

# FR IdealRatings Islamic Indices – Index Methodology

v1.1

The FR IdealRatings Islamic Indices are not, and are not intended to be, used by supervised entities in the European Union or the United Kingdom and accordingly, the European benchmark regulation\* and the UK Benchmark Regulation# do not apply to the index. Consequently, supervised entities within the European Union and the United Kingdom are not permitted to use the index as a benchmark as set out in article 3(1)(7) of the European benchmark regulation.

For the avoidance of doubt, neither FTSE International Limited nor Refinitiv Benchmark Services (UK) Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator (as defined in article 3(1)(6) of the European benchmark regulation) of the indices.

*\*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 Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (which amends the European benchmark regulation in the United Kingdom)*



---

# Contents

---

1. Introduction .....	3
2. FTSE Russell .....	3
3. IdealRatings .....	3
4. Constituent universe .....	4
5. Construction methodology .....	4
6. Calculation methodology.....	5
7. Index Maintenance and Rebalance .....	6
8. Quality control .....	6
9. Governance .....	7
10. Appendix I .....	8

---

## 1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FR IdealRatings Islamic Indices.
- 1.2 The FR IdealRatings Islamic Indices serve as a group of comprehensive, standalone indices as well as a foundation for a number of other indices. Detail on the Shariah screening is available from IdealRatings on request and on [FR Ideal Ratings Shariah-compliant Islamic Indices | LSEG](#).

## 2. FTSE Russell

- 2.1 As part of the ongoing work to simplify its brand, London Stock Exchange Group (LSEG) announced that Refinitiv Benchmarks and Indices were moving to FTSE Russell branding with effect from November 2023. As part of the rebranding, the Refinitiv IdealRatings Islamic Indices were renamed as the FR IdealRatings Islamic Indices.
- 2.2 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, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings S.A.S.
- 2.3 LSEG holds a unique position within the global financial market, operating connected businesses to serve customers across the financial markets value chain.
- 2.4 The FR IdealRatings Islamic Indices are calculated by FTSE Russell and will be made available to customers as part of their desktop licence through the LSEG Data & Analytics Platforms or subject to a separate licence agreement.
- 2.5 Neither FTSE International Limited nor Refinitiv Benchmark Services (UK) Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator<sup>1</sup> of the FR IdealRatings Islamic Indices.

## 3. IdealRatings

- 3.1 IdealRatings has been providing Shariah fund management services for financial institutions since 2006. It is the market leader in helping asset managers in more than 10 countries approach launch and manage Shariah compliant funds with the ability to generate the highest alpha available given the tight compliance and purification process.
- 3.2 IdealRatings' proprietary algorithms and software initially search all public information and news available on potential index constituents for non-compliance. A dedicated research team then analyses the output for accuracy checks by using over 30 revenue streams of interest for each company.
- 3.3 Shariah compliance screening occurs on a quarterly basis. Explanations of constituent deletions due to non-compliance are provided to clients in addition to index returns and constituent weights.

---

<sup>1</sup> As the term administrator is defined in the [IOSCO Principles for Financial Benchmarks](#) and [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 \(the UK Benchmark Regulation\)](#).

---

## 4. Constituent universe

- 4.1 The indices currently cover 20 countries and regions and 3 sectors, including countries with as few constituents as approximately 10 and as many as approximately several hundred. The indices are designed to serve as liquid, broad-based and comprehensive tools for investment professionals and analysts to benchmark and invest in common stock on a local, regional or global basis.
- 4.2 These indices retain the key properties of the FR Global Equity indices. The FR Global Equity indices are free float adjusted market capitalization weighted indices. They are broad market indices including large, mid and small caps. They have following inclusion criteria:
- A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
  - A minimum of 3 months trading history;
  - Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, the team uses the security's primary listing to determine membership.
  - Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:
    - Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
    - Be part of the top 99.5% of the trading value of the exchanges under consideration;
    - Trade on at least 90% of trading days; and
    - Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The FR Global Equity Indices are rebalanced biannually every April and October.

For a complete description of the indices' rules, please refer to the methodology for FR Global Equity indices [here](#).

## 5. Construction methodology

### 5.1 FR IdealRatings Shariah Mandate

The FR IdealRatings Index series is based on the AAOIFI (Accounting and Auditing Organization 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:

#### 5.1.1 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, Defense, Gambling, Hotels, Music, Operating and Non-operating Interest Income, Pork and Tobacco

#### 5.1.2 Financial Screens

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

---

### 5.1.3 General Considerations

- Preferred shares are considered to be non-compliant.

