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Shariah Index & Purification of Mixed shares

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Introduction

Muscat Stock Exchange has entered into an agreement with IdealRatings Inc. to identify companies whose activities comply with the requirements of Islamic Shariah, based on the Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), specifically Shariah Standard No. (21) related to securities.



Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established under an agreement between several Islamic financial institutions. It was registered in the Kingdom of Bahrain on March 27, 1991, as a global entity with independent legal personality, non-profit, and aimed at developing the principles of accounting and auditing for Islamic financial institutions. Its rules are considered a reference for determining financial and commercial activities that comply with the principles of Islamic Shariah.

IdealRatings®

IdealRatings Inc.

The company provides high-quality services in identifying companies whose business and financial behavior comply with the principles of Islamic Shariah in accordance with the Shariah rules approved by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) or the standards set by the client's own Shariah board. The company is widely recognized in this field, having previously offered its services in issuing and managing Islamic products for various international financial institutions. It has a presence in more than 18 countries around the world.



Shariah Index Summary MSXSI

Objective: Measuring the performance of shares of companies whose financial activities and behavior comply with the requirements of Islamic Shariah in accordance with the Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).



Foundation

Foundation year: June 30, 2013 AD
Base value: 1000 points



Index methodology

Market Capitalization-Weighted
Index for Freely Tradable
Shares with a limit of 10%



Pricing

Average price of traded
volume



Index sample

It consists of 15 companies that
change in May of each year



Selection standards

- Companies comply with Islamic Shariah standards for four quarters of the previous year.
- The company complies with the standards of market activity and financial performance (market value 40%, share liquidity 45%, return per share 15%).



Companies included in the selection

Companies listed in :
Regular market
Parallel market



Excluded from selection

- Shares listed on the under-monitoring market.
- Preferred shares.



Compatibility Revision

Quarterly (March, June,
September, and December)

AAOIFI standards for compliance with Islamic Shariah

Financial standards



AAOIFI standards for compliance with Islamic Shariah

Dealing in the prohibited activities described below is considered a violation of shariah compatibility standards, and companies dealing with are excluded from the Shariah compliance list.

Prohibited commercial activities



Forbidden financial services such as non-takaful insurance, mortgages, and traditional banking services



Investments that bear operating or non-operating interest



Cinema



Adult entertainment



Arms and defense



Gambling



Hotels proven to be in violation of Shariah



Music



Alcohol and tobacco



Pork

Basic Information for Shares Purification

Service objective

- Purification of mixed Shariah shares (containing prohibited income that shall be purified) according to the standards of the AAOIFI
- (Shariah Standard 21, Clause 3/4/6)

The company providing purification data

Ideal Ratings

Target companies listed in:

Regular market
Parallel market
Listed funds

Sample publication period

March
June
September
December

Implementation date

November/2023

Frequently Asked Questions

What is the purpose of issuing the Shariah Index? What is its significance?

The aim of the index is to measure the performance of companies whose activities and financial behavior comply with the requirements of Islamic Shariah, in accordance with the Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The importance of the index lies in attracting Islamic financial investments to the market by highlighting available opportunities that do not rely on usury or prohibited activities. It also facilitates the comparison of the performance of Shariah-compliant companies with traditional companies and Shariah-compliant companies in other markets.

What is prohibited income that must be purified?

The income that shall be forbidden by Shariah and purified from the shares is the income obtained from a commercial activity that is not compatible with Islamic Shariah.

How the percentage of prohibited income that must be disposed is calculated?

The calculation of the prohibited income that needs to be disposed of is achieved by dividing the total revenue from Shariah non-compliant activities of the company in which the investor holds shares by the number of shares in that company. This yields the amount per share, which is then multiplied by the number of shares owned by the investor - whether an individual, institution, fund, or otherwise. The result is the amount that needs to be disposed of.

What is the authority that can be referred to find out the amount of income that is prohibited by Islamic law and must be excluded?

One can refer to the Muscat Stock Exchange website to view the purification rates, which are published on a quarterly basis.

Is it permissible to benefit from prohibited revenues that must be disposed of?

It is not permissible to use the revenues from activities that violate Shariah - which must be disposed of - in any way, and it is not permissible to circumvent that in any way, even by paying taxes.

Is the broker obligated to purify his commission earned as a result of dealing with the shares that must be purified?

The broker, agent, or manager is not obligated to dispose of part of his commission or wages that are their right in return for the work they have done.

Where are the amounts resulting from revenues from violating activities spent?

