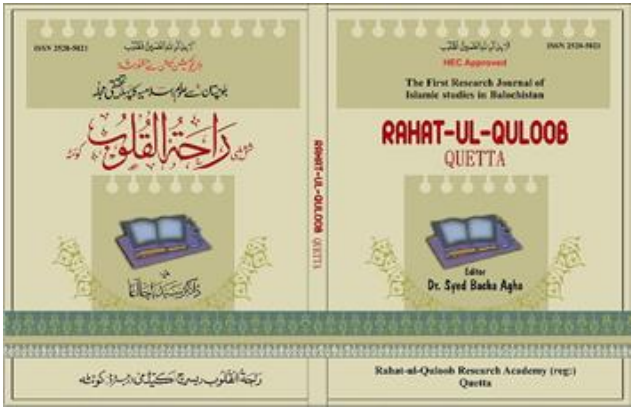

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TOPIC:

The Analysis of Predominant Equity Shariah Screening Indices and the Unified Shariah Screening Standard Approach

AUTHORS:

1. Ameer Muhammad, MPhil Scholar (Islamic Studies with Computer Technology), Sheikh Zayed Islamic Centre, University of Karachi, Karachi, Pakistan. Email: ameerfaiz01@gmail.com
2. Zahid Khan, Student of MS Islamic banking and finance, Al Ghazali University, Karachi, Pakistan. Email: zahidtariqubaid@gmail.com

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The Analysis of Predominant Equity Shariah Screening Indices and the Unified Shariah Screening Standard Approach

[1] Ameer Muhammad [2]Zahid Khan

Abstract:
Islamic finance has emerged as one of the fastest-growing segments of the global financial system, expanding from early experiments in Islamic banking during the 1960s to a multi-trillion-dollar industry today. Among its most dynamic components, the Islamic equity market provides investors with an avenue to participate in capital markets while adhering to Shariah principles. However, the challenge of defining which equities are permissible (halal) or impermissible (haram) has led to the creation of various Shariah-compliant equity screening indices. While qualitative filters, excluding prohibited industries such as alcohol, gambling, and conventional banking, remain relatively consistent, quantitative screening criteria vary widely across global and regional indices such as the Dow Jones Islamic Market Index (DJIMI), MSCI Islamic Indices, FTSE Shariah, AAOIFI, S&P, ISRA-Bloomberg, ISSI (Indonesia), and Meezan Bank (Pakistan). These discrepancies result in situations where a stock may be considered compliant under one index but non-compliant under another, raising questions of credibility, investor confidence, and the legitimacy of Shariah governance. This paper undertakes a qualitative thematic analysis of predominant Shariah equity screening indices, with emphasis on the methodological divergences and their implications for global Islamic finance. Using secondary data from index methodologies, regulatory standards, and peer-reviewed academic literature, the study identifies three comprehensive themes: Uniformity in qualitative exclusions, Divergence in quantitative thresholds and calls for a unified global screening standard.

Keywords: Islamic finance, global financial system, Market Index, Shariah principles.

Research Questions

1. What are the predominant similarities and differences in Shariah screening methodologies among leading indices?
2. How do variations in screening criteria impact investor confidence and the legitimacy of Shariah-compliant equity markets?
3. What steps could be taken to develop a unified global Shariah screening standard, and what would be its implications for financial inclusion?

Contribution

By addressing these questions, the paper contributes to ongoing scholarly debates and policy discussions on the standardization of Shariah-compliant investment practices. The findings highlight both the achievements of Islamic equity markets and the challenges they face in pursuing global financial inclusion without compromising Shariah integrity.

Introduction

Background and Significance

Islamic finance is widely recognized as one of the fastest-growing financial sectors worldwide, with assets estimated at over $3 trillion in 2023. (Islamic Financial Services Board [IFSB], 2023). Its development has been shaped by the dual sided of complying with Islamic law (Shariah) while addressing the investment and financing needs of modern economies. The system prohibits Riba (interest), gharar (excessive uncertainty), and maysir (gambling), while encouraging risk-sharing, asset-backing, and ethical business activities.

