

Screening of PSE-listed Securities for Shariah Compliance

Briefing for Listed Companies & Trading Participants
December 2013

Presentation Outline

- I. What is Shariah?
- II. Why Shariah in the Philippines?
- III. Screening Methodology
- IV. Shariah Screening Process
- V. Publication of the List
- VI. What's Next?

WHAT IS SHARIAH?

- Shariah: literally translated means “the WAY”
- The moral conduct by which Islamic followers live by, to include engaging in investments
- Shariah-compliant listed companies conform to the Shariah doctrine
- Results to principled, ethical and socially-responsible conduct and practices of Islam followers



WHY SHARIAH IN THE PHILIPPINES?

- To support NCMF's objectives of increasing the participation of Muslim Filipinos in nation building
- To provide Islamic investors with easy access to research and address compliance concerns
- To promote market liquidity through entry of new investments and creation of Islamic products
- With a Philippine-endorsed Shariah screening methodology, allows Filipinos working in Islamic countries to promote investments in the country



SCREENING METHODOLOGY



Shari'ah Standard No. (21) Financial Papers

Contents

Preface

Statement of the standard

1. Scope of the standard
2. Rules for issuance of shares
3. Rules for dealing in shares
4. Rules for issuance of bonds
5. The rule for trading in bonds
6. Shari'a substitute for bonds
7. Issue date

Adoption of the standard

Appendices

- (a) Brief history of the preparation of the standard
- (b) Basis of the Shari'a Rulings
- (c) Definitions



ABOUT AAOIFI

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shari'a standards for Islamic financial institutions and the industry. Professional qualification standards, including CIPA, the Shari'a Adviser and Auditor "CSAA", and the corporate compliance standards presented now by AAOIFI in its efforts to enhance the industry's human resources base and corporate structures.



Shariah Screening Process

PSE-
LISTED
COMPANY
&
COMMON
SHARES



STEP 1:
BUSINESS
SCREENING



STEP 2:
FINANCIAL
SCREENING



STEP 3:
DIVIDEND
PURIFICATION

Prohibited
Income $\leq 5\%$

Debt $\leq 30\%$
Interest Income
 $\leq 30\%$
A/R $\leq 67\%$

Cleanse
tainted dividend



FUND MANAGER
or INVESTOR

BUSINESS SCREENING

PROHIBITED ACTIVITIES / PRODUCTS

- conventional interest based lending
- financial institutions
- derivatives
- pork
- alcohol
- Intoxicants
- Tobacco
- gambling,
- casinos
- music
- pornography
- entertainment
- arms and weapons
- human stem-cell research

To be Shariah compliant, total revenues from prohibited business must not exceed 5%.



FINANCIALS SCREENING

Financial ratio – as a percentage of market cap

- a. Interest bearing debt does not exceed 30% against the 12-month trailing average market cap
- b. Interest on deposits / investments does not exceed 30% against the 12-month trailing average market cap
- c. Accounts receivables does not exceed 67% against the 12-month trailing average market cap