The responsibility for disposing of revenues from activities that violate Islamic law for the benefit of charitable causes lies with the institution if it engages in such activities for itself or manages them. In the case of brokerage, the institution must inform the client of the mechanism for disposing of revenues from non-compliant activities so that the client can handle it personally. The institution may offer this service with or without a fee to interested clients.

Who is responsible for excluding income prohibited by Shariah from company profits and when?

Prohibited income - whether it results from forbidden activity or ownership, or from interest - must be disposed of by whoever owns the shares, whether investor or trader, at the end of the financial period. Payment must be made when the final financial statements are issued. Therefore, those who sold the shares before the end of the audited financial period are not obligated to dispose of such income. It's important to note that, for companies listed on the Muscat Stock Exchange, the final financial period is typically aligned with a single Gregorian year. The place of disposal is related to the share of prohibited income, whether distributed as profits or not, and whether the company made a profit or incurred a loss. Compliance with these regulations should continue throughout the investment or trading period. If the company deviates from the regulations, it is necessary to exit the investment and dispose of the prohibited income.

Is it necessary to exit the investment if one of the company's Shariah standards is violated?

If the company exits from the sample of Shariah-compliant companies, the shareholder is required to exit the investment and dispose of the prohibited income based on the closest financial statements, even if the audited statements have not been issued.

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Is it permissible to trade the shares of companies engaged in both Shariah-compliant and non-Shariah-compliant transactions, and what are the Shariah regulations in this case?

The asset is that it is forbidden to contribute and deal (invest or trade) in the shares of companies that sometimes deal in usury or similar forbidden matters, even though their activity is permissible. An exception to this ruling is participation in (investment or trading) under the following conditions:

- The company's articles of association do not state among its objectives engaging in usury or dealing with prohibitions such as pork, etc.
- The total amount borrowed with usury, whether it is a long-term or short-term loan, should not exceed 30% of the market value of the company's total shares, knowing that borrowing with usury is forbidden regardless of the amount.
- The total amount deposited with usury, whether the deposit period is short, medium, or long, should not exceed 30% of the market value of the company's total shares, knowing that depositing with usury is forbidden, regardless of the amount.
- The amount of revenue resulting from a prohibited item should not exceed 5% of the company's total revenues, whether this revenue results from practicing a prohibited activity or from owning a prohibited item. If some revenues are not disclosed, an effort should be made to find them out and reserve should be taken into account.

What is the Shariah rule on trading in shares?

Trading in shares, meaning buying and selling shares, i.e., trading in them, is permissible in Shariah, provided that the contracts are Shariah-compliant. However, if they violate Shariah, such as short selling, margin trading, and deferred payment sale (Forward), it is not permissible.

Is it permissible to deal with preferred shares in Shariah?

If the shares are preferred financially, meaning they give the holder the right to a priority share of the profit before other shareholders or they have precedence over other shareholders in receiving their rights from the liquidation proceeds in the event of bankruptcy, then it is not permissible. If the privilege relates to administrative matters (such as voting rights), then dealing is permissible.

Is it permissible to own shares in companies that do not meet all Shariah regulations or some of them?

It is not permissible to own shares of companies that do not comply with the previously mentioned Shariah regulations

Who is required to comply with Islamic standards for owning and trading shares?

Those who wish to trade shares of companies that comply with the provisions of Islamic Shariah, which are permissible to trade.

Is it permissible to purchase and sell shares on the same day?

Yes, it is permissible to purchase and sell Shariah-compliant shares on the same day.

Illustrative example 1

Ahmed owns 2,000 shares of Company (S), which is compatible with Shariah standards, and according to the quarterly list provided by (Ideal Ratings Co.), he must purify the shares owned by 0.00195 Omani Riyals per share, then:

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Total Purification Amount = Number of Owned Shares * Purification Percentage per Share

$$= 2000 \text{ Shares} \times 0.00195$$

$$= 3.9 \text{ Omani Riyal}$$

Illustrative example 2

Mohamed owns 2000 shares of the company (R), which is compatible with Shariah Standards. However, according to the new quarterly list of companies compatible with Shariah, it was found that the company was excluded from the list due to a violation of one of the standards, with a statement that the prohibited income was 0.003 Omani Riyals per share.

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Since the company is no longer Shariah-compliant company , Mohamed must exit this investment & dispose the prohibited income according to the latest financial statement (**0.003** Omani Riyals). Therefore, he must withdraw an amount resulting from multiplying the purification

$$\text{amount per share by the number of shares owned} = 2000 * 0.003$$

The total is **6** Omani Riyals