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THE DIFFERENCES OF INTERNATIONAL SHARIAH EQUITY SCREENING PRACTICES

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Abstract

This study examines the screening procedures for Sharia-compliant investments used by nine regional and international devisors: AAOIFI, DJIMI, KLSI, FTSE, S&P, MSCI, Al Meezan, JII, and ISSI. The discrepancies between the Shariah-compliant practices and guiding principles of these respectable organizations were highlighted through a comparative study using the most recent data to be obtained. To clearly examine the similarities and differences between the various screening procedures, the business and financial screens were examined independently. While some of these practitioners are more generic and permit more entities to be included, others are more precise and identify forbidden actions under Sharia law. Both a qualitative and a quantitative two-step screening procedure were used by users. The permitted threshold ratio range for impermissible criteria in quantitative screening varies slightly between criteria. There is a common understanding that compliant assets from different nations and practices are acceptable due to the wide range in screening techniques utilized by practitioners. Standardization is thought to be necessary in order to prevent misconceptions between academics and investors regarding what might be halal and what might be haram while screening equities, in addition to aiding investors in comprehending Shariah investment.

keyword : screening stock, islamic, qualitative, quantitative, standardization
JEL Classification : Z12, L15, R53, H54

INTRODUCTION

Islamic finance is developing rapidly in Indonesia. Bank Muamalat Indonesia was established in 1992 as a form of opening the minds of scholars to the needs of sharia-compliant financial institutions. Later in 1994, Sharia Insurance, or Syarikat Takaful Indonesia, was born. In 1997, PT Danarexa Investments launched a Shariah fund product as the first product on the market. PT Danarexa invested in his 2000 with Islamic Capital Together with the Indonesia Stock Exchange (IDX), it forms the Jakarta Islamic Index (JII). JII was established as an index of blue-chip stocks compliant with Sharia law. As of 2021, IDX has four Shariah stock indices: Indonesia Shariah stocks Index (ISSI), Jakarta Islamic Index 70 (JII70), Jakarta Islamic Index (JII), and in 2021 IDX launched the index in partnership with the Islamic Economic Community (MES) launched IDX-MES BUMN 17 Sharia stock, 17 BUMN stocks and their Affiliate. This index includes companies that are considered compliant based on Shariah principles with very large market capitalization, liquidity and solidity as the foundation of good business.

The North American Islamic Trust introduced the Amana Fund, the country's first Islamic stock index, in 1986 (Peifer, 2014; Porter, 2013; Statman, 2005). Some Shariah stock indices, including the Dow Jones Islamic Market Index (DJIMI), the Kuala Lumpur Stock Exchange Sharia Index (KLSESI), the Morgan Stanley Capital International Islamic Index (MSCI Islamic Index), the Financial Times Stock Exchange (FTSE), and other exchanges, are also owned by regulators in other nations.

One of the innovations created by Islamic academics to facilitate a healthy interaction between the modern capitalist world and Islamic traditions is the Islamic capital market, which is a part of the larger Islamic financial industry (Tripp, 2006). All other countries have different guidelines for sharia screening. DJIM adopts standards set by AAAOIFI and KLSESI, Shariah shares are approved by the Shariah Advisory Committee (SAC), and there is no separation of Shariah screening when selecting Shariah indices (Maharani, 2018; Shofawati, 2018). Shariah screening can provide certainty as to whether a company's shares are Shariah compliant, so stocks should be selected first (Derigs & Marzban, 2008; Maharani, 2018; Sherif & Lusyana, 2017; Shofawati, 2018).

The discussion of Islamic capital markets cannot be separated from the so-called screening process. Screening of shares is very important as Islamic investors (Islamic fund investors) are only allowed to invest in industries or companies belonging to Shariah compliant categories. The screening process is a means of identifying companies that implement the Fiqh Muamalat principles and comply with Shariah principles that make them suitable for Muslim investors. This selection process helps investors feel safer and more confident when buying and selling securities in the Islamic capital markets.

LITERATURE REVIEW

In 1987, Sheikh Mohammad Al-Tayyeb Al-Najar of Egypt, Saleh Tugu of Turkey, and Muhammad Taki Usmani of Pakistan organized a team of experts to defining screening criteria. Muslim investors will allow treasury stock in listed companies (Adam & Bakar, 2014). Then, in the 1990s, stock review fatwas were introduced as a result of the dot-com bubble, prompting many young Muslims to trade on the international stock markets to capitalize on their family wealth and make high profits. During this time, enthusiastic Muslim youths questioned the legality of trading such stocks. However, there are no such standards for evaluating businesses that adhere to Shariah. Sheikh Nizam Yakubi presented a set of general standards for recognizing businesses that adhere to Sharia. Similar positions were taken by a number of academics who served on the Shariah boards of several financial organizations. (Gamaleldin, 2015).

