REVISED SHARIAH SCREENING METHODOLOGY FOR SHARIAH-COMPLIANT SECURITIES: NEW STANDARD TO MEET GLOBAL EXPECTATION

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ABSTRACT

Shariah screening methodology was formulated by the Shariah Advisory Council (SAC) of Securities Commission (SC) of Malaysia to assist investors in identifying Shariah-compliant securities. This is to ensure that their investments are in accordance with Shariah principles which prohibit the elements of riba, maysir and gharar. The earlier methodology which adopted quantitative assessment that comprises four activity-based screening benchmarks and qualitative assessment was introduced in mid 1990s keeping in view the infancy of the Islamic capital market in Malaysia. Based on the methodology, the SAC classified securities issued by companies as either Shariah-compliant securities or Shariah non-compliant securities. The methodology had recently been revised as an effort to harmonize the standard to global expectation with the introduction of the two-tier quantitative approach which applies the business activity benchmarks and the newly-introduced financial ratio benchmarks, while existing qualitative assessment continues to be applicable. The objective of this paper is to discuss the new screening methodology in comparison with the previous methodology. The methodology adopted in this paper is descriptive analysis.

Keywords: *Shariah screening methodology, Shariah-compliant, securities, benchmark, Bursa Malaysia*

Introduction

Islam is a way of life for all Muslim followers. It is a comprehensive, integrative and holistic religion which governs all aspects of a Muslim's life covering all matters in this worldly life to the Hereafter. Islam encourages Muslims to have a balance between fulfillment of the Hereafter and worldly obligations. In the Qur'an, Allah says, "Then when the (Jumu'ah) Salat (prayer) is ended, you may disperse through the land, and seek the Bounty of Allah (by working, etc.), and remember Allah much: that you may be successful" (Jumu'ah: 10). In this verse, Muslims are also encouraged to seek for wealth. However, Muslims must always remember that the true owner of wealth is Allah while man is only a trustee. This is based on verse 77, Surah al-Qasas; "But seeks, with that (wealth) which Allah has bestowed on you, the home of the Hereafter, and forget not your portion of lawful enjoyment in this world; and do good as Allah has been good to you and seek not mischief in the land. Verily, Allah likes not the Mufsidun (those who commit great crimes and sins, oppressors, tyrants, mischief-maker, corrupters)" (Shafii et al., 2013).In this modern era, wealth is really synonym with investment. People invest to get more money in the future. Many people believe that they can be wealthy if they invest their money wisely. Madun and Haniff (2013) defined investment as the current commitment of funds to one or more assets that will be held over some future time period. Investors really believe that by sacrificing their present consumptions, they can expect to have greater consumption opportunities in the future since most investment alternatives promise return to be given in the future based on the risk assumed. Basically, there are two types of assets which investors can invest in, namely real assets and financial assets i.e. securities. It is common today for each investor to invest in both. However, as Muslim investors, we must always bear in mind that our investments must be in accordance with the Shariah principles which prohibit the elements of *riba*, *maysir* and *gharar*.

According to Mcgowan and Muhammad (2010), Malaysian Muslim investors make up approximately 60 percent of the total population which underlines the high growth potential of the Shariah-based market segment. They also said that based on Shariah principles, Shariah-compliant securities have always been associated with not only *halal* or lawful practices, but also related to good image in the physical context such as in quality, safety, environmentally friendliness, and process efficiency of the company who issues the stock. Therefore, it is necessary to have a proper Shariah screening process in the financial market which enables investors to invest in companies that operate permissible business activities in Islam. This Shariah screening process will detect prohibited activities if existed and guide investors from embarking onto a non-compliant investment (Ho et al., 2012).

Literature review

The practice of Shariah screening

The high increase in demand for Shariah-compliant financial products has raised the importance of a more refined Shariah investment screening process. This is crucial due to the complexity of modern capital markets with the existence of complex investment instruments and the involvement of companies from various sectors worldwide. The major challenge facing the Islamic investment fund industry also comes from its size. In the two major markets of Saudi Arabia and Malaysia, Islamic funds account for 55 and 26 percent, respectively, of the fund market (Derigs & Marzban, 2009). There are strong demand for Shariah-compliant financial products from Muslim countries worldwide which also influences non-Muslims investors to invest in the Shariah-compliant products (Pok, 2012).The job of maintaining the quality of screening process becomes more and more challenging.

