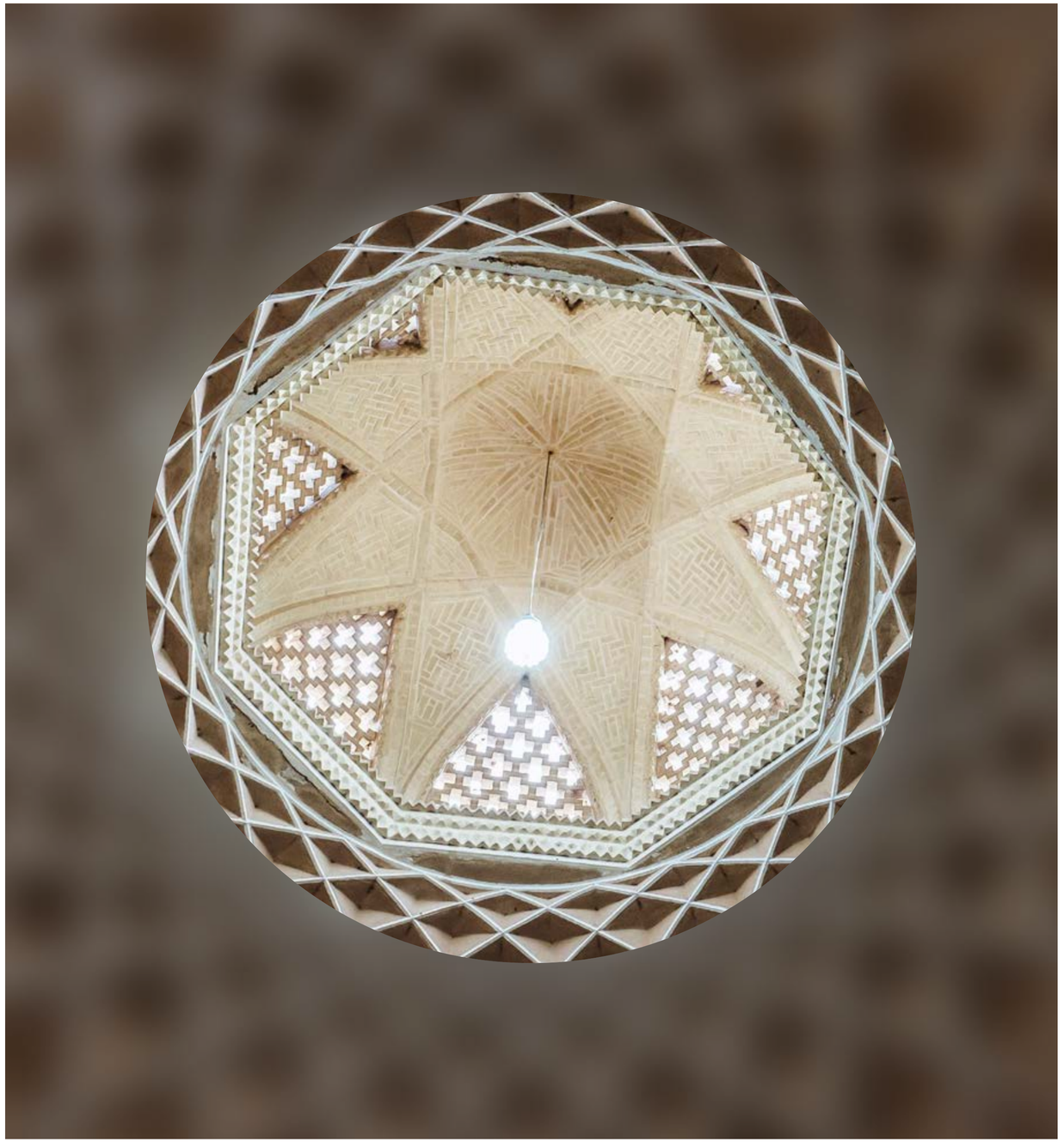
Index Insights
Islamic Finance | FTSE Shariah Suite of Indices

Understanding Shariah Compliant Indexing

Maaqil Bhoyroo
Equity Index Product, Middle East & Africa
maaqil.bhoyroo@lseg.com

FTSE RUSSELL
An LSEG Business



Contents

01.	Introduction	3
02.	What is Islamic Finance?	4
03.	Size of Islamic Finance	5
04.	What is the role of the UK and LSEG in Islamic Finance?	6
05.	Creating an Islamic equity index	7
06.	Creating an Islamic bond index	10
07.	Case Study: FTSE IdealRatings Broad US Dollar Sukuk index	11
08.	FTSE Russell's Shariah index range	12
09.	Glossary of Islamic banking and financial terms	14

FTSE RUSSELL
An LSEG Business

Introduction

Islamic finance is a rapidly developing sector, servicing a global and growing Muslim population of over 2bn people.

With over USD4.9 trn* in assets, Islamic finance represents only one percent of the conventional financial system and is forecast to grow at double-digit rates over the coming years. This fast rate of expansion reflects the growing demand from an increasingly savings-rich client base and the increasing sophistication of Islamic financial and investment products.

In this paper, we introduce the central ideas of Islamic finance, before looking at recent market trends and noting the role of the UK and the London Stock Exchange Group (LSEG) in this important industry. We then explore the ways Islamic equity and bond indices are constructed, using the FTSE Russell benchmark range, including those we run in partnership with our Shariah screening partners. A recent report by LSEG and the Islamic Corporation for the development of the private sector (ICD) showed how Islamic finance assets have grown steadily since 2015 across all the market segments. With the ever-changing macro-economic environment, we also offer some insight into what the markets might hold for Islamic finance over the short / medium term, and whether the prevailing environment is one of growth or contraction.