Alhabsyi (2008) a requirement that the equities be either Shariah compliant or not. Contrarily, the inspection currently takes into account forbidden items.. Nisar (2009) support Al-Habsi's view, stating that "fully Shariah-compliant stocks are extremely rare." This is because most countries have traditional financial institutions. Therefore, when doing business with these institutions, they are exposed to Riba-related activity. As Obaidullah, (2009) pointed out, ``there should be no intended interest income'', so the firm must bear the responsibility of ensuring that no illicit elements are involved. Donia and Marzban (2008b) also found that ``it is nearly impossible to find a company that does not have a traditional bank partner and pays neither revenue nor interest''.

Sharia scholars have established mechanisms for purging sinful revenues and decided on a particular tolerance level at which firms can engage in such actions to address this issue.. However, it is not an easy task. Sharia compliance testing is a long process and by no means easy (Adam & Bakar, 2014; Ayedh et al., 2019; Derigs & Marzban, 2009; C. S. F. Ho, 2015; Islamic & Project, 2006; Raza, 2021).

The concept of Shariah compliance is to enable the transfer of wealth in society and promote social well-being. Companies are screened for compliance with Islamic principles and encouraged to invest in these areas. All Islamic jurisdictions prohibit business activities involving concessions and gambling, as well as business activities related to the manufacture, distribution, advertising and sale of non-halal goods and services such as alcoholic beverages and pork, as well as immoral entertainment venues. It is agreed that Brothels and pubs, massage parlors and nightclubs Additionally, businesses involved in Gharar, which could result in excessive speculative activities like conventional lending, are regarded as not adhering to shariah. The activities of short selling, speculating, and margin trading are not permitted in Islam and provide significant difficulties in the development of contemporary Islamic financial products and systems, according to Naughton & Naughton (2000) and Iqbal & Mirakhor (2007) . Consequently, Khatkhatay & and Nisar (2007) observed that Shariah-compliant investments are evaluated based on the investment structure and the characteristics of the contracting party. Investments that pay interest, financial commitments, and future rights are all forbidden by sharia.

Qualitative screening

A qualitative review is an industry review that excludes companies engaged in certain lines of business that are not permitted under Shariah law. Shariah outlines several practices that are prohibited for Muslims, such as drinking alcohol and eating pig, in detail, such that conforming businesses are not allowed to engage in business that draws its primary or even a portion of its income from such activities. Not allowed to engage. Since it includes an ijtihad (interpretation) along with the Quran and Hadith, there may be some differences between the qualitative guidelines set by each Shariah institution. Especially with regard to defining a company as haram due to the fact that the company engages in non-compliant business to some extent. Examples of qualitative screening are: Exclude eligible investments if the company derives income from the sale of alcohol. C. S. F. Ho (2015) classifies Qualitative screening into five segments namely: Riba and Gharar, non-halal products, gambling and gaming, immoral activities and othe impermessible activities. We used the five groups mentioned above with the consideration that these 5 groups are more efficient to categorize these qualitative screening..

Quantitative screening

The second phase is to carry out a series of quantitative or financial screens to further screen out non-Shariah compliant assets from the investment universe once the investment universe has been limited by using qualitative screening. This phase of the examination is the most pertinent and contentious because Islamic funds and index providers utilize different financial auditing techniques that differ noticeably from one another. Using quantitative screening in addition to qualitative screening has the following benefits: Analysis of company engagement in such operations is necessary since Sharia forbids participation in Riba or money-for-money exchanges. The interest income the corporation receives and the interest it pays on its liabilities are used to calculate the interest on Riba. Money itself is not an asset that may be exchanged for money in Islam, hence the quantity of cash and currency equivalents owned by a firm should be assessed and compared to the highest legal threshold. Muslim investors would not be allowed to participate in the stock market at all if Islamic academics become incredibly dogmatic and intolerant. In today's complicated financial environment, where it is practically difficult to locate any corporation that is not involved in any interest payments because of the existence of cash deposits, loans, or credits, this is a relaxation of the purist implementation of the riba prohibition and a compliment to it. (Wilson, 1999). Instead, to further analyze these situations, Shariah professionals use the diverse sources of Shariah. As a result, they have established the highest levels of riba that are permissible in terms of Islam and provided instructions on how to handle these non-Shariah income. Thresholds are used because, in the majority of circumstances, Islamic investors are merely minor shareholders in these firms and do not have the veto power required to fully conform them to Shariah.

Which levels of financial analysis are permissible is not specified in the Holy Qur'an or the Hadith. Because the thresholds are established based on interpretation in the form of Ijtihad and Shariah statements that are not particularly pertinent to capital markets, scholars have some latitude to explain their quantitative criteria.

Debt screen. The quantity of interest payments on debt is likewise assessed and constrained by a threshold number because it is illegal to both receive and pay interest. Here, both Islamic and Western analyses advocate lower debt ratios since lower debt levels are typically seen as a sign that investments are likely to succeed. Below is an illustration of a liability screen: The enterprise's total liabilities cannot exceed 30% of its total assets.

