

## **Towards Standardization of Shari'ah Screening Norms and Practices**

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**ABSTRACT:** Shari'ah screening is a relatively new phenomenon to the Islamic finance. Until the 1970s, Muslim community generally was reluctant to involve in stock market due to the outright Shari'ah prohibition, imposed on capital market. In 1990s, a major breakthrough took place in religious ruling pertaining to equity investment and Muslims were allowed to partake in stock market with certain conditions. To ensure that the Shari'ah portfolio is in harmony with those conditions Shari'ah screening process is carried out. Since Shari'ah screening is executed by different Shari'ah index providers and all providers are bound with the stipulations laid down by the respective Shari'ah supervisory body there seems to be inconsistency in terms of Shari'ah screening norms and practice throughout the world. Along with the absence of standardized practice eventually is deemed to hamper the progress of Islamic equity market and it may lower the confidence of investors in the future. Therefore, this research is aimed to investigate the existing differences among the leading Shari'ah indices and to critically analyze the current Shari'ah screening norms. The researchers believe that the findings of the study will contribute to the enhancement of Shari'ah screening practice and will foster the sustainable growth of Islamic equity market. We suggest standardizing the Shari'ah screening norms and practices.

**KEYWORDS:** Investment, Islamic capital market, Shari'ah screening and Shari'ah indices.

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### **I. INTRODUCTION**

The need of the capital market is not new issue and it emerged with the birth of banking and insurance industries. Conventional finance comprising of banking, insurance and capital market is not allowed from the aspect of Islam. The reason of prohibition of conventional financing activities is the involvement of interest, uncertainty and gambling. With the emergence of Islamic finance industry, Islamic capital market becomes the backbone of the whole Islamic financial system. It is because Islamic banking and insurance industry needs to find the place where they can make the Shari'ah compliant investment.

Thus, a few countries like Malaysia and other index providers such as Dow Jones Islamic market have come out with the criteria to assess the companies whether they are under the category of Shari'ah compliant stock. However, the criteria to assess the companies vary across the index providers and hence, it creates the loop hole and calls for criticism and opportunity for choosing the less rigid index. So far, there is no research has been done to compare among the index criteria. Thus, the objective of this research is to compare five leading indices. This paper is organized in six sections. The second section discusses on investment and its principles in Islam and equity investment. The third section highlights the evolution of Shari'ah screening process. The fourth section elaborates on Shari'ah screening indices. The fifth section critically reviews the Shari'ah screening norms and the last section concludes.

### **II. INVESTMENT**

The term investment can cover a wide range of activities; it is generally referred to investing money in certificates of deposit, bonds, common stocks. An investment can be defined as the commitment of funds to one or more assets that will be held over some future time period in order to gain future value by sacrificing the present value of asset (Nik Muhammad, 2005, & Herbert B. Mayo, 2011).

#### **2.1 PRINCIPLES OF INVESTMENT IN ISLAM**

According to TaqiUthmani investment to be in line with Shari'ah will always be bound basically with two conditions: first, instead of fixed return tied up with their face value,

investment must be made on profit and loss sharing basis with the determination of a pro rata profit distribution. Thus, neither the principal nor a rate of profit can be assured, and return is attached to the actual profit earned or loss suffered by the business venture unless the loss is caused by negligence or mismanagement. Secondly, the amount so pooled together must be invested in a business compatible with Shari'ah teachings. It covers also that not only the channels of investment, but also the conditions and contract concluded by the parties must be adherent to Islamic principles of transaction (Uthmani, 2002).