## 5.2 Security Capping

In order to reduce single security risk and volatility in the index suite, securities are capped at each of the quarterly rebalances. Between rebalances, the security weight floats with the share price development.

Securities are capped at 10% of the total index market capitalization at the rebalance effective date.

Since the underlying FR Indices consider the free float adjusted outstanding shares, the share weights are modified using a calibration.

The following constraints hold for each index after the security capping:

Each security is reduced to 10.1% or less of the index market capitalization. If an index has less than 10 securities, it will not be security capped.

## 5.3 Sector Capping

In addition to being potentially security capped, a sector's free float adjusted market capitalization weight as defined by the TRBC economic level sector is capped at 25%, subject to the index qualifying for sector capping.

An index is sector capped if the following conditions hold:

1. The index must have more than 5 sectors to be sector capped.
2. The index must have more than 14 constituent securities.
3. If an index previously was not sector capped, but in a rebalance satisfies rules 1) and 2), it is sector capped from this rebalance.
4. If an index previously was sector capped but violates rule 1) by having less than 4 sectors, sector capping is suspended.
5. If an index previously was not sector capped but has at least 4 sectors and has more than 14 securities, it will not immediately be sector capped. If the index continues to have more than 14 securities and contains securities from at least 4 sectors for a second consecutive quarter, it will become sector capped effective at the second rebalance.
6. An index is equally weighted if the following conditions hold:
  - There are less than 15 constituents.
  - There are less than 6 sectors.
  - There are 4 sectors for 2 consecutive rebalances.

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

## 6. Calculation methodology

6.1 The FTSE Europe Equal Opportunities Select Index is calculated using the FR Global Equity Indices methodology. For further information, please see the Global Equity Indices methodology: [FR Equity Indices | LSEG](#).

6.2 Corporate action rules follow the FR Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on corporate action treatment for the indices, please refer to the detailed corporate actions methodology document: [FR Global Equity Indices Corporate Actions Methodology \(lseg.com\)](#).

---

## 7. Index Maintenance and Rebalance

7.1 The securities which form the indices are re-weighted due to changes in the price of the underlying securities change.

The indices are maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the LSEG Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in an Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Corporate Action Methodology.

7.2 The indices are rebalanced on a Quarterly basis, and new constituent lists are effective on the Last Sunday/Monday of April, July, October and January. The rebalance is the major source of additions and deletions to the Indices.

7.3 Removal of index constituents due to trading suspension - If an index constituent is suspended for trading for minimum 40 trading days, it is removed from the index, with no replacements and without any consideration to add them back if their trading resumes between rebalances. They may become candidates in next rebalance and will be evaluated like other candidates for inclusion in the index.

## 8. Quality control

8.1 Quality control procedures are in place to monitor any prices – whether they are obtained from a regulated exchange or another market – prior to calculation of indices, as well as prior to publication.

### 8.2 Error reporting

8.2.1 The Index Action Committee (see section “Governance” below) may determine if a retrospective recalculation is required.

8.2.2 A retrospective recalculation will only be made when there has been a material error. The feedback from the stakeholders may also be sought.

8.2.3 Any retrospective recalculation will be notified to users via the alert system on LSEG Eikon.

### 8.3 Insufficient data and market disruption

8.3.1 The FR IdealRatings Islamic Indices are based on equity prices published by the exchange (in the country of domicile) for each equity. The exchange is a regulated marketplace and a well-established supplier of equity price discovery.

8.3.2 In the event that certain data is not available in time to publish the FR IdealRatings Islamic Indices as indicated in the methodology, or if the indices cannot be published at all over one or more planned publication times, a new publication time will be communicated to subscribers and licensors of the index.

8.3.3 Should a period of market stress or a disruption affect the calculation of the index, FTSE Russell reserves the right to take any action with respect to the index it deems appropriate given the circumstances, subject to the index governance procedures (see section “Governance” below). FTSE Russell will first consider the effectiveness of the actions taken by each primary exchange in producing the equity prices used in the index calculation.

8.3.4 If additional action is required by FTSE Russell it will attempt to notify interested parties of any such action with as much notice as is practical. There is no assurance, however, that the actions taken by FTSE Russell in response to such a period of market stress or disruption will not have an adverse effect on the value of the index or the manner in which it is calculated.

---

## **8.4 Cessation of an index**

- 8.4.1 In the event that FTSE Russell determines that the calculation of the indices should be ceased, a notice will be published via LSEG Eikon, an LSEG desktop product.

## **9. Governance**

- 9.1 The FR IdealRatings Islamic Indices are calculated and managed by FTSE Russell which makes all decisions regarding index calculations and changes to the index methodology.