The paper ends with a glossary of important Islamic finance terms.

I hope it will serve as a helpful introduction to anyone interested in this increasingly important part of the world's financial markets, and set out why the established principles of Islamic finance can align with modern financial approaches such as indexing.

Source: LSEG Islamic Finance Development Report 2024

What is Islamic Finance?

Islamic finance (also known as Shariah-compliant finance) is finance that conforms to the moral precepts of Islam.

Islamic finance differs from conventional (Western) finance in its approach to money: it is based on the belief that money doesn't have any intrinsic value. Instead, according to Islamic scholars, money should be seen just as a medium for exchanging products and services. Linked to this idea is a ban in Islamic finance on making money from money in the form of interest.

Islamic finance also prohibits investment in goods or services seen as harmful. This prohibition covers activities such as the production and sale of alcohol, tobacco and gambling.

Another principle in Islamic finance is that of partnership between the provider of finance and the entity receiving it. This means that the profits and risks of a business venture should be shared as far as possible, rather than one party claiming most or all of the upside or bearing the full risk of loss. In the Islamic finance partnership, losses and profits are often shared according to a pre-agreed ratio.

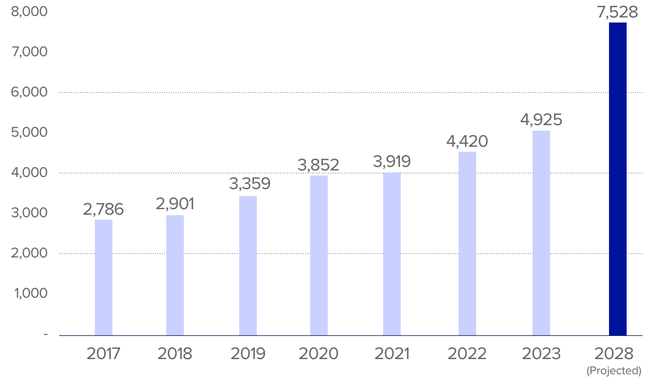
Activities seen as permissible and desirable within Islamic finance are called 'halal' and those seen as prohibited are called 'haram'. These interpretations are made by Islamic scholars on the basis of three primary sources: the Qur'an, the Hadith (the sayings of the Prophet Muhammad) and the Sunnah (the practice and traditions of the Prophet Muhammad).

Size of Islamic Finance

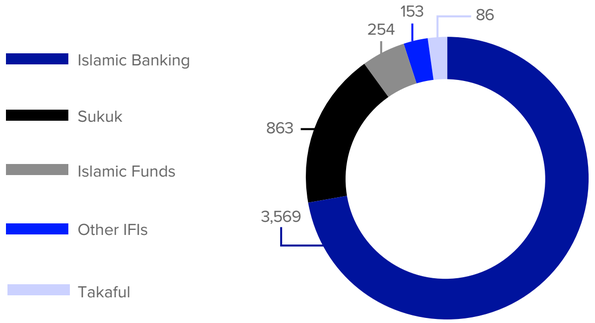
Islamic finance is a rapidly growing part of the global financial markets. According to LSEG, global Islamic finance assets grew from US$2.8trn in 2017 to US$4.9trn in 2023 and are forecast to increase to over US$7.5trn by 2028 (see Figure 1).

Figure 1: Islamic Finance Industry Growth and Asset Type

Islamic Finance Assets Growth (USD Billion)



Islamic Finance Assets by Sector and Asset Class (2023, USD Billion)



Source: ICD – LSEG Islamic Finance report 2024

Components of the Global Islamic Finance Industry in 2023

1,981
Islamic Financial Institutions

1,007
Islamic Finance Education Providers

1,512
Shariah Scholars Representing Islamic Financial Institutions

918
Islamic Finance Events

57
Countries with Islamic Finance Regulation

5,162
Islamic Finance Research Papers

USD 1.3 Billion
CSR Funds Disbursed by Islamic Financial Institutions

10,534
News on Islamic Finance

The UK, LSEG and Islamic Finance

The UK's financial markets play a prominent role in this industry. According to TheCityUK[1], the UK is one of the leading centres for Islamic finance outside the Muslim world.

This hub includes a vibrant Shariah-compliant banking sector, with four Islamic banks authorised to operate in the UK. The UK is also a key venue for the issuance of Sukuk, with more than $90bn raised through over 110 Sukuk issues on the London Stock Exchange between 2015 and 2024.

The UK is a leading centre of Islamic finance education and training, with four internationally recognised professional institutions offering qualifications and certifications in the subject.

London is home to over 200 international law firms, and TheCityUK estimated in 2022 that at least 16 of these firms have dedicated Islamic finance sections. The majority of cross-border Islamic contracts are governed by English law.

The London Stock Exchange Group (LSEG) plays a prominent role in the Islamic finance sector through its dedicated Sukuk and Islamic funds platforms.

FTSE Russell, the LSEG subsidiary that produces, maintains, licenses and markets indices, has a rapidly growing range of Islamic equity and bond indices, which are described in further detail in the remainder of this paper.

