

# REFINITIV IDEALRATINGS ISLAMIC INDICES

## Index Methodology

May 2020

Published: May 6, 2020

© 2019 Refinitiv Limited. All Rights Reserved.

Refinitiv Limited, by publishing this document, does not guarantee that any information contained herein is or will remain accurate or that use of the information will ensure correct and faultless operation of the relevant service or associated equipment. Neither Refinitiv Limited, nor its agents or employees, shall be held liable to any user or end user for any loss or damage (whether direct or indirect) whatsoever resulting from reliance on the information contained herein.

This document may not be reproduced, disclosed, or used in whole or part without the prior written consent of Refinitiv.

# Contents

Introduction..... **Error! Bookmark not defined.**

Construction Methodology .....5

Calculation Methodology .....7

Maintenance .....8

Quality Control.....9

Governance .....10

Methodology and Change Procedure .....111

Appendix I .....112

# 1. INTRODUCTION

## 1.1 Refinitiv Indices

Serving more than 40,000 institutions in over 190 countries, Refinitiv provides information, insights and technology that drive innovation and performance in global financial markets. Our heritage of integrity enables our customers to make critical decisions with confidence while our best-in-class data and cutting-edge technologies enable greater opportunity.

We enable the financial community to trade smarter and faster, overcome regulatory challenges, and scale intelligently.

Refinitiv provides trusted and innovative indices and index-related services to the investment community. Whether one requires indices for benchmarking, or for the development of investment vehicles, Refinitiv offers a range of index solutions to satisfy the requirements.

## 1.2 IdealRatings

IdealRatings has been providing Shariah fund management services for financial institutions since 2006. It is the market leader in helping asset managers in more than 10 countries approach launch and manage Shariah compliant funds with the ability to generate the highest alpha available given the tight compliance and purification process.

IdealRatings' proprietary algorithms and software initially search all public information and news available on potential index constituents for non-compliance. A dedicated research team then analyzes the output for accuracy checks by using over 30 revenue streams of interest for each company.

Shariah compliance screening occurs on a quarterly basis. Explanations of constituent deletions due to non-compliance are provided to clients in addition to index returns and constituent weights.

## 1.3 Index Family

The Refinitiv IdealRatings Islamic Indices serve as a group of comprehensive, standalone indices as well as a foundation for a number of other indices. Detail on the Shariah screening is available from IdealRatings on request and on <https://www.refinitiv.com/en/financial-data/indices/islamic-index>.

The indices currently cover 18 countries and regions and 3 sectors, including countries with as few constituents as approximately 10 and as many as approximately several hundred. The indices are designed to serve as liquid, broad-based and comprehensive tools for investment professionals and analysts to benchmark and invest in common stock on a local, regional or global basis.

These indices retain the key properties of the Refinitiv Global Equity indices. The Refinitiv Global Equity indices are free float adjusted market capitalization weighted indices. They are broad market indices including large, mid

and small caps. They have following inclusion criteria:

- A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
- A minimum of 3 months trading history;
- Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, Refinitiv uses the security's primary listing to determine membership.
- Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:
  - Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
  - Be part of the top 99.5% of the trading value of the exchanges under consideration;
  - Trade on at least 90% of trading days; and
  - Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The Refinitiv Global Equity Indices are rebalanced biannually every April and October.

For a complete description of the indices' rules, please refer to the methodology for Refinitiv Global Equity indices [here](#)

#### **1.4 Index Types**

Refinitiv currently offers market capitalization weighted domestic indices for countries, regions and sectors. However, this weighting is modified using security and sector capping rules (please see below sections for details).

#### **1.5 Intended Readership**

This document supports data use by Refinitiv Indices clients. Clients receive the data as part of their desktop license or may be licensed to use Refinitiv Indices in a separate licensing agreement.

#### **1.6 Document Publication**

This document is available on the Refinitiv website and on request.

## 2. CONSTRUCTION METHODOLOGY

### 2.1 Refinitiv IdealRatings Shariah Mandate

The Refinitiv IdealRatings Index series is based on the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Shariah mandate and is approved by Shariah scholars Dr Mohamed El Gari, Dr M. Daud Bakar and Sheikh Yusuf Talal DeLorenzo.

Index constituents must fulfill the following screening criteria in order to be included in the indices:

#### Sector Screens

Companies are only to be considered compliant from a business perspective if the cumulative revenue from non-compliant activities and non-operating interest income does not exceed 5% of their total income (defined as the sum of total revenue or sales and operating and non-operating interest).

Non-compliant income sources include the following: Adult Entertainment, Alcohol, Cinema and Broadcasting, Conventional Insurance, Conventional Financial Services, Defense, Gambling, Hotels, Music, Operating and Non-operating Interest Income, Pork and Tobacco

#### Financial Screens

- Interest-bearing debt divided by preceding 12-month average market capitalization should not exceed 30%
- Sum of cash, deposits and interest-bearing investments divided by preceding 12-month average market capitalization should not exceed 30%
- Sum of cash, deposits, and receivables divided by total assets should not exceed 67%

#### General Considerations

- Preferred shares are considered to be non-compliant

### 2.2 Security Capping

In order to reduce single security risk and volatility in the index suite, securities are capped at each of the quarterly rebalances. Between rebalances, the security weight floats with the share price development.

