

## Screening Criteria for Investment and Shares/ Stock Trading

*Prepared by*  
*Shariah Compliance Department*  
**Pak-Qatar Family & General Takaful Limited**



**PAK-QATAR FAMILY & GENERAL TAKAFUL**  
*Together we Prosper*

## Introduction

The task of investing funds in Shariah approved and financially viable businesses is carried out by a team of investment specialists at Pak-Qatar Family & General Takaful Limited. This activity is supervised by a panel of Shariah Board Members chaired by Mufti Muhammad Taqi Usmani for Shari'ah compliance.

The screening criteria set by the executive committee of the Shariah Supervisory Board are as follows:

- Business of the Investee Company
- Debt to total Asset ratio
- Illiquid assets as a percentage of Total Assets
- Investment in non-Shariah compliant activities and income from non Shari'ah-Compliant investments
- Net liquid assets versus share price

## Business of Investee Company

1. The first step is to check whether the business of the investee company is Halal, or not. Thus, investment in shares of conventional banks, insurance companies, leasing companies, Modarabah companies (that violate the Modrabah rules of the Shariah), companies dealing in alcohol, tobacco etc. are not permissible.
2. The company must have started its business practically and its assets must be existent, i.e. its capital planning should have been executed already.

After confirming that the nature of the company's business is compliant and existent, following ratios are checked and a separate excel sheets have to be maintained for each company.

- **DEBT TO TOTAL ASSETS:**  
All the interest bearing debt and interest bearing financing is calculated which is then divided by the total assets. This ratio should not exceed 33% in order for the company to remain compliant.

- **ILLIQUID ASSETS TO TOTAL ASSETS:**

An asset or security that cannot be converted into cash very quickly (or near prevailing market prices) is considered illiquid. Property, Plants & Equipment, Investments, Stocking-Trade, and Stores, Spares & Loose tools are the main heads included in Illiquid Assets for the purpose of checking compliance. The total illiquid assets of the investee company should be at least 20% of the total assets.

## **Profit and Loss Sharing**

1. Profit and loss of the company must also affect the profit and loss of its investors based on the amount of shares/ investment they own or made.
2. The profit and loss sharing ration at the time of the execution of the agreement must be fixed. It is not possible to guarantee a particular fixed growth income or to guarantee a fixed monthly, quarterly, yearly income etc.

## **Guidelines regarding trading in Shares**

1. If the company was registered but doesn't have anything other than the needed startup capital/ investments ready, i.e. it didn't start its business as yet, then its shares could only be bought based on their real FACE VALUE. Selling or buying those shares for more or less than their real face value is not permissible shar'an.
2. If bought shares are intended to be sold then they need to be registered at CDC in the name of the current owner first, as this is understood to be a proof of ownership. Ownership of goods is a necessary and compulsory part of the buying and selling process in the Shariah. This means that selling any goods without having its ownership established, may it be through real or constructive ownership, is impermissible.
3. The exchanges of one's shares with shares of somebody else (barter) is only permissible if the ownership of those shares had been properly established.
4. The conventionally transacted way of Repo (repurchase transaction) and Rev.Repo (reversed repurchase transaction) are not permissible.
5. The nowadays prevailing practices and conditions of Forward Trading and Future Trading as well as Blank-Sale and Short-Sale at the stock exchange are Shar'an not permissible.

## **Income from non- Shariah compliant investments**

1. Total investments in non-Shariah compliant business are calculated for each company and are divided by Total Assets. The resulting ratio should not exceed 33%.
2. If money needs to be invested in a company that deals mainly in halal but also receives revenues from side businesses that could be haram, than it should be done with the firm intention to inform in written and also orally, if possible even in their annual meetings that the company should not do any haram business generally and particularly with this investment.
3. The Shareholder/investor needs to check the yearly balance sheet of the companies to determine to what percentage haram income was received. Based on this he has to give an equal percentage of his profit into charity.
4. All Incomes from non Shariah Compliant Investments are summed and their ratio to gross revenue (Gross Sales + Other Income) is calculated. This ratio should be less than or equal to 5%.