Notable LSEG achievements in Islamic Finance

- In 2015, LSE launched a dedicated Sukuk segment on its fixed income markets to help facilitate liquidity
- $90bn+ has been raised through over 110 Sukuk issuances since 2015 on the London Stock Exchange
- LSEG issued the first sovereign green Sukuk in 2018
- LSE is home to a number of Shariah compliant ETPs tracking Islamic indices
- FTSE Russell offers Shariah-compliant equity and Sukuk indices to a growing number of international clients
- LSEG D&A offers a dedicated Islamic Finance service, with tools and applications to capitalise on Islamic finance opportunities, including insights and analysis via LSEG Workspace
- In 2023, HSBC Asset Management listed the HSBC Global Sukuk UCITS ETF on LSE, the first European fixed income ETF providing targeted exposure to Sukuk from Shariah-compliant issuers
- First corporate Sukuk in Qatari Riyals listed on London Stock Exchange in September 2024

1 https://www.thecityuk.com/media/1tbbofqr/islamic-finance-global-trends-and-the-uk-market.pdf

Creating an Islamic equity index

An Islamic equity index is one that is built with the main precepts of Islamic finance in mind. FTSE Russell's Islamic equity indices are built using a two-stage process.

Stage 1

Business activity screening

At this first stage, companies involved in specified areas of business activity are excluded from the starting set of securities for the equity index. The threshold for index inclusion is typically that the total sum of non-permissible income should not exceed 5 percent of a company's total revenue and interest income.

The non-permissible business activities are specified in the relevant index's ground rules, but typically cover:

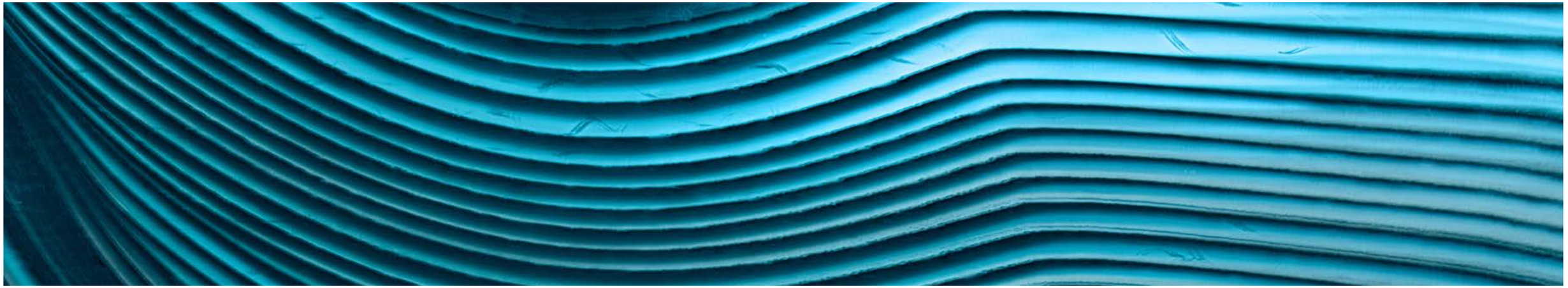
- Conventional finance (non-Islamic banking, finance, insurance)
- Alcohol (all forms of Alcohol or Alcohol based products and other intoxicants)
- Pork-related products and non-halal food production, packaging and processing
- Tobacco (cigarettes & other tobacco products, manufacturers and retailers)
- Weapons, arms and defence manufacturing
- Entertainment (casinos, gambling, cinema, adult entertainment)

Stage 2

Financial screening

At this second stage, the remaining companies are screened on a financial basis and must meet certain ratios to be considered Shariah-compliant. Typically, these financial ratios are set as follows:

- The total sum of interest-bearing debts should not exceed a third of total assets or average market capitalisation
- The total sum of interest-bearing cash and investments should not exceed a third of total assets or average market capitalisation
- The sum of trade receivables and long-term notes receivable should not exceed half of the total assets or market capitalisation of the company



Dividend purification

As an additional index design step, the dividends from the remaining equities may be ‘purified’. This reflects the fact that companies inevitably still derive some of their total income from interest income or prohibited activities. Dividend purification means that a fixed percentage of the dividends received from the index constituents is deducted from the dividend paid out to shareholders and given to charity.

Approaches to index construction

Although the approaches of different Islamic equity index providers are broadly similar in terms of the business activity and financial screens, there may be nuances in the way indices are constructed.

For example, calculating the financial screen on the basis of a company’s market capitalisation can lead to more volatile results, even when a long-term average is used. Using a company’s total assets for the financial screen implies a closer relationship with balance sheet data, but with a potential lag from the company’s current conditions.

FTSE Russell uses both market-capitalisation-based and asset-based financial screening approaches in its Islamic equity index range. In our FTSE Global Equity Shariah Index Series, for example, we screen on a financial basis using companies’ assets while in our other Shariah equity offering, we screen using companies’ market capitalisation (averaged over the previous 24 months).

Measuring Shariah-compliance

Screening for Shariah-compliance across FTSE Russell’s Islamic equity indices is undertaken by specialist Shariah screening partners; we have two providers that we work with to deliver our Shariah equity solutions.

The screening providers certify the indices as Shariah-compliant through the issue of a Fatwa (Islamic legal opinion) by specialist Shariah scholars.

Depending on the methodology used, different companies might be included in our two Shariah offerings.

The different methodologies employed may also result in different securities being included in each index. This is best showcased using two well known companies as a case study:

Case Study 1: Multinational Technology Conglomerate

IdealRatings vs Yasaar rulebook

CHALLENGE

Company 1 is among the largest global tech corporates and is a Shariah Compliant company when screened on its business activities. However, Financial screening rules can lead to two different outcomes...