Shariah advisors play an important role to ensure the securities compliance status are being made according to the Shariah principles. This is to maintain investors' trust and confidence. The Shariah supervisory boards should comprise of specialized jurists in Islamic commercial jurisprudence (fiqh al-mu'amalat). The boards may include a member who is an expert in the field of Islamic financial institutions and with knowledge of Fiqh al-Muamalat (Mahfooz & Ahmed, 2014). The main responsibilities of the Shariah advisors in the boards are to set up Shariah guidelines and the framework for fund managers (mainly the Shariah stock screens used in portfolio selection). They also need to monitor the fund's activities to ensure adherence to the set guidelines, overseeing the fund's portfolio purification and advising or selecting the appropriate charities (Said Elfakhani, 2005). Furthermore, the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which was established in 1990 is expected to ensure that participants conform to the regulations set out in Islamic finance. AAOIFI is an Islamic international non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry. However, there is no higher Shariah governing authority to monitor and ensure the current screening process is in accordance to

AAOIFI (Mahfooz & Ahmed, 2014). Thus, many Islamic investment entities have established its own Shariah advisory board and AAOIFI has not given much impact on their screening criteria.

It is a consensus among Muslim scholars that the screening procedures in general, comprise of two categories of screening criteria: qualitative sector screening, and quantitative financial screening. In order to obtain Shariah-compliant status, these two categories must both be met. This is in line with the ruling issued in 1992 by the International Islamic Fiqh Academy, Jeddah that approved trading common stocks of companies that do not engage in activities which would violate Shariah principles. In general, the company does not deal with *riba, gharar and maysir*, and the business activities are permissible from a Shariah perspective (Mahfooz & Ahmed, 2014). Qualitative screening method is used to screen for non-permissible business activities according to Shariah principles while the quantitative screen involves the analysis of three main financial ratios, namely, liquidity ratio, interest ratio and debt ratio. Some index providers also examine non-permissible income ratio.

The main references for the screening methodologies are the Quran and Sunnah. However, the Holy Quran and the Sunnah do not explicitly state the guidelines for the quantitative criteria. For instance, the thresholds for financial ratios are based on interpretation in the form of *ijtihad* (reasoning from the source of Shariah by qualified Shariah scholars) and Shariah statements that are not directly related to capital markets. There is some degree of freedom for scholars to specify their quantitative criteria. These different opinions and judgements of the scholars can be due to ‘‘complexity of transforming the historical and verbal Shariah sources into quantifiable and formal guidelines to be used within a modern guideline evaluation and portfolio management system”(Derigs & Marzban, 2008). Therefore, screening guidelines and strategies among users of screening process varies and changes over time.

Differences and inconsistencies in Shariah screening process

There appears to be no uniform Shariah investment code of conduct or a universal predetermined fixed set of Shariah (Derigs & Marzban, 2008). We can see different jurisdictions of different countries due to different set of users such as portfolio managers, regulators, and providers of market intelligence (Ho et al., 2012). The screening processes can also be in different number of steps, observed from different angles with different objectives, guided by different procedures and guidelines.

The implications of the different views of Shariah scholars give different degree of leniency in screening process among different equity index providers. The most conservative Shariah scholars do not permit investment in the equity of a company which is invested in *haram* business to any extent (Khatkhatay & Nisar, 2007). Ho et al. (2012) has made comparisons on the screening methods practiced by fifteen users of the Shariah screening methods around the world in terms of both qualitative and quantitative screens. Only two out of eight users use qualitative criteria only and the securities will be immediately excluded if they are deemed non-permissible according to the qualitative criteria. The other six users screen companies according to their business categories using the qualitative criteria and then further screen these companies with mixed activities using their quantitative screening methods. Others allow investment in equities of companies, which derive a minor part of their income from *haram* activities, provided such activities are not their main area of interest. Pok (2012) examined whether the Shariah-compliant screening criteria adopted by the SAC of SC of Malaysia is a lot more liberal than that of the world’s leading index providers. The finding shows that from a sample of 477 Malaysia’s Shariah-compliant stocks listed by the SAC, only 58 (12.16%) sample firms are Shariah-compliant under the Dow Jones Islamic Market (DJIM) compared to 80 (16.77%) sample firms under Standard and Poor’s (S&P) and 301 (63.10%) sample firms under the FTSE criteria. This seems to indicate that DJIM has stricter criteria than S&P, FTSE and certainly SC of Malaysia.

