



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

# **SHARIAH SCREENING ASSESSMENT TOOLKIT**

**FOR UNLISTED MICRO, SMALL  
AND MEDIUM ENTERPRISES**



## DISCLAIMER

This document does not claim to contain all advice or information on the subject matter, nor is it a substitute for legal or investment advice. If in doubt, you are strongly recommended to seek professional advice.

The Securities Commission Malaysia (SC) does not involve in the assessment nor does it endorse the result of the assessment. Further, while care has been taken in the preparation of this Toolkit, the SC shall not be liable for any inaccuracy or incompleteness of the information contained herein.

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# INTRODUCTION

The domestic capital market plays an important role in financing the Malaysian economy with the Islamic capital market contributing an average of more than 60% to the total capital market for the past five years.

Acknowledging the importance of micro, small and medium enterprises (MSMEs) to the Malaysian economy, the Securities Commission Malaysia (SC) has facilitated the development of market-based crowdfunding platforms through the introduction of equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) frameworks (Frameworks). The Frameworks allow businesses and entrepreneurs in this segment with innovative business ideas to raise funds through the capital market. Since the introduction of the Frameworks, the alternative fundraising avenues have continued to gain traction with total funds raised amounting to RM1.34 billion in 2020.

As part of the ongoing efforts to enhance the ecosystem for Shariah-compliant fundraising activities through the ECF and P2P financing platforms, the SC introduces the ***Shariah Screening Assessment Toolkit for Unlisted Micro, Small and Medium Enterprises (Toolkit)*** as a guidance in screening the Shariah status of the MSMEs in the unlisted market. The Toolkit is intended to benefit the ECF and P2P financing platform operators, Shariah advisers, as well as any interested parties. The Toolkit includes a series of assessment questions that are based on the Shariah screening methodology for the MSMEs, which has been endorsed by the Shariah Advisory Council (SAC) of SC.

In establishing the Toolkit, it is also envisaged that investors will have greater opportunity to diversify their investment universe via access to the Shariah-compliant unlisted market. This will also enable more diversified Shariah-compliant investment portfolios across asset classes and economic sectors.

# SHARIAH SCREENING METHODOLOGY

For the MSMEs comprising both Shariah-compliant and Shariah non-compliant businesses/activities, the assessment is based on the following benchmarks:

SHARIAH SCREENING METHODOLOGY		
	BENCHMARK	
BUSINESS- ACTIVITY BENCHMARKS	<5%	<p><b>The five-per cent benchmark is applicable to the following businesses/activities:</b></p> <ul style="list-style-type: none"> <li>◆ conventional banking and lending;</li> <li>◆ conventional insurance;</li> <li>◆ gambling;</li> <li>◆ liquor and liquor-related activities;</li> <li>◆ pork and pork-related activities;</li> <li>◆ non-halal food and beverages;</li> <li>◆ Shariah non-compliant entertainment;</li> <li>◆ tobacco and tobacco-related activities;</li> <li>◆ interest income<sup>1</sup> from conventional accounts and instruments (including interest income awarded arising from a court judgement or arbitrator);</li> <li>◆ dividends<sup>2</sup> from Shariah non-compliant investments; and</li> <li>◆ other activities deemed non-compliant according to Shariah principles as determined by the SAC.</li> </ul> <p>For the above-mentioned businesses/activities, the contribution of Shariah non-compliant businesses/activities to the revenue or profit before taxation (PBT) of the MSME must be less than five per cent.</p>
	<20%	<p><b>The 20-per cent benchmark is applicable to the following businesses/activities:</b></p> <ul style="list-style-type: none"> <li>◆ rental received from Shariah non-compliant activities; and</li> <li>◆ other activities deemed non-compliant according to Shariah principles as determined by the SAC.</li> </ul> <p>For the above-mentioned businesses/activities, the contribution of Shariah non-compliant businesses/activities to the revenue or PBT of the MSME must be less than 20 per cent.</p>
FINANCIAL RATIO BENCHMARKS	<33%	<p><b>Cash over total assets</b></p> <p>Cash only includes cash placed in conventional account(s) and/or instrument(s).</p> <p>The ratio, which is intended to measure riba and riba-based elements within a company's statements of financial position, must be less than 33 per cent.</p>
	<49%	<p><b>Debt over total assets</b></p> <p>Debt only includes interest-bearing debt.</p> <p>The ratio, which is intended to measure riba and riba-based elements within a company's statements of financial position, must be less than 49 per cent.</p>

<sup>1,2</sup> Interest income and dividends from Shariah non-compliant investments should be compared against the revenue.

# ASSESSMENT QUESTIONS

The assessment is to be conducted based on available financial information and other supporting details such as breakdown of turnover and PBT of the businesses/activities.

## SECTION 1: BUSINESS ACTIVITY BENCHMARKS

**01 IS THE COMPANY INVOLVED IN SHARIAH-COMPLIANT AND SHARIAH NON-COMPLIANT BUSINESSES/ACTIVITIES?**  YES  NO

**Guide:**  
 If your answer is yes, please proceed to Question 2.  
 If your answer is no, please proceed to Question 3.