NOTE: Suspended companies included
in screening

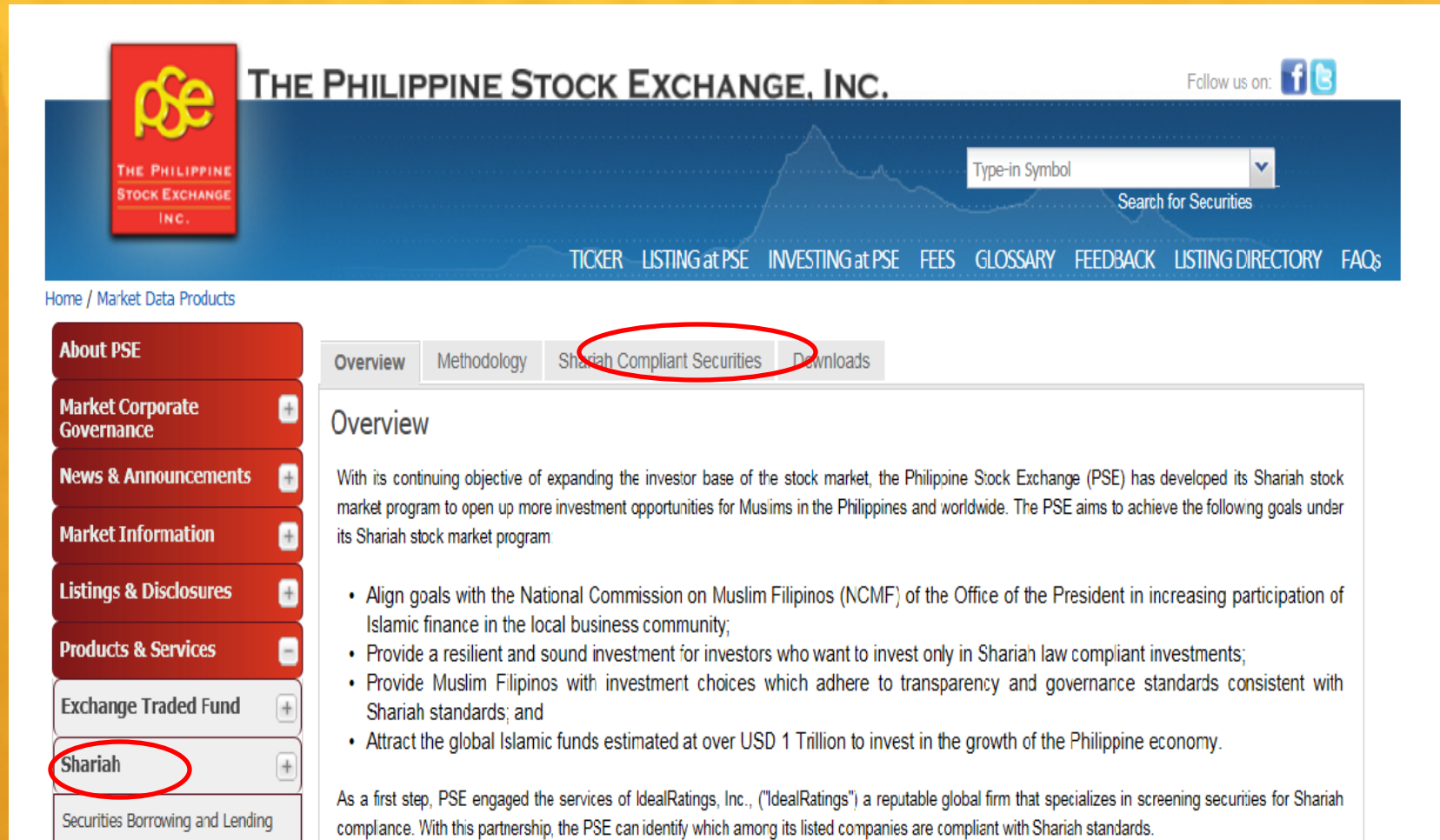


PUBLICATION OF LIST

- Frequency – by the 5th trading day of each quarter start
- Quarter-end financial statements or IPO prospectus made available by listed companies within 45 days from end-of-quarter will be included in the next report.
 - e.g. Q4 statements or any IPO on Q4, with F/S or prospectus available 45 days from quarter-end, or Feb. 15, will be screened and included in Q2 report.
- List published on PSE website &/or end-of-day reports





LIST OF SHARIAH-COMPLIANT COMPANIES



The screenshot displays the homepage of The Philippine Stock Exchange, Inc. (PSE). The header features the PSE logo and the text "THE PHILIPPINE STOCK EXCHANGE, INC." followed by social media icons for Facebook and Twitter. A search bar labeled "Type-in Symbol" and "Search for Securities" is present. A navigation menu includes links for TICKER, LISTING at PSE, INVESTING at PSE, FEES, GLOSSARY, FEEDBACK, LISTING DIRECTORY, and FAQs. The main content area is titled "Home / Market Data Products" and contains a sidebar with various menu items: About PSE, Market Corporate Governance, News & Announcements, Market Information, Listings & Disclosures, Products & Services, Exchange Traded Fund, Shariah (circled in red), and Securities Borrowing and Lending. The main content area has tabs for Overview, Methodology, Shariah Compliant Securities (circled in red), and Downloads. The "Overview" tab is active, showing an introduction to the Shariah stock market program and a list of goals. The goals include aligning with the National Commission on Muslim Filipinos (NCMF), providing resilient investment opportunities, adhering to Shariah standards, and attracting global Islamic funds. A note at the bottom mentions the partnership with IdealRatings, Inc. for Shariah compliance screening.

THE PHILIPPINE STOCK EXCHANGE, INC.

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Shariah

Securities Borrowing and Lending

Overview Methodology **Shariah Compliant Securities** Downloads

Overview

With its continuing objective of expanding the investor base of the stock market, the Philippine Stock Exchange (PSE) has developed its Shariah stock market program to open up more investment opportunities for Muslims in the Philippines and worldwide. The PSE aims to achieve the following goals under its Shariah stock market program.

- Align goals with the National Commission on Muslim Filipinos (NCMF) of the Office of the President in increasing participation of Islamic finance in the local business community;
- Provide a resilient and sound investment for investors who want to invest only in Shariah law compliant investments;
- Provide Muslim Filipinos with investment choices which adhere to transparency and governance standards consistent with Shariah standards; and
- Attract the global Islamic funds estimated at over USD 1 Trillion to invest in the growth of the Philippine economy.

As a first step, PSE engaged the services of IdealRatings, Inc., ("IdealRatings") a reputable global firm that specializes in screening securities for Shariah compliance. With this partnership, the PSE can identify which among its listed companies are compliant with Shariah standards.



WHAT'S NEXT?

Market Awareness Campaign

- Partner with Shariah TWG members for briefings to strategic associations or groups
- Regular PSE market education seminars and road shows already include Shariah

Development of Islamic products

- Explore feasibility of creating an Islamic index
- Islamic ETF



THANK YOU!