

# ISLAMABAD STOCK EXCHANGE LIMITED

## Launch of Shariah Compliant Segment at Islamabad Stock Exchange

Islamabad Stock Exchange (ISE) is pleased to launch its Shariah Complaint Segment in collaboration with Al-Meezan Investment Management Limited w.e.f. April 16, 2014.

S. NO	Company Names	S. No	Company Names
1	Abbott Laboratories	38	K-Electric
2	Akzo Nobel Pak Ltd.	39	Kohat Cement
3	Atlas Battery	40	Kohinoor Energy
4	Attock Refinery Ltd	41	Kohinoor Industries
5	Bannu Woollen	42	Kohinoor Textile
6	Cherat Cement	43	Lafarge Pak. Cement
7	Crescent Fibres Ltd.	44	Linde Pakistan Ltd.
8	D.G.Cement	45	Lotte Chemical Ltd
9	Elite Cap.Mod	46	Lucky Cement
10	Fauji Bin Qasim	47	Maple Leaf Cement
11	Fauji Cement	48	Mari Petroleum Co.
12	Fauji Fert	49	Millat Tractors
13	Fecto Cement	50	Mitchell's
14	Ferozsons Lab.	51	Nat. Refinery
15	First Habib Bank Mod	52	National Foods
16	First Habib Mod.	53	Netsol Technologies
17	Flying Cement Co. Lt	54	Nishat Mills
18	Ghandhara Ind. Ltd.	55	Oil & Gas Development Corporation
19	Ghandhara Nissan Ltd	56	P. S. O.
20	Ghani Automobile Ind	57	P.T.C.L.A
21	H. Atlas Car	58	Packages
22	Highnoon Lab.	59	Pak Oilfields
23	Hub Power	60	Pak Refinery
24	I. C. I. Pakistan	61	Pakistan Petroleum
25	Indus Motor	62	Pioneer Cement
26	Prud Mod. 1st.		
27	Punjab Mod.		
28	Quice Food Industries		
29	S. G. Power		
30	Sazgar Engineering		
31	Searle Company Ltd.		
32	Siemens		
33	Sitara Chemicals		
34	Sui Northern Gas Company		
35	Tariq Glass		
36	Telecard		

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37	Wah-Noble		
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While making any investment decision, investors having Islamic Shariah perspective focus to take into account not only the structure of the transaction but also the nature of the counter party. Investment in the share capital of a company becomes technically a part-owner of the company and therefore responsible for its internal structuring as well.

As a result, in case of investment in equities traded on the stock exchanges, the investor needs to consider further issues of the company itself being involved in Shariah noncompliant financing and structuring. Due to this, initially Shariah scholars tended to completely rule out investment in listed equities. Over time however, realization has seeped in that a more balanced view needs to be taken.

For one, the general prevalence of conventional banking operations makes it inevitable that but for a miniscule percentage, all businesses have to transact with banks in some way or other and, to some extent at least, rely on interest-based finance. Secondly, portfolio investment in equities on the stock markets is a convenient and often the main investment avenue open to ordinary Muslim investors and it is also close to the ideal Islamic profit and loss sharing paradigm for financing.

The Objective of this Shariah Compliant Segment shall be to serve as a gauge for measuring the performance of Shariah Compliant Equity investments listed on ISE, and to increase investor trust and enhanced participation. In order to tap the market of the investors prioritizing the Shariah based investments, ISE signed a MoU with Al-Meezan Investment Management Limited, a renowned Islamic Investment Institution duly accompanied by a religious Board comprising the below mentioned eminent and learned Islamic scholars to certify the securities within the confines of Shariah. Al-Meezan Investment Management after detailed scrutiny of all 250 listed securities on basis of criteria below, approved the attached list of 62 securities which have been found to be Shariah compliant mentioned above.

- Justice (Retd.) Mufti Muhammad Taqi Usmani (Chairman)
- Dr. Imran Ashraf Usmani (Pakistan)
- Dr. Abdul Sattar Abu Guddah (Saudi Arabia)
- Sheikh Essam M. Ishaq (Bahrain)

All Brokers of ISE are requested to extend their cooperation to promote the Shariah based investment in securities for the segment of investors who prefer Islamic modes of investments.

## Shariah Compliance Tests

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Shariah compliance of stocks is done under the guidance of qualified and reputed Shariah experts. For stocks to be “Shariah compliant”, it must meet ALL the six key tests given below:

### 1. Business of the Investee Company

The core business of the company should not violate any principle of Shariah. Therefore, it is not permissible to acquire the shares of the companies providing financial services on interest like conventional banks, insurance companies, leasing companies or the companies involved in some other business not approved by the Shariah e.g. Companies making or selling liquor, pork, haram meat, or involved in gambling, or any other impermissible activities.

If the main business of the investee companies is Halal, like automobiles, textiles, manufacturing concerns etc but they deposit their surplus amounts in an interest bearing account or borrow money on interest, the share holder must express his/her disapproval against such dealings, preferably by raising his/her voice against such activities in the annual general meeting of the company and/or by sending a letter to the management in this regard.

### 2. Interest Bearing Debt to Total Assets, <37%

The Interest Bearing Debt to Assets ratio should be less than 37%. To understand the rationale behind this condition, it should be kept in mind that such companies are mostly based on interest. Here again, the aforementioned principle applies i.e. if the shareholder is not personally agreeable to such borrowings, but

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has been overruled by the majority, these borrowing transactions cannot be attributed to him/her. Debt, in this case, is classified as any interest bearing debt including Bonds, TFCs, Commercial Paper, Conventional Bank Loans, Finance Lease, Hire Purchase, issuing preference shares etc.

3. **Non-Compliant Investments to Total Assets, <33%**

The ratio of Non Compliant Investments to Total Assets should be less than 33%. Non-Shariah Compliant Investments include investments in conventional mutual funds, conventional money market instruments, Commercial Paper, interest bearing bank deposits, Bonds, PIBs, FIB, T-Bills, CoIs, CoDs, TFCs, DSCs, NSS, derivatives etc. Non-Compliant investments also include investments in companies which are declared Shariah non-Compliant due to non-compliance to any of the mentioned criteria for Shariah Compliance.

4. **Non-complaint Income to Total revenue, <5%**

The ratio of Non Compliant Income to Total Revenue should be less than 5%. Total Revenue includes Gross Revenue plus any other income earned by the company. Non Compliant Income includes income from gambling, income from interest based transactions, income from Gharar based transactions i.e. derivatives, insurance claim reimbursement from a conventional insurance company, any penalty charged on late payment in credit sale, income from casinos, addictive drugs, alcohol, dividend income from above mentioned businesses or companies which have been declared Shariah Non-Compliant due to non-compliance to any of the mentioned criteria for Shariah Compliance etc.

5. **Illiquid Assets to Total Assets, >25%**

The ratio of Illiquid Assets to Total Assets should be at least 25%. The Sum of all those assets whose trade price can deviate from par value, according to the rules of Shariah, is considered the aggregate value of illiquid assets. Illiquid Assets include inventory of raw materials, work-in-process, all fixed assets such as property, plant & equipment, stores and spares, stock in trade etc.

6. **Net Liquid Assets/Share vs Market Price/Share**

Market Price per share should be at least equal to or greater than net liquid assets per share. Net liquid assets per share is calculated by using the following formula:

$$\text{Net Liquid Assets Per share} = \frac{\text{Total Assets} - \text{Illiquid Assets} - \text{Long Term Liabilities} - \text{Current Liabilities}}{\text{No. of Shares Outstanding}}$$