Non-Permissible income screen. Financial examinations measuring income from non-Shariah compliant operations are less common. If the qualitative assessments simply eliminate businesses whose primary operations do not comply with Shariah, then these checks are crucial. Such screening may be used, for instance, to assess how much money is made from alcohol sales and connected casinos in hotels whose main objective is to adhere to Islamic law. The hotel will be labeled as being out of compliance with Shariah if this income surpasses a particular amount. A sample screen is seen below: Earnings from prohibited non-shariah activity must not exceed 5% of the company's overall earnings.

Liquidity Screen. Shariah agencies have grouped various sets of indicators under the liquidity screen based on the data collection. Accounts Receivable, Accounts Payable, Accounts Receivable and Cash, Accounts Receivable and Cash and Other Liabilities, as well as Noncurrent Assets. Al-Meezan frequently uses the definition that only liquid assets are examined and that they cannot exceed 49–80 percent of all assets. Most others, more explicitly, state that total assets or market capitalization must not exceed 33% to 50% of accounts receivable, including accounts receivable for qualifying transactions.

Derigs & Marzban (2008) analysis the advantages of adopting total assets and moving average market capitalization as ratio divisors were examined. Consider a company's value from a market perspective when calculating moving average market capitalization. (2) remove seasonality impacts; and (3) carry out regular reviews. Increase your freedom from accounting rules. The benefit of using total assets for valuation is that it adheres to reliable accounting principles. (2) Maintain freedom from market sway and speculation.

RESEARCH METHODS

The study is a compilation of Islamic law-compliant screening data from 9 prominent Islamic financial experts from around the world. Data availability was one of the selection criteria for this global sample, and information on the screening method used by the user is collected from each of his websites. A list of users is shown in Table 1. The different types of asset tests that these users conduct are examined at his two levels: at the geographic area level: micro and macro. Macro-level users review assets available worldwide, while micro-level users review assets for a specific country or region. A comprehensive library search based on Sharia screening practices was conducted. A thorough and critical review of the literature on Sharia examination practices up to January 2023.

A variety of online and offline resources were considered. The Shariah verification practice includes nine existing related parties that provide Shariah indicators, including: Dow Jones Islamic Market Index (DJIMI); Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). the Financial Times Stock Exchange Shariah Global Equity Index (FTSE); and the Kuala Lumpur Shariah Index (KLSI), S&P's Shariah Index is item, The Global Islamic

Index from Morgan Stanley Capital International (MSCI), Al Meezan (vii), Jakarta Islamic Index (JII) and Indonesia Sharia Stock Index (ISSI).

RESULTS AND DISCUSSION

ANALYSIS OF SHARIAH SCREENING

The survey surveyed 8 Islamic finance practitioners from around the world and compiled two Shariah-compliant verification criteria: Qualitative and quantitative screening. According to Shariah principles, unsuitable commercial operations are screened for using qualitative screening procedures. Quantitative screening techniques compute the percentage of forbidden behavior numerically using a maximum acceptable threshold.

Although certain activities are considered Shariah compliant, Shariah scholars question the legality of stock trading by companies that may occasionally engage in improper trading despite their core business being Shariah legal. The doubts starting about Companies that engage in both Shariah compliant activities and a small number of inappropriate activities are considered to have mixed activities. Yaquby (2000) explores the numerous defenses advanced by modern scholars for handling businesses that participate in a variety of activities and contends that the arguments made by supporters of admissibility outweigh the opposing viewpoints. The expansion of the pool of Shariah investment products and the advancement of Islamic finance will be significantly aided by the inclusion of mixed activity businesses in the Shariah compliant investment list..

no	Users	Initial	birth	Country of Origin	Stock Screened
1	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	AAOIFI	20-May-04	Dubai	Macro
2	Dow Jones Islamic Market Indexes (DJIMI)	DJIMI	Feb-99	USA	Macro
3	Kuala Lumpur Shariah Index (KLSI)	KLSI	17-Apr-99	Malaysia	Micro
4	Financial Times Stock Exchange Shariah Global Equity Index Series (FTSE)	FTSE	Oct-99	UK	Macro
5	Standard and Poor’s Shariah	S&P	2006	USA	Macro

	Indices (S&P)				
6	Morgan Stanley Capital International World Islamic Indices (MSCI)	MSCI	Mar-07	UK	Macro
7	Al Meezan	Meezan	27-Feb-95	Pakistan	Micro
8	Jakarta Islamic Index (JII)	JII	03-Jul-00	Indonesia	Micro
9	Indonesia Sharia Stock Index (ISSI)	ISSI	12-May-11	Indonesia	Micro

Table 1. Shariah Screen Users

1. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

AAOIFI certifies Shariah compliant companies by ensuring that the companies are not engaged in inappropriate business activities, primarily such as: Riba or interest/lending based activities (e.g. traditional banking), transactions involving uncertainty/risk (Garar) (e.g. insurance companies), gambling/gambling (Maysir) (e.g. casinos), prohibited products or Manufacturers or distributors of services (alcohol, pork, prostitution, etc.). Meanwhile, AAOIFI focused on the following financial indicators when considering financial indicators :