Securities are capped at 10% of the total index market capitalization at the rebalance effective date.

Since the underlying Refinitiv Indices consider the free-float adjusted outstanding shares, the share weights are modified using a calibration.

The following constraints hold for each index after the security capping:

Each security is reduced to 10.1% or less of the index market capitalization. If an index has less than 10 securities, it will not be security capped.

### **2.3 Sector Capping**

In addition to being potentially security capped, a sector's free float adjusted market capitalization weight as defined by the TRBC economic level sector is capped at 25%, subject to the index qualifying for sector capping.

An index is sector capped if the following conditions hold:

1. The index must have more than 5 sectors to be sector capped
2. The index must have more than 14 constituent securities
3. If an index previously was not sector capped, but in a rebalance satisfies rules 1) and 2), it is sector capped from this rebalance
4. If an index previously was sector capped but violates rule 1) by having less than 4 sectors, sector capping is suspended
5. If an index previously was not sector capped but has at least 4 sectors and has more than 14 securities, it will not immediately be sector capped. If the index continues to have more than 14 securities and contains securities from at least 4 sectors for a second consecutive quarter, it will become sector capped effective at the second rebalance
6. An index is equally weighted if the following conditions hold:
  - There are less than 15 constituents
  - There are less than 6 sectors
  - There are 4 sectors for 2 consecutive rebalances

The Refinitiv IdealRatings Islamic Index series provides a reliable and accurate Shariah-compliant benchmark which ensures the most recent Shariah-compliance status due to the fact that index constituents are screened on a quarterly basis using a research-based approach.

### **3. CALCULATION METHODOLOGY**

The index follows the methodology of Refinitiv Global Equity Indices. For details on data requirement, construction and calculation methodology of Refinitiv Global Equity Indices, please refer Refinitiv Global Equity indices Methodology document [here](#).

## 4. MAINTENANCE

### 4.1 Daily Index Maintenance

Refinitiv IdealRatings Islamic Indices are maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Refinitiv Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delistings, and symbol changes and ensure these changes are implemented into the applicable index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. The corporate actions methodology used by Refinitiv Global Equity Indices is available on our website and can be accessed [here](#).

### 4.2 Index Rebalance

The indices are rebalanced on a Quarterly basis, and new constituent lists are effective on the Last Sunday/Monday of April, July, October and January. The rebalance is the major source of additions and deletions to the Indices.

## **5. Quality Control**

### **5.1 Quality Control**

Refinitiv has quality control procedures in place to monitor any prices, whether they are obtained from a regulated exchange or other market, prior to calculation of indices as well as prior to publication.

### **5.2 Re-Statement Policy**

A retrospective recalculation will only be made when a manifest and material error has been identified. Any retrospective recalculation will be notified to users via the alert system on Refinitiv Eikon.

### **5.3 Insufficient Data and Market Disruptions**

Refinitiv endeavors to develop and publish indices only where Refinitiv has a high level of confidence of long-term availability and access to the necessary data to administer the indices.

A “Market Emergency” is herein defined as any unscheduled and extraordinary condition in which liquidity in the markets used to source input data is interrupted (such as an event resulting in the unscheduled closing of futures exchanges). Should a Market Emergency occur, Refinitiv reserves the right to take such action with respect to the Refinitiv Global Equity Indices as it deems appropriate given the circumstances and after consulting with the Index Action Committee as appropriate.

Refinitiv will attempt to notify interested parties of any such actions as well in advance as is practicable. There is no assurance, however, that following a Market Emergency, the actions taken in response to such Market Emergency, or any other force majeure event, will not have an adverse effect on the value of the Refinitiv Equity Indices or the way they are calculated.

## 6. GOVERNANCE

### 6.1 Index Action Committee

There is an internal index action committee (IAC) at Refinitiv Indices. The IAC reviews country and region indices and rebalances. It is composed of the Refinitiv Equity Indices Benchmarks Manager, Refinitiv Commodity Indices Benchmarks Manager, Head of FX Benchmarks Research & Design, Development Manager and Head of Data Operations.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – the necessary liquidity, capitalization assignment (large, mid or small-cap) or style considerations – are indeed present. These reviews take place at each rebalance and at each quarterly review. The Index Action Committee also deals with unusual corporate actions which are not handled by the pricing methodology or by the internal data management team that makes hand- adjustments to the index for items such as mergers and delistings. These reviews take place on a monthly or more frequent basis. Finally, as each index needs a minimum number of constituents in order for its price to be computed, the Index Committee decides if an index should be discontinued or possibly resurrected. This decision will normally be made during the rebalance period but could happen more often.