Within this framework, the Islamic equity market has gained significant sights. Unlike sukuk (it a type of Islamic bond) or Islamic banking, equities involve direct participation in corporate ownership, making Shariah compliance more complex. Corporations often operate in diverse sectors, some permissible and others questionable, while their balance sheets may contain different levels of interest-bearing debt and income from sharia non-compliant activities. To resolve these issues, the Islamic scholar and financial experts has proposed Shariah indices screening where they made different criteria to tackle the non-sharia complaint issues and classify companies based on agreed-upon criteria.

The launch of the Dow Jones Islamic Market Index (DJIMI) in 1999 represented a milestone, offering investors the first global benchmark for Shariah-compliant equities. This was followed by indices such as FTSE Shariah, MSCI Islamic, Standard & Poor's (S&P) Shariah, ISRA-Bloomberg, ISSI (Indonesia), and Meezan Bank's indices in Pakistan. In parallel, regulatory bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Shariah standards to guide screening methodologies.

However, despite the huge amounts of indices, a lack of uniformity persists. For instance, while AAOIFI sets a debt threshold of 30% of total assets, MSCI and Dow Jones apply 33.33%, while Indonesia's ISSI permits 45%. Similarly, while most indices cap non-permissible income at 5% of total revenue, ISSI allows 10%. These inconsistencies create confusion for investors and raise concerns about Shariah governance.

Problem Statement

The lack of standardization in Shariah screening methodologies has created significant challenges for the Islamic equity market. A company may be considered Shariah-compliant under one index but non-compliant under another, undermining the credibility of Shariah rulings and discouraging cross-border investment. This fragmentation also raises theological concerns, as Shariah rulings are expected to embody divine rules rather than human preferences (Hashim, Habib, & Ali, 2017). Investors, particularly those in global markets, are left uncertain about compliance, reducing confidence in Islamic finance. Regulators and Shariah scholars face criticism for inconsistency, while corporations struggle with compliance across multiple jurisdictions. The situation demands a closer examination of existing indices and a search for potential pathways toward unified and globally standardized equity screening model.

Research Objectives

The study aims to analyze predominant equity Shariah screening indices and explore the feasibility of a unified Shariah screening standard. The objectives are:

1. To examine the screening methodologies of leading Shariah indices.
2. To identify key similarities and divergences in qualitative and quantitative criteria.
3. To analyze the implications of these divergences for investors, regulators, and market development.
4. To explore prospects for a harmonized global Shariah equity screening framework.

Research Questions

Aligned with the objectives, the study addresses three central questions:

1. What are the predominant similarities and differences in Shariah screening methodologies among leading indices?
2. How do variations in screening criteria impact investor confidence and the legitimacy of Shariah-compliant equity markets?
3. What steps could be taken to develop a unified global Shariah screening standard, and what would be its implications for financial inclusion?

Methodological Approach

This study adopts a qualitative research design using secondary data analysis. Data sources include:

- Methodology documents published by index providers (MSCI, Dow Jones, FTSE, S&P, ISRA-Bloomberg, ISSI, Meezan Bank).
- Shariah standards issued by regulatory authorities such as AAOIFI and IFSB.
- Peer-reviewed academic literature on Shariah screening.

A thematic analysis approach is employed to identify recurring patterns across the data. Three major themes emerged:

1. Uniformity in qualitative screening (prohibited industries).
2. Divergence in quantitative thresholds (financial ratios).
3. Calls for a unified global Shariah screening standard.

Significance of the Study:

This study contributes to academic and policy discussions in three ways:

- **Scholarly Contribution:** Provides a comparative analysis of leading Shariah screening indices, contributing to Islamic finance literature.
- **Practical Contribution:** Offers insights for regulators, index providers, and corporations seeking compliance.