(i) Deposit interest less than 30% of market capitalization of total capital;

(ii) interest-bearing debt less than 30% of the Company's market capitalization; and

(iii) the total market value of illiquid assets exceeds 30% of the market value of total assets;

2. Dow Jones Islamic Market Indexes (DJIMI)

The Board developed the Dow Jones Islamic Markets Index using a two-step stocks screening process (Indices & Methodology, 2013). To exclude industries whose main commercial activities are deemed to be in violation of Islamic law, a qualitative examination is conducted first. Alcohol, Pork Products, Conventional Financial Services (Interest-Based Banking, Conventional Insurance, etc.), Entertainment Services (Hotels, Casinos/Gambling, Movies, Pornography, Music, etc.), Tobacco, and Weapons and Defenses are the six industries that the DJIMI Shariah Supervisory Board has specifically identified as being prohibited (haram) sectors.

If a company's core business is in any of these areas, it will be excluded from DJIMI. In the second stage, quantitative checks are performed for compliance with the ban on liba and other impure income. DJIMI Shariah's Board uses three financial metrics to identify companies with high levels of debt and interest income and expenses. More specifically, he must have three financial metrics below 33% each (Indices & Methodology, 2013) :

(i) Total debt expressed as a proportion of the last 24 months' average market capitalisation;

(ii) the proportion of cash and interest-bearing securities to the 24-month average market capitalisation;

(iii) trade receivables as a percentage of the average market capitalisation over the previous 24 months.

3. Kuala Lumpur Shariah Index (KLSI)

The SAC uses both quantitative and qualitative factors or characteristics to choose Shariah compliant businesses. First, a qualitative analysis is done to weed out sectors whose primary business operations are thought to conflict with Islamic principles. In particular, the SAC classifies companies as non-Shariah compliant if they engage in the following core activities:

a. Riba (interest rate) based financial services.
b. gambling and games;
c. producing and/or distributing non-halal goods and related goods;
d. Traditional Insurance;
e. Recreational activities not permitted under Shariah;
f. Manufacturing or selling tobacco products or related products;
g. Brokerage or stock trading of non-Shariah securities; and
h. any other activity considered illegal under Shariah.

For businesses that pass the qualitative test, the SAC handles the issue of mixed contributions (both acceptable and unacceptable) in the second step when determining sales and profits. SAC filters out businesses with excessive debt and interest income and expenses using three financial parameters. More specifically, he needs to have two financial metrics that are each below 33%.

a. the ratio of total liabilities to total assets;
b. As a percentage of all assets, cash and interest-bearing securities;

Additionally, for companies whose activities include both permitted and prohibited elements, the SAC will consider two additional criteria:

a. The company's public image and perception must be positive.;

b. The company's primary functions are significant and are seen as maslaha (usually "benefits") for the Muslim Ummah (citizens) and the nation (the company's current organizational structure makes it possible to administer the company).

4. Financial Times Islamic Index Series (FTSE)

The FTSE sharia screenings are reevaluated every three months in March, June, September, and December. The Shariah verification procedure runs on the first working day following the third Friday in March, June, September, and December and uses data from the final day of February, May, August, and November. Operational and financial audits are:

a. Business activities evaluation focuses on traditional finance, alcohol, pork products, tobacco, weapons, and entertainment as well as other related fields. In contrast to more current approaches, which often apply a 5% limit based on total turnover when using these categories, the initial index design tended to completely exclude all of these illegal operations. The screening process used by FTSE is based on completely eliminating some industries while including equities in other industries when the proportion of non-compliant earnings does not exceed 5% of total sales.

b. b. Financial Examinations: FTSE bases its financial examinations on gross assets and sets a 33% threshold for variables including total liabilities to total assets, cash, and interest-bearing securities to total assets. Less than 50% of the company's total assets must be represented by total accounts receivable and cash. Interest and other non-conforming activities' gross profits cannot total more than 5% of total earnings.

5. Standard & Poor Islamic Index Group (S&P)

S&P To accommodate the rising demand for Shariah-compliant stocks, Dow Jones Indices launched the S&P Shariah Indices in 2006. In order to provide Shariah filters and filter equities based on those screens, the index depended on Rating Intelligence Partners (RI) (Indices & Methodology, 2013). Whether the most recent financial statements are quarterly, semi-annual, or yearly, S&P's shariah verification process reviews at each firm's most recent financial statements to assess whether the company engages in non-shariah activities. The remaining businesses are examined for conformity with specific financial criteria after businesses with unlawful business practices have been eliminated. Leverage, cash, and the percentage of earnings from noncompliant activities are the three areas of concern. All of these are continually reviewed. An overview of the S&P Shariah Screening Indices is provided below:

a. Business – Any Engagement (Except Corporate Engagement in Prohibited Activities).
b. liquidity ratio – less than 33% of total cash and debt securities and less than 49% of receivables as a percentage of market capitalization during the last 36 months;
c. Debt Ratio – less than 33% of total debt divided by market capitalization on a 36-month average.