## 2.2 INVESTMENT IN EQUITIES

Due to the fact that investments in stocks have merits over other avenues like Real Estate and taking cognizance of the role played by investment in stocks, many Shari'ah scholars have discussed the legitimacy and Shari'ah view point of investing in equities exclusively such as Uthmani, (2002) ShariqNisar, (2007) NizamYaqubY,(2000) and Mohamed Ali El Gati, (n.d.) and Said Elfakhani and M.Kabir Hassan, (2005). To consider whether a particular investment proposal is compatible with Shari'ah specifications or not, it is mandatory to examine it from two angles; the structure of the transaction or instrument itself and the nature of the contracting parties. For example, a trading transaction can be examined by two aspects; whether there is Gharar, Riba etc. involved in the formation of contract and the nature of counter-party' business like production or distribution of liqueur carried out by a firm or building casino and manufacturing adult entertainment. In addition, there are instances whereby the corporation's prime business is not contradictory to Shari'ah but it may comprise a varying proportion of the regular business activity engaged in, ranging from a minor or negligible to being the sole activity. Under such circumstances the question arises if it is acceptable in the eyes of Shari'ah to indulge in contractual relationship with such a party, even the structure wise it is a valid contract (M.H.Khatkhatay and ShariqNisar, 2007). Uthmani, (2002) states that there is kind of agreement among contemporary Shari'ah scholars on the point that if all transactions of a company are with accord to the Shari'ah stipulations which implies that the company neither borrows money on interest basis nor lends out surplus with an interest rate, its shares can be bought, held and sold. On the contrary, as a matter of fact such companies are very rare to find in the contemporary stock market. Most of the companies listed in the stock market are some or another way engaged in an activity which breaches the injections of Shari'ah. Even if the core business of a company is halal, its financing is based on interest or the company may keep their surplus in an interest bearing account (Uthmani, 2002).

## III. THE EVOLUTION OF SHARIAH SCREENING OF STOCKS

In 1987, a panel of leading Shari'ah scholars had agreed and arrived at certain criteria in order to enable Muslim investors to own, hold and trade the shares of the listed companies in a view of the current market scenario and acknowledging the significant role played by the listed companies in an economic system. Justice Muhammad TaqiUsmani from Pakistan, Saleh Tug from Turkey and Sheikh Muhammad Al-Tayyeb Al Najar from Egypt were the prominent scholars in that team (Kamal MA Mian, 2008). The idea behind the approach adopted by these scholars is that it is almost not viable to carry out financial activities purely in harmony with the principles of Shari'ah, though the companies whose core business does not contradict the Shari'ah tenets. This simply connotes that Muslim investors will not be able to take part in an essential section of the world financial system. Therefore, it is imperative to investigate vigilantly the non-Shari'ah compliant components in a firm and look for techniques and ways to either prevent them or handle them in a way that would be consistent with the tenets of Shari'ah. The scholars had developed the Shari'ah screening criteria of the stocks and ruled that Muslim investors may trade stocks of the companies which satisfy the certain conditions and criteria. Thus, Shari'ah scholars of the present time have put forth various criteria to define the maximum degree of compromise which could be considered acceptable under Shari'ah, given the current business time (Muhammad Imran Uthmani, 2002).

### 3.1 SHARI'AH SCREENING NORMS

Since not all shares of companies are Shari'ah compliant assets, Shari'ah scholars and International standard-setting bodies like AAOFI and IFA have laid down the rules and tenets in order to ensure Shari'ah-complaint investments. Muhammad Obaidullah (2008) thrashes out that criteria for screening could be positive or negative. Use of positive criteria implies that a corporation may be given important in constructing portfolio universe for reasons such as a good record for quality products, safety and consumer relationship or contribution to environment improvement, pollution control, sustainable woodland management and energy conservation. Negative criteria means to exclude the companies from the portfolio based on certain criteria. For example, leave out the companies producing or supplying *haram* goods like alcohol and pork-related products and so on. (Obaidullah, 2008).

### **3.2 TYPES OF SCREENING**

The criteria within which the manager will be required to work can be split into two distinct categories. First are the qualitative criteria or sector screening that is involved in the core business of the proposed company. The purpose of this type of screening is to exclude companies whose basic business is contradictory to Shari'ah stipulations from the universe of investable stocks (Ulrich Derigs, ShehabMarzban, 2009).