FINANCIAL SCREENING

IdealRatings

- Debt over average daily **market cap** should not exceed 33%
- Cash and short term interest bearing securities over average daily **market cap** should not exceed 33%
- Non permissible income generated from conventional interest income and any non-compliant activities should not exceed 5% of the total income

Yasaar

- Debt is less than 33.333% of **total assets**
- Cash and interest bearing items are less than 33.333% of **total assets**
- Accounts receivable and cash are less than 50% of **total assets**
- Total interest and non-compliant activities income should not exceed 5% of total revenue

Multinational Technology Conglomerate

FTSE IdealRatings Islamic Index Series (IR):

- Business Pass
- Financials Pass
- Overall Shariah Compliance Pass

FTSE Global Equity Shariah Index Series (Yasaar):

- Business Pass
- Financials Fail
- Overall Shariah Compliance Fail

Non-compliant based on FTSE Yasaar mandates due to the Investment ratios exceeding financial thresholds (Total Assets).

Due to Company 1's Market Cap being greater than its Total Assets, the company passes FTSE IdealRatings' mandate.

Case Study 2: Multinational Technology Corporation

IdealRatings vs Yasaar rulebook

CHALLENGE

Company 2 is also a global technology and software company, and is classified as Shariah Compliant based on its Business Activities.

FINANCIAL SCREENING

IdealRatings

- Debt over average daily **market cap** should not exceed 33%
- Cash and short term interest bearing securities over average daily **market cap** should not exceed 33%.
- Non permissible income generated from conventional interest income and any non-compliant activities should not exceed 5% of the total income

Yasaar

- Debt is less than 33.333% of **total assets**
- Cash and interest bearing items are less than 33.333% of **total assets**
- Accounts receivable and cash are less than 50% of **total assets**
- Total interest and non-compliant activities income should not exceed 5% of total revenue

Multinational Technology Corporation

FTSE IdealRatings Islamic Index Series (IR):

- Business Pass
- Financials Fail
- Overall Shariah Compliance Fail

FTSE Global Equity Shariah Index Series (Yasaar):

- Business Pass
- Financials Pass
- Overall Shariah Compliance Pass

Non-compliant based on FTSE IdealRatings rulebook, however the company passes FTSE Yasaar Shariah screening.

Creating an Islamic bond index

A Sukuk is an Islamic financial certificate that complies with Shariah law. Sukuks fall into a number of different categories, depending on the nature of the underlying business activity being financed.

For example:

- Sukuk al-ijara, the most commonly used structure, is a sale and leaseback agreement most suitable if the issuing company has unencumbered assets that are commercially leasable, such as real estate, ships or aircraft;
- Sukuk al-wakala is used if the assets available supporting the issuance of the Sukuk comprise a portfolio of assets or investments, rather than a tangible asset or assets;
- Sukuk al-mudaraba are commonly used for development financing, as this structure is connected to a project's profitability;
- Sukuk al-murabaha is used to acquire commodities as a trustee on behalf of the Sukuk holders;
- Sukuk al-tawarruq is used to buy an asset, typically a freely tradeable commodity, and immediately sell it to a customer on a deferred payment basis.

In a typical Sukuk index, a research methodology is applied to assess a Sukuk's eligibility for index inclusion.

Standards often fall into two main categories:

- General Shariah standards – a set of general standards that are applied to all Sukuk structures;
- Structure-specific standards – standards for each Sukuk structure, such as ijara, mudaraba and Murabaha.

Each standard is weighted, with points assigned for passing a given standard and zero points assigned for failed standards. Certain standards are mandatory, and securities that fail such standards will be excluded from the index.

However, the process is not necessarily just a screening procedure. There is an overlap between Islamic finance and sustainable investment. While a lot of the focus in Islamic investment products has been on exclusions - alcohol and gambling for example, observers note that the Qur'an also states that we need to be sensitive to our consumption levels, reduce waste, care for our environment and cultivate sustainable development, for example. Many observers expect the next revolution in Islamic finance will incorporate environmental, social and governance (ESG) characteristics and other sustainability criteria. We have published a blog that explores the convergence of Islamic finance and sustainability in further detail which you can access here.

Case Study: FTSE IdealRatings Broad US Dollar Sukuk index

In 2021, FTSE Russell met increasing global client demand by launching the FTSE IdealRatings Broad US Dollar Sukuk Index Series.

The series provides a broad measure of the performance of US dollar-denominated Sukuk issued in the global markets.

The screening of Shariah compliance of global Sukuk for index inclusion is based on the robust, rules-based methodology of IdealRatings, which covers general Shariah standards and structure-specific standards (see page 10).

The FTSE IdealRatings Broad US Dollar Sukuk index, a popular index from this series, tracks investment-grade, high-yield and non-rated Sukuk.

The index uses pricing from LSEG D&A, has over ten years of historical time series and constituent-level data and is supported by a range of powerful fixed income analytics.

Specialist sub-indices cover Sukuk sectors, maturity bands and credit ratings.

Comprehensive: a reliable, Shariah-compliant representation of the investment-grade, high-yield and non-rated USD Sukuk market

Pricing from Refinitiv, a recognised, reliable pricing source and one of the world's largest providers of financial markets data and infrastructure

History: 10+ years of daily historical time series data and constituent level data, plus daily issue-level files that provide a wide range of data points across calculated risk and return statistics

Forward-looking: Daily preview reporting provides a dynamic, forward-looking projection of the next month's index profile

Transparent: Constructed according to a transparent, publicly available set of rules

Flexible: Sub-indices are available in any combination of sector, maturity, and rating. Fully customisable, based on a wide range of attributes

FTSE IdealRatings Broad US Dollar Sukuk Index

FTSE Russell's Shariah index range

FTSE Russell offers two Shariah compliant equity solutions which can be viewed on our Shariah suite spotlight page, which provides information on both of our equity offerings as well as our Sukuk and REIT offerings.