- **Policy Contribution:** Highlights pathways toward a unified framework, promoting cross-border investment and Islamic financial inclusion.

2. Literature Review

Evolution of Shariah-Compliant Equity Markets

The history of Shariah-compliant equity screening reflects the broader evolution of Islamic finance. Early efforts in the 1970s and 1980s focused primarily on Islamic banking and sukuk, while equities received limited attention. The launch of the Dow Jones Islamic Market Index (DJIMI) in 1999 marked a turning point by providing the first global benchmark for Shariah-compliant equities (Wilson, 2004). Subsequent years saw the development of competing indices such as FTSE Shariah Global Equity Index Series 2007, MSCI Islamic Index Series 2007, and S&P Shariah Indices 2006.

The motivation behind these indices was twofold: 1) To provide Muslim investors with access to equity markets without compromising Shariah principles. 2)To demonstrate that Islamic finance could integrate with global capital markets, contributing to financial inclusion and ethical investment trends.

Over time, these indices expanded into regional variants (e.g., Indonesia Shariah Stock Index [ISSI], Pakistan’s KMI-30 by Meezan Bank, Malaysia’s FTSE Bursa Malaysia EMAS Shariah Index) and thematic indices (e.g., ISRA-Bloomberg Global Sukuk & Equity Screening). Today, Shariah-compliant equities account for an estimated $2 trillion of assets under management, with significant participation in the Gulf, Southeast Asia, and South Asia (IFSB, 2023).

Theoretical Foundations of Shariah Screening

Shariah screening is based on two key principles:

Qualitative (sectoral) screening: Exclusion of companies operating in prohibited industries such as alcohol, pork, gambling, pornography, tobacco, conventional financial services, and entertainment sectors inconsistent with Islamic ethics.

Quantitative (financial ratio) screening: Exclusion of companies with excessive reliance on interest-bearing debt, impermissible income, or liquidity imbalances.

This dual-layered approach ensures compliance not only with the substance of Islamic law but also with its ethical spirit (El-Gamal, 2006). However, interpretations of Shariah principles vary across jurisdictions, leading to differences in methodology.

Predominant Screening Indices

Dow Jones Islamic Market Index (DJIMI)

Launched in 1999, DJIMI set the benchmark for Shariah indices globally.

- **Qualitative filters:** Excludes prohibited industries.
- **Quantitative filters:**
  - Total debt ≤ 33% of market capitalization.
  - Cash + interest-bearing securities ≤ 33% of total assets.
  - Accounts receivable ≤ 33% of total assets.
  - Non-permissible income ≤ 5% of revenue.

DJIMI's methodology has been influential, but reliance on **market capitalization as denominator** for financial ratios makes it more market-sensitive, leading to volatility in compliance classification (Derigs & Marzban, 2008).

FTSE Shariah Global Equity Index Series

FTSE applies a more conservative screening framework, focusing on **total assets** rather than market capitalization.

- **Qualitative filters:** Standard prohibitions.
- **Quantitative filters:**
  - Debt ≤ 33% of total assets.
  - Cash and interest-bearing items ≤ 33% of total assets.
  - Accounts receivable ≤ 50% of total assets.
  - Non-permissible income ≤ 5%.

The higher threshold for accounts receivable makes FTSE somewhat more inclusive than DJIMI.

MSCI Islamic Index Series

MSCI applies similar filters but with slight modifications:

- **Qualitative filters:** Excludes prohibited industries.
- **Quantitative filters:**
  - Debt ≤ 33.33% of total assets.
  - Cash and interest-bearing securities ≤ 33.33%.
  - Accounts receivable ≤ 33.33%.
  - Non-permissible income ≤ 5%.

MSCI aligns more closely with DJIMI but uses **total assets instead of market cap**, offering more stability.

Standard & Poor's (S&P) Shariah Indices

S&P's methodology is also asset-based:

- Debt ≤ 33% of total assets.
- Cash and securities ≤ 33%.
- Accounts receivable ≤ 33%.
- Non-compliant income ≤ 5%.

