

**REVISED SHARIAH SCREENING METHODOLOGY:
THE IMPACT ON SHARIAH COMPLIANT STATUS OF PUBLIC COMPANIES
LISTED ON BURSA MALAYSIA**

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Abstract

The Shariah screening methodology which adopted the quantitative assessment that comprises four- activity based screening benchmarks and the qualitative assessment was formulated by the Shariah Advisory Council (SAC) of Securities Commission (SC) in mid 1990s to assist investors in identifying Shariah-compliant securities listed on Bursa Malaysia. The methodology was revised in 2012 by adopting a two-tier approach to the quantitative assessment which applies the reduced business activity benchmarks and the newly-introduced financial ratio benchmarks while at the same time maintaining the existing qualitative assessment. With the revised methodology, the first stage screening now is for the two-tier quantitative assessment and the second stage screening is for the qualitative assessment. To be certified as Shariah-compliant securities, all companies who issue the securities must fulfil the requirement in both stages of screening process. The application of the revised methodology will certainly have impact on the Shariah-compliant status of listed companies. It means that companies with mixed activities which are previously assessed under the 10% or 25% benchmarks will now be assessed under the 5% or 20% benchmarks. It will equally have impact on the companies with high level of cash placed in conventional accounts and instruments, and on the companies with high level of conventional debts since previously there was no screening based on the total conventional savings and total conventional debts of the company. Thus, the objective of this paper is to discover the impact of the revised screening methodology on the Shariah-compliant status of public companies listed on Bursa Malaysia. This will be done by analysing the List of Shariah-compliant Securities announced and published by the SAC of SC in May 2013, November 2013 and May 2014. The methodology to be adopted in this paper is descriptive analysis.

Keywords: Shariah screening, Shariah compliant, securities, benchmarks, Bursa Malaysia

1.0 Introduction

According to Shafii et al. (2013), wealth is refers to abundance of valuable material possessions or resources, or all things that have a monetary or exchange value. The quest for wealth is

possibly the most important human motivation today, in the past, and in the future. Human generally pursues wealth as a means of attaining honor and power.

However, Muslims must always keep in mind that our wealth in this world belongs to Allah and man is only a trustee as stated in verse 77, Surah al-Qasas; “But seeks, with that (wealth) which Allah has bestowed on you, the home of the Hereafter, and forget not your portion of lawful enjoyment in this world; and do good as Allah has been good to you and seek not mischief in the land. Verily, Allah likes not the Mufsidun (those who commit great crimes and sins, oppressors, tyrants, mischief-maker, corrupters)” (Shafii et al., 2013).

Investment is one way to accumulate wealth. According to Madun and Haniff (2013), investment is the current commitment of funds to one or more assets that will be held over some future time period. Investors really believe that by sacrificing their present consumptions, they can expect to have greater consumption opportunities in the future since most investment alternatives promise return to be given in the future based on the risk assumed. In general, there are two types of assets which investors can invest in, namely real assets and financial assets which are also known as securities. Globally, there are lots of investment alternatives with regard to the investment in securities. Shares and unit trusts are among securities which normally included in the individual investors investment portfolios beside their investment in real assets which include investment in property and land. However, as Muslim investors, we must always keep in mind that our investments must be in accordance with the Shariah principles which prohibit the elements of *riba*, *maysir* and *gharar*. Islam prohibits *riba* and Allah says it clearly in the *Qur'an*; “Those who eat *Riba* will not stand (on the Day of Resurrection) except like the standing of a person beaten by *Shaitan* (Satan) leading him to insanity. That is because they say: "Trading is only like *Riba*," whereas Allah has permitted trading and forbidden *Riba*. So whosoever receives an admonition from his Lord and stops eating *Riba* shall not be punished for the past; his case is for Allah (to judge); but whoever returns (to *Riba*), such are the dwellers of the Fire - they will abide therein” (Al-Baqarah: 275).

Mcgowan and Muhammad (2010) pointed out that Malaysian Muslim investors make up approximately 60 percent of the total population of Malaysia which underlines the high growth potential of the Shariah-based market segment in Malaysia. Therefore, it is necessary to have a proper Shariah screening process in Malaysian financial market which enables local as well as international investors to invest in companies that operate permissible business activities according to Shariah. This Shariah screening process will detect prohibited activities if existed and guide investors from embarking onto a Shariah non-compliant investment (Ho et al., 2012). Based on this need, the Shariah Advisory Council (SAC) of Securities Commission (SC) had formulated the Shariah screening methodology, carry out the screening process and published the list of Shariah-compliant securities to assist investors in identifying the Shariah-compliant securities listed on Bursa Malaysia. The SAC of the SC plays an important role in certifying and updating the list of securities that have been classified as Shariah-compliant securities through input and support from the SC. To classify security as whether Shariah comply or not, SAC will analyse the data gathered by SC from various sources including the annual reports and enquiries made to the companies.

