



# FR IdealRatings Islamic Indices

## Shariah mandate screening criteria

### Introduction and purpose

The FR IdealRatings Islamic Index series provides a reliable and accurate Shariah-compliant benchmark which ensure the most recent Shariah-compliance status due to the fact that index constituents are screened on a quarterly basis using a research-based approach.

### FR IdealRatings Shariah mandate

The FR IdealRatings Index series is based on the AAOIR (Accounting and Auditing Organisation for Islamic Financial Institutions) Shariah mandate and is approved by Shariah scholars Dr Mohamed El Gari, Dr M. Daud Bakar and Sheikh Yusuf Talal DeLorenzo.

Index constituents must fulfil the following screening criteria in order to be included in the indices:

#### Sector screens:

Companies are only to be considered compliant from a business perspective if the cumulative revenue from non-compliant activities and non-operating interest income does not exceed 5% of their total income (defined as the sum of total revenue or sales and operating and non-operating interest).

Non-compliant income sources include the following:

- Adult entertainment
- Alcohol
- Cinema and broadcasting
- Conventional insurance
- Conventional financial services
- Defence
- Gambling
- Hotels
- Music
- Operating and non-operating interest income
- Pork
- Tobacco

#### Financial screens:

- Interest-bearing debt divided by preceding 12-month average market capitalisation should not exceed 30%
- Sum of cash, deposits, and interest-bearing investments divided by preceding 12-month average market capitalisation should not exceed 30%
- Sum of cash, deposits, and receivables divided by total assets should not exceed 67%

#### General considerations:

- Preferred shares are considered to be non-compliant.

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