Like MSCI, S&P emphasizes consistency by avoiding market cap fluctuations.

AAOIFI Shariah Standards

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued Shariah Standard No. 21 on financial papers and indices.

- Debt ≤ 30% of total assets.
- Non-permissible income ≤ 5%.

AAOIFI provides the most widely recognized regulatory standard, though adoption remains uneven across jurisdictions.

ISRA-Bloomberg Screening

A collaboration between the International Shari'ah Research Academy (ISRA) and

Bloomberg launched in 2016, aiming for global consistency.

- Introduces environmental, social, and governance (ESG) factors in addition to Shariah filters.
- Debt ≤ 33%.
- Non-permissible income ≤ 5%.

ISRA-Bloomberg is noteworthy for linking Shariah with sustainability, bridging Islamic finance and ethical investment.

Regional Indices

- **Indonesia Shariah Stock Index (ISSI):**
  - Debt ≤ 45% of total assets.
  - Non-permissible income ≤ 10%.
  - Much more lenient, reflecting Indonesia's policy of inclusivity.
- **Meezan Bank KMI-30 (Pakistan):**
  - Debt ≤ 37%.
  - Non-permissible income ≤ 5%.

Regional indices adapt criteria to local markets, often diverging from global standards.

Comparative Table of Screening Criteria

Index / Standard	Debt Threshold	Cash & Interest-Bearing	Accounts Receivable	Non-Permissible Income	Notes
DJIMI (Dow Jones)	≤ 33% (market cap)	≤ 33%	≤ 33%	≤ 5%	Market-cap based, volatile
MSCI Islamic	≤ 33% (assets)	≤ 33%	≤ 33%	≤ 5%	Asset-based, more stable
FTSE Shariah	≤ 33% (assets)	≤ 33%	≤ 50%	≤ 5%	More inclusive (higher AR threshold)
S&P Shariah	≤ 33% (assets)	≤ 33%	≤ 33%	≤ 5%	Similar to MSCI
AAOIFI Standard 21	≤ 30% (assets)	≤ 30%	≤ 30%	≤ 5%	Stricter
ISRA-Bloomberg	≤ 33%	≤ 33%	≤ 33%	≤ 5%	Adds ESG criteria
ISSI (Indonesia)	≤ 45%	≤ 45%	≤ 45%	≤ 10%	More lenient
KMI-30 (Pakistan)	≤ 37%	≤ 37%	≤ 37%	≤ 5%	Local adaptation

Key Themes Emerging from Literature:

1. **Consistency in Qualitative Filters**

Across all indices', prohibited industries are largely the same, showing strong consensus on what constitutes haram business activities.

2. **Variation in Quantitative Filters**

Major differences arise in debt thresholds (30%–45%) and non-permissible income (5%–10%). These differences reflect diverse Shariah board interpretations and market realities.

3. **Asset-Based vs. Market-Cap Based Screening**

DJIMI's market-cap approach leads to frequent reclassification during market volatility, while MSCI, FTSE, and S&P prefer asset-based ratios for stability.

4. **Regional vs. Global Standards**

Regional indices often deviate from global ones, balancing Shariah with domestic economic inclusivity (e.g., Indonesia's higher thresholds).

5. **Calls for Harmonization**

Literature consistently emphasizes the need for unified global standards to avoid confusion, increase investor confidence, and promote cross-border flows (Kammer et al., 2015).

3. Methodology and Thematic Analysis

Research Methodology and Research Design:

This study adopts a qualitative research design grounded in document analysis and thematic analysis. Since the research investigates Shariah-compliant equity screening indices and their divergences, it relies on secondary data such as:

1)Official methodology documents of DJIMI, MSCI, FTSE, S&P, AAOIFI, ISRA-Bloomberg, ISSI, KMI-30.

2)Academic articles and reports on Shariah screening standards.

3)Publications from Islamic finance regulators (AAOIFI, IFSB, SC Malaysia).

