

THE 281ST SHARIAH ADVISORY COUNCIL OF THE SECURITIES COMMISSION MALAYSIA MEETING (11 JULY 2024)

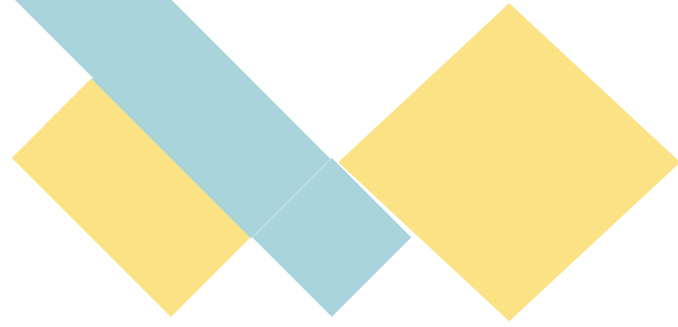
REVISION OF QUANTITATIVE APPROACH IN SHARIAH SCREENING METHODOLOGY

INTRODUCTION

In the current Shariah screening methodology for securities listed on Bursa Malaysia, the denominators used to compute the percentage of Shariah non-compliant business activities under the 5% or 20% benchmarks are revenue and profit before taxation (PBT). The contribution of Shariah non-compliant activities to both revenue and PBT of the company will be computed and compared against such business activity benchmarks.

The Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC) had deliberated on the following:

- (i) The introduction of a single computation approach i.e. total income as the revised denominator for calculating the percentage of Shariah non-compliant business activities; and
- (ii) The removal of PBT from the denominator in calculating the percentage of Shariah non-compliant business activities.



RESOLUTION

In the 281st meeting held on 11 July 2024, the SAC had resolved as follows:

- (i) Introduce a single computation approach i.e. total income as the revised denominator in calculating the percentage of Shariah non-compliant business activities. The total income consists of contribution from revenue, other income and share of profit of the company; and
- (ii) Remove PBT from the denominator in calculating the percentage of Shariah non-compliant business activities.

The effective date of the SAC resolution above will be adopted for the announcement of the List of Shariah-compliant Securities in May 2025.

SHARIAH JUSTIFICATION

Shariah justifications for the SAC resolution above are as follows:

Enhancing Computation Approach Through Assessment on Listed Company's Overall Financial Income

Adopting a single computation approach i.e. total income and removing PBT from the current denominator is more accurate in computing the contribution from Shariah non-compliant activities of a listed company and is more reflective of the state of the company. This constitutes an enhancement of computation practice to ensure that the implementation of Shariah screening methodology as determined by the SAC is duly optimized. This is in line with the teachings of Islam that emphasizes *al-'adl* (justice) in all kinds of action where Allah S.W.T. says:



إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ

"Allah commands justice, and the doing of good,"¹

This verse entails that Allah S.W.T. commands for absolute justice and fairness in all aspects of life such as dealings, human affairs and others.² In the context of Shariah screening of listed companies, the adoption of total income as the revised denominator is enhanced to ensure the computation of Shariah non-compliant business activities of listed companies is made in a fairly manner.

Furthermore, enhancing the computation approach via total income is also aligned with Principle 6 of Aspiration 2: Justice and Benevolence under the *Maqasid al-Shariah* Guidance Islamic Capital Market Malaysia which emphasizes upholding best practices, codes of conduct and ethical values. This Principle entails a conduct undertaken with fairness, quality, justice and promoting the well being of people as a whole.

¹ *Surah an-Nahl*, verse 90.

² Wahbah Az-Zuhaili, *Tafsir al-Munir*, Dar al-Fikr, Syria, 2009, vol. 7, p. 537.