2.0 Literature Review

2.1 The Shariah Screening Methodology in Malaysia

The SAC had established the Shariah screening methodology to undertake Shariah screening process for listed companies in Bursa Malaysia (formerly known as Kuala Lumpur Stock

Exchange (KLSE)) with the introduction of four activity-based screening benchmark in 1995. The methodology comprises two assessments, quantitative assessments and qualitative assessments.

In the quantitative assessment, the SAC will measure the level of mixed contributions from permissible and non-permissible activities towards group turnover and group profit before tax of the companies. The calculated contributions from non-permissible activities will then be compared with the benchmarks which have been established by the SAC based on *ijtihad*. If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as Shariah non-compliant securities.

As for the qualitative assessment, the SAC considers two additional criteria for mixture activities companies that the company must have a good image i.e. public perception towards the company must be good; and the core activities of the company are important and considered *masalah* to the Muslim *ummah* (nation) and the country, and the non-permissible element is very small and involves matters such as *'ulum balwa*, *'uruf* (custom) and the rights of the non-Muslim community which are accepted by Islam.

In a nutshell, in order for securities issued by mixture activities companies to be classified as Shariah-compliant securities, it must pass both assessments i.e. quantitative assessments as well as qualitative assessments (Securities Commission Malaysia, 2013a).

2.2 The Revised Syariah Screening Methodology

The SAC of SC Malaysia made an announcement on 18 June 2012 on the adoption of a revised Shariah screening methodology to determine the Shariah-compliant status of companies which are listed on Bursa Malaysia. However, the outcome of the revised methodology is only reflected in the List of Shariah-compliant Securities announced and published by the SAC effective from November 2013 (Securities Commission Malaysia, 2012).

Under the revised methodology, all companies listed on Bursa Malaysia are required to undergo the same screening process which consists of two stages screening. The first stage screening covers the new two-tier quantitative assessment consisting of a reduced business activity benchmarks and the newly-introduced financial ratio, while the second stage screening covers the existing qualitative assessment which qualify the company's image and other matters such as *Maslahah*, *'ulum balwa*, *'uruf* and the rights of the non-Muslim community that are accepted by Islam. To be certified as Shariah-compliant securities, the companies who issue the securities must fulfil the requirement in both stages of screening process.

2.2.1 The Reduced Business Activity Benchmarks

The first-tier of the quantitative assessment is the business activity benchmarks. Under the revised methodology, the business activity benchmarks which previously consisting of four benchmarks had been reduced to only two benchmarks. Basically, the contribution of non-permissible activities which are allowed for 10% under previous methodology had been reduced to 5%. In other words, the contributions from non-permissible activities that involve the element of *'ulum balwa* now must not be more than 5%. The other benchmark is 25% benchmark which had been reduced to 20% benchmark. It means the contributions from non-permissible activities such as hotel and resort operations, share trading and stock broking now must be lower than 20%. The reduced business activity benchmarks for the first-tier of the quantitative assessment under the revised Shariah screening methodology are given in Table 1.

Table 1: The Reduced Business Activity Benchmark for Quantitative Assessment

Benchmark	Non-permissible Activities
Five Percent (5%)	<p>The contributions from the followings activities to the group turnover and profit before taxation should not exceed 5%:</p> <ul style="list-style-type: none"> i. conventional banking; ii. conventional insurance; iii. gambling; iv. liquor and liquor-related activities; v. pork and pork-related activities; vi. non-halal food and beverages; vii. Shariah non-compliant entertainment; viii. interest income from conventional accounts and instruments, including dividends from investment in Shariah non-compliant instruments and interest income awarded arising from a judgement by a court or arbitrator; ix. tobacco and tobacco-related activities; and x. other activities deemed non-compliant according to Shariah.
Twenty Percent (20%)	<p>The contributions from the followings activities to the group turnover and profit before taxation should not exceed 20%:</p> <ul style="list-style-type: none"> i. hotel and resort operations; ii. share trading; iii. stockbroking business iv. rental received from Shariah non-compliant activities; and v. other activities deemed non-compliant according to Shariah.

