

SHARI'AH COMPLIANT SECURITIES

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LEGAL DEFINITION OF ISLAMIC SECURITIES

▶ **Islamic Securities means:**

securities issued in compliance with Shariah Principles
approved by the Authority

(Sec 62, Maldives Securities Act 2/2006)



EQUITY MARKET / STOCK MARKET

- ▶ Involves company shares which represents ownership by the investor in a particular company
- ▶ Ownership of equities will often entitle the investor to a portion of the company's profits through dividends
- ▶ The Unit of the share is often referred to as Share Capital



Share Capital (Stock)

- ▶ A share is a security which represents a portion of the owner's capital in a business.
- ▶ Shareholders are the owners of the business and share the success or failure of the business.
- ▶ The performance of the business can often be measured by the amount of dividends shareholders receive and by the price of the share, quoted on the stock market.



Shariah Principle in Equity Market

- ▶ Direct shareholding is the main form of participation in the equity market
- ▶ The share certificate signifies a form of capital contribution in a company / partnership
- ▶ This contribution is in the form of musharakah or mudarabah
- ▶ The shares can be sold at any price as it represents the assets owned by the company



Shariah Principle in Equity Market cont'd ...

- ▶ The profit for the investors can be in the form of capital gain, or dividend, or both.
- ▶ Investment in Ordinary Share is a direct contribution to and ownership of the business and as such, is acceptable subjected:
 - (i) the investments must be in business acceptable to Shariah → the needs for stock screening process
 - (ii) there should not be guaranteed fixed return tied to the investments



Types of Companies

Mixed companies



**Primary activities
are non halal**

**No non halal
activities**



Stock Screening Process

- ▶ Since the participation in the stock market means an ownership of the company, it is very crucial to be certain on the status of the company to determine whether the company is suitable for investment or not.
- ▶ This is known as stock selection, or stock screening process.



Stock Screening Process at CMDA

CORE BUSINESS SCREENING (Qualitative)

Exclude :
alcohol, pork-related products, conventional financial services
(e.g. banks and insurance companies), gambling etc



FINANCIAL SCREENING

remove companies based on debt and interest income levels in
their balance sheets.



PURIFICATION