6. **Morgan Stanley Capital International Islamic Index Series (MSCI)**

For continued adherence to the MSCI Islamic Index Series methodology, indices are reviewed by MSCI Shariah advisors. Since March 2007, the MSCI Islamic Index Series' methodology has been certified by a fatwa from an independent sharia commission (MSCI, 2015).

Shares in these companies that engage in activities that are categorically forbidden by Islam are excluded via qualitative screening. These include pursuit of interests (riba'), participation in gambling (maysr), consumption of intoxicants (khamr), such as alcohol and other narcotics that impair judgment, pork, and/or engaging in financial transactions that involve excessive risk. This comprises businesses whose primary operations consist of processing insurance claims and speculative investments (Gharar).

A quantitative review is currently being done to further screen businesses that engage in (halal) core operations that are allowed by Shariah law but get a portion of their income from illegal activities. Used by setting the following financial metrics below 33.33%:

a. Total Liabilities to Total Assets.
b. cash and interest-bearing securities in total assets;
c. accounts receivable and cash in total assets;

7. Al Meezan

Meezan Shariah Screening Indices (Meezan, 2023) :

a. Business of the Investee Company. The company's core business must not violate Shariah principles. Therefore, it is not permitted to purchase shares in companies that provide interest-bearing financial services, such as traditional banks, insurance companies, leasing companies, or companies engaged in other businesses not authorized by Sharia la e.g Companies that manufacture or sell alcoholic beverages, pork or haram meat, or engage in gambling, operating nightclubs, distributing pornographic content, prostitution, etc.

b. Less than 37% should be the interest-bearing debt to total assets ratio.
c. Less than 33% should be the ratio of non-compliant investments to total assets.
d. Less than 5% should be the non-compliant income to total revenue ratio.
e. At least 25% of the total assets should be made up of illiquid assets. f.The market price per share must be higher than the calculation of the net liquid assets per share, which is :

$$\text{Net Liquid Assets To Share Price} = \frac{(\text{Total assets} - \text{illiquid assets} - \text{total liabilities})}{\text{number of shares}}$$

f. Shareholders have to express their opposition when investee companies, such as those in the manufacturing, automotive, and textile industries, whose primary business is Halal, put excess cash in interest-bearing accounts or borrow money at interest. Making an agreement is preferable, as is standing up against it at a board meeting, protesting it, or writing to the directors.

8. Screening Stock in Indonesia

The Indonesian Islamic Stock Index is measured using statistics that reflect the price movements of a group of Islamic stocks selected on the basis of certain criteria. Shariah shares are selected by the Financial Services Authority (OJK) through the issuance of the Shariah Securities List (DES). This means that IDX will use his DES as a reference for selection rather than choosing Sharia strains (Indonesia Stock exchage, 2022).

In qualitative screening, Decision of the Chairman of Bapepam-LK No. KEP.-181/BL/2009 on Issuance of Sharia Securities:

a. Gambling and games classified as gambling.
b. Trade Prohibited by Shariah.
c. Organizing financial services using the concept of usury.

d. Trading risk involving uncertainty (gharar) and/or gambling (Maysir) Includes conventional insurance.
e. Produce, distribute, trade and/or deliver:
   - Products and/or services that are illegal due to their content.
   - Goods and/or services not prohibited by substances specified by DSNMUI. and or
   - Goods and/or services that are morally damaging.
f. Engaging in transactions that contain elements of bribery (risywah)

For quantitative screening, Bapepam LK number KEP-208/BL/201235 on Standards and Publication of List of Shariah Securities under Regulation II.K.1 not exceeding the following financial ratios:

a. Total interest-bearing debt to equity is 82% or less (interest-bearing debt ratio is 45% or les 55%);
b. The sum of interest income and other non-halal income to total turnover shall not exceed 10% (10 percent).

A. Indonesia Sharia Stock Index (ISSI)

The Indonesian Shariah Stock Index (ISSI), a composite index of Islamic stocks listed on the IDX, was introduced on May 12, 2011. The performance of the Islamic stock market that is listed on the IDX is indicated by the ISSI. All of the sharia equities that make up the ISSI are listed on the IDX Main and Development Board and are a part of the OJK-published Sharia Securities List (DES). According to the DES's review schedule, ISSI members are elected again twice a year, in May and November, respectively. As a result, an Islamic legislator will always leave or enter to vote for the ISSI during an election time. The ISSI is calculated using the same methodology as the IDX Stock Index, which uses weighted average market capitalization using December 2007 as the base year (Indonesia Stock exchage, 2022).