2.2.2 The Newly-Introduced Financial Ratio

In the second-tier of the quantitative assessment, the company needs to undergo the financial ratio screening. This screening is newly introduced under the revised methodology whereby there was no screening process for this financial ratio under previous methodology.

In this assessment, the SAC will calculate the following ratio which intended to measure *riba* or *riba*-based elements in the company:

a) Cash over total assets

Cash to be included in the calculation includes cash placed in conventional accounts and instruments only. If the company placed the cash in the Islamic account, it should be excluded from the calculation.

b) Debt over total assets

Debt to be included in the calculation includes interest-bearing debt only. If the company used Islamic financing such as *sukuk*, it should be excluded from the calculation.

To fulfil the requirement for this assessment, each ratio must be less than 33% and only securities issued by company that meet the requirement in all assessments will be classified as Shariah-compliant securities (Securities Commission Malaysia, 2013b).

The application of the revised methodology will certainly have impact on the Shariah-compliant status of listed companies. It means that companies with mixed activities which are previously assessed under the 10% or 25% benchmarks will now be assessed under the 5% or 20% benchmarks. It will equally have impact on the companies with high level of cash placed in conventional accounts and instruments, and on the companies with high level of conventional

debt since previously there was no screening based on the total conventional savings and total conventional debts of the company.

3.0 Methodology

The objective of this paper is to discover the impact of the revised screening methodology on the Shariah-compliant status of public companies listed on Bursa Malaysia. This will be done by analysing the List of Shariah-compliant Securities announced and published by the SAC of SC in May 2013 (Securities Commission Malaysia, 2013a), November 2013 (Securities Commission Malaysia, 2013b) and May 2014 (Securities Commission Malaysia, 2014). The methodology adopted in this paper is descriptive analysis.

4.0 Analysis and Discussion

4.1 The Impact of the Revised Methodology on the Total Number of Shariah-Compliant Securities

The impact of the revised methodology on the Shariah-compliant securities can be seen from the reduction of the total number of Shariah-compliant securities in the November 2013 list as compared to the May 2013 list. Prior to the adoption of the revised methodology, in the May 2013 list there were 801 Shariah-compliant securities from the total of 910 securities listed on Bursa Malaysia. With the coming into effect of the revised methodology which was reflected in the November 2013 list, it was found that the number of Shariah-compliant securities had reduced by 16.58% to stand at 653 securities. However, upon comparing between the November 2013 and the May 2014 list, it was found that the number of Shariah-compliant securities had increased by 2.04% to stand at 665 securities.

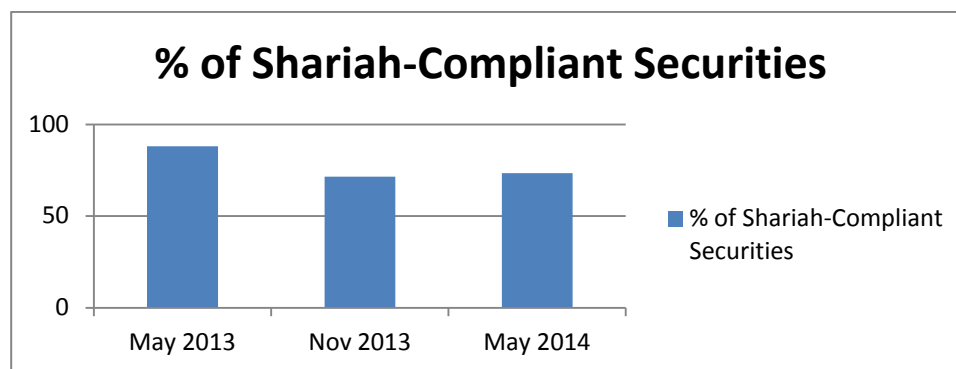
It can be concluded that in May 2013 list, 88.02% of the securities were classified as Shariah-compliant securities, in November 2013 list, 71.44% of the securities were classified as Shariah-compliant securities and in May 2014 list, 73.48% of the securities were classified as Shariah-compliant securities.

The impact of the revised methodology on the securities listed on Bursa Malaysia is summarised in Table 2 and Graph 1.