Among other issues of inconsistencies associated with the Shariah screening process are changing Shariah rules leading to the changes in screening criteria. For instance, there exist inconsistencies in the determination of financial screening ratios. Mahfooz and Ahmed (2014) indicates that the level of tolerance threshold of debt, liquidity, interest-bearing securities and non-permissible income ranges are 33.33% - 30%, 33% - 50%, 33.33% - 30% and 5% - 25%, respectively. AAOIFI uses a 30% threshold for interest-based debt level, while other Islamic indices such as Dow Jones, FTSE, S&P and MSCI Barra and Russell Investment (MSCI) apply either a 33% or 33.33% threshold for total debt. Another example of inconsistency is the modification made by Dow Jones which has changed the denominator from total assets to market capitalization and reduce the threshold for the level of accounts receivable, from 45% to 33% (Khatkhatay & Nisar, 2007). Pok (2012) found that the different results of screening process made by different screening users or index providers are due to the combination of three reasons: First, the use of average market capitalization compared to total assets value as the denominator in assessing company's worth. Secondly, the use of different threshold level and finally, different emphasis applied by the index providers where SAC of SC of Malaysia in its screening process focuses on examining the qualification of income and business activity and excluding examining the financial ratios whereas the world leading index providers have placed emphasis on examining financial ratios for qualification.

The right goals of investors and portfolio managers may influence the adoption of certain screening methodologies by Shariah screening users. Every individual involved in the investment and screening process must be committed to achieve Islamic goals and avoid individual interest. For instance, if the primary concern of portfolio managers is likely to select a portfolio of shares that provides a good return on their assets, their tolerance on non-permissible activities and prohibited income might be high. On the other hand, when screening norms mainly aimed to identify Shariah-compliant equities, the concern will be more on ensuring securities selected are within acceptable deviations from Shariah stipulations, keeping in mind the nature of the environment (Khatkhatay & Nisar, 2007).

Having too many different screening methodologies across different countries and organization adds cost and requires a larger number of screening processes and in the long run could hamper the growth of Islamic finance (Islamic Finance Asia, 2008). Therefore, there is a need for Islamic scholars to standardize their screening methodologies effectively in the international market. The methodology is expected to meet international standard and able to attract greater participation of investors from other countries such as Middle East countries. The primary objective of ensuring the compliance for the blessings of Allah should not be neglected. However, Shariah screening criteria tends to change over time, based on *ijtihad* of other scholars or even based on the changing opinion of the same scholars. This certainly damages confidence in the Shariah screening criteria standards, which might in turn adversely affect the Islamic mutual funds industry (Mahfooz & Ahmed, 2014). Furthermore, *haram* activities are so pervasive in the society and difficult to avoid (Khatkhatay & Nisar, 2007). To find a purely Syariah compliant securities is difficult. Therefore, due to innovations in financial products and business activities as well as varying *ijtihad* of scholars in dealing with contemporary finance issues, it is undeniable that improvement and modification of screening criteria is, from time to time required to maintain the compliance level and to remove hardship of Muslims.

Shariah ccreening methodology in Malaysia

Dated back to the mid 1990s, Shariah screening methodology in Malaysia has been established in accordance with the infancy of the Islamic Capital Market (ICM). Since then, the ICM has shown a tremendous progress. In year 2000, market capitalisation of Shariah-compliant securities was RM254.1 billion and it has increased to RM1.017 trillion in May 2013 (Malaysian International Islamic Finance Centre, 2013).

In Malaysia, the SAC of the SC plays an important role in certifying and updating the list of securities that have been classified as Shariah-compliant securities. This Shariah-compliant certification is done through the input and support received from the SC. To classify security as whether Shariah comply or not, SAC will analyse the data gathered by SC from various sources including the annual reports and enquiries made to the companies. Based on the latest annual audited financial statements of the companies, the SAC continuously reviews the Shariah status of listed companies. The SAC has applied a standard criterion to evaluate the business activities of the companies and companies whose activities are not contrary to the Shariah principles will be classified as Shariah-compliant securities (Securities Commission Malaysia, 2013a).

