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The Importance of *Shari'ah* Screening in Islamic Bank: An Islamic Jurisprudence Analysis

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ABSTRACT: Islamic Banking and Finance (IBF) is a rapidly growing industry worldwide. Islamic finance (IBF) is a financial system based on Islamic law (Shari'ah). The fundamental principle of IBF is to comply with Islamic law, known as Shari'ah. Shari'ah prohibits the charging or paying interest and investment in activities considered harmful or risky. Shari'ah screening is the process of identifying companies that comply with Shari'ah law. This is to ensure that their investments are in accordance with Shari'ah principles which prohibit the elements of riba, maysir and gharar. Shari'ah screening is an essential aspect of IBF as it ensures that all financial transactions and products comply with Shari'ah's principles. This is important for investors who want to invest in IBF products and services. This paper provides an overview of Shari'ah screening and its importance in IBF. It also discusses the different methods that are used to conduct Shari'ah screening. This paper also aims to provide an Islamic jurisprudence analysis of the importance of Shari'ah screening in IBF. The paper concludes by arguing that Shari'ah screening is an essential part of IBF and helps ensure that IBF products and services comply with Shari'ah law. The objective of this paper is to discuss the importance of Shari'ah screening in the context of Islamic banking and finance and Islamic jurisprudence also a new screening methodology in comparison with the previous methodology. This paper has used information that has been derived from research papers, journal articles as well as official authentic websites and annual reports to provide an ideology about shariah screening in methodologies.

KEYWORDS: Islamic finance, Shari'ah screening, Islamic jurisprudence, interest, investment.

INTRODUCTION

Islamic finance is a financial system based on Islamic law (*Shari'ah*). *Shari'ah* prohibits the charging or paying interest and investment in activities considered harmful or risky. Islamic financial institutions (IFIs) must carefully screen the companies they invest in. *Shari'ah* screening is the process of identifying companies that comply with *Shari'ah* law. This is important for investors who want to invest in IBF products and services. By investing in *Shari'ah*-compliant companies, investors can be confident that their investments do not violate *Shari'ah* law.The purpose of the *Shari'ah* financial screening indices is to exclude companies with unacceptable levels of conventional debt, liquidity, interest-based investment and/or impure income. Ideally, companies must not borrow on the basis of interest rate, nor invest in debt-bearing instruments, as well as not generating income through any other *Shari'ah*-impermissible activities. However, such restrictions would screen out the vast majority - if not all - of the stocks that are available on the market, even those listed in Islamic countries (Wilson, 2004). Based on this condition, *Shari'ah* scholars tried to come out with a set of *Shari'ah* indices to be tested on existing companies in order to classify them as *Shari'ah*-compliant companies.To date, *Shari'ah*-compliant companies are being recognized by making a *Shari'ah* screening process on securities such as ordinary shares, warrants and transferable subscription rights that are listed on the stock exchange market. These *Shari'ah*-compliant securities basically are *Shari'ah* permissible for investment, based on the company's compliance with *Shari'ah* principles in terms of its primary business and investment activities (Mohamad & Razif, 2013). However, *Shari'ah* screening indices used by authorities around the world are different from each other.

SHARI'AH SCREENING BACKGROUND

Together with the establishment of Islamic banking, *Shari'ah*-based products have been introduced. Some say that it is merely a replication of a conventional product. However, this is far from true. The people involved in the banking sector have done thorough research before coming out with a product that may look like the conventional one. The main thing is that it is *Shari'ah*-compliant. Islamic banking and finance have shown good progress with various *Shari'ah*-compliant products and services to prospective customers and clients.

The product offered by an Islamic financial institution will undergo several screening steps before it can be certified as *Shari'ah*-compliant by its advisory board. This committee will ensure that the product offered is within the *Shari'ah* boundaries. Established products like *murabaha*, *musyaraka,* and *ijarah* have gained their audience over the past years. The banking sector is competing with each other to offer a variety of products. The modern business world requires more extensive products for newcomers, such as e-commerce, online banking, etc.

