

FTSE IdealRatings Islamic Index Series

v1.4



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Section 1

Introduction

1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE IdealRatings Islamic Index Series calculated in association with IdealRatings.
- 1.2 The FTSE IdealRatings Islamic Index Series is designed to provide a family of Shariah compliant indices.
- 1.3 The FTSE IdealRatings Islamic Index Series does not take account of ESG factors in its index design.
- 1.4 This methodology should be read in conjunction with the following Ground Rules

[FTSE Global Equity Index Series Ground Rules](#)

[FTSE Frontier Index Series Ground Rules](#)

[FTSE Middle East and Africa Extended Index Series Ground Rules](#)

[Russell US Indices Construction and Methodology](#)

[FTSE Infrastructure Index Series Ground Rules](#)

- 1.5 The following indices are available

Index	Underlying Index
FTSE IdealRatings Developed Islamic Index	FTSE Developed Index (AWD)
FTSE IdealRatings Emerging Islamic Index	FTSE Emerging Index (AWALLE)
FTSE IdealRatings All-World Islamic Index	FTSE All-World Index (AWORLDS)
FTSE IdealRatings Middle East & Africa Extended Islamic Index	FTSE Middle East and Africa Extended Index (FMEAE)
FTSE IdealRatings Middle East & North Africa Extended Islamic Index	FTSE Middle East and North Africa Extended Index (FMENAE)
FTSE IdealRatings GCC Extended Islamic Index	FTSE GCC Extended Index (FGCCE)
Russell IdealRatings 1000 Islamic index	Russell 1000 Index (RU1000)
FTSE IdealRatings Global Core Infrastructure 50/50 Islamic Index	FTSE Global Core Infrastructure 50/50 Index (FGCIICA)

The following variants are, or if requested may be, calculated for certain indexes within the index series:

- Capital and total return indices.
- Net total return indexes based on specified withholding tax rates.
- Indexes calculated in currencies other than the base currency (USD).
- Currency hedged indices.
- Capped indices; for full details see the FTSE Russell Capping Methodology guide.
- Constituent size bands – large, mid, small and micro capitalisation indices.

- Global, regional and single country indices.
- Sector indices.

1.6 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.

1.7 Capital and Total Return Indices are available. Total Return Indices are published at the end of each working day. The percentage of the total index distributed dividend that is derived from non-Shariah compliant sources is calculated by IdealRatings (see Rule 4.2). Dividend cleansing adjustments are not made within the Total Return Index.

1.8 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

1.9 FTSE Russell hereby notifies users of the index series that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.10 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any inaccuracies in the compilation of the Index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.¹

2.2 FTSE is responsible for the daily calculation, production and operation of the FTSE IdealRatings Islamic Index Series and will:

- maintain records of the index weightings of all constituents and reserve companies;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the Indices.

2.3 IdealRatings

IdealRatings is responsible for ascertaining the Shariah compliance of constituents of the FTSE IdealRatings Islamic Index Series

2.4 Amendments to these Ground Rules

2.4.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

2.4.2 Where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.

¹ The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

Section 3

FTSE Russell Index policies

3. FTSE Russell Index policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

3.2 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

- 3.2.1 Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

3.3 Queries and Complaints

- 3.3.1 FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.4 Index Policy for Trading Halts and Market Closures

- 3.4.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

3.5 Index Policy in the Event Clients are Unable to Trade a Market

- 3.5.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market or a Security.pdf](#)

3.6 Recalculation Policy and Guidelines

- 3.6.1 Where an inaccuracy is identified, FTSE Russell will follow the steps set out in the FTSE Russell Index Recalculation Guidelines when determining whether an index or index series should be recalculated and/or associated data products reissued. Users of the FTSE IdealRatings Islamic Index Series will be notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

[Recalculation Policy and Guidelines Equity Indices.pdf](#)

3.7 Policy for Benchmark Methodology Changes

- 3.7.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

3.8 FTSE Russell Governance Framework

- 3.8.1 To oversee its Indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks², the European benchmark regulation³ and the UK benchmark regulation⁴. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

3.9 Real Time Status Definitions

- 3.9.1 Please refer to the following guide for details of real time status definitions for indices which are calculated in real time.

[Real Time Status Definitions.pdf](#)

² IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

³ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

⁴ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

Section 4

Eligible securities

4. Eligible securities

4.1 Companies included in underlying indices shown in Rule 1.5 are eligible for inclusion in the FTSE IdealRatings Islamic Index Series.

4.2 IdealRatings will ensure that all constituents and potential constituents are screened quarterly to determine their Shariah status. An overview of the IdealRatings/FTSE Russell stock screening criteria are listed below:

4.3 Business Activity Screening

4.3.1 Investment is not allowed in companies deriving more than 5% of their total revenue (cumulatively) from any of the following activities ("prohibited activities"):

