



Best Practices for Shariah Investing

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BEST PRACTICES FOR SHARIAH INVESTING

1. INTRODUCTION

Recognising the need to facilitate the investors to undertake an efficient end-to-end Shariah-compliant securities investing activities, a conducive marketplace has been developed with the establishment of Shariah Investing on Bursa Malaysia.

In pursuit of developing a framework for an end-to-end Shariah Investing on Bursa Malaysia for trading of Shariah-compliant capital market instruments (hereinafter referred to as “Shariah-compliant Securities”), Bursa Malaysia has developed a comprehensive Best Practices for Shariah Investing (hereinafter referred to as “Best Practices”) for the investors in ensuring that overall investment and trading activities of the investors are in accordance with the established and parameterised Shariah principles without any doubt and to encourage investors who trade and invest in Shariah-compliant Securities on Bursa Malaysia to undertake their activity via a registered Participating Organisation that conducts its stockbroking business in accordance with Shariah principles whether on a full-fledged or ‘window’ basis (“Islamic PO”).

2. OBJECTIVES

The Best Practices for Shariah Investing are designed to meet the following objectives:

- (i) To provide guidance to investors who trade and invest in Shariah-compliant Securities on end-to-end Shariah Investing on Bursa Malaysia;
- (ii) To set the best practices which Bursa Malaysia encourages investors to observe as part of their trading processes and activities;
- (iii) To serve as a guide to investors complementing the Shariah Screening Methodology set out by the Shariah Advisory Council (“SAC”) of Securities Commission of Malaysia (“SC”); and
- (iv) To create a comprehensive marketplace for the Shariah investing community that strengthens Malaysia’s presence in the eyes of global issuers and investors.

3. SCOPE OF APPLICATION OF BEST PRACTICES FOR SHARIAH INVESTING

The Best Practices are applicable to investors who have a trading account with the Islamic PO.

The list of Islamic POs is enclosed herewith for reference as **APPENDIX 1**.

4. TRADING GUIDE

- 4.1 The Shariah Investing on Bursa Malaysia will provide investors seeking Shariah-compliant Securities a new landscape and they may access the Exchange’s services, either direct or online via Islamic POs, where the investors would be able to experience comprehensive end-to-end Shariah investing.
- 4.2 Through the Islamic POs, investors will be able to access Shariah-compliant Securities listed on the Main and ACE Market of Bursa Malaysia Securities Berhad (“Bursa Securities”). The trade and post-trade services provided by Bursa Malaysia would be Shariah-compliant and the settlement will be done via Islamic financial institutions (as per Bank Negara Malaysia’s List of Licensed Banking Institutions in Malaysia).

The proposed new landscape for investors seeking Shariah-compliant Securities is illustrated as below:



- 4.3 A buyer and/ or seller is advised to engage an Islamic PO to participate in the trading of securities on Bursa Malaysia.
- 4.4 The trading on Bursa Malaysia should be conducted in accordance with Shariah principles.
- 4.5 Any securities trading should apply buy-and-sell mechanism (*bai'*).
- 4.6 The buy-and-sell mechanism is considered valid when the deal occurs on certain terms of price and type, as well as quantity of the securities. Any uncertainty may render this deal as void or voidable, as the case may be.

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- 4.7 A buyer may sell the securities after conforming to Item 4.6 above even though the settlement of the trading transaction is performed on T+3 day. This is based on the principle of constructive possession (*qabdh hukmi*), in which an ownership is deemed to be transferred to the buyer even though the physical possession will only take place in the future. A valid and enforceable sale contract will immediately transfer the ownership from the owner/ seller to the buyer.

5. OTHER RELEVANT TRADING GUIDES

- 5.1 The investor should at all times ensure to deal in Shariah-compliant Securities which are in accordance with the Shariah Screening Methodology set out by the SAC of the SC. The list of Shariah-compliant Securities is available on SC's website.

The Shariah Screening Methodology set out by the SAC of the SC is as per **APPENDIX 2**.

- 5.2 The investor is allowed to execute trading transactions using margin financing provided that the financing structure is Shariah-compliant in nature.
- 5.3 The investor's eligibility for margin financing is determined by the Islamic PO.
- 5.4 The Islamic PO is entitled to impose collateral for the margin financing which should not contravene Shariah principles.
- 5.5 Any anomaly from a normal trade that requires an alternative arrangement, the affected Islamic PO and/ or investor should be compensated for actual loss and should not benefit or obtain any material gain.
- 5.6 Muslim investors are obligated to perform *zakat* distribution to authorised or designated *zakat* collection centres from any profits derived from the Shariah-compliant trading activities.

