



The world's first end-to-end  
Shariah investing platform

# BEST PRACTICES FOR SHARIAH INVESTING

Live Responsibly  
Invest Responsibly  
Invest Shariah

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# 1. INTRODUCTION

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

In pursuit of developing a framework for end-to-end Shariah investing on Bursa Malaysia-*i* 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. This is to ensure that the overall trading activities and investment of the investors are in accordance with the established and parameterised Shariah principles. Investors who trade and invest in Shariah-compliant securities on Bursa Malaysia are encouraged to undertake their activity via a registered Islamic Broker that conducts its stockbroking business in accordance with Shariah principles, whether on a full-fledged or ‘window’ basis.

## 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-*i*;
- (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 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**

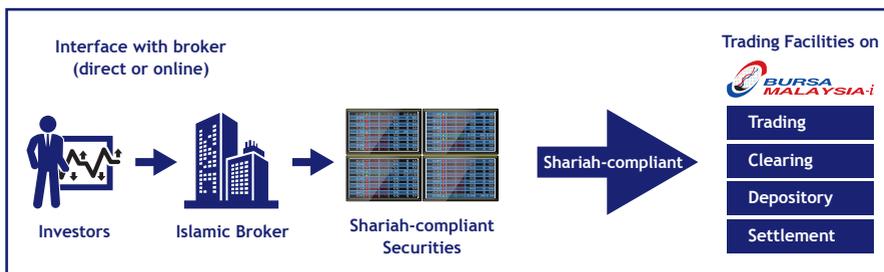
The Best Practices are applicable to investors who have a trading account with an Islamic Broker.

Please refer to the full list of Islamic Brokers at [www.bursamalaysia.com](http://www.bursamalaysia.com).

## 4. TRADING GUIDE

- 4.1 Shariah investing on Bursa Malaysia-*i* will provide investors seeking Shariah-compliant securities with a new landscape and they may access the Exchange’s services, either direct or online through Islamic Brokers, where the investors will be able to experience comprehensive end-to-end Shariah investing.
- 4.2 Through the Islamic Brokers, investors will be able to access Shariah-compliant securities listed on the Main, ACE and LEAP Market of Bursa Malaysia Securities Berhad (“Bursa Securities”). The trade and post-trade services provided by Bursa Malaysia-*i* will 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 must engage with an Islamic Broker to participate in the trading of Shariah-compliant securities on Bursa Malaysia.
- 4.4 The trading on Bursa Malaysia-*i* is conducted in accordance with Shariah principles.
- 4.5 Any securities trading should apply the 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.
- 4.7 A buyer may sell the purchased securities after conforming to item 4.6 above even before the settlement date. This is based on the principle of constructive possession (*'qabd 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 the SC's website.

The Shariah Screening Methodology set out by the SAC of the SC is as per **APPENDIX 1**.

- 5.2 The investor is allowed to trade 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 Broker.
- 5.4 The Islamic Broker is entitled to impose collateral for the margin financing facility which should not contravene Shariah principles.
- 5.5 If any anomaly from a normal trade requires an alternative arrangement, the affected Islamic Broker 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 2**.

# 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 securities upon review by the SAC of the SC due to various reasons such as changes in the companies' business operations and financial positions.

6.1.2 Following the re-classification, investors are responsible to undertake exercise to determine whether the market price of the affected securities exceeds, 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 of 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 channelled to approved charitable bodies.

6.1.6 Investors are allowed to hold their investments 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 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 of 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 3**.

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
- (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 the Cleansing of Shariah Non-Compliant/ Tainted Income**

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

6.2.2 Save for certain instances where dividend income is 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 the 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

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

- (i) Shariah-compliant Securities (*i*-Securities)
  - Shariah-compliant Stocks (*i*-Stocks)
  - Shariah-compliant Exchange Traded Funds (*i*-ETFs)
  - Shariah-compliant Real Estate Investment Trusts (*i*-REITs)
  - Others (Company Warrants)
  
- (ii) Sukuk
  - Exchange Traded Sukuk

## APPENDIX 1

# SHARIAH SCREENING METHODOLOGY

### Level 1: Business Activity Screening

The contribution of Shariah non-compliant activities to the total Group revenue or 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 and lending;
- 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 principles.

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:

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

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 are 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 the 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/>

## APPENDIX 2

# 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**

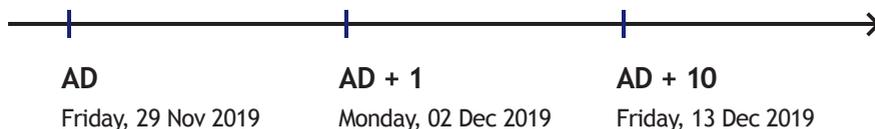
**(Selling Price - Investment Cost) x 2.5%**

**Reference:**

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

APPENDIX 3

# TREATMENT OF RE-CLASSIFIED SECURITIES (ILLUSTRATION)



## Market Price $\geq$ Investment Cost

=> To Dispose

- + Capital Gain
- + Dividend

=> To Dispose

- + Dividend  
(before or on AD)
- Dividend  
(after AD)
- + Capital Gain  
(before or on AD)
- Capital Gain  
(after AD)

=> To Dispose

- + Dividend  
(before or on AD)
- Dividend  
(after AD)
- + Capital Gain  
(before or on AD)
- Capital Gain  
(after AD)

## 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 announcement date of the SC SAC list
- + can be kept
- should be channelled to *Baitulmal* and/ or charitable bodies

## PRICE OF SHARIAH NON-COMPLIANT STOCKS

### On the announcement day

#### Price > Original investment cost

- Liquidate immediately
- Any capital gain from disposal can be kept by investors

#### Price < Original investment cost

- Hold until the price of stocks are equal to original investment cost
- Dividends received can be used to expedite the disposal

### After the announcement day

#### Price > Original investment cost

- 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)  
- channelled to charitable bodies

#### Price < Original investment cost

- Hold until the price of stocks are equal to original investment cost
- Dividends received can be used to expedite the disposal

Note:

- > more than
- < less than



# START NOW.

**.01**

## **CALL Bursa Malaysia-i Islamic BROKER**

Contact an Islamic Broker to open a CDS and a Shariah-compliant trading account.

**.02**

## **REGISTER AND ACTIVATE Bursa Malaysia-i ACCOUNT**

Your Islamic Broker will guide you on how to conduct the trading activities through Bursa Malaysia-i.

**.03**

## **TRADE ON Bursa Malaysia-i**

Start investing and trading with your Shariah-compliant trading account.

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