Islamic finance on a growth trend

Although Islamic finance assets make up only a small proportion of the global financial system, they are forecast to grow strongly. According to the ICD – LSEG Islamic Finance Development Report 2024, global Islamic finance assets are forecast to increase to over US$7.5trn in 2028 from US$4.9trn in 2023.

Reflecting a rising investment culture amongst savings-rich Islamic countries, the funds sector is forecast to continue its recent above-average growth: it increased its assets under management by 119% between 2018 and 2023.[2].

Another emerging trend is Islamic sustainable finance, which is also likely to drive demand for indices and benchmarks. LSEG expects more Islamic funds with sustainability or ESG mandates to be launched in the coming years, given the growing issuance of green and sustainable Sukuk.

Greater awareness on ESG issues is attracting retail investors to such funds, while many corporates are seeking more sustainable development paths – and inclusion in the relevant ESG indices – as a response to the rising concerns over climate change.

A third trend is the rise of Islamic fintech, where Shariah compliance is allied with digitally delivered financial solutions. This makes it easier for Muslims to access savings, investments, insurance and mortgages that are in line with the principles of their faith.

How have Shariah equity indices performed?

The FTSE Global Equity Shariah Index Series has been designed to be used as the basis of Shariah compliant equity investment products that meet the requirements of Islamic investors globally. Although investment performance is a secondary objective of the indices within the series, the total return of the FTSE Shariah All-World index exceeded the total return of the FTSE All-World index over the five years from December 2019 to December 2024 (see Figure 2).

2 ICD – LSEG Islamic Finance Development Report 2024

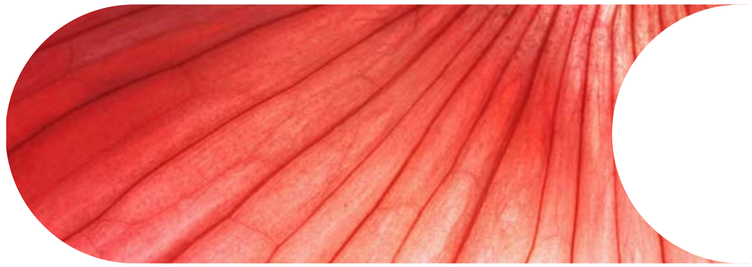
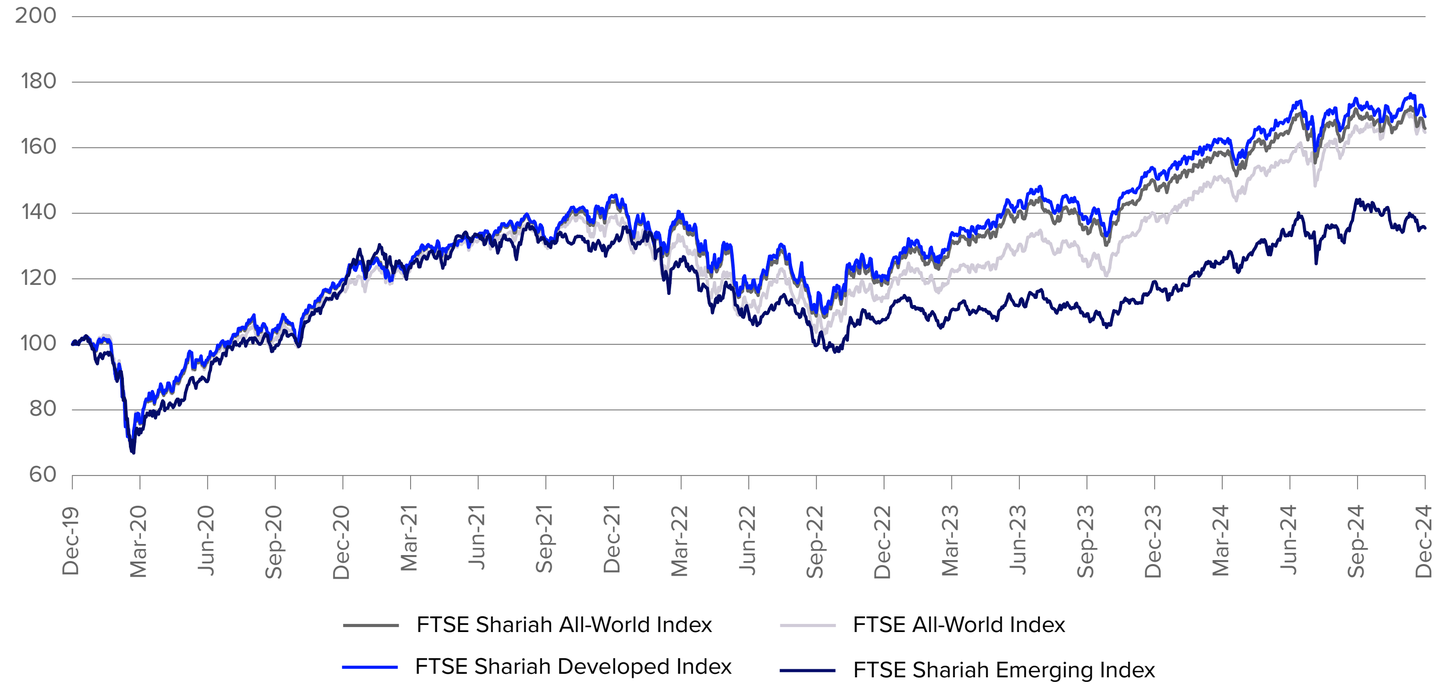
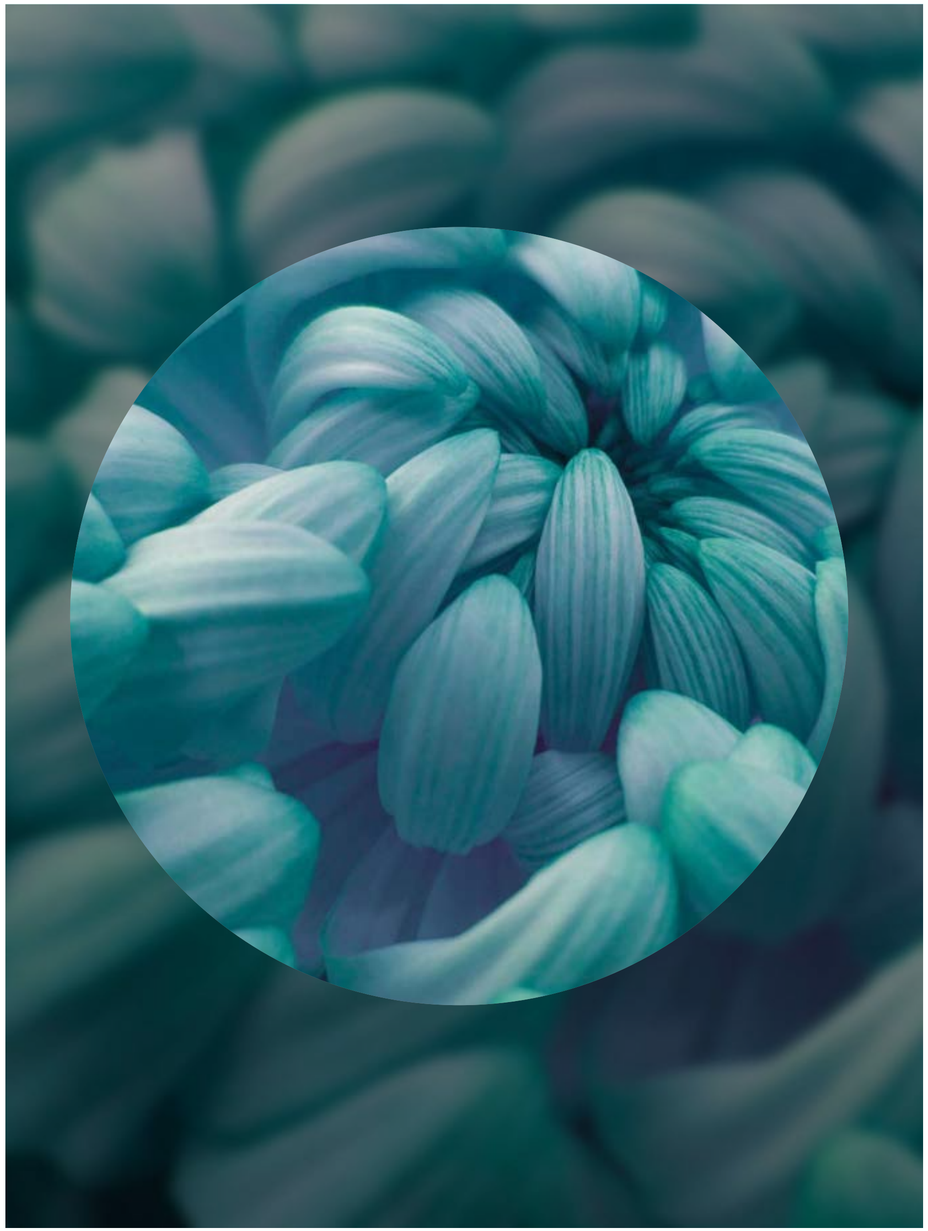


