Capital Market Development Authority

REGULATION ON SHARIAH SCREENING OF EQUITY SECURITIES

Regulation Number: 2013/R-55
Date: 21 July 2013

Introduction and citation

1. These regulations prescribe the criteria, formulated with the advice of the Shriah Advisory Council of Capital Market Development Authority, to be used in assessing shariah compliance of equity securities of listed companies and companies seeking a listing on the Exchange. These regulations are formulated pursuant to section 60(a) of the Maldives Securities Act (02/2006), and may be cited as 'Regulation on shariah screening of equity securities'.

Purpose

2. The purpose of these regulations is to set transparent criteria to be applied by the Authority in assessing the shariah compliance of equity securities.

Interpretations

3. Unless stated otherwise, the following words and phrases shall have the meanings stated in this section.

   'Authority' is the Capital Market Development Authority established by Maldives Securities Act.

   'Screening' assessing the shariah compliance of a stock based on the criteria and principles set in these regulations.

   'Disqualified company' is a company whose equity securities were previously categorized as shariah compliant, but which has been currently categorized as non-compliant due to subsequent changes in its business and finances.

   due to changes in its business and finances, has been subsequently categorized as non-compliant

Screening criteria

4. (a) Following criteria shall be used by the Authority in screening. These criteria are set with the advice of the Shariah Advisory Committee, and in line with the international best practices.

      1. None of the following activities are the core business or a substantial part of the business of the company

         a. Financial services based on riba (interest)

         b. Gambling

         c. Manufacture or sale of non-halal products or related products

         d. Any other activities deemed non-permissible according to the Shari'ah principles.

   (b) Where the company is compliant under subsection (a) but have the elements stated in subsection (a) in the business of the company, the criteria stated in section 5 of these regulations shall apply.

5. (a) Where the business of the company consists of any of the elements stated in subsection (a) of section 4, the following criteria apply to screening of such companies, subject to subsection (b) of this section.

1. The revenue generated from business which consists any of the elements stated in subsection (a) of section 4, does not exceed 5% of the total revenue of the company.

2. The total amount of interest bearing debts of the company does not exceed 33% of the total tangible assets. In assessing the criterion, the following formula shall be used.

$$\frac{\text{interest bearing debts}}{\text{total tangible assets}} \times 100$$

3. The total amount of interest bearing receivables does not exceed 33% of the total assets. The following formula shall be used in assessing this criterion.

$$\frac{\text{Interest bearing account receivables + interest bearing securities}}{\text{Total assets}} \times 100$$

(b) Where a company meets the criteria set in subsection (a), the non-compliant revenue shall be contributed for charitable purposes. The company shall submit to the Authority a plan, acceptable to the Authority, on how it would contribute such amounts for charitable purposes.

Required documents

6. The following documents shall be submitted for the initial screening.

1. Annual report including latest audited financial statements

2. Shariah audit report (if any) – i.e. an internal report assessing the compliance to these regulations

3. Any other document required by the Authority to obtain further information or for cross verification which would reasonably assist in screening.

Monitoring

7. (a) A company classified as compliant under these regulations shall be subjected to further screening semiannually. Where such further screening indicates the company no longer meets the criteria set in these regulations, it shall be classified as a 'disqualified company'. The reasons for disqualification shall be communicated to the company in writing.

(b) For the purpose of subsection (a) of this section, the following documents shall be submitted to the Authority.

1. The quarterly report required pursuant to the 'regulation on

continuing disclosure obligations of the issuers'.

2. Any other document required by the Authority to obtain further information or for cross verification which would reasonably assist in screening.

The tainted income 8. The company shall keep record of the accounts of tainted or non-compliant income/revenue. These funds shall only be used for the purpose of fulfilling the social responsibility of the company, and shall not be used to meet any expenditure of the company, under these regulations. These funds shall not be used for any operational expenses of the company. The company shall submit to the Authority a detailed report of these funds once a year.

Fee 9. The companies seeking screening under these regulations shall pay to the Authority a prescribed fee for the purpose of screening.

Public disclosure 10. The Authority shall publicly disclose the results of screening.

Repeal 11. The Authority's 'guidelines on Shariah compliance review of Pre IPO securities' is repealed from the commencement of these regulations.

Commencement 12. These regulations shall commence on the date of publication in the official gazette.

Annex

(In reference to section 9)

Fees

Companies seeking new listing	MVR 35,000 (thirty five thousands) plus 0.05% of the total value of the issue, together up to a maximum of MVR 50,000 (fifty thousands)