### **9.2 Index team**

- 9.2.1 The Index team is responsible for the maintenance, calculation and distribution of the FR IdealRatings Islamic Indices as set out in this methodology.

### **9.3 Index Action Committee**

- 9.3.1 The IAC is an internal group of subject matter experts (indices as well as asset classes) that provide advice related to methodology interpretation or changes.

### **9.4 Methodology review**

- 9.4.1 The FR IdealRatings Islamic Indices methodology is reviewed once a year and, if required by market events, more frequently.
- 9.4.2 Any changes to the methodology are approved by the IAC and will be announced prior to implementation. All reasonable efforts will be made to provide at least one month's notice of any such changes prior to their implementation.

## Appendix I

Index Name	CUR	RIC	Mnemonic
FR/IdealRatings Islamic AMI Index (Turkey / Malaysia / Indonesia)	USD	.TRIIPUI	YIRIII\$
FR/IdealRatings Islamic Asia Pacific ex Japan Index	USD	.TRAJPUI	YIRIAJ\$
FR/IdealRatings Islamic ASEAN 6 Index	USD	.TRA6PUI	YIRIA6\$
FR/IdealRatings Islamic Australia Index	AUD	.TRAUPI	YIRIAUL
FR/IdealRatings Islamic Bahrain Index	BHD	.TRBHPI	YIRIBHL
FR/IdealRatings Islamic BRIC Index	USD	.TRBIPUI	YIRIBI\$
FR/IdealRatings Islamic Egypt Index	EGP	.TREGPI	YIRIEGL
FR/IdealRatings Islamic GCC Index	USD	.TRGCPUI	YIRIGC\$
FR/IdealRatings Islamic Global Index	USD	.TRGLPUI	YIRIGL\$
FR/IdealRatings Islamic Global Energy Index	USD	.TRGLPUENEI	Y1GLE1\$
FR/IdealRatings Islamic Global Healthcare Index	USD	.TRGLPUHLCI	Y1GLHC\$
FR/IdealRatings Islamic Global Technology Index	USD	.TRGLPUTECI	Y1GLG1\$
FR/IdealRatings Islamic Global Emerging Markets Index	USD	.TRGEPUI	YIRIGES\$
FR/IdealRatings Islamic Indonesia Index	IDR	.TRIDPI	YIRIIDL
FR/IdealRatings Islamic Malaysia Index	MYR	.TRMYPI	YIRIMYL
FR/IdealRatings Islamic MENA Index	USD	.TRMEPUI	YIRIMES\$
FR/IdealRatings Islamic MENASA Index	USD	.TRMSPUI	YIRIMS\$
FR/IdealRatings Islamic Kuwait Index	KWD	.TRKWPI	YIRIKWL
FR/IdealRatings Islamic Oman Index	OMR	.TROMPI	YIRIOML
FR/IdealRatings Islamic Qatar Index	QAR	.TRQAPI	YIRIQAL
FR/IdealRatings Islamic Turkey Index	TRL	.TRTRPI	YIRITRL
FR/IdealRatings Islamic United Arab Emirates Index	AED	.TRAETPI	YIRIAEL

## Disclaimer

© 2024 London Stock Exchange Group plc and its applicable group undertakings ("LSEG"). LSEG includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) FTSE (Beijing) Consulting Limited ("WOFE") (7) Refinitiv Benchmark Services (UK) Limited ("RBSL"), (8) Refinitiv Limited ("RL") and (9) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL, and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "Refinitiv", "Beyond Ratings®", "WMR™", "FR™" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index and/or rate returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index or rate inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index or rate was officially launched. However, back-tested data may reflect the application of the index or rate methodology with the benefit of hindsight, and the historic calculations of an index or rate may change from month to month based on revisions to the underlying economic data used in the calculation of the index or rate.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a licence from LSEG and/or its licensors.

## About FTSE Russell

FTSE Russell is a leading global provider of benchmarks, analytics and data solutions with multi-asset capabilities, offering a precise view of the markets relevant to any investment process. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for performance benchmarking, asset allocation, investment strategy analysis and risk management.

To learn more, visit [lseg.com/en/ftse-russell](https://lseg.com/en/ftse-russell); or mail to- [indexmanagers@lseg.com](mailto:indexmanagers@lseg.com); or call your regional Client Service team office:

**EMEA** +44 (0) 20 7866 1810

**North America** +1 877 503 6437

**Asia-Pacific**

**Hong Kong** +852 2164 3333

**Tokyo** +81 3 6441 1430

**Sydney** +61 (0)2 7228 5659



**FTSE  
RUSSELL**  
An LSEG Business