### **3.3 SECTORAL SCREENING NORMS**

Trevor L. Norman has listed out extensively the sectors, businesses and companies that shall be excluded from the Shari'ah-complaint investment universe:

- Companies that produce, sell, distil or supply alcoholic beverages and products.
- Companies that produce, sell, distribute or slaughter pork and pork-related products.
- Companies involved in gambling, casinos, lotteries and related games.
- Companies whose basic activity is in the entertainment production like movies and cinemas, etc.
- Companies engaged in producing adult entertainment such as pornography and obscenities in any type.
- Companies producing weapons.
- Companies that produce tobacco and tobacco related products.
- Companies engaged in products related to aborted human fetuses.
- Companies engaged in human cloning.
- Companies with bad and harmful environmental record.
- Conventional banks, financial institutions and insurance companies.
- Companies with any impure activity exceeding 5 per cent of revenues (Trevor L.Norman, 2006).

#### **a. FINANCIAL SCREENING NORMS**

Upon passing the sector screening, stocks are then required to financial screening or quantitative screening for the purpose of assessment the portion of interest-based financing and interest-based revenue. The usage of financial ratios to compute the quantum of interest-based financing and income differs from one index to another depending mostly on Shari'ah supervisory board of that particular index (International Shari'ah Research Academy for Islamic Finance, 2012).

According to Kamal the financial screening criteria have evolved over the period. Initially Shari'ah scholars had set forth guidelines back in 1987 which are as follows:

- Total debts should be less than 33% of the equity.
- Account receivable should be less than 49% of total assets.
- Interest income from cash and interest should not be more than 5% of the total income (Kamal, 2008).

However, the current practice of Shari'ah screening of stocks with regard to setting benchmark varies one to another Shari'ah index and that will be discussed in the proceeding phase.

### **3.5 RATIONALE OF FINANCIAL SCREENING RATIOS**

There are number of Shari'ah scholars who have rationalized the setting various benchmarks for screening from Shari'ah point of view.

#### **3.5.1 Interest-based debt**

In the current market phenomena, companies obtain financing on interest-based, particularly in the country where Shari'ah-complaint financing instrument is unavailable. It is very rare to find companies that will either be debt free or only have Shari'ah-complaint debt in its balance sheet. Recognizing this fact, Shari'ah scholars have legitimized investment in companies with interest-based debt less than 33% of their equity. They have deducted this 33% figure from the saying of the prophet (S.AW), "one third is big or abundant". Less than 33% would not be big or abundant and hence tolerable in the given circumstance (Obidullah, 2008,).

#### **3.5.2 Account Receivable**

Shari'ah scholars have mandated that majority of company's asset shall not be in cash or debt form. Otherwise this kind of sale will fall into purchase of money for money or less money and that would volatile the principle of Shari'ah, where money (debt or cash) cannot be exchanged except at par value and spot basis. Shari'ah recognizes account receivable as debt due to the company. So, if the majority of company asset is account receivable the subscription to shares of such company should only take place at par value. However, in case the account receivables come less than the majority of assets, the purchase of shares would be considered as the sale of real assets. This opinion is derived from the legal maxim stating that "Majority deserves to be treated as the whole of a thing" (Kamal, 2008 and Uthmani, 2002).

### 3.5.3 Interest income

Usually companies deposit cash in interest-bearing current accounts and also invest surplus funds in short-term fixed income securities like Credit Default Swap (CDs) and other money market instruments. Notwithstanding that the company's main business is Shari'ah-complaint; interest earned from cash and short term securities renders it non-Shari'ah complaint. Though, Shari'ah scholars have approved investment in such a company as long as the interest income is less than 5% of total income and it is detached from the dividend and channelized to the charity (Kamal, 2008).