B. Jakarta Islamic Index (JII)

On July 3, 2000, the Jakarta Islamic Index (JII), an Islamic stock index, was initially launched to the Indonesian stock market. The 30 most liquid Islamic stocks listed on the IDX make up the component stocks of JII. According to the DES verification schedule by OJK, verification of sharia holdings that are a part of JII is done twice a year, in May and November, just like ISSI.

IDX chooses and determines the Shariah stocks that make up JII. The liquidity criteria used in selecting Shariah 30 shares for JII constituents are:

- Six months after the listing of Shariah stocks included in the Indonesian Shariah Stock Index (ISSI)
- Selected 60 stocks in descending order of average market capitalization over the past year
- Out of 60 stocks, the 30 stocks with the highest average daily trading value in the regular market are selected.
- The remaining 30 brands are carefully selected brands.

Companies listed on the Jakarta Islamic Index (JII) still use corporate bonds with an interest rate mechanism. In fact, Indonesia allows interest rates up to 45%. This ratio exceeds the DJIM limit of 33% set by the Shariah Supervisory Board (SSB). Therefore, it is not surprising that companies in Southeast Asia, including Indonesia, have high average debt levels. Bapepam-LK also places a limit of no more than his 10% on non-halal income during the Sharia index. Allowing investment in companies that include usury in their income seems to contradict the original doctrine of usury law in sharia principles. In fact, Indonesia still gives many concessions to non-halal revenue issuers on terms not exceeding 10%. This step was taken because it's nearly impossible to find a publisher who isn't interested in their business.

COMPARATIVE ANALYSIS OF SHARIAH FUNDS

Qualitative Screening

The process of assessing if a stock or security is Shariah compliant is known as stock screening. It consists of a set of Shariah principles that serve as the standards for figuring out whether a stock or security complies with Islamic law. Checking stocks is primarily done to make sure that any securities you purchase or invest in do not contain any forbidden materials that are against Sharia law. Consuming drugs that are banned or forbidden is a grave sin for Muslims. Essentially, all major Shariah indices use a two-stage screening, illustrated in Figure 1 below.

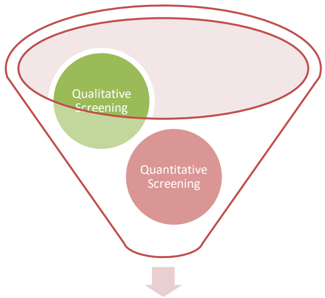

Figure 1. sharia compliant's

In this study, qualitative screening methods were divided into five groups according to companies : Riba and Garar, Non-Halal Products, Gambling, Immorality, and Other non-permissible Activities as stated by C. S. F. Ho (2015). Regarding the first item in Table I, riba and gharar, all indices agree that traditional financial institutions are the first choice and are not Shariah compliant. While some indices classify insurance companies as non-compliant, others, such as the global Islamic equity indices S&P and MSCI, do not mention this. This naturally leads to unreasonable questions when assessing whether an insurer is Shariah compliant. DJIMI is the most detailed index listing the types of companies that are not Shariah compliant. In some cases, the list of non-compliant companies is not clearly specified, making it complicated to classify individual criteria for each user.

For the second non-halal products business category, some users are more specific, excluding non-halal food and beverage companies such as DJIM, while others focus on alcohol-related products and pork-related products. It lists only products as not allowed. For the immoral activity category, most users also indicate a general standard, while some simply indicate that all media, hotels and entertainment venues are prohibited. In the final category of other activities considered illegal, the majority of users found tobacco and weapons production to be in violation of Sharia law. Another unique industry in which violations were found was cash trading in gold and silver and and stem cell research on a deferred basis, confirmed by S&P.

Moreover, the degree of generosity of these users can be analyzed by immediately excluding companies (DJIM, FTSE, Azzad) that are considered illegal only on qualitative criteria. Additionally, we discovered that the majority of consumers initially evaluate businesses using a qualitative screening technique or company category. We then use quantitative screening methods to further examine these mixed-activity businesses. As a result, the majority of users employ both qualitative and quantitative screening techniques, giving the screening procedure more flexibility.

No	activities	AAOIFI	DJIMI	FTSE	S&P	MSCI	Al Meezan	KLSI	JII
1	Riba and Gharar	financial services	Bank	Excluding Islamic financial institutions, banking, and other interest-related activities	Financials	conventional financial services	Conventional Banks	Services in finance based on Riba	Conventional financial services
		non-operating interest	holding and development of real estate	Brokers			Mudrarabah companies	Stock broking or share trading in	Insurance
		conventional insurance	finance for consumers	Life Insurance			leasing companies	Sharia-non-compliant securities	
			specialty finance				Insurance companies	Conventional Insurance	
			mortgage lending						
			comprehensive insurance						
			Inverstment services						
			Insurance agents						
			Porperty and Casuality						
			Reinsurance for casualties and negligence						
			Life insurance						