Shari'ah screening is conducted to eliminate unacceptable investment stocks involving prohibited elements, including liquor, gambling, and *riba*. In the early days of Islamic finance, the screening process was not practised mainly because the investment activities were either fully compliant or there were no issues *Shari'ah-compliant* since it only involved Muslims. However, now we have joint ventures or partnerships (*shirkah*) in the Islamic commercial space between Muslim partners and their non-Muslim partners in various business activities. Before proceeding with such joint ventures, the Muslim partners must ensure that the conduct or partnerships are compatible with *Shari'ah* principles (Adam & Bakar, 2014).

The rise of awareness among Muslim investors on favourable circumstances in foreign stock markets has been the primary concern of the development of the screening methodology. High involvement with interest-based conventional banking has moved Muslim investors away from the stock market. A few scholars see this as a significant loss to Muslims since the stock market promises a good income. Therefore, in 1987, Muslim scholars gathered and came up with criteria that allowed Muslims to gain halal income through stock investment in the stock market. Muhammad Taqi Usmani of Pakistan headed the team with Prof. Saleh Tug of Turkey and Sheikh Mohammad Al-Tayyeb Al-Najar of Egypt. They have presented the *Shari'ah* screening criteria on how Muslim investors can buy shares of the companies that fulfil them (Adam & Bakar, 2014).

LITERATURE REVIEW

THE IMPORTANCE OF *SHARI'AH* SCREENING

Shari'ah screening is an essential part of IBF. It helps ensure that IBF products and services comply with *Shari'ah* law. *Shari'ah* screening is a process of evaluating financial products and transactions to ensure that they comply with the principles of *Shari'ah*. This process is vital for several reasons. Firstly, *Shari'ah* screening ensures that financial products and transactions are free from any element of interest (riba) prohibited in Islam. Secondly, it ensures that financial products and transactions are free from uncertainty (gharar) and speculation (maysir), also prohibited in Islam. Thirdly, *Shari'ah* screening ensures that financial products and transactions are socially responsible and do not harm society or the environment.

- **Compliance with *Shari'ah* Law:** *Shari'ah* screening ensures that all financial products and services offered by IBF institutions comply. This is important because *Shari'ah* law prohibits certain activities, such as making money from money, investing in businesses that deal with alcohol or pork, and charging interest on loans. By adhering to *Shari'ah* law, IBF institutions can provide financial products and services that align with their customers' values and beliefs.
- **Protection of Investor's Interests:** *Shari'ah* screening also protects the interests of investors by ensuring that their investments comply with *Shari'ah* law. This is important because *Shari'ah* law strongly emphasizes ethical and moral values, and investors who adhere to these values are more likely to invest in companies that align with their beliefs. By ensuring that all financial products and services offered by IBF institutions are *Shari'ah*-compliant, investors can be assured that their investments align with their values and beliefs.
- **Promotion of Social Justice:** *Shari'ah* screening also promotes social justice by ensuring that IBF institutions do not invest in businesses that engage in activities that are harmful to society. For example, IBF institutions are prohibited from investing in businesses that deal with alcohol or pork, which are harmful to society. By adhering to *Shari'ah* law, IBF institutions can promote social justice by investing in businesses that benefit society.
- **Encouragement of Ethical Behaviour:** *Shari'ah* screening encourages ethical behavior by ensuring that IBF institutions only invest in businesses that comply with *Shari'ah* law. This is important because *Shari'ah* law strongly emphasizes ethical and moral values, and investors who adhere to these values are more likely to invest in companies that align with their beliefs. By encouraging ethical behaviour, *Shari'ah* screening can help to promote a more ethical and moral society.

Shari'ah screening is also essential for maintaining the integrity and credibility of the IBF industry. It assures customers and investors that IBF institutions' financial products and transactions comply with *Shari'ah*'s principles. This helps to build trust and confidence in the industry, which is essential for its growth and sustainability (AccSense, 2023).

The Importance of *Shari'ah* Screening in Islamic Bank: An Islamic Jurisprudence Analysis

Shari'ah screening is a continuous process not limited to the initial screening of financial products and transactions. To ensure continued compliance with *Shari'ah* principles, it is vital to ensure ongoing monitoring and review of products and transactions. This is particularly important in the rapidly evolving financial industry, where new products and transactions are constantly being developed.