This approach allows for systematic examination of existing screening criteria, identification of patterns, and development of themes that reveal broader implications for convincing.

Shariah screening is not merely a technical calculation of ratios but an interpretive and jurisprudential exercise shaped by diverse Shariah boards. Thus, a qualitative approach is suitable because:

1)It captures interpretive differences between screening institutions.

2)It allows the researchers to analyze comparative analysis of methodologies, and shows underlying themes like consistency, divergence, and compatible challenges.

Quantitative studies might measure portfolio performance, but they would miss the conceptual and regulatory preferences at the heart of this debate. In this study the collected date derived from secondary sources despite primary, because of limitation and further research on the same date in future. The study collects secondary data from:

1. **Primary institutional documents** – official screening criteria published by indices and regulators.

2. **from journal articles** – comparative studies on Shariah screening (e.g., Derigs & Marzban, 2008; Kammer et al., 2015).
3. **Industry reports** – IFSB Islamic Financial Stability Report, ISRA research papers, AAOIFI guidelines.

This date shows the credibility and authenticity in the sense of combination of three sources; specifically practical and academic portion has been covered. We approached the thematic analysis of descriptive data and created themes and acritical analysis of the derived themes. Thematic analysis follows six steps: (Braun & Clarke, 2006 framework).

1. **Familiarization** – Reviewing all screening documents and literature.
2. **Coding**: Highlighting key elements (e.g., debt thresholds, non-permissible income caps).
3. **Theme Development**: Grouping codes into broader themes (e.g., "consistency in qualitative filters," "variation in quantitative ratios").
4. **Reviewing Themes**: Checking against data for accuracy.
5. **Defining Themes**: Naming and refining them for clarity.
6. **Reporting**: Presenting findings in structured themes linked to research questions. Based on methodology and thematic focus, the guiding research questions are:

1. How do predominant Shariah equity screening indices (DJIMI, MSCI, FTSE, S&P, AAOIFI, ISRA-Bloomberg, ISSI, KMI-30) differ in their methodologies?
2. What are the repetitive themes across these screening standards?
3. To what extent can a unified global Shariah screening standard be developed, and what challenges might arise?

The thematic analysis reveals five major themes:

Theme 1: Consensus on Qualitative Filters

Across all indices, there is strong agreement on fundamentally Sharia prohibited exclusions: like, Prohibition of alcohol, pork, gambling, tobacco, pornography, weapons, conventional financial services. Some regional variation: entertainment, music, and cinema are treated differently in Malaysia vs. Gulf markets. This theme shows a solid foundation for unification, as qualitative filters enjoy near-universal acceptance.

Theme 2: Divergence in Quantitative Thresholds

Quantitative screening ratios are the most contested area:

❖	**Index/Standard**	**Debt Ratio**	**Non-Permissible Income**
❖	**AAOIFI**	≤30%	≤5%
❖	**DJIMI**	≤33% (market cap)	≤5%
❖	**MSCI/FTSE/S&P**	≤33% (assets)	≤5%
❖	**ISSI (Indonesia)**	≤45%	≤10%
❖	**KMI-30 (Pakistan)**	≤37%	≤5%

- Debt ratio divergence: ranges from 30% (AAOIFI, strictest) to 45% (Indonesia, most lenient).
- Non-permissible income: typically capped at 5%, but Indonesia allows up to 10%.

These differences reflect each country's practical needs — Gulf and AAOIFI-based markets follow stricter rules, while emerging economies apply lenient ones to attract more participants.

Theme 3: Asset-Based vs. Market-Cap Based Ratios

- DJIMI uniquely uses market capitalization as denominator.
- MSCI, FTSE, S&P, AAOIFI prefer total assets

This creates two competing philosophies: Market-cap method – flexible, but volatile in downturns (companies can suddenly be classified as non-compliant). Asset-based method – more stable, but less reflective of market realities. A unified approach must reconcile stability vs. responsiveness in financial screening.