Figure 2: 5-Year Total Return



Source: FTSE Russell, 31/12/2019-31/12/2024. Past performance is not a guide to future returns. Please see end for important disclosures

All these things considered, it is apparent that the demand for indices and benchmarks that embed Islamic investment principles is likely to grow substantially in the coming years, and an investment in such solutions does not mean you have to sacrifice performance. For more information, please speak to your sales representative or contact our sales team.



Glossary of Islamic banking and financial terms[3]

Al Ajr

A commission, fees or wages levied for services.

Amana/Amanah

Reliability or trustworthiness. Important value of Islamic society in mutual dealings. It also refers to deposits in trust. A person may hold property in trust for another, sometimes by implication of a contract.

Al Wadia

Resale of goods at a discount to the original cost.

Al Wakala

Absolute power of attorney.

Al Rahn Al

Arrangement where a valuable asset is placed as collateral for a debt. The collateral is disposable in the event of a default.

Al Wadiah

Safe keeping.

Awkaf/Awqaf

A religious foundation set up to assist those in poverty.

Bai Muajjal (Deferred Payment Contract)

A contract involving the sale of goods on a deferred payment basis. The bank or provider of capital buys the goods (assets) on behalf of the business owner. The bank then sells the goods to the client at an agreed price, which will include a mark-up since the bank needs to make a profit. The business owner can pay the total balance at an agreed future date or pay by instalments over a pre-agreed period.

This is similar to a Murabaha contract since it is also a credit sale.

Bai al Dayn Debt financing

The provision of financial resources required for production, commerce and services by way of sale / purchase of trade documents and papers. Bai al-Dayn is a short-term facility with a maturity of not more than a year. Only documents evidencing debts arising from bona fide commercial transactions can be traded.