HISTORY OF *SHARI'AH* SCREENING

The setting screening criteria was initiated by a team of scholars consisting of Muhammad Taqi Usmani (Pakistan), Saleh Tug (Turkey) and Sheikh Mohammad Al Tayyeb Al Najar (Egypt) in 1987 with the objective of finding a solution that would allow Muslim investor to own shares of listed joint stock companies (Mian, 2008; Adam & Abu Bakar, 2014). Later, the fatwa of stock screening which was initiated in the 1990s as a result of the dot-com bubble attracted many young Muslims to trade in the international stock exchange market by using their families' wealth to benefit from high returns. During this period of time, the young committed Muslims inquired about the permissibility of trading in such stocks. However, there is no such guideline to determine the *Shari'ah*-compliant companies. In order to recognize *Shari'ah*-compliant companies, Sheikh Nizam Yaqoubi proposed general criteria to be applied for identifying *Shari'ah*-compliant companies. A group of scholars adopted a similar stand and participated in the *Shari'ah* committee in different financial institutions (Gamalalden, 2015).

Meanwhile, the first Islamic equity index was introduced in Malaysia by RHB Unit Trust Management Bhd in 1996. Following the establishment of the DJIMI in 1999 and relying on the same principles, the KLSI and FTSE Islamic Index were both launched in the year 1999 (Yildirin & Ilhan, 2018). In the latest development, Bursa Malaysia, in cooperation with FTSE, introduced a new series of tradable equity indices called FTSE-Bursa Malaysia Emas *Shari'ah* Index and FTSE-Bursa Malaysia Hijrah *Shari'ah* Index. This development helped to create more opportunities for investors seeking *Shari'ah* investments to benchmark their portfolios, and the asset managers to create new products serving the investment community. The Security Commission reported in 2008 that there were over 85% of total listed Islamic equity companies in Malaysia (Mohd Hussin et al., 2012). Furthermore, this was the first step in facilitating participation in equity investments that are compatible with the Islamic principles of *Shari'ah*. The KLSI provides a benchmark for investors seeking to make investments based on *Shari'ah* principles and this helps them to make better informed decisions. The International Islamic Fiqh Academy of the Organization of Islamic Cooperation (IIFA-OIC) allowed participation in joint stock companies whose business activities are completely *Shari'ah* compliant. Accordingly, it did not allow involvement in the companies whose business activities are either impermissible or a mixture of permissible and impermissible elements (IIFA-OIC, 2000, Resolution # 63/1/7). The Islamic Fiqh Council (IFC) of the Muslim World League (MWL) also seconded the IIFA-OICs view in its own resolution issued in 1995 (IFC, 2006, Session #14, Resolution #4). These *Shari'ah* resolutions were perceived as a good step towards establishing Islamic equity (Habib & Faruq, 2017).

WHAT IS *SHARI'AH* SCREENING?

To clarify, *Shari'ah* screening is a methodology used to determine the *Shari'ah*-compliant status of a company. Generally, the methodology is used for investors to determine the *Shari'ah* status of a company before investing. Additionally, *Shari'ah*-compliant financier or investment companies may also establish their own specific *Shari'ah* screening methodology to help them determine whether to provide financing or to invest in a particular company.

In Malaysia, *Shari'ah*-compliant Securities Screening Methodology is issued by the Securities Commission. It is important to note that the *Shari'ah* screening is endorsed by the *Shari'ah* Advisory Council ("SAC") of the Securities Commission. The screening methodology helps investors to determine which shares listed in Bursa Malaysia are *Shari'ah*-compliant. The Securities Commission of Malaysia has also recently released the *Shari'ah* screening assessment toolkit to determine the status of unlisted micro, small and medium enterprises. This is a good development because the newly released toolkit expands the potential investments investors can make on top of the Sharia-compliant listed stocks or securities.