- **Alcohol:** distillers, vintners and producers of alcoholic beverages, including producers of beer and malt liquors, owners and operators of bars and pubs.
- **Tobacco:** cigarettes and other tobacco products manufacturers and retailers, recreational cannabis.
- **Pork related products:** companies involved in the manufacture and retail of pork products.
- **Conventional Financial Services:** commercial banks involved in retail banking, corporate lending, investment banking; companies involved in mortgage and mortgage related services; providers of financial services, including insurance, capital markets and specialized finance; credit agencies; stock exchanges; specialty boutiques; consumer finance services, including personal credit, credit cards, lease financing, travel-related money services and pawn shops; financial institutions primarily engaged in investment management, related custody and securities fee-based services; companies operating mutual funds, closed-end funds and unit investment trusts; financial institutions primarily engaged in investment banking and brokerage services, including equity and debt underwriting, mergers and acquisitions; securities lending and advisory services institutions; and insurance and reinsurance brokerage firms, including companies providing property, casualty, life disability, indemnity or supplemental health insurance.
- **Defense/Weapons:** manufacturers of military aerospace and defense equipment, parts or products, including defense electronics and space equipment.
- **Gambling/Casino:** owners and operators of casinos and gaming facilities, including companies providing lottery, online games or betting services.
- **Music:** producers and distributors of music, owners and operators of radio broadcasting systems.
- **Cinema:** companies engaged in the production, distribution and screening of movies and television shows, owners and operators of television broadcasting systems and providers of cable or satellite television services.
- **Adult Entertainment:** owners and operators of adult entertainment products and activities
- **Advertising Services in television, newspapers and billboards**
- **Gold & Silver Hedging:** Traders of gold & silver as cash or on deferred basis

- **Not Slaughtering according to Islamic or Monotheistic principles:** Food producers or processing companies not following the Islamic or Monotheistic guidelines in the slaughtering of animal.

4.4 Financial Screening

Shariah investment principles do not allow investment in companies with financial ratios violating the following criteria:

- Total conventional debt over average daily market capitalisation for the prior 24 months exceeds 33%. If the average market capitalisation of the company falls below the total asset value, total assets is then used in calculating the percentage above.
- Sum of a company's cash and short term interest bearing securities over average daily market capitalisation for the prior 24 months exceeds 33%. If the average market capitalisation of the company falls below the total asset value, total assets is then used in calculating the percentage above.
- The total non-permissible income generated from conventional interest income and any non-compliant activities should not exceed 5% of the total income generated by the company
- No investment in fixed income preferred shares is allowed
- No investment in trust units is allowed
- The revenue that Islamic Financial Institutions derive from Financial Services will not be considered revenue from a prohibited activity. Islamic Financial Institutions will not be subject to the business or financial Screening criteria above

- 4.5 The shares, investability weightings and treatment of secondary lines of stock of constituents are the same as in the underlying index.
- 4.6 The Global and Regional Indices will consist of all the Shariah compliant securities in their relevant FTSE Global and Regional Index.
- 4.7 The Country Indices will consist of all the Shariah compliant securities in their relevant FTSE Country Index

Section 5

Periodic review of constituents

5. Periodic review of constituents

- 5.1 The FTSE IdealRatings Islamic Index Series will be reviewed on a quarterly basis in March, June, September and December. The constituent reviews are based on data from the close of business on the Monday 4 weeks prior to the review effective date. Any constituent changes are implemented after the close of business on the third Friday of the review month (i.e., effective from the open on Monday).
- 5.1.1 The Russell IdealRatings 1000 Islamic Index is reviewed on an annual basis in June based on stock prices available at close of Wednesday before the second Friday in June (price cut-off date) incorporating underlying consistent changes according to the Russell implementation dates in line with the Russell annual reconstitution. For details of the implementation dates of Russell 1000, please refer to the Russell US Equity Indices Construction and Methodology available at [Russell-US](#).
- 5.2 The FTSE IdealRatings Islamic Index Series Shariah screening will be reassessed quarterly in March, June, September and December in line with the quarterly screening from IdealRatings. The Shariah screening process (please see Section 4) uses data as at the close of business on the Monday 4 weeks prior to the review effective date taking into account new companies entering the underlying index at the periodic review and implemented on the next working day after the third Friday (i.e. effective Monday) of March, June, September and December. Screening for the Russell IdealRatings 1000 Islamic Index is effective on the fourth Friday of June.

Section 6

Changes to constituent companies

6. Changes to constituent companies

6.1 Intra-review additions

- 6.1.1 If a security is added to the underlying index, it will become eligible for inclusion in the relevant FTSE IdealRatings Islamic Index subject to satisfying Rule 4.2 at the next periodic review. The inclusion to the FTSE IdealRatings Islamic Index Series will not be concurrent with its inclusion to the underlying index.

6.2 Intra-review deletions

- 6.2.1 If a security ceases to be a constituent of the underlying index, it will be removed from the relevant index. The removal will be concurrent with its removal from the underlying index.
- 6.2.2 If a constituent of the FTSE IdealRatings Islamic Index Series ceases to meet the eligibility criteria detailed in Rule 4.2, it will be removed from the FTSE IdealRatings Islamic Index Series at the quarterly Shariah screening review.

6.3 Mergers, restructuring and complex takeovers

- 6.3.1 The FTSE IdealRatings Islamic Index Series will treat corporate events such as mergers, restructuring and complex takeovers in line with the underlying index .

Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

- 6.3.2 If an index constituent has a complex reorganisation or demerger, the newly spun-off company will remain eligible for inclusion in the relevant indexes. The Shariah status of the newly spun-off company will be reassessed at the next quarterly Shariah screening review.

6.4 Suspended companies

FTSE Russell's treatment can be found using the following link:

[Suspended Companies Rule.pdf](#)

Section 7

Indices algorithm and calculation methodology

7. Indices algorithm and calculation methodology

7.1 The index calculation formula is as follows:

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i)}{d}$$

Where,

- $i=1,2,\dots,N$
- N is the number of securities in the index.
- p_i is the latest trade price of the component security (or the price at the close of the index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the index's base currency.
- s_i is the number of shares in issue used by FTSE Russell for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the underlying index.
- d is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.

Appendix A

Further information

A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE IdealRatings Islamic Index Series is available from FTSE Russell.

Website: www.lseg.com/en/ftse-russell/

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