### 3.6 PURIFICATION OF EARNINGS AND DIVIDEND

In addition to sector and financial screening, some Shari'ah scholars have laid down that the non-Shari'ah-complaint portion of revenues received by Shari'ah-complaint investment universe must be cleansed. The impure income has to be given to charity or avenues of public interest (International Shari'ah Research Academy for Islamic Finance, 2011). Shari'ah supervisory board is responsible to ensure that all such income is calculated by the fund manager, and that equivalent portion is deducted from earnings in order to assure income pure and lawful. The methodology for calculation may vary from one Shari'ah board to another, where scholars may prefer one method over others. In essence, it is Shari'ah supervisory board that is liable to ensure that the purification takes place and that it is carried out in a way that accords with Shari'ah stipulations (Yusuf TalalDelorenzo, 2006). However, there is debate among Shari'ah scholars whether this purification is required even for the profit recorded through capital appreciation or gains. Some scholars are of opinion that even in the case of capital gains the process of purification has to be executed due to the fact that market price may consist of an element of interest associated with the assets of the company. Another view is that purification is not mandated in this case. Opponents argue that no certain amount of price can be specified by the company. It is understandable that all if all the requirements are observed, then most of the assets of the company are *halal*, and a very small portion of its assets might have been generated by the income of interest. Nevertheless, the second opinion is not without force, yet the first view is more precautionous and far from doubts (Uthmani, 2002).

## IV THE EMERGENCE OF SHARIAH INDICES

It is not clear exactly when the first Islamic index emerged. It is generally believed that the first Islamic fund was created in July 1987 after the pronouncement of *fatwa* on Islamic equity fund by Justice Muhammad TaqiUthmani, Saleh Tug and Sheikh Al Tayyeb Al Najar. Whereas others cite that it started with the introduction of Amana Income Fund during 1986 in the United States. However, the *fatwa* was proven to be breakthrough and an eye-opener to the entire Islamic financial industry and it prompted Islamic sponsors such as the national commercial bank of Saudi Arabia, Dallah Al Baraka via Al Amin to offer Islamic equity funds. Islamic equity funds were available on a large scale, but there was no Islamic index to help rank fund performance. Some fund managers used the MSCI ex-financial, meaning that conventional financial sectors like banks and insurance companies were not included. Though, other non-Shari'ah-complaint sectors were not excluded such as pork, alcohol, gambling and high-leveraged corporations. On the contrary, some of the fund managers used to invest Islamic portfolios relaying on Dow Jones Industrial Average (DJIA) or S&P 500 as the benchmark. Hence, this sort of practice did not gain investors' confidence in Islamic fund and that consequently necessitated the creation of Islamic index (Security Commission Malaysia, 2009 and Siddiqui, 2006). According to Siddiqui, (2009) and Rodney Wilson (n.d.) that the first Islamic index constructed, maintained, and disseminated by an index provider was the Dow Jones Islamic Market (DJIM) Index, launched in February 1999 in Bahrain (Rodney Wilson,). It was the first benchmark to embody Shari'ah-complaint portfolios. Afterward, the Financial Times Stock Exchange created Shari'ah portfolio in November 1999 with the name of Islamic Global Index Family. More or less at the same time, the Kuala Lumpur Stock Exchange's Shari'ah Index was also launched (Siddiqui, 2006).

### 4.1 SHARI'AH INDEX CONSTRUCTION

To create an Islamic index, an index provider should comprise shares of companies which are approved by the respective Shari'ah supervisory board. The index should be kept based on strict screening and review process. Through constant supervision and review processes that likely to be carried out quarterly or semiannually basis, index provider might exclude if any of the certified corporation is found to be violating screening norms. Such companies shall be removed from the index's universe immediately upon detection (Security Commission Malaysia, 2009).

### 4.2 SHARI'AH INDEX CALCULATIONS

There are number of ways to computing an index, be Islamic or conventional. Siddiqui has summarized the main methods employed to calculate an index, they are as follows:

- Market capitalization weighting, where the free-float shares outstanding are multiplied by the price of share.
- Price weighting, where a stock's weight is decided by share price only.
- Equal weighting, where each company in the index has the same weighting regardless of size or share price.
- Capped or customized weighting, where the end user wants to limit the weighting of a company, country or region in the index (Siddiqui, 2006).