In other jurisdictions, the *Shari'ah* screening methodology is also issued by the S&P Dow Jones, known as the S&P Dow Jones Islamic Market Indices Methodology and FTSE Global Equity *Shari'ah* Index. We are interested to see how different S&P Dow Jones and FTSE adopt the *Shari'ah* screening methodology compared to the Securities Commission. Hence, this article compares the methodology and the *Shari'ah* screening benchmarks used by SC, S&P Dow Jones, and FTSE (OBAIDULLAH, 2004).

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical approach, utilizing qualitative methodology to examine Shari'ah screening procedures and techniques. Comprehensive and analytical review of the existing literature on Shari'ah screening techniques to date. Various online and offline resources were evaluated. The principal source of data collection for the review comprised research papers and review articles published by esteemed publishers and journals. These resources were utilized to clarify. This study used an extensive library investigation grounded in Shari'ah screening methodologies.

SHARI'AH SCREENING: A COMPREHENSIVE APPROACH

Shari'ah boards and advisory councils are responsible for determining whether or not a company is *Shari'ah*-compliant. These boards are typically made up of Islamic scholars who are experts in *Shari'ah* law. They review companies' financial statements and make decisions based on the principles of *Shari'ah* law.

Shari'ah screening is a rigorous process that ensures investment compliance with Islamic principles. A fundamental criterion in this process is the exclusion of companies whose primary business activities are inherently non-compliant. For companies with both *Shari'ah*-compliant and non-compliant secondary activities, a crucial aspect is evaluating the proportion of revenue derived from these non-compliant sources. This assessment not only gauges the company's overall compliance but also determines the extent of necessary "purification" of income, a practice often adopted by Muslim investors who seek to eliminate the impact of non-halal earnings (Zainudin & Miskam, 2014).

To effectively evaluate a company's *Shari'ah* compliance, a dual-pronged approach is necessary. Firstly, the company's general business activities must be scrutinized to ensure alignment with Islamic principles. Secondly, a quantitative analysis of its financial operations is essential to identify any potential non-compliance. The former is categorized as "Sector and Activity-Based Screening," while the latter is known as "Quantitative or Financial Screening."

Quantitative screening primarily involves two key considerations. The first is to ensure that a company's primary assets are not predominantly cash or cash equivalents. A company heavily reliant on cash-based assets risks triggering riba (interest) concerns, as trading in cash or currency must adhere to specific *Shari'ah* guidelines. Similarly, a significant portion of assets in the form of debt can lead to riba-related issues if not managed in accordance with Islamic principles (Ayedh et al., 2019).

The second consideration involves assessing a company's direct or indirect involvement in riba-related activities. This includes activities such as investing in interest-bearing instruments or acquiring funds through interest-based financing. It's important to note that while the first approach considers all types of cash and debt, regardless of their *Shari'ah* compliance, the second approach focuses specifically on non-compliant instruments and transactions.

Various *Shari'ah* screening standards, such as those issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the *Shari'ah* Advisory Council of the Securities Commission Malaysia (SAC-SC), have established specific benchmarks to guide the evaluation process. These benchmarks often include limitations on the proportion of cash, debt, and interest-based activities relative to a company's total assets or market capitalization. By adhering to these guidelines, *Shari'ah*-compliant investors can make informed decisions that align with their religious and ethical values ((SC), 2019).

SHARI'AH SCREENING CRITERIA

Shari'ah screening criteria are used to determine whether or not a company is *Shari'ah*-compliant. These criteria are typically based on the principles of *Shari'ah* law. Some of the most common criteria include:

- The company must not engage in activities prohibited by *Shari'ah* law, such as charging or paying interest.
- The company must not invest in harmful or risky industries like gambling or alcohol.
- A board of directors must manage the company committed to *Shari'ah* compliance. (Abdullah Mohammed Ahmed Ayedh, 2019)

COMPARISON OF *SHARI'AH* SCREENING METHODOLOGY AND BENCHMARKS

Let's look at the methodology adopted by the three organizations to screen listed stocks. Then, we will also see what benchmarks or threshold sets they use.

