

SHARIAH COMPLIANT TRADING GUIDELINES

Roshan Digital Account is an initiative of State Bank of Pakistan, in collaboration with major commercial banks including Meezan Bank – Pakistan's first and largest Islamic bank, to provide digital investment opportunities to Non-Resident Pakistanis (NRPs). Meezan Roshan Digital Account enables overseas Pakistanis to open a bank account and invest in various avenues including Shariah-compliant shares and Sukuk listed on Pakistan Stock Exchange (PSX) through Central Depository Company (CDC).

The following guidelines have been prepared and implemented to develop Shariah Compliant Trading Window for Meezan Roshan Digital Account Holders:

1. **Scripts listed in PSX – KMI All Share Index (recomposed at 6 months each) are allowed to trade through this Shariah Compliant Trading Window. Further, scripts in both 'Ready and Odd Lot Market' are allowed to trade.**

The key Shari'ah screening criteria, endorsed by our Shari'ah Supervisory Board, based on which a company is categorized as a Shariah-compliant company is as follows;

- a) Business of the investee company should be halal and permissible
- b) Interest bearing Debt to Total Assets shall be less than 37%
- c) Non-Compliant Investments to Total Assets shall be less than 33%
- d) Non-Compliant Income to Total Revenue shall be less than 5%
- e) The ratio of Illiquid Assets to Total Assets should be at least 25%
- f) Market price per share shall be greater than net liquid asset per share that is
[Net Liquid Assets per Share = (Total Assets - Illiquid Assets - Total Liabilities) / Number of Shares]

2. **Selling of scripts is allowed on T+2 basis** only, because in Islamic Law of Fiqh it is impermissible to sell anything before the possession of subject matter. Since in PSX, shares are transferred usually from seller's account to buyer's account after two working days of buying, because of T+2 mechanism, therefore it is implemented to only allow selling of shares at T+2 in the trading system.
3. Day-trade is also not allowed as the shares purchased are not in possession due to T+2 mechanism and because of the same reason **Short Sell is also not permissible** as selling anything which is not under possession of the seller is prohibited in Islam.
4. Further, **there is a restriction on sale and purchase of unpaid Right Issue** because selling of rights is not allowed from Shariah perspective as it is just the right to buy the shares without actual possession of the shares.
5. **Deliverable Futures Contract (DFC) is not allowed to be traded in Shariah Compliant Trading window**, since in Islamic Fiqh, sale must be on spot and not in future. This is because Future Contracts also involve Gharar (uncertainty) and Qimaar (Gambling).
6. **Conventional margin financing is not allowed in Shariah Compliant Trading Window**, because currently it is based on interest-based lending which is prohibited in Shariah.
7. **Shariah Compliant Shares listed through Initial Public Offering (IPO) are allowed to be subscribed** as the company has already complied with the Shariah screening criteria stated above.
8. **All Sukuk listed at PSX are allowed to be traded through Shariah Compliant Trading Window** because Sukuk is an Islamic instrument that reflects undivided ownership share in an asset and Sukuk holders receive a share of rental/ profit from the underlying assets.
9. **Meezan Pakistan Exchange Traded Funds (MZNP-ETF) and other Islamic ETFs are also allowed to be traded under this window** because they consist of Shariah compliant shares.
10. Dividend Purification is very essential for the investor to purify the non-compliant portion of the income (if any) earned by that company. The investor is required to give the amount as charity in proportion of non-compliant income to total revenue. The ratio of non-compliant income to total revenue is also provided in the list of Re-composition of PSX – KMI All Share Islamic Index issued by PSX on half yearly basis.
11. In cases where the Shariah-compliant company is engaged in any Non-Shariah compliant financing activities, the investor in his capacity, as stakeholder of that company should **express his discomfort** over these non-compliant activities. This is encouraged so that the company may convert its Non-Shariah Compliant portion into Shariah compliant arrangement at earliest and interest-based activities are reduced to zero percent (0%).