Table 2: Shariah-compliant Securities of Bursa Malaysia as at May 2013, November 2013 and May 2014

	Shariah-Compliant Securities		Shariah Non-Compliant Securities		Total Securities	The Changes
	Total	%	Total	%		
May 2013	801	88.02	109	11.98	910	-
Nov 2013	653	71.44	261	28.56	914	Reduced by 16.58%
May 2014	665	73.48	240	26.52	905	Increased by 2.04%

Graph 1: Percentage of Shariah-compliant Securities of Bursa Malaysia



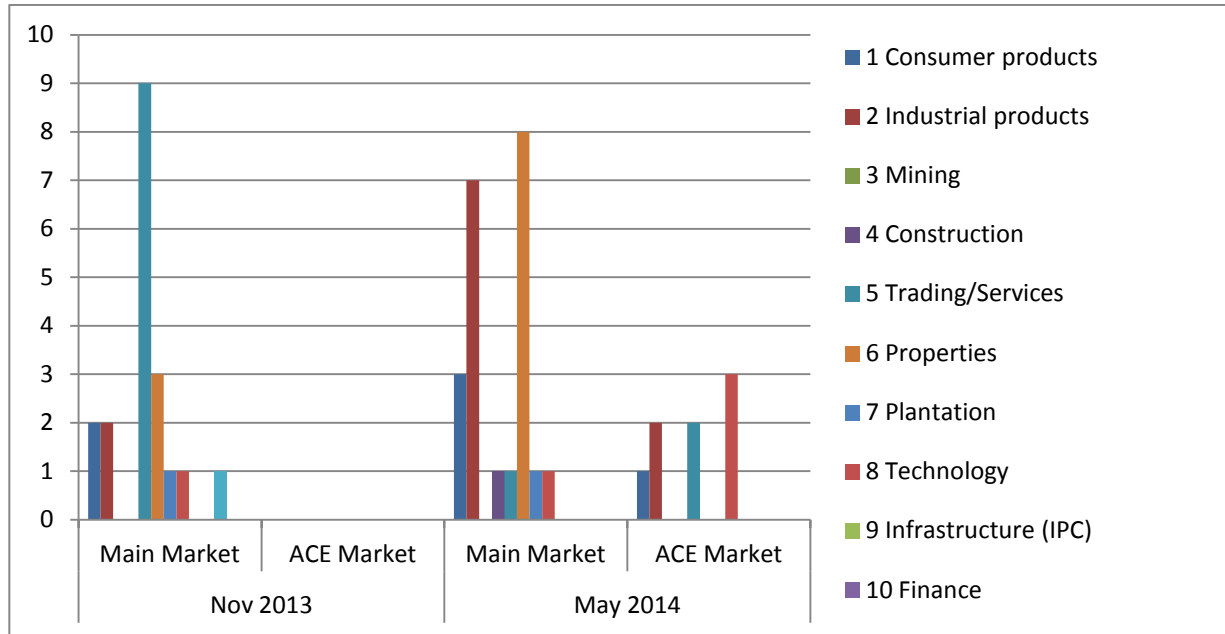
4.2 The Newly Classified Shariah-compliant Securities for November 2013 and May 2014

Upon reconciling the November 2013 list to May 2013 list, it was found that 19 new securities had been added to the list of Shariah-compliant securities and upon reconciling the May 2014 list to the November 2013, it was found that 30 new securities had been added to the list. The breakdown of newly classified Shariah-compliant securities according to sector as reflected in the List of Shariah-compliant securities published in November 2013 and May 2014 is provided in Table 3 and Graph 2.

Table 3: Breakdown of Newly Classified Shariah-compliant Securities According to Sector as at November 2013 and May 2014

No	Sector	Nov 2013		May 2014	
		Main Market	ACE Market	Main Market	ACE Market
1	Consumer products	2	0	3	1
2	Industrial products	2	0	7	2
3	Mining	0	0	0	0
4	Construction	0	0	1	0
5	Trading/Services	9	0	1	2
6	Properties	3	0	8	0
7	Plantation	1	0	1	0
8	Technology	1	0	1	3
9	Infrastructure (IPC)	0	0	0	0
10	Finance	0	0	0	0
11	Special Purpose Acquisition Companies (SPAC)	1	0	0	0
12	Hotels	0	0	0	0
13	Closed-end fund	0	0	0	0
	TOTAL	19	0	22	8

Graph 2: Breakdown of Newly Classified Shariah-compliant Securities According to Sector as at November 2013 and May 2014



The complete list of the newly classified Shariah-compliant securities for November 2013 and May 2014 is provided in Table 4 and Table 5 respectively.

