

# LSL SHARIAH COMPLIANT SECURITIES

LSL Shariah Compliant Securities List has been designed and developed to be used as a basis of Shariah compliant equity investments at the Colombo Stock Exchange (CSE). The listed companies at CSE are screened against a clear set of Shariah principles and the list is designed to meet the requirements of both local and foreign Islamic investors.

**Wealth Creation: The Shariah Way.** Islamic finance principles embody a unique form of investment management which corresponds with the values of socially responsible investing. Islamic finance is an ethical and equitable mode of finance that derives its principles from the Shariah (Islamic law). Shariah forbids interest and making 'money from money'. Rather it encourages that wealth be generated through legitimate trade. Hence identifying this opportunity prominent Islamic scholars and ulemas across the globe have defined all market instruments and after that they have permitted with some conditions to have investments in stock market and invest in it.

**LSL Shariah Compliant Securities List.** While Shariah compliant investment avenues are now becoming available in most countries, Sri Lanka has not seen large-scale development. To fill this gap, we at Lanka Securities, have designed Shariah Compliant Securities List to assist the Islamic investors who are interested in investing at the Colombo Bourse.

## LSL SHARIAH COMPLIANT SECURITIES : SCREENING METHODOLOGY

### BUSINESS ACTIVITY SCREENING

**Companies involved in any of the following activities will be filtered out as non Shariah-Compliant:**

- Conventional Finance (Conventional banking, insurance, financial services, or any other interest-related activity)
- Alcohol
- Pork related products and non-halal food production, packaging and processing or any other activity related pork and non-halal food
- Entertainment (Casinos, Gambling and Pornography)
- Tobacco
- Weapons, arms and defense manufacturing

### FINANCIAL RATIOS SCREENING

**The remaining companies are then further screened on a financial basis. The following financial ratios must be met for companies to be considered Shariah-compliant:**

- Total interest and income from non-compliant activities should not exceed 5.0% of the total revenue
- Interest bearing debt is less than 30.0% of the market capitalisation
- Interest earning deposits are less than 30.0% of the market capitalisation
- Accounts receivable, prepayments and cash are less than 50.0% of the total assets

### Key Features:

**Coverage:** The list is prepared based on the all the companies currently listed in the CSE. When a new company gets listed in the CSE it will be added to the list if it meets the above set criteria.

**Regular Reviews:** As several financial ratio screeners are based on the market capitalisation, the list will be reviewed on a weekly basis to capture the impact of the price movements of the equities. The financial data on which the list is based on will be updated quarterly when the companies release the interim financials.

**Moderate Screening Methodology:** The screening methodology is designed to ensure the compliance with the Shariah laws. The business and financial screeners have been identified looking at the industry best practices along with the guidance set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

*Exploring opportunities in Shariah compliant investing.....*



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