A. The methodology

Table 1: Comparison Of *Shari'ah* Screening Methodology

Securities Commission	S&P Dow Jones	FTSE
The screening methodology considers both quantitative and qualitative assessments. For the quantitative aspect, the methodology consists of a two-tier	Stocks are screened using a sector-based screening and then supplemented with a stock-based screening scheme.	Using the following screening approach: Business activity screening

Securities Commission	S&P Dow Jones	FTSE
quantitative approach: Business activity benchmarks and financial ratio benchmarks.		and financial ratios screening.

Source: Auther's Own

B. The benchmarks

SC *Shari'ah* screening considers both the quantitative and qualitative aspects. The quantitative aspect looks at the contribution of *Shari'ah's* non-compliant activities to the overall revenue and profit before the entity's tax. On the other hand, the qualitative aspect considers the public perception and image of the company's activities from the perspective of Islamic teaching (Saiti, 2014).

THE QUANTITATIVE ASSESSMENT

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 *Shari'ah* non-compliant securities. The benchmarks are as follows:

1. **The Five Percent (5%) Benchmark**

The contributions from activities which are prohibited such as riba (interest-based companies like conventional banks), gambling, liquor and pork should not exceed 5%.

2. **The Ten Percent (10%) Benchmark**

The contributions from activities that involve the element of *`umum balwa* (a prohibited element affecting most people and difficult to avoid) must not be more than 10%. The interest income from fixed deposits in conventional banks and tobacco-related activities are good examples of the activities that belong to this benchmark.

3. **The Twenty Percent (20%) Benchmark**

The contributions from rental payment of *Shari'ah* non-compliant activities such as the rental payment from the premise that involved gambling, sale of liquor, sale of pork, conventional bank etc. must be below 20%.

4. **The Twenty Five Percent (25%) Benchmark**

This benchmark is for activities that are generally permissible according to *Shari'ah* and have an element of maslahah (benefit in general) to the public. However, other elements may affect the *Shari'ah* status of these activities due to the attachment of activities which are non-permissible according to *Shari'ah*. Among good examples of the activities that belong to this benchmark are hotel and resort operations, share trading, stock broking and others. The contributions must be lower than 25%.

THE QUALITATIVE ASSESSMENT

As for the qualitative assessment, the SAC considers two additional criteria for mixture activities companies. This assessment will be taking into consideration the following:

1. The company must have a good image i.e. public perception towards the company must be good; and
2. The core activities of the company are important and considered maslahah to the Muslim ummah (nation) and the country, and the non-permissible element is very small and involves matters such as *`umum balwa, `uruf* (custom) and the rights of the non-Muslim community which are accepted by Islam.

Hence, it can be summarized that for securities issued by mixture activities companies to be classified as *Shari'ah*-compliant securities, they must pass both assessments i.e. quantitative assessments as well as qualitative assessments (Securities Commission Malaysia, 2013a).

QUANTITATIVE COMPARISON OF *SHARI'AH* SCREENING

Table 2: Comparison of *Shari'ah* Stock screening

Securities Commission	**S&P Dow Jones**	**FTSE**
<u>Business activity benchmarks</u> The 5% benchmark applies to the following business activities: – Conventional banking – Conventional insurance – Gambling, liquor, and liquor-related activities – Pork and pork-related activities – Non-halal food and beverages – *Shari'ah* non-compliant entertainment – Interest income from conventional accounts and instruments – Tobacco and tobacco-related activities – Other activities deemed non-compliant according to *Shari'ah* The 20% benchmark applies to the following business activities: – Share trading, stockbroking business – Rental received from *Shari'ah* non-compliant activities – Other activities deemed non-compliance according to *Shari'ah* <u>Financial ratio benchmarks</u> Consist of the following: – Cash over total assets – Debt over total assets Both of the ratios must be lower than 33%.	<u>Sector-based screens</u> Income from the following impure sources cannot exceed 5% of revenue: – Alcohol – Tobacco – Pork-related products – Conventional financial services – Weapons and defence – Entertainment (casino, hotels, cinema, pornography, etc.) <u>Accounting based screens</u> Debt or impure interest income of all the following must be less than 33%: – Total debt divided by trailing 24-month average market capitalization – The sum of a company's cash and interest-bearing securities divided by trailing 24-month average market capitalization – Account receivables divided by trailing 24-month average market capitalization	<u>Business activity screening</u> The following business activities are considered *Shari'ah* non-compliant: – Conventional finance – Alcohol – Pork-related products and non-halal food production, packaging, and processing, or any other activity related to pork and non-halal food – Entertainment (casino, gambling, etc.) – Tobacco, weapons, arms, and defence manufacturing <u>Financial ratios screening</u> The following must be met to be considered *Shari'ah*-compliant: – Debt is less than 33.33% of total assets – Cash and interest-bearing items are less than 33.33% of total assets – Accounts receivable and cash are less than 50%of total assets – Total interest and non-compliant activities income should not exceed 5% of total revenue