Bai al Salam

This term refers to advance payment for goods which are to be delivered later. Normally, no sale can be affected unless the goods are in existence at the time of the bargain. But this type of sale forms an exception to the general rule provided the goods are defined and the date of delivery is fixed. One of the conditions of this type of contract is advance payment;

3 As provided by Yasaar Limited

the parties cannot reserve their option of rescinding it but the option of revoking it on account of a defect in the subject matter is allowed. It is usually applied in the agricultural sector, where the bank advances money for various inputs to receive a share in the crop, which the bank sells in the market.

Bai Bithaman Ajil

This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the client are bought by the bank, which subsequently sells the goods to the client an agreed price which includes the bank's markup (profit). The client may be allowed to settle payment by instalments within a pre-agreed period, or in a lump sum. Similar to a Murabaha contract, but with payment on a deferred basis.

Baitul Mal

Treasury.

Fatwah

A religious decree.

Fiqh

Islamic jurisprudence. The science of the Shariah. It is an important source of Islamic economics.

Gharar Lit

Uncertainty, hazard, chance or risk. Technically, sale of a thing which is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not, such as fish in water or a bird in the air. Deception through ignorance by one or more parties to a contract. There are several types of gharar, all of which are haram. The following are some examples:

- Selling goods that the seller is unable to deliver
- Selling known or unknown goods against an unknown price
- Selling goods without proper description
- Selling goods without specifying the price
- Making a contract conditional on an unknown event
- Selling goods on the basis of false description
- Selling goods without allowing the buyer to properly examine the goods

The root Gharar denotes deception. Bay' al-Gharar is an exchange in which there is an element of deception either through ignorance of the goods, the price, or through faulty description of the goods. Bay' al-Gharar is an exchange in which one or both parties stand to be deceived through ignorance of an essential element of exchange. Gambling is a form of Gharar because the gambler is ignorant of the result of his gamble.

Halal

That which is permissible. In Islam there are activities, professions, contracts and transactions which are explicitly prohibited (haram) by the Qur'an or the Sunnah. Barring them, all other activities, professions, contracts and transactions etc. are halal. An activity may be economically sound but may not be allowed in the Islamic society if it is not permitted by the Shariah.

Hawala

Lit: bill of exchange, promissory note, cheque or draft. Technically, a debtor passes on the responsibility of payment of his debt to a third party who owes the former as debt. Thus the responsibility of payment is ultimately shifted to a third party. Hawala is a mechanism for settling international accounts, by book transfers.

Haram

Unlawful.

Ijara (Leasing)

A contract where the bank or financier buys and leases equipment or other assets to the business owner for a fee. The duration of the lease as well as the fee are set in advance. The bank remains the owner of the assets. This type of contract is a classical Islamic financial product. Leasing is also a lawful method of earning income, according to Islamic law. In this method, tangible assets such as machinery, a car, a ship, a house, can be leased by one person (lessor) to the other (lessee) for a specific period against a specific price. The benefit and cost of the each party are to be clearly spelled out in the contract so that any ambiguity (Gharar) may be avoided.

Ijarah wa Iqtina (Lease to Purchase)

This term refers to a mode of financing adopted by Islamic banks. It is a contract under which the Islamic bank finances equipment, a building or other facility for the client against an agreed rental together with an undertaking from the client to purchase the equipment or the facility. The rental as well as the purchase price is fixed in such a manner that the bank gets back its principal sum along with some profit which is usually determined in advance.

Ijtehad

Lit: effort, exertion, industry, diligence. Technically, endeavour of a jurist to derive or formulate a rule of law on the basis of evidence found in the sources.

Istisna (Progressive Financing)

A contract of acquisition of goods by specification or order where the price is paid progressively in accordance

with the progress of a job. An example would be for the purchase of a house to be constructed, payments are made to the developer or builder according to the stage of work completed. This type of financing along with bai salam are used as purchasing mechanisms, and Murabaha and bai muajjal are for financing sales.

Ju'alal

Lit: stipulated price for performing any service.

Technically applied in the model of Islamic banking by some. Bank charges and commission have been interpreted to beju'ala by the jurists and thus considered lawful.

Mudaraba/Modaraba (Trust Financing)

The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known as 'rab-al-maal' and the entrepreneur as 'mudarib'. Mudarib in a mudaraba contract is the person or party who acts as entrepreneur.

Mu'amalah

Lit: economic transaction.

Murabaha/Morabaha (Cost-Plus Financing)

Lit: sale on profit.

Technically a contract of sale in which the seller declares his cost and profit. This has been adopted as a mode of financing by a number of Islamic banks. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him. The bank does that for a definite profit over the cost which is agreed in advance.

It has been estimated that 80 to 90 percent of financial operations of some Islamic banks belong to this category. There are a number of requirements for this transaction to meet the Islamic standards of a legal sale. The entire transaction is to be completed in two stages and as two separate contracts. In the first stage, the client requests the bank to undertake a Murabaha transaction and promises to buy the commodity specified by him, if the bank acquires the same commodity.

In the second stage, the client purchases the good acquired by the bank on a deferred payments basis and agrees to a payment schedule. The Murabaha form of financing is being widely used by the Islamic banks to satisfy various kinds of financing requirements. It is used to provide finance in various and diverse sectors e. g. in consumer finance for purchase of consumer durable such as cars and household appliances, in real estate to provide housing finance, in the production sector to finance the purchase of machinery, equipment and raw material etc.