#### **4.3 OVERVIEW OF DOMINANT SHARI'AH INDEXES**

This section briefly reviews various Shari'ah indices practices and their parameters of optimizing portfolios. There are many studies done by researchers to make comparison of various leading Shari'ah indexes norms, M.H.Khatkhatay and ShariqNisar (2007), for instance, have critically reviewed Shari'ah norms of Dow Jones, United States, Security Commission Malaysia and Mezaan Pakistan. Furthermore, another research has been done on the comparison between Kuala Lumpur Stock Exchange and the Dow Jones Islamic Market Index by Azhar Abdul Rahman, MohdAzlanYahya and MohdHerry (2010).

#### **4.4 DOW JONES ISLAMIC MARKET INDEXES (DJIM)**

The DJIM index series currently is encompassed more than 70 indices and continues to be the most comprehensive family of Islamic market indexes. In fact, DJIM played a significant role in introducing Shari'ah-compliant investment guidelines at global level. Since its first launch in 1999 the sector and financial screenings methodology employed, has evolved. The Shari'ah supervisory board of it has revised the initial Shari'ah screening criteria time to time to enable the formulation of an index. Recently DJIM Shari'ah supervisory board has taken up market capitalization as divisor to calculate debt, receivables and interest-income ratios. The shift to employ this method was basically driven by the need to use a denominator that is inconsistent with the index market practice since the sole aim of creation an index is to trace the performance of the target market (Kamal MA, 2008).

#### **4.5 BURSA MALAYSIA'S SHARI'AH INDEX**

Bursa Malaysia Shari'ah index was introduced in 1999 in order to provide an avenue for Muslim investors to partake in equity investment in conformity with Shari'ah principles (Kamal Ali, 2008 and Azhar Abdul Rahman, 2010). According to Azhar Abdul Rahman 642 companies out of 811 are listed on the Bursa Malaysia Shari'ah index (Azhar Abdul Rahman, 2010). However, Shari'ah screening process in Malaysia is carried out at central level by the Shari'ah Advisory Council of Securities Commission and Exchange, individual funds or investment companies do not formulate their own Shari'ah screening criteria. Moreover, the prominent distinct that distinguishes Malaysian practice from the rest is the Shari'ah norms set forth by SAC; the screening criteria are mainly business activity or income based. No debt or liquidity screens are required. Consequently, screening is needed income statement only not the balance sheets of the companies (M.H.Khatkhatay and ShariqNisar, 2007 &Laldin, 2008).

#### **4.6 FINANCIAL TIMES STOCK EXCHANGE (FTSE) GLOBAL ISLAMIC INDEX**

FTSE introduced its global Islamic index several years back. Lately, it has signed a cooperation agreement with a Shari'ah advisory firm, Yassar Research Inc, to seek consultancy from them for Global Islamic Index series (A.Hussein, 2009). FTSE has expanded its product offering by launching three other Islamic indices: FTSE Singapore exchange Shari'ah index series, FTSE Dubai International Financial Exchange (DIFE) Shari'ah index series and Bursa Malaysia index series (Kamal Ali, 2008 & Security Commission Malaysia, 2009). Kamal Ali (2008) further highlights that screen FTSE Shari'ah indexes are done as per the criteria devised by the Shari'ah board of Yassar. The screening norms employed by FTSE Islamic indexes are involved both sector and financial screenings. These consist of exclusion of companies having interest-based debt more than 33% of total assets; account receivable and liquid assets equal to or more than 45% and cash plus short-term securities equal to or more than 33% of total assets (Kamal Ali, 2008).

