Screening Criteria for
Investment and Shares/ Stock Trading

Introduction

The task of investing funds in Shariah approved and financially viable businesses is carried out by a team of investment specialists at TPL Life Insurance Company Limited. Window Takaful Operations. This activity is supervised by its Shariah Board for Shariah compliance.

The screening criteria set by the Shariah Advisory Board is as follows:

- Business of the Investee Company
- Debt to total Asset ratio
- Illiquid assets as a percentage of Total Assets
- Investment in non-Shariah compliant activities and income from non Shariah-Compliant investments
- Net Liquid Assets per Share vs. Market Price per Share

Business of Investee Company

1. The first step is to check whether the business of the investee company is Halal, or not. Thus, investment in shares of conventional banks, insurance companies, leasing companies, companies dealing in alcohol, tobacco etc. are not permissible.
2. The company must have started its business practically and its assets must be existent, i.e. its capital planning should have been executed already.

After confirming that the nature of the company's business is compliant and existent, following ratios are checked and a separate excel sheets have to be maintained for each company.

Debt to Total Assets:

All the interest bearing debt and interest bearing financing is calculated which is then divided by the total assets. This ratio should be less than 30% in order for the company to remain compliant.

Illiquid Assets to Total Assets:

An asset or security that cannot be converted into cash very quickly (or near prevailing market prices) is considered illiquid. Property, Plants & Equipment, Investments, Stocking-Trade, and Stores, Spares & Loose tools are the main heads included in Illiquid Assets for the purpose of checking compliance. The total illiquid assets of the investee company should be at least 25% of the total assets.

Profit and Loss Sharing

1. Profit and loss of the company must also affect the profit and loss of its investors based on the amount of shares/ investment they own or made.
2. The profit and loss sharing ration at the time of the execution of the agreement must be fixed. It is not possible to guarantee a particular fixed growth income or to guarantee a fixed monthly, quarterly, yearly income etc.

Guidelines regarding trading in Shares

1. If the company was registered but doesn't have anything other than the needed startup capital/ investments ready, i.e. it didn't start its business as yet, then its shares could only be bought based on their real FACE VALUE. Selling or buying those shares for more or less than their real face value is not permissible in Shariah.
2. If bought shares are intended to be sold then they need to be registered at CDC in the name of the current owner first, as this is understood to be a proof of ownership. Ownership of goods is a necessary and compulsory part of the buying and selling process in the Shariah. This means that selling any goods without having its ownership established, may it be through real or constructive ownership, is impermissible.
3. The exchanges of one's shares with shares of somebody else (barter) is only permissible if the ownership of those shares had been properly established.
4. The conventionally transacted way of Repo (repurchase transaction) and Rev.Repo (reversed repurchase transaction) are not permissible.
5. The nowadays prevailing practices and conditions of Forward Trading and Future Trading as well as Blank-Sale and Short-Sale at the stock exchange are Shar'an not permissible.

Income from non- Shariah compliant investments

1. Total investments in non-Shariah compliant business are calculated for each company and are divided by Total Assets. The resulting ratio should be less than 30%.
2. If money needs to be invested in a company that deals mainly in halal but also receives revenues from side businesses that could be haram, than it should be done with the firm intention to inform in written and also orally, if possible even in their annual meetings that the company should not do any haram business generally and particularly with this investment.
3. The Shareholder/investor needs to check the yearly balance sheet of the companies to determine to what percentage haram income was received. Based on this he has to give an equal percentage of his profit into charity (refer to Shariah Guideline regarding Charity Fund).

4. The income from Shariah non-compliant sources shall not be accounted for as part of income of the company.
5. All Incomes from non Shariah Compliant Investments are summed and their ratio to gross revenue (Gross Sales + Other Income) is calculated. This ratio should be less than 5%.

Net Liquid Assets per Share vs. Market Price per Share

Market Price per share should be at least equal to or greater than net liquid assets per share,

Calculated as:
Net Liquid Assets = Liquid Assets – Current Liabilities

Additional Remarks

After every three months the screening process has to be revised to ensure Shariah compliance of the scripts in holding.
Shariah compliant companies shall divest the Shariah non-compliant securities within a period of one year or when the market value of the security equals the cost of management, whichever is earlier.
The aforementioned guidelines are to be understood as standard guidelines, nevertheless in certain cases where ever deemed necessary and on the basis of the decision of the Shariah Advisory Board certain alterations of those could be possible and a separate Shariah approval for those cases need to be obtained.

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Mufti Bilal Ahmed Qazi
Shariah Advisor
TPL Life Insurance Company Limited.
Window Takaful Operations

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Mufti Muhammad Zahid
Shariah Board Member
TPL Life Insurance Company Limited.
Window Takaful Operations