The SAC had established this Shariah screening methodology to undertake Shariah screening process for listed companies in Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange (KLSE)) with the introduction of four activity-based screening benchmark in 1995. The methodology comprises two assessments, quantitative assessments and qualitative assessments. The first List of Shariah-compliant Securities was announced and published in Jun 1997 (Mohd Hussin and Muhammad, 2011). Starting from 1998, the announcement of official list for Shariah-compliant securities is made twice a year and the announcement was streamlined to April and October beginning year 2000. However, the announcement was changed to May and November each year starting year 2007 till present (Securities Commission Malaysia, 2013b).

Since 1995, the methodology had been in practice for almost 18 years. Recently, the screening methodology has been revised by adopting a two-tier approach to the quantitative assessment which applies the business activity benchmarks and the newly-introduced financial ratio benchmarks while at the same time maintaining the existing qualitative assessment. This is due to the current development and sophistication of the Islamic finance industry. This revision is in line with the SC's initiatives to further enhance the Shariah-compliant equity and investment management segments as well as to expand the ICM international reach, as outlined in the Capital Market Masterplan 2 (Malaysian International Islamic Financial Centre, 2013).

Therefore, the objective of this paper is to discuss the new Shariah screening methodology in comparison with the previous methodology. The methodology to be adopted in this paper is descriptive analysis.

Methodology, analysis and discussion

The previous Shariah screening methodology

In classifying securities listed in Bursa Malaysia as whether Shariah-compliant or not, there are two stages of screening applied by the SAC of SC of Malaysia in the previous Shariah screening methodology. In the first stage screening, based on the data gathered by the SC, the SAC will be focusing on the activities of the company who issues the securities. As long as the activities of those companies are not contrary to the Shariah principles, their securities will be classified as Shariah-compliant securities. However, their securities will be classified as Shariah non-compliant securities if they are involved in any of the following core activities:

a) Financial services based on riba (interest);
b) Gambling and gaming;
c) Manufacture or sale of non-halal products or related products;
d) Conventional insurance;
e) Entertainment activities that are non-permissible according to Shariah;
f) Manufacture or sale of tobacco-based products or related products;
g) Stockbroking or share trading in Shariah non-compliant securities; and
h) Other activities deemed non-permissible according to Shariah.

Apart from screening on the activities, the SAC also took into consideration the level of contribution of interests received by those companies from conventional fixed deposit or other interest bearing financial instruments. The dividend received from any conventional instruments will also be taken into account.

It seems like it is easy to screen companies whose activities are totally permissible or totally non-permissible according to Shariah in this first stage screening. However, there are abundant of companies that have a mixture of activities which comprising both, permissible and non-permissible activities. Taking a holding company as an example, the activities of the holding company might be in line with Shariah principles whereas its subsidiary might get involved in the non-permissible activities. Therefore, a thorough analysis should be done at the holding, subsidiary and associate level in this first stage screening to find out whether their activities totally permissible according to Shariah or a mixture of permissible and non-permissible activities. For mixture activities companies, they are required to undergo the second stage screening which involves two assessments, quantitative assessment and qualitative assessment.

The quantitative assessment

In the quantitative assessment, the SAC will measure the level of mixed contributions from permissible and non-permissible activities towards group turnover and group profit before tax of the companies. The calculated contributions from non-permissible activities will then be compared with the benchmarks which have been established by the SAC based on *ijtihad*. If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as Shariah non-compliant securities. The benchmarks are as follows:

a) **The Five Percent (5%) Benchmark**
   The contributions from activities which are clearly prohibited such as *riba* (interest-based companies like conventional banks), gambling, liquor and pork should not exceed 5%.

b) **The Ten Percent (10%) Benchmark**
   The contributions from activities that involve the element of *`umum balwa* (a prohibited element affecting most people and difficult to avoid) must not be more than 10%. The interest income from fixed deposits in conventional banks and tobacco-related activities are good examples of the activities that belong to this benchmark.

c) **The Twenty Percent (20%) Benchmark**
   The contributions from rental payment of Shariah non-compliant activities such as the rental payment from the premise that involved in gambling, sale of liquor, sale of pork, conventional bank etc. must be below 20%.

d) **The Twenty Five Percent (25%) Benchmark**
   This benchmark is for activities that are generally permissible according to Shariah and have an element of *maslahah* (benefit in general) to the public. However, there are other elements that may affect the Shariah status of these activities due to the attachment of activities which are non-permissible according to Shariah. Among good examples of the activities that belong to this benchmark are hotel and resort operations, share trading, stock broking and others. The contributions must be lower than 25%.