**02 DOES THE CONTRIBUTION FROM SHARIAH NON-COMPLIANT ACTIVITIES EXCEED THE BENCHMARKS?**

	RM		%
Revenue from Shariah non-compliant activities under the five-per cent benchmark		Revenue from Shariah non-compliant activities (under five-per cent benchmark) over Company's Revenue	
Revenue from Shariah non-compliant activities under the 20-per cent benchmark		Revenue from Shariah non-compliant activities (under 20-per cent benchmark) over Company's Revenue	
PBT from Shariah non-compliant activities under the five-per cent benchmark		PBT from Shariah non-compliant activities (under five-per cent benchmark) over Company's PBT	
PBT from Shariah non-compliant activities under the 20-per cent benchmark		PBT from Shariah non-compliant activities (under 20-per cent benchmark) over Company's PBT	
Company's Revenue			
Company's PBT			

**Guide:**  
 If the calculation resulted in:

**I. Revenue or PBT from Shariah non-compliant businesses/activities over company's revenue or PBT is less than five or 20 per cent.**  
 The contribution of Shariah non-compliant activities to the business of the company is below the benchmark. Please proceed to Question 3.

**II. Revenue or PBT from Shariah non-compliant businesses/activities over company's revenue or PBT is five or 20 per cent and above.**  
 The contribution of Shariah non-compliant activities to the business of the company exceeds the benchmark, hence, the company is classified as Shariah non-compliant. You may end the assessment.



**03 DOES THE COMPANY PLACE CASH IN CONVENTIONAL ACCOUNT(S) AND/OR INSTRUMENT(S)?**

YES

NO

**Guide:**

If your answer is yes, please proceed to Question 4.

If your answer is no, please proceed to Question 5.

**04 DOES THE TOTAL CASH PLACED IN CONVENTIONAL ACCOUNT(S) AND/OR INSTRUMENT(S) EXCEED THE BENCHMARK?**

RM

Total cash placed in conventional account(s) and/or instrument(s)

Total assets of the company

%

Total cash over total assets of the company

**Guide:**

If the calculation resulted in:

- I. Total cash over total assets is less than 33 per cent.**

The percentage of total cash over total assets of the company is below the benchmark. Please proceed to Question 5.

- II. Total cash over total assets is 33 per cent and above.**

The percentage of total cash over total assets of the company exceeds the benchmark, hence, the company is classified as Shariah non-compliant. You may end the assessment.

**05 DOES THE COMPANY HAVE INTEREST-BEARING DEBT?**

YES

NO

**Guide:**

If your answer is yes, please proceed to Question 6.

If your answer is no, the company is classified as Shariah-compliant. You may end the assessment.

**06 DOES THE TOTAL INTEREST-BEARING DEBT EXCEED THE BENCHMARK?**

RM

Total interest-bearing debt

Total assets of the company

%

Total interest-bearing debt over total assets of the company

**Guide:**

If the calculation resulted in:

- I. Total interest-bearing debt over total assets of the company is less than 49 per cent.**

The percentage of the total interest-bearing debt over total assets of the company is below the benchmark, hence, the company is classified as Shariah-compliant. You may end the assessment.

- II. Total interest-bearing debt over total assets is 49 per cent or above.**

The percentage of the total interest-bearing debt over total assets of the company exceeds the benchmark, hence, the company is classified as Shariah non-compliant.

# FREQUENTLY-ASKED-QUESTIONS

## WHAT IS THE TOOLKIT?

The Toolkit is a document with the following key contents:

- 1 Screening methodology that has been endorsed by the SAC of SC to determine Shariah status of unlisted MSMEs<sup>3</sup>; and
- 2 A series of assessment questions that are based on the methodology to guide users in determining Shariah status of unlisted MSMEs.<sup>4</sup>

## WHO WILL BENEFIT FROM THE TOOLKIT?

The Toolkit is intended to benefit the ECF and P2P financing platform operators, Shariah advisers, as well as any interested parties.

## DOES THE TOOLKIT TAKE INTO ACCOUNT THE QUALITATIVE ASPECT OF SHARIAH SCREENING METHODOLOGY?

No, the Toolkit is based on quantitative assessment.

## DOES THE ASSESSMENT RESULT REQUIRE ENDORSEMENT FROM THE SAC OF SC?

No, the assessment result does not require endorsement from the SAC of SC.

## IS IT MANDATORY FOR THE TOOLKIT TO BE ADOPTED BY ECF AND P2P FINANCING PLATFORM OPERATORS?

The ECF and P2P financing platform operators may adopt any methodology as advised by their Shariah adviser.

## WHAT HAPPENS IF THE COMPANY IS CLASSIFIED AS SHARIAH-COMPLIANT?

The MSMEs that are classified as Shariah-compliant could raise Shariah-compliant funds through ECF and P2P financing platforms and attract investors seeking Shariah-compliant investments.

<sup>3</sup>The SAC of SC may revise the Shariah screening methodology for the Toolkit when necessary.

<sup>4</sup>For comprehensive results, relevant and adequate financial information is crucial.





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