## **Net Liquid Assets vs. Share price**

The Net liquid Assets are calculated as follows:

$$\text{Net Liquid Assets} = \text{Total Assets} - (\text{Tangible Fixed Assets} + \text{Inventory}) - \text{Liabilities}$$

- The Net Liquid Assets per share are calculated and compared with the market price per share.
- The Net Liquid Assets should be less than the Market price per share.

### **Additional Remarks**

After every three month the screening process has to be revised to ensure Shariah compliance of the scripts in holding.

In case of non-compliance of the investee company after a previous Shariah compliance a disinvestment has to take place immediately. But should this cause a severe loss or should the market situation be non-favorable than this case will be decided on individual basis by the Shariah Supervisory Board.

The aforementioned guidelines are to be understood as standard guidelines, nevertheless in certain cases where ever deemed necessary and on the basis of the decision of the Shariah Supervisory Board certain alterations of those could be possible and a separate Shariah approval for those cases need to be obtained.

## **INVESTMENT PROCEDURE & PROCESS FLOW**

### **1. Objective**

This policy document refers to the investments' procedure and process flow to be followed in all the statutory funds, i.e., Shareholders' Fund; Participant Investment Fund; Participant Takaful Fund. The objective is to enhance the real returns through a diversified portfolio duly keeping in view the regulatory restrictions in respect of solvency requirements.

### **2. Management Investment Committee**

CFO, being a member of Management Investment Committee (MIC) would keep abreast with the upcoming investment opportunities in the primary and secondary market. He would communicate the investment opportunity to other members of the MIC and upon receipt of their consent would initiate the transaction.

For necessary exposure in Sukuks, prior approval would be sought from Shariah Board members through the Shariah Compliance Department. Information memorandum and other related documents would be forwarded to Shariah Compliance Department for onward submission to the Shariah Board Members for their review and approval.

For direct equity exposure, the transactions would be routed through M/s. Fawad Yusuf Securities (Private) Limited (FYS), Corporate Member of Karachi Stock Exchange. Its CEO is also the board member of Pak-Qatar General Takaful Limited. The FYS would be given an the appropriate investment limit with the prior approval from the Board of Directors to take necessary exposure in the equity market. For this purpose, the list of eligible securities would be provided by the CFO before making any transaction. He would also be kept informed about the other Shariah compliance requirement and other implications in investment transactions.

Regarding bank placements, the same would be made for appropriate tenors in the Islamic Banks and/or Islamic Banking Division of Conventional Banks. Since the Islamic Banks and IBDs of Conventional Banks have their own Shariah Advisors who looks after their Shariah Compliance Issues, the placement with them would not require prior approval from Pak-Qatar Group's Shariah Board Member.

### **3. Regulatory Requirement applicable on Investments**

Takaful Rules, 2005; the Insurance Ordinance, 2000; Insurance Rules, 2002; Insurance (SECP) Rules 2002; are the applicable framework on the Investment. Investment restrictions for respective statutory fund are given below:

### **3.1. Shareholders' Fund / Participant Takaful Fund:**

- The Shareholders funds shall be maintained only in securities or in a manner which is not against Islamic principles. All income accruing and receivable in respect of the above deposit shall be payable to, and receivable by, the Shareholders' Fund.

### **3.2. Participants' Investment Fund:**

- In unit-linked policies, a portion of the contributions is meant for investment to build up surrender values for the participants. These shall be maintained in the form of units for each participant in a Participants' Investment Account (PIA). The underlying assets against these units shall be maintained in the Participants' Investment Fund (PIF). The income and expenses of the PIF shall be maintained separately and unit price shall be determined every Wednesday. The pricing period would be from Wednesday to next Tuesday. The mode of pricing would be forward in the manner that the new units would be created on the basis of new price determined on every Wednesday.
- The unit price would be calculated by dividing the net asset value from the issued units. The net assets value would be computed by the Finance & Accounts department on every Wednesday and be forwarded to the Actuarial Department. The Actuarial Department would in return compute the available units in the System and finalize the unit prices for each investment strategy. The same shall be computed to the Finance & Accounts Department to finalize the pricing in the System.

### **3.3. Investment Restrictions and Exposure Limits:**

The restriction and exposure as detailed in the Investment Policy determined by the Company and approved by the Board Investment Committee shall be followed.