#### **4.7 MSCI ISLAMIC INDICES SERIES**

MSCI has declared launching of a Shari'ah-complaint index lately and unlike others, it has outsourced Dar Al-Istithmar that is a London based Shari'ah advisory firm to seek Shari'ah consultation and supervision. The MSCI executes both business and financial screening of the companies. In addition, there is no significant difference found in relation to the business screening criteria between the MSCI Islamic index and of the rest. Nevertheless, the financial screening norms of MSIC Shari'ah index differ with others. The MSCI permits companies to be embedded in the Shari'ah portfolio till the account receivables are less than 70% of the total assets. The inclusion of account receivables up to 70% is the departure of from the general screening norms employed by other index providers (MSCI Barra Equity Research, 2007).



#### 4.8 STANDARD & POOR'S SHARIAH INDEX

Standard & Poor's has started creating Shari'ah indices since 2006. Similar to MSCI S & P also has outsourced the Shari'ah screening task to the Rating Inelegance Partners. It is a firm based in London, provides Shari'ah screening methodology, conducts Shari'ah screening and gives the list of Shari'ah-complaint securities to S&P Islamic index. However, the S&P also performs the business and financial screening of the stocks similar to others. The difference can be found in the benchmark of account receivables whereby the S&P uses 49% unlike 33% what DJIM adopts (S&P Indices, 2010).

#### 4.9 LACK OF STANDARDIZATION

Mostly researchers have concluded that there is lack of standardization in the Shari'ah screening practice currently. Ulrich Derigs and ShehabMarzaban (2008), for instance, express their anxiety that such inconsistency may contribute to insecurity and distrust of Islamic investors and thereby it may hinder the further growth of Islamic equity area and lose the attraction of larger investments. According to Mohamed Donia (2010) that existence of non-standardized is a big hurdle for the Islamic equity market to maintain the sustainable growth. He also points out that differences in practices are deemed to be at multi-level, for example, employing various financial ratio devisors and the practice of dividend purification and so on (Mohamed Donia and ShehabMarzaban, 2010).

### V. CRITICAL ANALYSIS OF SHARIAH SCREENING NORMS

The undertaken research has found that since the Shari'ah screening is relatively new phenomenon to Islamic finance; number of hurdles is being witnessed by Islamic equity market. It would be no exaggeration to contend that one of the crucial problems is the inconsistency or lack of standardization in Shari'ah screening norms and practices. The inconsistency is surfaced at both levels; sector and financial screenings. To illustrate the inconsistency in sector screening norms the Malaysian instance can be brought whereby Shari'ah Advisory Council (SAC) of security commission of Malaysia includes the consideration of public perception of the company during sector filtering process and, apparently, this is not required by the any of other Shari'ah board in the rest of the world. Similarly, Dow Jones Islamic index does not include weapon industry in its Shari'ah investment universe whereas such restriction is not imposed by SAC in Malaysia. Inconsistency is also found in financial screening mechanism, for example, the Dow Jones Islamic Market index uses three additional financial characteristics, i.e. level of debt, level of liquidity, and a level of interest income as compulsory criteria during the screening process for prospective companies (Dow Jones Indexes, 2011). On the contrary, the Shari'ah Advisory Council (SAC) of Kuala Lumpur Stock Exchange Shari'ah Index (KLSESI) focus primarily on two criteria, namely:

- (1) Core activity
- (2) Level of interest-base income of a company

Though, it is silent on the two criteria; the debt level and liquidity level as applied by Islamic Dow Jones index and others (Security Commission Malaysia, 2009). Beside these differing stances, other sort of inconsistency is appeared to be in the computing methods which are being employed currently by various Islamic fund managers and index providers globally. For instance, use of market capitalization versus total assets as ratio divisor; index providers employ either a market capitalization based or total asset based approach to carry out the financial ratios screening of stocks for eligibly. They asses the suitability of companies based on the percentage of either market capitalization of company's stock; or total assets that debt, cash and account receivable, Financial Times Stock Exchange (FTSE) uses a total asset approach to calculate financial ratios while Dow Jones Index adopts a market capitalization method (Dow Jones Indexes, 2011). Thus, using different Shari'ah parameters and various calculation mythologies in Shari'ah-screening process and not having proper standard causes to inconsistency and disparity that leads to insecurity and distrust of Islamic investors into Shari'ah-complaint investment and thereby hinders the further development of the Islamic equity area and the attraction of large investments. The researcher believes that the existing lack of standardization type may expose the industry to the potential Shari'ah risk due to the fact that under such circumstances the index providers may be tempted to use their leverage to influence Shari'ah board, producing what is commonly referred "*Fatwa shopping*". It is also seen as hindrance to facilitate cross-border investment activities effectively and efficiently.