The *zakat* contribution computation is enclosed herewith for reference as **APPENDIX 3**.

6. CLASSIFICATION OF SHARIAH-COMPLIANT SECURITIES

The list of Shariah-compliant Securities as referred by Clause 5.1 are reviewed based on the Shariah Screening Methodology set out by the SAC of the SC on a half-yearly basis, every May and November.

6.1 Treatment of Re-classified Securities

- 6.1.1 Shariah-compliant securities may be re-classified as Shariah non-compliant upon review by the SAC of the SC due to certain factors such as changes in the companies' business operations and financial positions.
- 6.1.2 Following the re-classification, investors are responsible to undertake an exercise to determine whether the market price of the affected securities exceeds or is equal to or is less than the investment cost.
- 6.1.3 If on the announcement date of the updated list of Shariah-compliant Securities as referred by Clause 5.1, the market price of the re-classified Shariah non-compliant securities exceeds or is equal to the investment cost, an investor who holds such securities should dispose them.
- 6.1.4 Any dividends received up to the date of the announcement and capital gains arising from the disposal of the re-classified Shariah non-compliant securities on the date of the announcement can be kept by the investor.
- 6.1.5 Any dividends and/ or capital gain received from the disposal of Shariah non-compliant securities after the date of the announcement should be channeled to approved charitable bodies.
- 6.1.6 Investors are allowed to hold their investment in the re-classified Shariah non-compliant securities if the market price of the said securities is below the investment cost. It is also permissible for the investor to keep the dividends received during the holding period until such time when the total amount of dividends received and the market value of the Shariah non-compliant securities held is equal to the investment cost. Once the market value of the Shariah non-compliant securities held is equal to the investment cost, the investor has to dispose the securities.

The illustration of the exercise referred to by Clauses 6.1.2 to 6.1.6 is provided herewith for reference as in **APPENDIX 4**.

- 6.1.7 During the holding period, investors are allowed to subscribe to:
- (i) any issue of new securities by a company whose re-classified Shariah non-compliant securities are held by investors, such as rights issues, bonus issues, special issues and warrants (excluding securities of which the nature is Shariah non-compliant e.g. loan stocks); and

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- (ii) Shariah-compliant securities of other companies offered by the company whose re-classified Shariah non-compliant securities are held by investors, on condition that they expedite the disposal of the Shariah non-compliant securities when the investment cost is already recoverable.

6.2 Best Practices on Cleansing of Shariah Non-Compliant/ Tainted Income

6.2.1 Shariah non-compliant/ tainted income is an income which is derived from Shariah non-compliant business activities.

6.2.2 Save and except for certain instances where dividend income received from Shariah non-compliant securities, the non-compliant status and treatment of an investment will take effect only after the investors become aware that the status of a particular investment has been re-classified to be Shariah non-compliant.

6.2.3 The investors should bear responsibility to identify tainted income and are encouraged to channel the tainted income to *baitulmal* and/ or any approved charitable bodies.

7. LIST OF SHARIAH-COMPLIANT INSTRUMENTS OFFERED ON BURSA MALAYSIA SECURITIES BERHAD

The investors may choose to invest in any of the Shariah-compliant instruments offered on Bursa Securities:

- (i) *i*-Securities (Shariah compliant securities)
 - *i*-Stocks (Shariah-compliant stocks)
 - *i*-Indices (Shariah-compliant indices)
 - *i*-ETFs (Shariah-compliant Exchange Traded Funds)
 - *i*-REITs (Shariah-compliant Real Estate Investment Trusts)
- (ii) Sukuk
 - Exchange Traded Sukuk

LIST OF PARTICIPATING ORGANISATIONS

List of Participating Organisations which conduct stockbroking business in accordance with Shariah principles whether on a full-fledged or 'window' basis ("Islamic PO"):

- 1. Affin Hwang Investment Bank Berhad**
- 2. AmInvestment Bank Berhad**
- 3. BIMB Securities Sdn Bhd (*full-fledged*)**
- 4. CIMB Investment Bank Berhad**
- 5. Jupiter Securities Sdn Bhd**
- 6. Kenanga Investment Bank Berhad**
- 7. Malacca Securities Sdn Bhd**
- 8. Maybank Investment Bank Berhad**
- 9. RHB Investment Bank Berhad**

SHARIAH SCREENING METHODOLOGY

Level 1: Business Activity Screening

The contribution of Shariah non-compliant activities to the overall revenue and profit before taxation (PBT) of the company will be computed and compared against the relevant business activity benchmarks as follows:

(i) The 5% benchmark

The 5% benchmark is applicable to the following businesses/ activities:

- conventional banking;
- conventional insurance;
- gambling;
- liquor and liquor-related activities;
- pork and pork-related activities;
- non-halal food and beverages;
- Shariah non-compliant entertainment;
- tobacco and tobacco-related activities;
- interest income from conventional accounts and instruments (including interest income awarded arising from a court judgement or arbitrator and dividends from Shariah non-compliant investments); and
- other activities deemed non-compliant according to Shariah.