Table 4: List of Newly Classified Shariah-compliant Securities as at November 2013

No.	Name of Securities	No.	Name of Securities	Sector	Market
1	PPB Group Bhd.	2	Takaso Resources Bhd.	Consumer Products	Main Market
1	ABM Fujiya Bhd.	2	DRB Hicom Bhd.	Industrial Products	
1	AirAsia X Bhd.	2	Berjaya Auto Bhd.	Trading/ Services	
3	Caring Pharmacy Group	4	GD Express Carrier Bhd		
5	Naim Indah Corporation	6	Solid Automotive Bhd.		
7	UMW Oil & Gas Bhd.	8	Westports Holdings Bhd		
9	YFG Bhd.				
1	Matrix Concepts Holdings Bhd.	2	Meda Inc. Bhd.	Properties	
3	Tiger Synergy Bhd				
1	Gopeng Bhd.			Plantation	
1	Cuscapi Bhd.			Technology	
1	Sona Petroleum Bhd.			SPAC	

Table 5: List of Newly Classified Shariah-compliant Securities as at May 2014

No.	Name of Securities	No.	Name of Securities	Sector	Market
1	CAB Cakaran Bhd.	2	Dutch Lady Milk Industries Bhd.	Consumer Products	Main Market
3	Tan Chong Motor Holdings Bhd.				
1	Advanced Packaging Technology (M) Bhd	2	Karyon Industries Bhd	Industrial Products	
3	Mycron Steel Bhd.	4	Sarawak Cable Bhd.		

5	Tasek Corporation Bhd	6	Uchi Technologies Bhd		
7	Watta Holding Bhd.				
1	Malaysian Resources Corp Bhd.			Construction	
1	Parkson Holdings Bhd.			Trading/ Services	
1	Country View Bhd.	2	IOI Properties Group Bhd.		Properties
3	MKH Bhd.	4	S P Setia Bhd.		
5	Sapura Resources Sdn.	6	Tanco Holdings Bhd.		
7	Titijaya Land Bhd.	8	Tropicana Corporation Bhd.		
1	Innoprise Plantation Bhd.			Plantation	
1	Industronics Bhd.			Technology	
1	Kanger International Bhd.			Consumer products	ACE Market
1	ES Ceramics Bhd.	2	Sanichi Technology Bhd.	Industrial products	
1	Pineapple Resources Bhd.	2	SCH Group Bhd.	Trading/Services	
1	CWorks Systems Bhd.	2	Extol MSC Bhd.	Technology	
3	N2N Connect Bhd.				

It is important to point out that from the 30 newly classified Shariah-compliant securities in the May 2014 list, 22 securities or 73.3% are re-listed after being dropped from the November 2013 list, which is after the adoption of the revised methodology, while only 8 securities or 26.6% are added to the list as the new Shariah-compliant securities. Among the Shariah-compliant securities which are re-listed are Dutch Lady Milk Industries Bhd, Tan Chong Motor Holdings Bhd, Malaysian Resources Corporation Bhd, Parkson Holdings Bhd and SP Setia Bhd.

4.3 The Securities Removed from the List of Shariah-compliant Securities for November 2013 and May 2014

Upon reconciling the November 2013 list to May 2013 list, it was found that 167 securities had been removed from the list of Shariah-compliant Securities while upon reconciling the May 2014 list to the November 2013, it was found that 18 securities had been removed from the list. The breakdown of the removed securities according to sector is provided in Table 6 and Graph 3 while the complete list of the removed securities in the November 2013 and May 2014 is provided in Table 7 and 8 respectively.

Table 6: Breakdown of the Removed Shariah-compliant Securities According to Sector as at November 2013 and May 2014

No	Sector	Nov 2013		May 2014	
		Main Market	ACE Market	Main Market	ACE Market
1	Consumer products	18	0	2	0
2	Industrial products	57	4	2	1
3	Mining	0	0	1	0
4	Construction	5	0	1	0
5	Trading/Services	29	11	5	0

6	Properties	15	0	3	0
7	Plantation	4	0	0	0
8	Technology	6	17	2	1
9	Infrastructure (IPC)	1	0	0	0
10	Finance	0	0	0	0
11	SPAC	0	0	0	0
12	Hotels	0	0	0	0
13	Closed-end fund	0	0	0	0
	TOTAL	135	32	16	2

Graph 3: Breakdown of the Removed Shariah-compliant Securities According to Sector as at November 2013 and May 2014