Source: Auther's Own

SC *Shari'ah* Screening Assessment for the Unlisted Micro, Small, and Medium Enterprises

Since the Securities Commission of Malaysia has just released the *Shari'ah* Screening Assessment Toolkit for Unlisted Micro, Small, and Medium Enterprises, we also summarised it here for your reading pleasure: (Sengupta, 2012).

Table 3: *Shari'ah* screening methodology for micro, small, and medium enterprises.

Business activity benchmarks	**Financial ratio benchmarks**
The 5% benchmark applies to: – Conventional banking – Conventional insurance – Gambling – Liquor and liquor-related activities – Pork and pork-related activities – Non-halal food and beverages	– Riba and riba-based elements within the entity's statement of financial position must be less than 33% measured by cash over the total asset. – Riba and riba-based elements within the entity's statement of financial position must be less than 49% measured by debt over total assets.

Business activity benchmarks	Financial ratio benchmarks
– *Shari'ah* non-compliant entertainment – Interest income from conventional accounts and instruments – Dividends from *Shari'ah* non-compliant investments – Tobacco and tobacco-related activities – Other activities deemed non-compliant according to *Shari'ah* principles as determined by the *Shari'ah* Advisory Council 20% benchmark applies to: – Rental received from *Shari'ah* non-compliant activities – Other activities deemed non-compliant according to *Shari'ah* principles as determined by the *Shari'ah* Advisory Council The above is the benchmark for the *Shari'ah* non-compliant businesses/activities to the entity's revenue or profit before taxation ("PBT").	

Source: Auther's Own

Some differences are noted in the benchmarks used for unlisted micro, small and medium enterprises compared to those listed.

THE REDUCED BUSINESS ACTIVITY BENCHMARKS

The first tier of the quantitative assessment in the revised *Shari'ah* screening methodology is the business activity benchmarks. Under the revised methodology, the business activity benchmarks which previously consisted of four benchmarks had been reduced to only two benchmarks. The contribution of non-permissible activities which are allowed for a 10% benchmark under the previous methodology had been reduced to 5%. In other words, the contributions from non-permissible activities that involve the element of *`umum balwa* now must not be more than 5% only. The other benchmark is the 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%. Under the revised *Shari'ah* screening methodology, the list of non-permissible activities under each benchmark is as follows:

a) The Five Percent (5%) Benchmark

The contributions from the following activities to the group turnover and profit before taxation should not exceed 5%:

1. conventional banking;
2. conventional insurance;
3. gambling;
4. liquor and liquor-related activities;
5. pork and pork-related activities;
6. non-halal food and beverages;
7. *Shari'ah* non-compliant entertainment;
8. interest income from conventional accounts and instruments, including dividends from investment in *Shari'ah* non-compliant instruments and interest income awarded arising from a judgement by a court or arbitrator;
9. tobacco and tobacco-related activities; and
10. other activities deemed non-compliant according to *Shari'ah*.

b) The Twenty Percent (20%) Benchmark

The contributions from the following activities to the group turnover and profit before taxation should not exceed 20%:

1. hotel and resort operations;
2. share trading;
3. stockbroking business;
4. rental received from *Shari'ah* non-compliant activities; and

5. other activities deemed non-compliant according to *Shari'ah*.

THE NEWLY-INTRODUCED FINANCIAL RATIO

In the second tier of the qualitative assessment, each company that issues the securities need 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 the previous methodology. In this assessment, the SAC will calculate the following ratio which is 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 the company that meets the requirement in all assessments, each ratio must be less than 33% and only securities issued by the company that meets the requirement in all assessments will be classified as *Shari'ah*-compliant securities (Securities Commission Malaysia, 2013c).

