



سوق مسقط للأوراق المالية
Muscat Securities Market

MSM Shariah Index

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Index Stated Objective

Measure the stock's performance of Shariah Compliant Companies that pass AAOIFI rules for compliance with Islamic investment principles.

Brief description

MSM agreed with IdealRatings to perform the Shariah compliant screening test in order to identify the companies whose business are Shariah compliant based on the criteria published by AAOIFI, especially the Shariah principle # 21 related to securities.

IdealRating Inc.

IRI provides quality services in the identification of Shariah compliant businesses according to the standards of AAOIFI and is the most reputable for providing services in the management of Islamic products for many international Islamic institutions with presence in more than 18 countries.

AAOIFI

Accounting and Auditing Organization of Islamic Financial Institutions was established under agreement between Islamic financial institutions and was registered in the Kingdom of Bahrain on 27th March 1991 as non for profits independent industry body dedicated to the development of international standards for accounting and auditing of Islamic financial institutions. AAOIFI's standards are an authority in the identification of Shariah compliant business and commercial activities.

AAOIFI Shariah Mandate (Shariah Screens)

Business Activity Screens

Companies' business core must be Shariah Compliant. The following are classified as being inconsistent with Sharia principles :

- Investments with operational and none operational interest .
- Immoral entertainment
- Alcohol
- Cinema
- Music
- Financial services (insurance , conventional banking Conventional banking , conventional financial services, and mortgage)
- Gambling
- Defense & Weapons
- Hotels
- Tobacco
- Pork meat

If the company does not practice any of the above activities, the total income from the collateral activities which are not sharia compliant shall not exceed 5% from the actually realized income.

Financial Screens

- Cash & Interest-bearing investment should not exceed 30% of the Average Market Capitalization during the previous 12 Months.
- Interest-bearing debts should not exceed 30% of the Average Market Capitalization during the previous 12 Months.
- Total Sum of the liquid assets should not exceed 67% of the total assets.
- Investment in preferred shares and bonds is not allowed.

Dividends Purification/ AAOIFI Rule

- 1 It's obligatory to eliminate prohibited income specific to the share that is mixed up with the earnings of the corporations, and this is in accordance with the following:
 - A The elimination of prohibited income is obligatory on one who is the owner of the share, whether an investor or a trader, at the end of the financial period, even if the payment is due at the time of issuance of the final financial statements whether quarterly, annual or for other period. Accordingly, elimination is not obligatory for one who sells the shares before the end of the financial period.
 - B The subject-matter of elimination is the prohibited income specific to the share whether or not the profits have been distributed and whether or not the corporation has declared a profit or suffered a loss.
 - C Elimination is not obligatory for the intermediary, agent or manager out of part of their commission or wages, because this is their right in lieu of the work they have undertaken.

- D The figure, whose elimination is obligatory on the person dealing in shares, is arrived at by dividing the total prohibited income of the corporation whose shares are traded by the number of shares of the corporation, thus, the figure specific to each share is obtained. Thereafter the result is multiplied by the number of shares owned by the dealer-individual, institution, fund or another- and the result is what is to be eliminated as an obligation.
- E It is not permitted to utilize the prohibited component in any way whatsoever nor is any legal fiction to be created to do so even if this is through the payment of taxes.
- F The responsibility for elimination of the prohibited component of the income, for the benefit of all, falls upon the institution in case it is trading for itself or in case it is managing the operations. In the case of intermediation, however, it is bound to inform the person dealing in them of the mechanism for the elimination of the prohibited component so that he can undertake it himself. The institution may offer these services, with or without a charge, for those dealers who desire them.
- 2 The institution will apply the above rules whether it does so directly or through another and whether it is trading for itself or for another by way of intermediation or management of wealth, like funds, or is doing so as the agent of another.
- 3 It is necessary to observe these rules throughout the period of participation or trading. If the rules cannot be applied, it is obligatory to give up such investment.

Index Formula

$$Index_t = \frac{\text{Sample Aggregate Market Capitalization} * \text{Free Float Factor} * \text{Capping Factor}}{\text{Base Free Float capped Market Capitalization}} \times \text{Base index value}$$

Or

$$Index_t = \frac{\sum_{i=1}^n (P_{it} N_{it} F_{it} C_{it})}{\text{Base Market Cap (Free Float capped @10)}} \times 1000$$

Where:

Index t = Index value on day t

P_{it} = closing price for companies i on day t

N_{it} = number of outstanding shares of company i on day t

F_{it} = Free Float factor coefficient of the instrument on day t

C_{it} = Capping factor coefficient of the instrument on day t

n = number of companies included in the index

Pricing

The Index uses Volume Weighted Average Price (VWAP) in calculation. VWAP formula is prescribed below:

$$\text{VWAP} = \frac{\sum_{i=1}^n (\text{trade volume}) (\text{trade price})}{\sum_{i=1}^n (\text{trade volume})}$$

Shariah Index Sample Selection Methodology

- After selecting the companies that have complied with Shariah principles stated by (AAOIFI) organization for four consecutive quarters, the following criteria will be used to select the best 15 companies that will constitute MSM Shariah Index Sample.
- The selection Criteria are as follows:
 - Traded Value 10%
 - Traded Volume 10%
 - Number of Trades 10%
 - Traded Days 10%
 - EPS 10%
 - Shares Turnover 10%
 - Average Market Capitalization 40%
- Shariah Index Sample will be reviewed annually on April after receiving the final quarter reports of the last financial year. The sample will be reviewed quarterly to ensure that the sample constituents are complying to shariah principles.
- In case that a company did not meet any of the shariah principles before the sample annual revision date, it will be excluded from the index sample and replaced by the subsequent company according to the previously stated criteria.
- The reports of Shariah Compliant Companies will continue to be quarterly disseminated.



Index Specification

Index Base Date	30 th June 2013	
Index Base Value	1000	
Methodology	Free Float Market Capitalization Capped @ 10%	
Pricing	Volume Weighted Average Price (VWAP)	
Index Sample Size	Variable	
Selection Criteria	AAOIFI Rule + Performance-Based Criteria (Refer to Slide #8)	
Screened Markets	Included	<ul style="list-style-type: none">• Regular Market• Parallel Market• Under-Monitoring Market
	excluded	<ul style="list-style-type: none">• Preferred stocks
Compliance Revision	Quarterly (March, June, September and December)	
Sample Alteration	Once annually, in April	