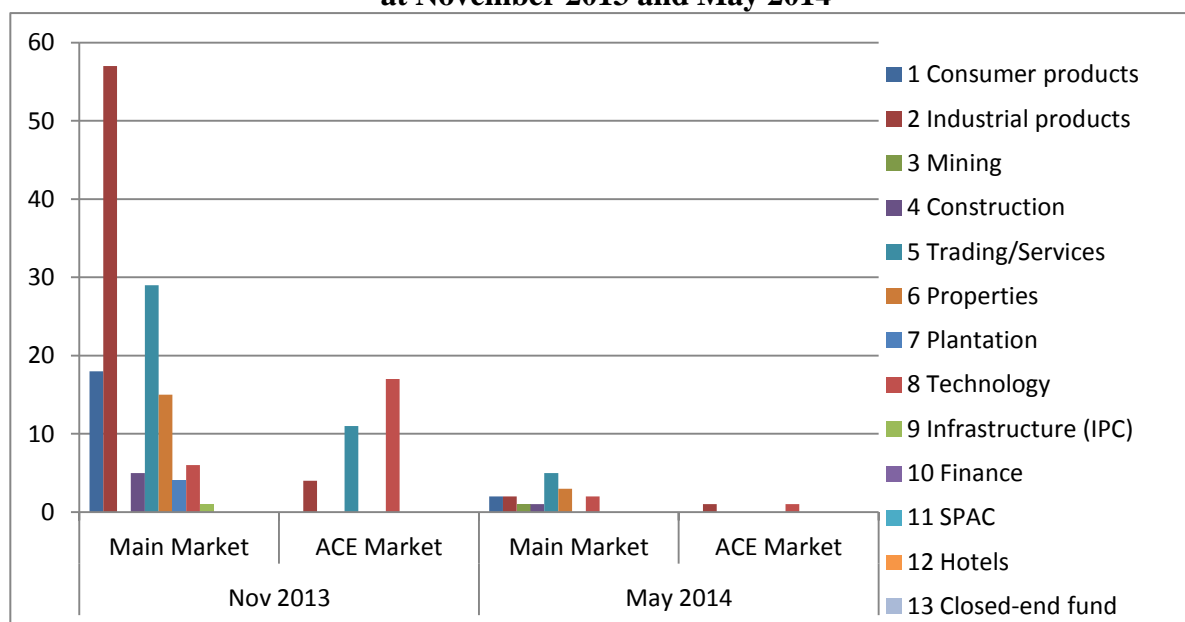


Table 7: List of the Removed Securities as at November 2013

No.	Name of Securities	No.	Name of Securities	Sector	Market
1	Asia Brands Bhd.	2	Biosis Group Bhd.	Consumer Products	Main Market
3	C.I. Holdings Bhd.	4	CAB Cakaran Corporation Bhd		
5	China Stationery Ltd.	6	Dutch Lady Milk Industries		
7	Guan Chong Bhd.	8	Huat Lai Resources Bhd.		
9	Hup Seng Industries Bhd.	10	Hytex Integrated Bhd.		
11	Maxwell International Bhd.	12	Multi-Sports Holdings Ltd.		
13	Oriental Holdings Bhd.	14	Panasonic Manufacturing Bhd.		
15	Silver Bird Group Bhd.	16	Tan Chong Motor Holdings Bhd.		
17	Teo Seng Capital Bhd.	18	TPC Plus Bhd.		
1	Ablegroup Bhd.	2	Advanced Packaging		