### 6.2 Benchmark Manager

The Benchmark Manager is a subject matter expert and is responsible for the integrity and quality of the Index which includes the following specific responsibilities:

- Interpreting the Index Methodology and implement the change procedure (if any)
- Reviewing feedback received from the Index stakeholders.
- Developing and implementing changes to the Index Methodology pursuant to feedback from Index stakeholders or in response to market events, subject to Section 8.2, Cessation of an Index.
- Managing interaction with Index stakeholders

### 6.3 Stakeholders Feedback

The Benchmark Manager may seek the views of market participants and other Index stakeholders on a bilateral basis from time to time or through one or more Index Advisory Groups. Issues on which the Benchmark Manager may consult Index stakeholders include conditions in the underlying markets that the Index represents, the representativeness of the input data used in the determination of the Index, the performance of the index with respect to the underlying markets that it represents, potential changes to the index calculation methodology, the weight calculation algorithm and exceptional market events.

### 6.4 Feedback

Your questions about the document, suggestions, and contributions are welcomed. Please address enquiries to: [IndexManagers@refinitiv.com](mailto:IndexManagers@refinitiv.com).

## **7. METHODOLOGY REVIEWS AND CHANGE PROCEDURES**

### **7.1 Review of the Methodology**

The Refinitiv Eurozone ESG Select Index Methodology is reviewed once a year and, if required by market events, more frequently. Any potential changes to the Methodology are reviewed by the Index Action Committee.

### **7.2 Cessation of An Index**

Refinitiv aims not to stop the publication of any index that is used as a benchmark.

For those cases where Refinitiv does decide to stop the publication of an index, Refinitiv will look to find a suitable successor to its role as Administrator of the index. Should no successor be found, Refinitiv will conduct a consultation with any relevant stakeholders, the Index Action Committee and the Refinitiv Independent Oversight Committee. Refinitiv will publish a notice on its website about the possibility of stopping the publication of the Index and inviting anyone to provide feedback.

Such notice will be posted at least 6 months, where possible, prior to cessation of publication of the index, or on a best efforts basis for circumstances beyond the control of Refinitiv. After the consultation period, Refinitiv will publish externally the timeline for cessation. Internally, detailed operating procedures will be drafted to ensure a managed cessation.

## APPENDIX

### Appendix I:

Index Name	CUR	RIC	Mnemonic
Refinitiv/IdealRatings Islamic AMI Index (Turkey / Malaysia / Indonesia)	USD	.TRIIPUI	YIRIIS\$
Refinitiv/IdealRatings Islamic Asia Pacific ex Japan Index	USD	.TRAJPUI	YIRIAJ\$
Refinitiv/IdealRatings Islamic ASEAN 6 Index	USD	.TRA6PUI	YIRIA6\$
Refinitiv/IdealRatings Islamic Australia Index	AUD	.TRAUPI	YIRIAUL
Refinitiv/IdealRatings Islamic Bahrain Index	BHD	.TRBHPI	YIRIBHL
Refinitiv/IdealRatings Islamic BRIC Index	USD	.TRBIPUI	YIRIBI\$
Refinitiv/IdealRatings Islamic Egypt Index	EGP	.TREGPI	YIRIEGL
Refinitiv/IdealRatings Islamic GCC Index	USD	.TRGCPUI	YIRIGC\$
Refinitiv/IdealRatings Islamic Global Index	USD	.TRGLPUI	YIRIGL\$
Refinitiv/IdealRatings Islamic Global Energy Index	USD	.TRGLPUENEI	Y1GLE1\$
Refinitiv/IdealRatings Islamic Global Healthcare Index	USD	.TRGLPUHLCI	Y1GLHC\$
Refinitiv/IdealRatings Islamic Global Technology Index	USD	.TRGLPUTECI	Y1GLG1\$
Refinitiv/IdealRatings Islamic Global Emerging Markets Index	USD	.TRGEPUI	YIRIGE\$
Refinitiv/IdealRatings Islamic Indonesia Index	IDR	.TRIDPI	YIRIIDL
Refinitiv/IdealRatings Islamic Malaysia Index	MYR	.TRMYPI	YIRIMYL
Refinitiv/IdealRatings Islamic MENA Index	USD	.TRMEPUI	YIRIME\$
Refinitiv/IdealRatings Islamic MENASA Index	USD	.TRMSPUI	YIRIMS\$
Refinitiv/IdealRatings Islamic Kuwait Index	KWD	.TRKWPI	YIRIKWL
Refinitiv/IdealRatings Islamic Oman Index	OMR	.TROMPI	YIRIOML
Refinitiv/IdealRatings Islamic Qatar Index	QAR	.TRQAPI	YIRIQAL
Refinitiv/IdealRatings Islamic Turkey Index	TRL	.TRTRPI	YIRITRL
Refinitiv/IdealRatings Islamic United Arab Emirates Index	AED	.TRAETPI	YIRIAEL

**CONTACT US:**

[IndexManagers@refinitiv.com](mailto:IndexManagers@refinitiv.com)