Theme 4: Regional Adaptations vs. Global Standards

Regional indices (ISSI, KMI-30) adopt more lenient limitations than global standards. this because to avoid excluding too many local companies, especially in developing markets with high leverage. like, ISSI allows 45% debt ratio vs. AAOIFI's 30%. This kind of volatility in indices create different standardized faces, it provokes disputes between global and regional compatibility and trigger tension between global consistency and local inclusivity.

Theme 5: Emerging Trend of Integration with ESG

The ISRA-Bloomberg index incorporates environmental, social, and governance (ESG) standard alongside Shariah screening. This represents incorporation integration between Islamic finance and ethical investment trends. Which is one of the best why for financial inclusion and interact the Sharia non-compliant sector, Growing interest in "Islamic ESG funds" and sharia compliant contribution highlights investor demand for broader ethical alignment.

It shows another aspect of Sharia complaint financing. We need not just peruse the Strick rules of sharia but also focus on another dimension which is broader than this, expanding the sharia equity screening beyond halal/haram distinctions to encompass sustainability and social responsibility.

combination of Themes

- ✓ **Strongest convergence:** qualitative screening (near-universal agreement).
- ✓ **Strongest divergence:** quantitative thresholds, particularly debt ratio.
- ✓ **Institutional tension:** global unification vs. regional flexibility.
- ✓ **Emerging opportunity:** merging Shariah with ESG, appealing to both Muslim and non-Muslim ethical investors.

Limitations:

- ✓ Reliance on secondary data may overlook significance in practical application.

✓ Interpretive bias in thematic analysis – Shariah rulings depend on jurisprudential schools (Madhahib).

4. Discussion and Implications:

Linking Themes to Research Questions

The thematic analysis revealed five major themes: consensus on qualitative filters, divergence in quantitative ratios, market-cap vs. asset-based methods, regional adaptations, and ESG integration. Each addresses one or more of the study's research questions:

1. **How do predominant Shariah equity screening indices differ in methodologies?**

The differences are mainly in quantitative thresholds (debt and income ratios), and in the denominator used (market capitalization vs. total assets).

2. **What are the repetitive themes across these screening standards?**

Recurring themes include agreement on sectoral prohibitions, divergence in numerical thresholds, and regional adaptations reflecting local economic conditions.

3. **To what extent can a unified global Shariah screening standard be developed, and what challenges might arise?**

While qualitative filters provide a foundation for global unification and integration while quantitative divergences and regional pragmatism present obstacles. The rise of Islamic ESG integration suggests an evolving trajectory that might reshape unification efforts.

1) The near-universal agreement on qualitative filters is a critical starting point. Prohibited sectors such as alcohol, pork, gambling, and conventional finance are consistently excluded across indices. This indicates that the underlying Shariah principles are not disputed, and that Shariah supervisory boards (SSBs) across jurisdictions share a common jurisprudential interpretation in these areas.

This consensus suggests that standardization is possible, at least in terms of baseline sectoral exclusions. However, even here, some importance remain—for example, Malaysia's relatively flexible stance on entertainment sectors compared to Gulf standards, similarly we have other examples like that, but this indicates points to cultural and juristic diversity, which cannot be fully erased but can be managed through a "minimum common denominator" standard.

2) Discrepancies in Quantitative Screening is the Core Barrier, the most substantial barrier to harmonization lies in quantitative ratios. The debt threshold, ranging from 30% (AAOIFI) to 45% (ISSI), reflects both juristic differences and economic realities:

❖ AAOIFI's 30% aligns with stricter Shariah interpretations and reflects Gulf markets' desire for credibility and investor trust.

❖ DJIMI's 33% (market cap basis) offers a middle ground but introduces volatility risks.

❖ ISSI's 45% reflects the high leverage norms of Indonesian companies, where stricter rules would exclude most listed firms.