			Technology (M) Bhd.	Products	
3	Ae Multi Holdings Bhd.	4	Ann Joo Resources Bhd.		
5	Asia Knight Bhd.	6	B.I.G Industries Bhd.		
7	Boon Koon Group Bhd.	7	Century Bond Bhd.		
9	China Automobile Parts Holdings Ltd.	10	Dolomite Corporation Bhd.		
11	Dufu Technology Corporation Bhd.	12	Fibon Bhd		
13	Focus Lumber Bhd.	14	Goodway Integrated Industries Bhd.		
15	GSB Group Bhd.	16	Hiap Teck Venture Bhd.		
17	Ho Wah Genting Bhd.	18	Ingress Corporation Bhd.		
19	Integrated Rubber Corporation Bhd.	20	IRM Group Bhd.		
21	Keck Seng (M) Bhd.	22	Kinsteel Bhd.		
23	Latexx Partners Bhd.	24	Leader Steel Holdings Bhd.		
25	Lion Corporation Bhd.	26	Malaysia Smelting Corp. Bhd.		
27	Malaysian Ae Models Holdings Bhd.	28	Maxtral Industry Bhd.		
29	Melewar Industrial Group Bhd.	30	Metal Reclamation Bhd.		
31	Metrod Holdings Bhd.	32	Muar Ban Lee Group Bhd.		
33	Muda Holdings Bhd.	34	Mycron Steel Bhd.		
35	Octagon Consolidated Bhd.	36	Pensonic Holdings Bhd.		
37	Perwaja Holdings Bhd.	38	PNE PCB Bhd.		
39	Premier Nalfin Bhd	40	Press Metal Bhd.		
41	Prestar Resources Bhd.	42	Sarawak Cable Bhd.		
43	Scomi Engineering Bhd.	44	Sealink International Bhd.		
45	SKP Resources Bhd.	46	Southern Steel Bhd.		
47	Sunchirin Industries Bhd.	48	Ta Win Holdings Bhd.		
49	Tasek Corporation Bhd.	50	Tatt Giap Group Bhd.		
51	Tiger Synergy Bhd.	52	Uchi Technologies Bhd.		
53	VTI Vintage Bhd.	54	Watta Holding Bhd.		
55	Wawasan TKH Holdings Bhd.	56	Wellcall Holdings Bhd.		
57	Ya Horng Electronic Bhd.				
1	Bina Puri Holdings Bhd.	2	Fututech Bhd.		Construction
3	Malaysian Resources Corp. Bhd.	4	Pesona Metro Holdings Bhd.		
5	Zelan Bhd.				
1	AirAsia Bhd.	2	Amway Malaysia Holdings Bhd.		Trading/ Services
3	Berjaya Food Bhd.	4	Bumi Armada Bhd.		

5	Chuan Huat Resources Bhd.	6	Emas Kiara Industries Bhd.				
7	Engtex Group Bhd.	8	Esthetics International Group Bhd.				
9	George Kent (M) Bhd.	10	Global Carriers				
11	Haisan Resources Bhd.	12	Hexagon Holdings Bhd.				
13	Kejuruteraan Samudra Timur Bhd.	14	Konsortium Logistik Bhd.				
15	Luxchem Corporation Bhd.	16	Media Chinese International Limited				
17	Ogawa World Bhd.	18	Pantech Group Holdings Bhd.				
19	Parkson Holdings Bhd.	20	Petrol One Resources Bhd.				
21	PJI Holdings Bhd	22	SAAG Consolidated (M) Bhd.				
23	Samchem Holdings Bhd	24	Seni Jaya Corporation Bhd.				
25	Texchem Resources Bhd.	26	Tiong Nam Logistics Bhd.				
27	Transocean Holdings Bhd	28	Turbo Mech Bhd.				
29	Yinson Holdings Bhd.						
1	BCB Bhd	2	Country View Bhd.			Properties	
3	Dijaya Corporation Bhd.	4	Golden Plus Holdings Bhd.				
5	Ivory Properties Bhd.	6	Keladi Maju Bhd.				
7	MKH Bhd.	8	Pan Malaysian Industries Bhd.				
9	Perduren (M) Bhd.	10	Plenitude Bhd.				
11	Sapura Resources Bhd.	12	Selangor Dredging Bhd.				
13	SP Setia Bhd.	14	Trinity Corporation Bhd.				
15	YTL Land & Development Sdn.						
1	Chin Teck Plantations Bhd.	2	Kluang Rubber Co. (M) Bhd.	Plantation			
3	Sungei Bagan Rubber Co. (M) Bhd.	4	The Ayer Molek Rubber Co. Bhd.				
1	Amtel Holdings Bhd.	2	Excel Force MSC Bhd.	Technology			
3	Industronics Bhd.	4	Key Asic Bhd.				
5	Patimas Computers Bhd	6	Willowglen MSC Bhd.				
1	YTL Power International Bhd.			Infrastructure			
1	AT Systematization Bhd.	2	ES Ceramics Technology Bhd.	Industrial Product			
3	Sanichi Technology Bhd.	4	Techfast Holdings Bhd.				
1	Advance Information Marketing Bhd.	2	Catcha Media Bhd.	Trading/ Services	ACE Market		
3	Envair Holding Bhd.	4	GD Express Carrier Bhd.				
5	Innity Corporation Bhd.	6	Key West Global Telecommunications Bhd.				