ISLAMIC JURISPRUDENCE ANALYSIS

Shari'ah screening is based on the principles of Islamic jurisprudence, which is the study and interpretation of Islamic law. Islamic jurisprudence provides a framework for evaluating financial products and transactions to ensure their compliance with *Shari'ah* principles.Islamic jurisprudence emphasizes the prohibition of interest (riba), considered a major sin in Islam. The Quran explicitly forbids the charging of interest, and the Prophet Muhammad also condemned it. Islamic jurisprudence also prohibits uncertainty (gharar) and speculation (maysir) in financial transactions, which are considered harmful to society. (Khan & Bhatti, 2018) Islamic jurisprudence also emphasizes social responsibility (Maslahah) in financial transactions. This means that financial transactions should not harm society or the environment and should contribute to society's well-being. This aligns with the Islamic principle of promoting social justice and equity. Islamic jurisprudence also emphasizes the importance of transparency and accountability in financial transactions. This means that all parties involved in a transaction should be fully informed and aware of the terms and conditions of the transaction and that there should be mechanisms in place to ensure that all parties fulfil their obligations. (Abdullah Mohammed Ahmed Ayedh, 2019)

CONCLUSION

Shari'ah screening is an essential part of the Islamic Bank. It helps ensure that IB products and services comply with *Shari'ah* law. This is important for several reasons, including protecting investors, promoting the growth of IB, and ensuring that IBF is consistent with Islamic values. It ensures that financial products and transactions comply with *Shari'ah* principles. *Shari'ah* screening is based on Islamic jurisprudence principles, which greatly emphasize the prohibition of interest, uncertainty, and speculation in financial transactions. It also emphasizes the importance of social responsibility, transparency, and accountability in financial transactions. *Shari'ah* screening is essential for maintaining the integrity and credibility of the IB industry and building trust and confidence among customers and investors. As the IB industry continues to evolve, it is vital to ensure that *Shari'ah* screening remains a continuous process and that ongoing monitoring and review of products and transactions are conducted to ensure their continued compliance with *Shari'ah* principles. *Shari'ah* screening of stocks is the backbone of the Islamic Finance Institutions. An efficient and practical *Shari'ah* screening methodology is the key for having a robust criterion for stocks, because based on this criterion the fate of stocks, in terms of being *Shari'ah* compliant or non-compliant, is decided. The more the criterion of *Shari'ah* screening is theoretically strong and practically viable, the more the investors, companies, regulators and other players of the Islamic capital market have confidence in the market.The inclusion of financial ratio benchmarks has been the practice of global *Shari'ah* index providers such as Dow Jones, MSCI, and FTSE. Both SC's and DJIM's screenings incorporate a benchmark of less than 33% for financial ratios. In comparison, some other *Shari'ah* index providers may adopt slightly different benchmarks: for example, the Karachi-Meezan Index 30 (KMI-30) screening methodology incorporates a higher benchmark of less than 37% for interest-bearing debt over total assets ratio while the S&P *Shari'ah* Indices methodology apply financial ratios on trailing 36-month average market value of equity while the benchmark for account receivables is set at less than 49% (Malaysian International Islamic Financial Centre, 2013).It is hoped that the streamlining of the business activity benchmarks and the inclusion of the financial ratio benchmarks will enhance the robustness of the screening methodology for listed securities and this step is expected to enhance the competitiveness of the Malaysian Islamic equity market and Islamic fund management industries in the global market. The revision is timely needed on the ground that even though there are valid reasons for Malaysia to adopt a different screening methodology previously, that position had caused disagreement and confusion among the international investors regarding the screening standards used by the SAC of the SC. No doubt this is the right time for the SC to adopt progressively the screening standards used by other global *Shari'ah* Index providers for the benefit of international investors. This step is seen as a serious effort taken by Malaysia to attract international investors to 85 invest in the country, which is in line with the government's policy and initiatives to promote Malaysia as an international hub for Islamic banking and finance.

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