



Al-Hilal

— Shariah Advisors —

**Shariah Compliance Guidelines for Investments in the
Stock Market**

Definitions

1. **Shariah Advisor (SA)** means a panel of scholars versed in Islamic Shariah appointed to oversee the transactions of investments in light of Islamic Law
2. **Shariah Technical Services Provider (STSP)** means an organization providing financial expertise with regards to Islamic Finance and Advisory
3. **Illiquid Assets** mean those assets which can be traded at a price other than its par value

General Guidelines:

1. All transactions and agreements used for carrying out business should be approved by the Shariah Advisor (SA) and Shariah Technical Services Provider (STSP) and free from RIBA (interest), Gharar (uncertainty in a transaction) and Qimar (gambling).
2. Any changes in the product structure, agreements should have an approval from the STSP and SA
3. Any transaction requiring a relaxation should have a prior approval from SA and STSP

Guidelines for Bank Accounts:

1. All deposits of customers/organization shall be placed with Islamic Banks / Islamic Banking windows of conventional banks approved by the SA and STSP.

Screening Guidelines:

1. The following is the screening criteria for investments in equity scrip in the local market

A. Business of the investee company

The business of the investee company should be Halal. Accordingly, investment in shares of conventional banks, insurance companies, leasing companies, companies dealing in alcohol and any other non-compliant activities is not permissible

B. Interest bearing debt to total assets

The total interest debt of the investee company should not exceed 40% of the total assets. The debt here includes all interest-based debt & interest based financing.

C. Investment in non-Shariah compliant activities and income from non-Shariah compliant investments

The following two conditions must be observed for share screening purposes:

A-The total investment of the investee company in non-Shariah compliant activities should not exceed 33% of the total assets.

B-The income from non-Shariah compliant investment should not exceed 5% of the gross revenue. (Gross revenue means gross sales plus other income). Subsequently, giving the proportionate portion of noncompliant income to charity is required to purify earnings from investee companies.

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D. Illiquid to total assets

The total illiquid assets of the investee company as a percentage of the total assets should at least be 20% where illiquid assets are defined as those assets which can be traded at price different from their par value.

E. Net liquid assets versus share price

The net liquid assets [**Net Liquid Assets = Total Assets – Illiquid Assets – Total Liabilities**] per share should be less than the market price of the share.

2. Shariah Compliance screening should be performed on a half yearly basis for each company
3. Same day trading (purchase and subsequent sale of same shares on the same day) is not permissible
4. Shares cannot be sold prior to assumption of possession i.e. settlement as per schedule of the Stock Exchange

Purification Guidelines:

1. All income earned should be purified to attain an income free from non-compliant sources
2. A charity rate should be computed i.e. non-compliant income divided by total income adjusted for cost of goods sold and it should be applied on a pro rata basis to all the income earned on that particular scrip with the number of days held
3. If the client appoints the broker as his agent to disburse charity, then the broker shall disburse the charity to charitable avenues as approved by the STSP and SA
4. The broker shall maintain a separate bank account for charity payments and amount shall be transferred to the charity account as soon as possible.
5. The amount in the charity account shall be disbursed in a maximum period of 3 months

Divestments

1. In case any investment becomes non-compliant, it must be divested within a month of the date of non-compliance.




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