionnaire

## - capturing transactions of Islamic financial instruments

### A. Categorisation of Islamic financial assets

|     | Islamic financial instrument                     | Equity | Debt  | Derivatives | Non-financial assets |
|-----|--|--------|---|-------------|----------------------|
| 1   | Bai bil-Istighlal<br>(eg option-like instrument) |        |   | Option (1)  |                      |
| 2   | Bai Muajjal<br>(eg deferred payment contract)    |        | Loans (1)<br>Trade credits (2)<br>Others (2)  |             |                      |
| 3   | Bai Salam<br>(eg advanced payment contract)      |        | Loans (2)<br>Trade credits (2)<br>Others (1)  |             | (1)                  |
| 4   | Bail bil-wafa<br>(eg repo-like instrument)       |        | Debt securities (2)   |             |                      |
| 5   | Ijarah<br>(eg leasing or renting contract)       |        | Debt securities (1)<br>Loans (4)<br>Deposits (1)<br>Trade credits (1)<br>Others (2) |             |                      |
| 6   | Istisnaa<br>(eg progressive financing)           |        | Loans (3)<br>Trade credits (1)<br>Others (1)  |             |                      |
| 7   | Joala<br>(eg derivatives-like instrument)        |        | Others (1)  |             |                      |
| 8   | Mudaraba<br>(eg profit sharing)                  |        | Debt securities (1)<br>Loans (2)<br>Deposits (3)<br>Others (2)                      |             |                      |
| 9   | Murabaha<br>(eg cost plus)                       |        | Debt securities (1)<br>Loans (3)<br>Deposits (2)<br>Trade credits (1)<br>Others (2) |             |                      |
| ... |  |        |   |             |                      |

# Accounting standards in selected LBS countries

| Country        | Description   |
|----------------|---|
| Bahrain        | IFRS Standards are required.  |
| Indonesia      | Indonesia has not adopted IFRS Standards for reporting by domestic companies. Indonesia has been converging its national standards toward IFRS Standards, but without a plan for full adoption of IFRS Standards. |
| Malaysia       | Public companies are required to use the MFRS Framework, which is substantively equivalent to IFRS Standards.   |
| Saudi Arabia   | IFRS Standards are required for all listed companies, banks, and insurance companies.   |
| Turkey         | IFRS Standards adopted as Turkish Accounting Standards are required for listed companies, financial institutions, and other public interest entities.   |
| United Kingdom | All domestic companies whose securities trade in a regulated market are required to use IFRS Standards as adopted by the EU in their consolidated financial statements.   |



# Developing international guidance

- Focus on characteristics of underlying Islamic financial products
- Add a comparison of balance sheet structure between Islamic banks and conventional banks

Thank you!