This difference shows a choice between being very strict with religion or making it easier for more people to join the market. In practice, markets lean toward flexibility to attract broader participation, but stricter indices (e.g., AAOIFI) maintain a reputation advantage in terms of Shariah integrity.

3) the Market-Cap vs. Asset-Based Ratios, Stability vs. Responsiveness The choice of denominator for financial ratios highlights two competing philosophies:

❖ **Market capitalization (DJIMI):**

This method depends on stock prices. It shows real-time investor views, so compliance changes quickly. But the problem is, when prices go up or down, a company may suddenly become compliant or non-compliant.

❖ **Total assets (AAOIFI, MSCI, FTSE, S&P):**

This method depends on company assets. It is more stable and doesn't change quickly. But some say it doesn't fully reflect real market conditions.

This methodological divergence raises the question: Should Shariah compliance be assessed on stable fundamentals or fluctuating market perceptions and why this criterion has been made? The answer has implications not just for compliance, but also for portfolio management, risk exposure, and investor confidence.

4) Point four is Regional Adaptations: Local Market Needs vs. Global Consistency, Indices such as ISSI (Indonesia) and KMI-30 (Pakistan) highlight the tension between local adaptation and global unification.

❖ Local regulators adopt more lenient thresholds to ensure that enough domestic firms remain investable.

❖ Global indices (DJIMI, MSCI) must maintain stricter standards to ensure cross-border credibility.

This problem highlights that full global unification may be unrealistic. Instead, a more practical approach would be to establish a tiered framework:

❖ **Global minimum standards** (e.g., 30%–33% debt ratio, 5% non-permissible income).

❖ **Regional flexibility margins** to accommodate developing markets.

Such a hybrid approach could balance both investor trust and market inclusivity.

5) Emerging ESG Integration: The Future of Shariah Screening, the inclusion of environmental, social, and governance (ESG**)** considerations in Shariah indices (e.g., ISRA-Bloomberg) represents a new trend. This is significant for several reasons:

❖ Implementing of Ethical Investing Traditions: Islamic finance and ESG investing share similar values of social responsibility and ethical exclusion.

❖ Broader Investor Appeal: By aligning with ESG, Shariah indices can attract not only Muslim investors but also global ethical investors.

❖ Evolving Concept of "Halal": Shariah compliance may expand from merely avoiding prohibited sectors to actively promoting sustainability and justice.

This trend suggests that the future of Islamic equity screening may not lie solely in unification Shariah thresholds, but in integrating broader ethical standards to remain relevant in global capital markets.

Practical Implications:

The findings carry several implications for investors, regulators, and index providers:

❖ For Investors: Awareness of methodological differences is crucial. A stock considered compliant under ISSI may be excluded by AAOIFI, impacting portfolio strategy.

❖ For Regulators: Efforts to harmonize standards must consider both theological legitimacy and economic practicality.

❖ For Index Providers: Incorporating ESG metrics could position Islamic indices as leaders in the growing ethical finance movement.

Toward a Unified Standard: Challenges and Pathways

While full unification is unlikely in the near term, a global coordination mechanism could enhance consistency. Possible pathways include:

1. **Minimum Global Thresholds**: Establishing a **baseline (e.g., 33% debt, 5% non-permissible income)** as universally acceptable.
2. **Regional Discretion**: Allowing flexibility above the baseline for emerging markets.
3. **AAOIFI-Led Initiative**: As the most authoritative standard-setting body, AAOIFI could coordinate with global indices to draft a **"**Global Shariah Screening Charter."
4. **Integration with ESG**: Positioning Shariah indices within the wider ethical finance movement to remain competitive.

Limitations of Study and Future Research

❖ **Secondary Data Reliance**: The study analyses published screening criteria, but does not capture decision-making processes of Shariah boards.

❖ **Jurisdictional Variations**: Different schools of thought (Hanafi, Shafi'i, Hanbali, Maliki) influence thresholds, which cannot be fully reconciled.

❖ **Dynamic Nature**: Screening criteria evolve with markets, requiring continuous study.