7	M-Mode Bhd.	8	Pasukhas Group Bhd.	Technology
9	Pineapple Resources Bhd.	10	SCC Holdings Bhd.	
11	StemLife Bhd.			
1	Cuscapi Bhd	2	Cworks Systems Bhd.	
3	DVM Technology Bhd.	4	Extol MSC Bhd.	
5	Fast Track Solution Holdings Bhd.	6	Ideal Sun City Holdings Bhd.	
7	iDimension Consolidated Bhd.	8	Infortech Alliance Bhd.	
9	Malaysian Genomics Resource Centre Bhd.	10	MLABS Systems Bhd.	
11	mTouche Technology Bhd.	12	N2N Connect Bhd.	
13	Opcom Holdings Bhd.	14	Rexit Bhd.	
15	Solution Engineering Holdings Bhd	16	The Media Shoppe Bhd.	
17	YTL e-Solutions Bhd.			

Table 8: List of the Removed Securities as at May 2014

No.	Name of Securities	No.	Name of Securities	Sector	Market
1	Padiberas Nasional Bhd.	2	Padini Holdings Bhd.	Consumer Products	Main Market
1	Innoprise Plantations Bhd.	2	Major Team Holdings Bhd.	Industrial Products	
1	Bina Goodyear Bhd.			Construction	
1	Kuchai Development Bhd.			Mining	
1	Air Asia X Bhd.	2	AWC Bhd.	Trading/ Services	
3	Berjaya Media Bhd.	4	Help International Corporation Bhd		
5	YTL Corporation				
1	Asas Dunia Bhd.	2	Kumpulan Hartanah Selangor Bhd.	Properties	
3	Nadayu Properties Bhd.				
1	Digistar Corporation Bhd.	2	KESM Industries Bhd.	Technology	
1	Karyon Industries Bhd.			Industrial Products	ACE Market
1	INS Bioscience Bhd.			Technology	

4.4 The Status of Shariah-compliant Securities which are Subsequently Re-classified as Shariah Non-compliant Securities

Shariah-compliant securities which are subsequently re-classified as Shariah non-compliant securities refer to securities which were earlier classified as Shariah compliant but due to certain factors are subsequently reclassified as Shariah non-compliant.

Investors who hold Shariah-compliant securities which are subsequently re-classified as Shariah non-compliant are required to dispose of the securities if on the date of the updated list takes effect, the market price of the affected securities exceeds or is equal to the investment cost. It follows that the investors are allowed to keep any dividends received up to the date of the updated list as well as any capital gains arising from the disposal of the securities. In relation to any dividends and excess capital gains arising from its disposal after the update list, the investors are required to channel them to *baitulmal* and/or charitable organisations.

However, if the market price of the affected securities is below the investment cost, the investors are allowed to hold their investment in the Shariah non-compliant securities until the market price of the securities is equal to the investment cost. The investors are also allowed to keep the dividends received during the holding period. When the market price of the securities is equal to the investment cost, the investors are advised to dispose of the securities.

During the holding period, the investors are also allowed to subscribe to any issue of new securities by a company whose Shariah non-compliant securities are held by the investors, for example rights issues, bonus issues, special issues and warrants excluding securities whose nature is Shariah non-compliant e.g. loan stocks; and Shariah-compliant securities of other companies offered by the company whose Shariah non-compliant securities are held by the investors, provided that they expedite the disposal of the Shariah non-compliant securities (Securities Commission Malaysia, 2014).

5.0 Limitations, Recommendations, Future Research and Conclusion

It is noted that the published list of the Shariah-compliant securities issued by the SC does not provide detail explanation on the application of the revised methodology especially on the stages of screening involved in all of the assessments. It is therefore recommended that the list should provide detail explanation on the methodology and the screening process carried out by SAC of SC as guidelines to investors especially new investors. Inclusion of examples on how the screening being carried out i.e. mock screening on companies will be beneficial to enhance knowledge of investors.

Future research should be conducted to analyse whether Shariah-compliant securities which are subsequently re-classified as Shariah non-compliant by the SC either because of the reduced business activity benchmark and/or the newly introduced financial ratio assessment, and/or the qualitative assessment.

It is submitted that this newly adopted Shari'ah screening process by the SC would be more attractive to international investors as the revised methodology is in line with the internationally accepted methodologies. The adoption of two-tier quantitative approach by the SC may prevent the spill over effect to the conventional counterpart as the listed companies have to reinvest their surplus funds into Islamic banking accounts and instruments. This is to ensure that both the *riba* and *riba*-based elements within the companies' balance sheets are lower than 5% and 33% for the business activity benchmark and the financial ratio benchmark respectively.

It is hoped that this approach will attract more international investors to the Malaysian equity market and facilitate the growth and development of Islamic capital market in the country in accordance with the Capital Market Masterplan 2.

6.0 References

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