Table 2. Qualitative sharia screen in Riba and Gharar

No	activities	AAOIFI	DJIMI	FTSE	S&P	MSCI	Al Meezan	KLSI	JII
2	non halal product	Alcoholic beverages	Brewers	Alcohol, pork and other non-halal related products	Pork-related products	Pork-related products	companies dealing in alcohol	production or retail of non-halal goods and related goods	Alcoholic beverages
		Pork products	Distiller and vintners		Alcohol	Alcohol			Pork-related products
			Food Product						
			Food retailers and wholesalers						
			Restaurant and bars						
3	gambling and gaming	gambling/casino	gambling	gambling	gambling	Gambling/Casino	NIL	Gambling	Gambling

Table 3. Qualitative sharia screen in non halal Product and gambling/gaming

No	activities	AAOIFI	DJIMI	FTSE	S&P	MSCI	Al Meezan	KLSI	JII
4	immoral activities	production and distribution of music media	Broadcasting and entertainment	Night cllub activities	Pornography	Music	Pornography	Activities for entertainment that are prohibited by sharia	Broadcasting and entertainment
		cinema/TV channels, production and broadcasting and advertising	Media agencies	Pornography and adult entertainment	Advertising and media (newspapers are permitted; each subindustry is examined separately)	Hotels			Media Agencies
		Hotels	Hotels	Prostitution		Cinema			Restaurant and bars
		Adult Entertainment/pornography	Recretional products and services			Adult Entertainment			Pornography
5	other impermissible activities	tobacco	tobacco	Tobacco	Tobacco	Tobacco	Tobacco	manufacturing or selling products containing tobacco or related things	Tobacco
			defense and weapon	arms manufacturing	Trading in cash on a deferred basis of gold and silver	defense/weapon		Other activities deemed permissible	Weapon and defense
					Stem cell research				Biotechnology (genetic and fetus)
6	Use Qualitative	no	yes	yes	no	no	no	No	No

criteria only

Table 4. Qualitative sharia screen in immoral activities, other impermissible activities

Quantitative Screening

Tables IV provide a thorough evaluation of the quantitative Shariah screening techniques used by 9 practitioners. The ratios that each user possesses for each criterion are crucial in quantitative screening techniques. This compilation, which brings all the indicators and standards into one place, offers methodical data and a strategy for international comparisons in the framework of Shariah..

The financial structure of a corporation is examined using quantitative screening criteria, which compare these indicators to the permitted ranges decided upon by the Shariah committee. The relationship between this kind of verification and the Sharia law prohibition on riba and financial transactions is described by Derigs & Marzban (2008). To identify whether a corporation engages in fraud, its financial structure is analyzed. The company's interest-based income and interest payments on its debt, also referred to as the interest screen or debt screen, are used to calculate riba. Furthermore, it is asserted that according to Islamic Shariah guidelines, money itself is not a permissible asset. A minimum of liquid assets, such as cash and cash equivalents, short-term investments, and accounts receivable, are necessary in Islamic financing. Typically, the allowance for liquidity funds is less than 50% of total assets. If the majority of an investment's income is obtained from illiquid assets, a cash equivalent asset, also known as a liquidity test, aids in demonstrating that the investment is consistent with Islamic law. The quantity of company debt, interest, and other suspected fraudulent income, as well as the amount of company cash and accounts receivable, are three characteristics of the corporate structure that need to be quantified to confirm Shariah compliance, as underlined by C. Ho et al., (2014) and Khatkhatay & and Nisar (2007). Islamic financing does not permit considerable revenue from short-term, near-cash assets, which is a key point to remember.

In Indonesia itself, Bapepam-LK provides a limit on non-halal income between sharia indices, stipulating no more than 10%. It appears that the permissibility of investing in companies whose revenues contain usury is inconsistent with the original principle of usury law. In practice, Indonesia still provides some leeway to issuers that are still engaged in non-halal income, with the condition that it should not exceed 10%. This step is taken on the grounds that it is almost impossible to find issuers that are not involved with interest in their business activities (Islam et al., 2017).

In Malaysia, the limits vary, i.e., 5% for business activities that are expressly prohibited by Shariah such as bank interest, gambling, liquor and pork, 10% for various business activities that are prohibited but very difficult to avoid, such as interest on deposits in conventional banking conventional banking deposits and tobacco products, 20% is applied to income from rental payments from business activities that are not allowed by sharia, such as gambling such as revenue from gambling, liquor and others, and 25% is used for business activities that are permitted by sharia and have Shariah permissible business activities that have benefits but there are still elements that can affect the the shari'ah of the activity. Such as hotels, stock trading, buying and selling shares and business activities that are contrary to sharia (Islam et al., 2017).

Using Malaysian Syariah-compliant equities authorized on October 26, 2006, Abdul Rahman et al., (2010) examined DJIM's quantitative screening procedure. They conclude that just 35% of the Malaysian Syariah-compliant companies qualify under DJIM's quantitative screening based on study of both liquidity and debt ratios. These findings seem to suggest that the Malaysian stock exchange is much more "easily qualified" for Malaysia Syariah-compliant stocks than other stock exchanges are. According to Abdul Rahman et al. (2010), the employment of various quantitative screenings by various stock exchanges in determining the qualification of Syariah-compliant equities has been the cause of such significant disparity. Although the results are intriguing, they do not match those of other top index providers worldwide.