Future research could include:

❖ **Empirical investor surveys** to gauge perceptions of different standards.

❖ **Quantitative back-testing** of portfolios under different screening criteria.

❖ **Comparative ESG-Islamic studies** to assess convergence potential.

4.10 Summary of Discussion

The discussion confirms that qualitative consensus provides a foundation for global Shariah harmonization, but quantitative divergence remains the greatest barrier. Regional adaptations further complicate unification but also reflect practical realities. The integration of ESG principles represents an evolutionary step in Shariah screening, pointing to a future where Islamic finance and global ethical finance converge.

5. Conclusion and Recommendations

5.1 Conclusion

This study analysed the predominant Shariah equity screening indices, including AAOIFI, DJIMI, MSCI Islamic, FTSE Shariah, S&P Shariah, ISSI (Indonesia), and KMI-30 (Pakistan) to evaluate both their methodological similarities and differences. By applying a qualitative thematic analysis to secondary data (screening criteria, regulatory frameworks, and academic discussions), five major themes were identified:

1. **Consensus on qualitative (sectoral) screens**: universal exclusion of alcohol, pork, gambling, conventional finance, and unethical industries.
2. **Dispute in quantitative ratios**: particularly in leverage thresholds, ranging from 30% (AAOIFI) to 45% (ISSI).
3. **Market-cap vs. asset-based denominators**: with implications for volatility versus stability.
4. **Regional adaptations**: balancing Shariah integrity with local market realities.
5. **ESG integration**: a growing frontier aligning Islamic finance with global ethical investment trends.

The findings reveal that while qualitative filters provide a strong foundation for global compatibility, quantitative thresholds remain fragmented due to juristic interpretations and economic constraints. Full unification of Shariah equity standards, though desirable, is unlikely in the short term. Instead, a tiered model—with minimum global thresholds combined with regional discretion—offers a practical path forward.

Additionally, the study highlights that Shariah screening is not static. It evolves in response to market dynamics, juristic reasoning, and investor expectations. The recent integration of ESG principles suggests that the future of Shariah screening will not only be about exclusionary filters but also about actively promoting ethical, sustainable, and socially just finance.

Recommendations:

(a) For Regulators and Standard-Setters

1. **Adopt Minimum Global Standards**: Establish a baseline debt ratio (30–33%) and non-permissible income threshold (5%) that all jurisdictions can agree upon.
2. **Encourage Regional Flexibility**: Allow markets with unique challenges (e.g., Indonesia, Pakistan) to adapt within an acceptable margin.
3. **Create a Global Shariah Screening Charter**: Led by AAOIFI and supported by OIC and IFSB, to reduce fragmentation.

(b) For Index Providers

1. **Enhance Transparency**: Publish detailed methodologies and provide investors with regular compliance updates.

2. **Integrate ESG Standards**: Expand Shariah indices to cover **sustainability and governance**, making them more competitive globally.
3. **Harmonize Reporting**: Develop standardized reporting templates across indices for comparability.

(c) For Investors

1. **Diversify Across Indices**: Recognize that compliance differs; portfolios should be assessed under multiple frameworks.
2. **Monitor Dynamic Compliance**: Especially for indices using market-cap denominators, where compliance can shift rapidly.

Future Directions:

1. **Back-testing Studies**: Compare portfolio performance under different Shariah criteria.
2. **Empirical Surveys**: Gauge investor perceptions of stricter versus lenient standards.
3. **Comparative Ethical Finance Studies**: Explore intersections between Islamic finance, ESG, and socially responsible investing (SRI).

Final Reflection:

The journey toward a unified Shariah screening framework mirrors the broader trajectory of Islamic finance—balancing fidelity to Islamic principles with the practical realities of global financial markets Although complete standardization is difficult, small steps toward harmonization are possible and beneficial. Moreover, the integration of sustainability and ESG values signals that Shariah screening is poised to become a leading paradigm in ethical global finance, bridging faith-based and universal ethical investing.

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