The qualitative assessment

As for the qualitative assessment, the SAC considers two additional criteria for mixture activities companies. This assessment will be taking into consideration the followings:

a) The company must have a good image i.e. public perception towards the company must be good; and

b) The core activities of the company are important and considered *maslahah* to the Muslim *ummah* (nation) and the country, and the non-permissible element is very small and involves matters such as *`umum balwa*, *`uruf* (custom) and the rights of the non-Muslim community which are accepted by Islam.

Hence, it can be summarized that for securities issued by mixture activities companies to be classified as Shariah-compliant securities, it must pass both assessments i.e. quantitative assessments as well as qualitative assessments (Securities Commission Malaysia, 2013a).

The revised Syariah screening methodology

On 18 June 2012, the SAC of SC of Malaysia made an announcement on the adoption of a revised Shariah screening methodology to determine the Shariah-compliant status of companies which are listed on Bursa Malaysia. This revised methodology adopts a two-tier quantitative approach which applies the business activity benchmarks and the newly introduced financial ratio benchmarks, while maintaining the existing qualitative assessment. The outcome of the revised methodology is reflected in the List of Shariah-compliant Securities announced and published by the SAC effective from November 2013 (Securities Commission Malaysia, 2012).

The main differences between the revised methodology and previous methodology are as in Table 1 below:

Table 1: The Main Differences between the Revised Methodology and Previous Methodology

Revised Methodology	<u>CHANGES</u>	Previous Methodology
All companies must undergo all screening stages which covers:	**Drop**	**First Stage Screening -** focusing on the activities of the company to determine the non-permissible activities if any.
		Second Stage Screening – a mixture activities company should undergo:
1. Quantitative assessment <u>First-tier :</u> Compute the contribution of non-permissible activities and compare with the group turnover and group profit before tax. Benchmarks used; i. 5% ii. 20%	**Reduced benchmark from four to two**	**1. Quantitative assessment** Compute the contribution of non-permissible activities and compare with the group turnover and group profit before tax. Benchmarks used; i. 5% ii. 10% iii. 20% iv. 25%
<u>Second-tier :</u> Compute the financial ratios: i. Cash/ Total Assets ii. Debt/ Total Assets Each ratio must be lower than 33%.	**Newly introduced**	
2. Qualitative assessment a. Image of the company b. *Maslahah,`umum balwa*, *`uruf* etc.	**Unchanged**	**2. Qualitative assessment** a. Image of the company b. *Maslahah, `umum balwa, `uruf* etc.

Under the revised methodology, all companies listed on Bursa Malaysia are required to undergo the same screening process which covers two-tier quantitative assessment consisting of a reduced business activity benchmarks and the newly-introduced financial ratio, and also qualitative assessment which qualify the company's image and other matters such as *Maslahah*, *`umum balwa*, *`uruf* and the rights of the non-Muslim community that are accepted by Islam. There are no changes made to the existing qualitative assessment. With the revised methodology, the first stage screening now is for the quantitative assessment and the second stage screening is for the qualitative assessment. To be certified as Shariah-compliant securities, all companies who issue the securities must fulfil the requirement in both stages of screening process.

The reduced business activity benchmarks

The first-tier of the quantitative assessment in the revised Shariah screening methodology is the business activity benchmarks. Under the revised methodology, the business activity benchmarks which previously consisting of four benchmarks had been reduced to only two benchmarks. Basically, the contribution of non-permissible activities which are allowed for 10% benchmark under previous methodology had been reduced to 5%. In other words, the contributions from non-permissible activities that involve the element of *`umum balwa* now must not be more than 5% only.

The other benchmark is 25% benchmark which had been reduced to 20% benchmark. It means the contributions from non-permissible activities such as hotel and resort operations, share trading and stock broking now must be lower than 20%.