Musharaka (Venture Capital)

Musharaka is a technique of financing used as a partnership. It is where two or more financiers provide finance for a project. All partners are entitled to a share in the profits resulting from the project in a ratio which is mutually agreed upon. However, the losses, if any, are to be shared exactly in the proportion of capital proportion. All partners have a right to participate in the management of the project. However, they can waive the right of participation in favour of any specific partner or person. There are two main forms of Musharaka: Permanent Musharaka and Diminishing Musharaka. These are briefly explained below:

Permanent Musharaka – In this form of Musharaka an Islamic bank participates in the equity of a project and receives a share of profit on a pro rata basis. The period of contract is not specified. So it can continue so long as the parties concerned wish it to continue. This technique is suitable for financing projects on a longer term where funds are committed over a long period and the gestation period of the project may also be protracted.

Diminishing Musharaka – Diminishing Musharaka allows equity participation and sharing of profit on a pro rata basis, but also provides a method through which the equity of the bank keeps on reducing its equity in the project and ultimately transfers the ownership of the asset of the participants. The contract provides for a payment over and above the bank share in the profit for the equity of the project held by the bank. That is the bank gets a dividend on its equity. At the same time the entrepreneur purchases some of its equity. Thus, the equity held by the bank is progressively reduced. After a certain time the equity held by the bank shall come to zero and it shall cease to be a partner. Musharaka financing is being increasingly used by the Islamic banks to finance domestic trade, imports, and to issue letters of credit.

Musaqah

A contract in which the owner of the garden shares its produce with another person in return for his services in irrigating the garden.

Muzara'a

A contract in which one person agrees to till the land of the other person in return for a part of the produce of the land.

Qard Hasan (Interest free loans)

Most of the Islamic banks also provide interest free loans (Qard Hasan) to their customers. If this practice is not possible on a significant scale, even then, it is adopted at least to cover some underprivileged people. Islamic views on loans (Qard) are that they should be given to the borrower free of charge.

Qimer

Lit: gambling.

Technically, an agreement in which possession of a property is contingent upon the occurrence of an uncertain event. By implication it applies to those agreements in which there is a definite loss for one party and definite gain for the other without specifying which party will gain and which party will lose.

Rab-al-maal

(In a mudaraba contract) the person who invests the capital.

Riba

This term literally means an increase or addition.

Technically, it denotes any increase or advantage obtained by the lender as a condition of the loan. Any risk-free or “guaranteed” rate of return on a loan or investment is riba. Riba, in all forms, is prohibited in Islam. In conventional terms, riba and “interest” are used interchangeably.

Sadaqah

Charitable giving.

Shari’ah/Shariah/Shari’a

Islamic canon law derived from 3 Primary sources: the Quran; the Hadith (sayings of the Prophet Muhammad); and the Sunnah (practice and traditions of the Prophet Muhammad), and three Secondary sources: Qiyas (Analogical deductions and reasoning), Ijma (Consensus of Islamic Scholars) and Ijtihad (Legal reasoning).

Shirkah

A contract between two or more persons who launch a business or financial enterprise to make profit. Shirkah = musharaka.

Suftajah

A banking instrument used for the delegation of credit and was used to collect taxes, disburse government dues and transfer funds by merchants. In some cases suftajahs were payable at a future fixed date and in other cases they were payable on sight. Suftajah is distinct from the modem bill of exchange in some respects. Firstly, a sum of money transferred by suftajah had to keep its identity and payment had to be made in the same currency. Exchange of currencies could not take place in this case. Secondly, Suftajah usually involved three persons. ‘A’ pays a certain sum of money to ‘B’ for agreeing to give an order to ‘C’ to pay back to ‘A’. Third, a Suftajah can be endorsed.

Sukuk

A certificate entitling the holder to the benefits of the income stream of the assets backing the certificate. Equivalent to a Fixed income bond.

Takaful

This is a form of Islamic insurance based on the Quranic principle of Ta’awon or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements including gharar and riba, as mentioned above.

Waqf

Lit: detention.

Technically, appropriation or tying-up of a property in perpetuity so that no propriety rights can be exercised over the usufruct. The Waqf property can neither be sold nor inherited or donated to anyone. Awqaf consists of religious foundations set up for the benefit of the poor.

Zakah/Zakat

A tax which is prescribed by Islam on all persons having wealth above an exemption limit at a rate fixed by the Shariah. According to the Islamic belief, Zakah purifies wealth and souls. The objective is to take away a part of the wealth of the wealthy and to distribute it among those who are less fortunate. It is levied on cash, cattle, agricultural produce, minerals, capital invested in industry, and business etc. The distribution of Zakah fund has been laid down in the Qur’an (9:60) and is for the underprivileged, Zakah collectors, new converts to Islam, travellers in difficulty, captives and debtors, etc. It is payable if the owner is a Muslim and of sound mind. Zakah is the third pillar of Islam. It is an obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, in the absence of which individuals are required to distribute the Zakah among those who are less fortunate as prescribed by the Shariah.

Disclaimer

© 2025 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group 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) The Yield Book Inc ("YB") and (7) 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, YB and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "The Yield Book®", "Beyond Ratings®" 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 the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR. FTSE International 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 the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of the LSE Group 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 of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group 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 error (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 the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group 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 the LSE Group 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. Indexes cannot be invested in directly. Inclusion of an asset in an index 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 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.

The information contained in this report should not be considered "research" as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council ("MiFID II") and is provided for no fee.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index 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 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 was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately 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 the LSE Group 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 the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.

Visit lseg.com/ftse-russell

About FTSE Russell (LSEG)

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 40 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

To learn more, email info@ftserussell.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

FR3597900/6-25