One additional study examines whether FTSE Sharia Global Equity Index, the Dow Jones Islamic Market (DJIM), S&P 500 Sharia, AMIRI Capital, and MSCI Islamic Index apply more stringent financial screening criteria than the Jakarta Islamic Index (JII). This study screens 180 Sharia-compliant companies listed in JII between 2010 and 2015 using the debt ratio, interest ratio, and liquidity ratio methodology employed by the selected Sharia index providers. This result demonstrates that 43 MSCI businesses, which make up the biggest percentage, are thought to adhere to Sharia law. Meanwhile, DJIM and S&P claim that only three businesses are Sharia compliant. It can be inferred that JII implements more lenient financial screening requirements than the other index providers given that fewer than 50% of enterprises passed the screening process under each chosen Sharia stock index (Harjito et al., 2021).

Initial	Debt screen	Interest Screen	Liquidity Screen	Non-permissible income Screen (NYP)
AAOIFI	(Interest Bearing Debt) IDB < $\frac{30\%}{AvMCap}$	Cash (C) + Interest Bearing Securities (IBS) < $\frac{30\%}{AvMCap}$	Receivable (AR) + Cash (C) + Other Deposits ≤ $\frac{70\%}{AvMCap}$	
DJIMI	Debt (D) < $\frac{33\%}{AvMCap}$	Cash (C) + Interest Bearing Securities (IBS) < $\frac{33\%}{AvMCap}$	Acc Receivable (AR) < $\frac{33\%}{AvMCap}$	
KLSI	Debt (D) < $\frac{33\%}{TA}$	Interest Income (IY) < $\frac{5\%}{TR\ or\ PBT}$	Acc Payable (AP) + Receivable (AR) + cash (C) < $\frac{33\%}{TA}$	Clearly prohibited Y NPY < $\frac{5\%}{TR\ or\ PBT}$ Umum bahwa Y NPY < $\frac{5\%}{TR\ or\ PBT}$ Mixed rental payment NPY < $\frac{20\%}{TR\ or\ PBT}$ Maslahah Y NPY < $\frac{5\%}{TR\ or\ PBT}$
FTSE	Debt (D) < $\frac{33\%}{TA}$	Cash (C) + Interest Bearing Securities (IBS) < $\frac{33\%}{TA}$	Acc Payable (AP) + Receivable (AR) + cash (C) < $\frac{50\%}{TA}$	NYP < $\frac{5\%}{TR}$
S&P	Debt (D) < $\frac{33\%}{MVEq}$	Cash (C) + Interest Bearing Securities (IBS) < $\frac{33\%}{MVEq}$	Acc Receivable (AR) < $\frac{49\%}{MVEq}$	(Excluding IY) NYP < $\frac{5\%}{TR}$
MSCI	Debt (D) < $\frac{33.33\%}{TA}$	Cash (C) + Interest Bearing Securities (IBS) < $\frac{33.33\%}{TA}$	Acc Receivable (AR) < $\frac{33{,}33\%}{TA}$	NYP < $\frac{5\%}{TR}$
Meezan	(Interest Bearing Debt) IDB < $\frac{40\%}{TA}$		Liquid Assets (LA) < $\frac{80\%}{TA}$	Investment in NYP < $\frac{33\%}{TR}$ NYP < $\frac{5\%}{TR}$
JII	(Interest Bearing Debt) IDB < $\frac{82\%}{TE}$	Interest Income (IY) < $\frac{10\%}{TR}$		NYP < $\frac{10\%}{TR}$

Table 5. Quantitative Shariah Screen

CONCLUSION

Methodologies for sharia screening present a number of difficulties for index data providers and fund managers. These include stock screening practices and the choice of Shariah rules. Islamic scholars turn to the principle of analogy (qiyas), whereby new judgements are derived based on old decisions (precedence), as long as the following requirements are satisfied, because the principle of the trial of justice is not addressed in the Quran and hadith. The justifications and grounds are the same. Regulations vary because qiyas are the individual interpretations of Islamic scholars or groups of academics. This study's goal is to draw attention to these variations and examine how they may affect the decision of what might be halal and haram for stock.

The Sharia capital testing guidelines require two levels of testing. One is about business activities and the other is about financial ratios and their acceptable limits. Comparing the criteria revealed some slight differences in how companies were evaluated. Of the nine stock indexes studied, the difference in the use of sharia standards is a concern for Islamic economics observers. The decision to determine which stocks are sharia-compliant and which are not should be given more attention to attract international investors.

The study has limitations only comparing the standards used in each screening system so that it has not proven that the difference in standards does affect the buying decision by consumers. Future research can be done by comparing quantitatively all standards on one stock index and see the implications that occur afterwards.

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