Under the revised Shariah screening methodology, the list of non-permissible activities under each benchmarks are as follows:

a) **The Five Percent (5%) Benchmark**

The contributions from the followings activities to the group turnover and profit before taxation should not exceed 5%:

i. conventional banking;
ii. conventional insurance;
iii. gambling;
iv. liquor and liquor-related activities;
v. pork and pork-related activities;
vi. non-halal food and beverages;
vii. Shariah non-compliant entertainment;
viii. interest income from conventional accounts and instruments, including dividends from investment in Shariah non-compliant instruments and interest income awarded arising from a judgement by a court or arbitrator;
ix. tobacco and tobacco-related activities; and
x. other activities deemed non-compliant according to Shariah.

b) **The Twenty Percent (20%) Benchmark**

The contributions from the followings activities to the group turnover and profit before taxation should not exceed 20%:

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

The newly-introduced financial ratio

In the second-tier of the qualitative assessment, each company who issues the securities need to undergo the financial ratio screening. This screening is newly introduced under the revised methodology whereby there was no screening process for this financial ratio under previous methodology.

In this assessment, the SAC will calculate the following ratio which intended to measure *riba* or *riba*-based elements in the company:

a) **Cash over total assets**

Cash to be included in the calculation includes cash placed in conventional accounts and instruments only. If the company placed the cash in the Islamic account, it should be excluded from the calculation.

b) Debt over total assets

Debt to be included in the calculation includes interest-bearing debt only. If the company used Islamic financing such as *sukuk*, it should be excluded from the calculation.

To fulfil the requirement for this assessment, each ratio must be less than 33% and only securities issued by company that meet the requirement in all assessments will be classified as Shariah-compliant securities (Securities Commission Malaysia, 2013c).

Recommendations, future research and conclusion

The application of this revised methodology with the adoption of a two-tier quantitative approach which comprises the business activity benchmarks and the newly-introduced financial ratio benchmarks, together with the existing qualitative assessment, will certainly have effect on the Shariah-compliant status of listed companies. It means that companies with mixed activities which are previously assessed under the 10% or 25% benchmarks will now be assessed under the 5% or 20% benchmarks. It will equally affect the companies with high level of conventional debt since previously there was no screening based on the total conventional debt of the company. Thus, future research should be conducted to discover the effect of the revised screening methodology on the list of Shariah-compliant Securities by the SAC of the SC of Malaysia and how does the revised methodology affect the Shariah-compliant status of public companies listed on Bursa Malaysia.

The inclusion of financial ratio benchmarks has been the practice of global Shariah index providers such as by Dow Jones, MSCI, and FTSE. Both SC's and DJIM's screenings incorporate a benchmark of less than 33% for financial ratios. In comparison, some other Shariah index providers may adopt slightly different benchmarks: for example the Karachi-Meezan Index 30 (KMI-30) screening methodology incorporates a higher benchmark of less than 37% for interest bearing debt over total assets ratio while the S&P Shariah Indices methodology apply financial ratios on trailing 36-month average market value of equity while the benchmark for account receivables is set at less than 49% (Malaysian International Islamic Financial Centre, 2013).

The different screening methodologies adopted by different jurisdictions around the globe should not be seen as revealing the weaknesses of the Muslim community or Islam itself. It is justified on the ground that Islam permits "flexibility" to suit specific circumstances faced by Muslims in their unique environment such as the different economic, political, and social systems being practiced in their respective countries. The Shariah Board of different jurisdictions have the freedom to exercise *ijtihad* as long as their rulings do not contravene the principles of Shariah as enshrined in the Quran and Sunnah. But of course, the rulings must be supported by relevant authorities to justify the stand taken by the Shariah Board.

Despite all the differences and inconsistencies, it is recommended that the relevant authority should set a universal standard with clear guidelines and understanding to be applicable to all. We are in complete agreement with Abdul Rahman et al. (2010) that this universal standard will accelerate the commercial and economic cooperation among Muslim communities around the world. It may seem difficult given the different circumstances and backgrounds surrounding the Islamic countries now but it is not impossible to be implemented.

It is hoped that the streamlining of the business activity benchmarks and the inclusion of the financial ratio benchmarks will enhance the robustness of the screening methodology for listed securities and this step is expected to enhance the competitiveness of the Malaysian Islamic equity market and Islamic fund management industries in the global market.

The revision is timely needed on the ground that even though there are valid reasons for Malaysia to adopt different screening methodology previously, that position had caused disagreement and confusion among the international investors on the screening standards used by the SAC of the SC. No doubt this is the right time for the SC to adopt progressively the screening standards used by other global Shariah Index providers for the benefits of the international investors. This step is seen as a serious effort taken by Malaysia to attract international investors to invest in the country, which is in line with the government's policy and initiatives to promote Malaysia as an international hub for Islamic banking and finance.

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