For the above-mentioned businesses/ activities, the contribution of Shariah non-compliant businesses/ activities to the Group revenue or Group profit before taxation of the company must be less than 5% (<5%).

(ii) The 20% benchmark

The 20% benchmark is applicable to the following businesses/ activities:

- hotel and resort operations;
- share trading;
- stockbroking business;
- rental received from Shariah non-compliant activities; and
- other activities deemed non-compliant according to Shariah.

For the above-mentioned businesses/ activities, the contribution of Shariah non-compliant businesses/ activities to the Group revenue or Group profit before taxation of the company must be less than 20% (<20%).

Level 2: Financial Ratio Benchmark Screening

For the financial ratio benchmarks, the SAC takes into account the following:

(i) Cash over Total Assets

Cash only includes cash placed in conventional accounts and instruments, whereas cash placed in Islamic accounts and instruments is excluded from the calculation.

(ii) Debt over Total Assets

Debt only includes interest-bearing debt whereas Islamic financing or sukuk is excluded from the calculation.

Each ratio, which is intended to measure *riba* and *riba*-based elements within a company's statements of financial position, must be less than 33% (<33%).

Level 3: Qualitative Screening

In addition to the above two-tier quantitative criteria, the SAC also takes into account the qualitative aspect which involves public perception or image of the company's activities from the perspective of Islamic teaching.

Reference:

<http://www.sc.com.my/revised-screening-methodology/>

<http://www.sc.com.my/data-statistics/list-of-shariah-compliant-securities-by-scs-shariah-advisory-council/>

COMPUTATION FOR ZAKAT DISTRIBUTION

The following computation serves as a guide for *zakat* contribution:

- (i) Shariah-compliant Securities held over a *hijri* year, subject to the condition of '*nisab*' (threshold income amount):

Lowest Securities Value (Number of Securities Units x Lowest Price in a Year) x 2.5%

- (ii) Securities purchased-and-sold within a *hijri* year, subject to the condition of '*nisab*' (threshold income amount):

Profit from Selling of Securities (Selling Price – Investment Cost) x 2.5%

Reference:

<http://www.zakat.com.my/info-zakat/jenis-zakat/zakat-saham>

TREATMENT OF RE-CLASSIFIED SECURITIES (ILLUSTRATION)



Market Price \geq Investment Cost

- | | | |
|---|---|---|
| <p>=> To Dispose
+ Capital Gain
+ Dividend</p> | <p>=> To Dispose
+ Dividend (before or on AD)
- Dividend (after AD)
+ Capital Gain (before or on AD)
- Capital Gain (after AD)</p> | <p>=> To Dispose
+ Dividend (before or on AD)
- Dividend (after AD)
+ Capital Gain (before or on AD)
- Capital Gain (after AD)</p> |
|---|---|---|

Market Price < Investment Cost

- => To Keep
1. Until recovery of Investment Cost inclusive of Dividend + Market Price
 2. Upon recovery - to dispose off
 3. Maximum time - *not applicable*
 4. Allowed to subscribe to any applicable benefits

Note:

- AD** Effective Date of the SC SAC list
 + Can be kept
 - Should be channeled to *baitulmal* and/ or charitable bodies

Price of Shariah Non-compliant Stocks			
On the announcement day		After the announcement day	
Price > Original Investment Cost	Price < Original Investment Cost	Price > Original Investment Cost	Price < Original Investment Cost
<ul style="list-style-type: none"> ❖ Liquidate immediately ❖ Any capital gain from disposal can be kept by investors 	<ul style="list-style-type: none"> ❖ Hold until the price of stocks equal to original investment cost ❖ Dividends received can be used to expedite the disposal 	<ul style="list-style-type: none"> ❖ Liquidate immediately ❖ Profit (difference between original investment cost and closing price of announcement date) – can be kept ❖ Profit (difference between disposal price and closing price of announcement date) – channeled to charitable bodies 	<ul style="list-style-type: none"> ❖ Hold until the price of stocks equal to original investment cost ❖ Dividends received can be used to expedite the disposal