Table 1 and 2 summarize the screening guidelines on business sector and financial aspect from five organizations.

**Table No 1. Overview of Business Sector Screening Norms**

	Business Sectors	Dow Jones Islamic market index	Standard & Poor's Shari'ah Index	Bursa Malaysia's Shari'ah index	Financial times stock exchange (FTSE) global Islamic index	MSCI Islamic Indices Series
1	Alcohol	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
2	Advertisement & Media (News channels, newspaper, sports channel)	Prohibited	Prohibited	OK	OK	Ok (<60% of revenue)
3	Cloning	Prohibited	Not available	Not available	Not available	Not available
4	Conventional Financial Services	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
5	Gambling & Gaming	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
6	Pork-related products	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
7	Adult Entertainments (cinema, music, pornography etc)	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
8	Tobacco	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
9	Public Image	Not available	Not available	Mentioned as important criteria	Not available	Not available
10	Maslaha	Not available	Not available	Mentioned as important criteria	Not available	Not available
11	Weapon and Arms	Prohibited	Prohibited	Prohibited	Prohibited	Permissible
12	Hotel	Prohibited	OK	Permissible	Prohibited	Prohibited
13	Trading of gold and silver as cash on deferred basis	Not available	Prohibited	Not available	Not available	Not available

**Table 2: Overview of Financial Screening Norms**

	Financial Screening Norms	Dow Jones Islamic market index	Standard & Poor's Shari'ah Index	Bursa Malaysia's Shari'ah index	Financial times stock exchange (FTSE) global Islamic index	MSCI Islamic Indices Series
1	Leverage Compliance (debt)	Debt/24 months average MC <33%	Debt/36 month average MC <33%	OK	Debt/ TA <33%	Debt/ TA <33.33%
2	Cash Compliance (Account Receivable + cash)	Account Receivable + cash/24 months average MC <33%	Account Receivable + cash/36 month average MC <49%	OK	Account Receivable + cash/ TA <50%	Account Receivable + cash) TA <70%
3	Revenue From Non-Complaint Activities and Total Interest	Revenue From Haram+ Total Interest /average MC <5%	Revenue From Haram+ Total Interest /36 month average MC <5%	N/A	Revenue From Haram+ Total Interest / TA <5%	Revenue From Haram+ Total Interest / TA <5%
4	Cash and Interest Bearing Items	Cash + Interest Bearing Items /24 months average MC <33%	Cash + Interest Bearing Items /36 month average MC <33%	N/A	Cash + Interest Bearing Items / TA <33%	Cash + Interest Bearing Items / TA <33.33%

## VI. CONCLUSION

This paper explores the basic conceptual foundation of Shari'ah screening framework, starting from the concept of investment, Islamic principles of investment to the investment in equities and optimizing Shari'ah investment portfolio. It is also attempted to revisit the norms laid down for the Shari'ah screening and to review the different practices of global Islamic index providers. It also investigates the differences in Shari'ah screening criteria laid down by the various index providers and reveals the problems occurring in Shari'ah screening practice due to the inconsistency or lack of standardization that eventually creating confusion among investors. We believe that this inconsistency will hinder the development of Islamic capital market. The limitation of this research is that not all the indexes are examined, however, the indexes in this paper include five leading indexes in the world and hence, the analysis of this paper can be generalized to represent the inconsistency of all the indexes. It is expected that this findings will open up the eyes of the investors, industrial players and regulators in order to come out with standardized screening criteria and process.

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