

## 1. What is the S&P Bangladesh BMI Shariah Index?

A number of fundamentally strong stocks from Bangladesh have been considered as eligible to be included in S&P Frontier BMI. The S&P Frontier BMI Shariah Index is the Shariah compliant version of S&P Frontier BMI Index. These index constituents are reviewed regularly by the Shariah Board.

## 2. Is screening sector- or stock-based?

Stocks that are considered for inclusion in the S&P Bangladesh BMI Shariah Index are screened using a sector-based screening regime supplemented by a stock-based screening scheme. As a result, although certain sectors (e.g., hotels) are often classified as non-compliant, each stock is individually screened and the non-permissible revenues are determined using various methods that include consulting company statements, third-party sites (e.g., Bloomberg and Google Finance), and contacting the companies themselves. This method has the benefit of being more accurate than a simple sector-based screening, particularly in the case of conglomerates, where a single sector-based classification is unlikely to be representative of all the activities of the conglomerate.

## 3. Are all financial companies considered Shariah-non-compliant according to the S&P Shariah Indices Methodology?

All companies in the financial sector such as conventional banks and insurance companies are considered Shariah-non-compliant with the exception of Islamic banks, Islamic financial institutions and Islamic insurance companies. Such financial companies are defined as:

- ✓ Having a Shariah Committee to supervise all activities
- ✓ Having only Islamic products
- ✓ Investing in only Islamic products or companies
- ✓ Passing accounting-based screens.

## 4. How are companies with a large percentage of income generated through interest judged to be compliant?

The S&P Shariah Indices Methodology does not use interest income (as a percentage of total income) as a screening filter. The S&P Shariah Indices Methodology filters out non-permissible income excluding interest income as a percentage of the total revenues. Non-permissible income includes such things as alcohol sales, sales of products containing pork, etc.

The reason for this is to allow for investment in the shares of companies who are in the research and development phase (e.g., mining or energy companies). These companies often do not generate a sizable revenue (during the R&D phase) from operations, but have a market capitalization well in excess of the cash on their balance sheet based on the expectation of high future revenue and profits. However, they usually have a high dividend purification ratio (requiring purification at a high level) because any interest they may have received during the R&D phase appears exaggerated due to the small or non-existing revenue from operations.

Such stocks, if they pass all other Shariah screens, and if the cash balances plus any interest-bearing marketable securities (these are the sources of interest income) are within the Shariah limits with respect to the average market capitalization, are allowed for investment.

## 5. How are investments in mutual funds by companies treated? Is the income derived from these investments considered compliant?

Investments in mutual funds are generally considered to be non-compliant unless the funds in question are Shariah-compliant Islamic funds. There are, however, occasions where regional or circumstantial assumptions may be employed (e.g., having observed that around 50% of the investible universe in India comprises Shariah-compliant stocks, 50% of the income from a mutual fund based in India may be considered compliant).

## 6. How does the S&P Shariah Indices Methodology define debt? How is it calculated?

Debt, as defined by the S&P Shariah Indices Methodology, is the sum of all short- and long-term interest-bearing borrowings and liabilities. It is calculated by summing all such items reported in constituent companies' statements.

## 7. How is the average market capitalization of stocks calculated?

The average market capitalization of X over n months is calculated by multiplying the moving average daily closing price of X over n months (must be adjusted for corporate actions) with the total number of shares outstanding for X.

For companies that do not have a sufficiently long price history (e.g., recent IPOs), the average market capitalization is calculated as the moving average daily closing price of X over n days where n is the number of days X has been trading or the number of days that a daily closing price for X has been available.

## 8. How is the dividend purification ratio calculated? What goes into the component of dividends to be purified?

The dividend purification ratio is calculated as:

$$\text{DP ratio} = \text{Non-Permissible Revenue} / \text{Total Revenue}$$

Non-permissible revenue, in this context, includes all forms of revenue or income that are considered non-permissible from a Shariah perspective (e.g., alcohol sales, gambling revenue, etc.) and includes any income generated from interest.

The DP ratio determines what portion of the dividends received must be purified (i.e., given to charity). As an example, a DP ratio of 0.10 (i.e., 10%) implies that 10% of the dividends need to be given to charity, while a DP ratio of 1.0 (i.e., 100%) requires all of the dividends received to be purified.

## 9. Why are the norms of standardized organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) not used?

The S&P Shariah Indices' screening methodology reflects the latest thinking of the Shariah Control Committee. This may differ from the norms of organizations like AAOIFI for two reasons.

- ✓ Firstly, different Shariah committees can come to different conclusions.
- ✓ Secondly, these "consensus" organizations tend to be less dynamic in their thinking. We do expect screening norms to converge on the S&P Shariah Indices' criteria over time.

## 10. When does the monthly Shariah review process occur?

- ✓ During the week of the first and second Fridays of the month, the Shariah screening of the underlying index members occurs. Values may be fixed (subject to Shariah Control Committee approval) at any point during this time, but this usually happens on the Tuesday of the week of the second Friday of the month, with the three-year moving average market capitalizations corresponding to the three years immediately preceding the Tuesday of the week of the second Friday of the month.
- ✓ During the week of the second and third Fridays of the month, Shariah committee authorization is obtained.
- ✓ S&P Dow Jones Indices announces changes to the S&P Shariah Indices on the third Friday of the month.
- ✓ Changes to the Shariah indices take effect at the start of business on the Monday immediately following the third Friday of the month.

#### **11. In the debt/36-month average market cap, which clauses are considered debt?**

Our definition of debt includes the following (this list is non-exhaustive):

- ✓ Long-term interest-bearing debt as disclosed by the company's management
- ✓ Short-term interest-bearing debt as disclosed by the company's management
- ✓ Current portion of long-term interest-bearing debt as disclosed by the management
- ✓ Interest-bearing short-term liabilities such as overdrafts, bridge loans, etc.

We exclude:

- ✓ Short-term non-interest-bearing operational payables/liabilities such as gratuity payable, creditors for goods and services, provisions, etc.
- ✓ Long-/short-term Islamic debt
- ✓ Long-/short-term non-interest-bearing debt

#### **12. Accounts receivable/36-month average market cap: what is included in accounts receivable?**

Our definition of accounts receivables includes the business/operational/trade and non-trade receivables.

#### **13. Do cash and interest-bearing securities include short-term investments, cash equivalents, deposits and bonds?**

Our definition of cash and interest-bearing securities includes the following (this list is non-exhaustive):

- ✓ Cash in hand
- ✓ Cash at bank
- ✓ Term deposits (three months)
- ✓ Short-term investments held for sale/trading
- ✓ Government bonds (if classified as short-term investments)
- ✓ Investments in mutual funds, other equity funds held for sale/trading

We exclude:

- ✓ Islamic investments

#### **14. Are companies that are fully Shariah-compliant subject to accounting-based screens?**

Companies that are fully Shariah compliant are not subject to accounting-based screens, but are subject to Shariah Board approval. Such companies are classified as Shariah-compliant irrespective of their leverage ratios. While the subsequent list is non-exhaustive and companies are reviewed on a case-by-case basis, companies are typically characterized by the following:

- ✓ Presence of a Shariah Supervisory Board
- ✓ All transactions (business and financial) are in accordance with Shariah principles.
- ✓ Incorporated and managed in a fully Shariah-compliant manner