

# FTSE IdealRatings Islamic Indices Screening

v1.3



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An LSEG Business

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## Section 1

# Introduction

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## 1. Introduction

- 1.1 This document sets out the screening criteria used by IdealRatings to screen the eligible universe of FTSE Russell Indices to exclude investment in companies that do not meet Islamic guidelines.

Screening criteria is detailed for:

- equity; and
- REITs.

## Section 2

# Islamic equity screening guidelines

## 2. Equity screening guidelines

### 2.1 Business activities screening

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

- 2.1.1 **Alcohol:** distillers, vintners and producers of alcoholic beverages, including producers of beer and malt liquors, and owners and operators of bars and pubs.
- 2.1.2 **Tobacco:** cigarettes and other tobacco products manufacturers and retailers.
- 2.1.3 **Pork-related products:** companies involved in the manufacture and retail of pork products.
- 2.1.4 **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 specialised 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.
- 2.1.5 **Defense/weapons:** manufacturers of military aerospace and defense equipment, parts or products, including defense electronics and space equipment.
- 2.1.6 **Gambling/casino:** owners and operators of casinos and gaming facilities, including companies providing lottery, online games or betting services.
- 2.1.7 **Music:** producers and distributors of music, and owners and operators of radio broadcasting systems.
- 2.1.8 **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.
- 2.1.9 **Adult entertainment:** owners and operators of adult entertainment products and activities.
- 2.1.10 **Advertising services** in television, newspapers and billboards.
- 2.1.11 **Gold or silver hedging:** companies trading gold or silver as cash or on deferred basis.
- 2.1.12 **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.

## **2.2 Financial screening**

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

- 2.2.1 Total conventional debt over average daily market cap for the prior 24 months exceeds 33%. If the average market cap of the company falls below the total asset value, total assets is used in calculating the percentage above.
- 2.2.2 Sum of a company's cash and short-term, interest-bearing securities over average daily market cap for the prior 24 months exceeds 33%. If the average market cap of the company falls below the total asset value, total assets is used in calculating the percentage above.
- 2.2.3 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.
- 2.2.4 No investment in fixed income preferred shares is allowed.
- 2.2.5 No investment in trust units is allowed.
- 2.2.6 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.

## Section 3

# Islamic REITs screening guidelines

### 3. REITs screening guidelines

Real estate investment trusts (REITs) are considered a unique asset class compared to equity stocks; accordingly, they require a different treatment in terms of Shariah screening. Following the best market practices and the exposure to different Shariah views, IdealRatings is proposing the following Shariah screening guidelines for the screening of the global REITs market, considering our global coverage of 600+ listed REITs worldwide.

#### 3.1 Business screening

Investment is not allowed in REITs generating income through tenants operating in any of the following business activities.

- 3.1.1 **Alcoholic beverages:** distillers, vintners and producers of alcoholic beverages, including producers of beer and malt liquors, and owners and operators of bars and pubs.
- 3.1.2 **Tobacco:** cigarettes and other tobacco products manufacturers and retailers.
- 3.1.3 **Pork-related products:** manufacturers and retailers of pork products.
- 3.1.4 **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 specialised 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 in conventional or conventional derivative instruments, 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.
- 3.1.5 **Military/weapons of mass destruction:** manufacturers of military aerospace, nuclear, chemical and biological weapons or components.
- 3.1.6 **Gambling/casino:** owners and operators of casinos and gaming facilities including companies providing lottery and betting services.
- 3.1.7 **Music:** producers and distributors of music, owners and operators of radio broadcasting systems.
- 3.1.8 **Cinema:** tenants 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 involved in the introduction of non-compliant cinema and entertainment programs not including kids, cultural and sports production.
- 3.1.9 **Adult entertainment:** owners and operators of adult entertainment products and activities.

- 3.1.10 **Embryonic stem cells operations** including clinics and hospitals involved in intended abortion, donation-based fertility, surrogacy.

The sum of non-permissible income generated from such tenants' activities should not exceed 5% of the total income generated by the REIT. Moreover, the sum of interest-bearing income generated from conventional investments should not exceed 5% of the net income generated by the REIT.

**3.2 Financial screening**

- 3.2.1 Total sum of interest-bearing debt should not exceed 33% of the assets' market value as valued by independent third-party valuers and reported in the REITs financial statements. If the assets' market value is not available through independent providers or the market value of assets is below the book value assets book value is used in the screening. For the US-, Canada- and Japan-based REITs, enterprise value (EV) is used for the REIT asset valuation according to the following formula:

EV= average trailing 12 months' market value of common shares + preferred equity + liabilities + minority interest - cash

- 3.2.2 No investment in fixed income preferred shares is allowed.

## Appendix A

# Further information

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

[Glossary.pdf](#)

Further information on the FTSE Russell indices can be found on the FTSE Russell website: [www.ftserussell.com](http://www.ftserussell.com).



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