Shariah Guidelines

For

Islamic Brokerage Window

Definitions

1. **Shariah Advisor (SA)** means Al-Hilal Shariah Advisors (Pvt.) Limited.

2. **Shariah Scholar (SS)** means a person who is qualified in Islamic Shariah and serves as a member of the Shariah Supervisory Council of Al-Hilal Shariah Advisors.

3. **Islamic Brokerage Window** means a Shariah compliant brokerage platform that operates within a brokerage house, with complete operational and financial segregation, and in full adherence to the Shariah guidelines issued by the Shariah Advisor.

4. **Brokerage House** means a securities broker licensed by the Securities and Exchange Commission of Pakistan (SECP).

5. **Illiquid Assets** mean those assets that are permissible under Shariah principles to be bought and sold at prices other than their face (par) value.

General Guidelines

1. All brokerage transactions, agreements, operational processes, and systems used for the Islamic Brokerage Window shall be approved by the Shariah Advisor and shall remain free from Riba (interest), Gharar (excessive uncertainty), and Qimar (gambling).

2. Any change in brokerage product structure, operational workflow, system configuration, or documentation relating to the Islamic Brokerage Window shall require prior approval of the Shariah Advisor.

3. All trades executed through the Islamic Brokerage Window shall be restricted to securities approved by the Shariah Advisor, in accordance with the approved list issued to the Brokerage House from time to time, and only the most up-to-date list shall be relied upon for all trading activities.

4. Any brokerage transaction or operational arrangement requiring relaxation or exception from standard Shariah principles shall be done after obtaining prior written approval from the Shariah Advisor.

5. Any client wishing to transfer their account from conventional brokerage to Islamic brokerage shall be duly facilitated.

6. Clients wishing to transition from an Islamic brokerage account to a conventional brokerage arrangement shall not be allowed to convert the existing account, instead a separate new account shall be required for this purpose.

7. Annual training sessions shall be conducted for staff to maintain awareness and compliance.

8. A separate list of client codes shall be maintained for the Islamic Brokerage Window.

9. Segregated narrative disclosures shall be reflected in the quarterly financial statements, providing a clear bifurcation between the Islamic Brokerage Window and the conventional brokerage business in respect of commission income, cash and bank balances, client shareholdings and number of clients.

10. Full segregation of funds, securities, and assets between the Islamic Brokerage Window and the conventional brokerage always, with such segregation clearly disclosed in the quarterly financial statements.

11. Any dispute arising from the application or interpretation of Shariah guidelines between a client and the Brokerage House shall be referred to the Shariah Advisor, whose decision shall be final and binding.

12. All necessary amendments to account opening documentation shall be made in line with Shariah guidelines and principles, subject to the approval of the Shariah Advisor.

13. Trading restrictions shall be implemented across the following channels:

14. The online trading terminal of the Islamic Brokerage Window.

15. Trading conducted through telephone calls, email, or any other mode of communication.

16. Personnel interacting with clients shall be adequately informed of the Islamic Brokerage Window's operational framework and applicable client restrictions.

17. The Brokerage house shall notify National Clearing Company of Pakistan Limited (NCCPL) that funds placed for exposure relating to Islamic clients are maintained in Islamic banking arrangements wherever available, while funds of conventional clients shall be maintained separately in conventional arrangements

Guidelines for Structure and Segregation

1. The Islamic Brokerage Window shall operate as a clearly segregated and identifiable unit within the Brokerage House.

2. Islamic brokerage client accounts, trading books, records, and reporting shall be maintained separately from conventional brokerage operations.

3. Islamic brokerage clients shall have access solely to Shariah compliant securities and brokerage services, subject to the approval of the Shariah Advisor.

4. Any facility involving Riba (Interest), gharar (transactional uncertainty), or qimar (gambling) shall not be offered to clients of the Islamic Brokerage Window. This includes but is not limited to derivatives and interest-based financing facilities.

5. Similar facilities, where Shariah compliant alternatives exist and are approved by the Shariah Advisor, shall be offered to clients of the Islamic Brokerage Window.

Guidelines for Bank Accounts

1. All client funds and proprietary funds relating to the Islamic Brokerage Window shall be placed with Islamic Banks or Islamic Banking Windows of licensed Commercial Banks approved by the Shariah Advisor.

2. For administrative, settlement, or clearing purposes, current accounts with conventional banks may be maintained with prior written approval of the Shariah Advisor, provided no interest is earned, charged, or retained.

3. All transactions, and settlement proceeds of the Islamic Brokerage Window, shall be routed through approved Islamic banking arrangements.

4. All client funds of the Islamic Brokerage Window, whether placed for exposure or for any other purpose with any institution including NCCPL, PSX, or others, shall be routed exclusively through Islamic banks or Islamic banking windows of commercial banks. Any return earned on such funds shall be passed on to clients in accordance with PSX and SECP approved policies. Any Shariah non-compliant income arising from these placements shall be donated to charity in line with the charity guidelines issued by the Shariah Advisor.

5. The brokerage house shall deposit NCCPL ready market exposure margins relating to Islamic clients' trades in the form of Islamic securities. In cases where Islamic securities are not available with the brokerage house, the required cash margin shall be deposited with NCCPL through the Islamic bank account.

Screening Guidelines for Securities listed on the Pakistan Stock Exchange

1. The Shariah Advisor shall issue a list of approved securities on a quarterly basis, with updates provided during the quarter as and when new financial information is disclosed or becomes available by the company or the issuer of the securities.

2. Trading through the Islamic Brokerage Window shall be restricted to shares and securities of companies whose core business activities are approved by the Shariah Advisor, and which are included in the Shariah compliant securities list issued by the Shariah Advisor.

3. Trading in securities of companies engaged in conventional banking, insurance, leasing, interest based financial services, alcohol, gambling or any other Shariah non-compliant activities deemed non-compliant by the Shariah Advisor.

Screening Criteria for Equity Securities listed on the Pakistan Stock Exchange.

The following criteria shall be applied to determine whether a company listed on the Pakistan Stock Exchange qualifies for inclusion in the Shariah compliant companies universe.

1. The core business activities of the company must be Shariah compliant and must not, in any manner, conflict with the injunctions of Islam.
2. Companies involved in conventional banking, insurance, conventional leasing, interest-based financial services, alcoholic beverages, gambling, or any other activities deemed Shariah non-compliant by the Shariah Advisor shall not be included in the list.
3. Interest bearing debt of the Company shall not exceed **37% of Total Assets**.
4. Investments in Shariah non-compliant activities shall not exceed **33% of Total Assets**.
5. Income from Shariah non-compliant sources shall not exceed **5% of Gross Revenue**.
6. Illiquid Assets shall constitute at least **25% of Total Assets**.
7. Net Liquid Assets per share shall be less than the prevailing **Market Price** of the share.
8. Shariah screening of tradable securities shall be carried out on a quarterly basis, based on the most recent publicly available financial statements of the company.
9. Islamic brokerage clients are only permitted to trade in securities that are classified as Shariah compliant, as per the approved list issued by the Shariah Advisor periodically.

10. The list shall also include companies which are deemed to be Shariah Compliant by any other SECP authorized shariah compliant securities list provider.

Note: These criteria may be revised by the Shariah Advisor as Shariah compliant financial guidelines continue to evolve, in line with regulatory direction and oversight provided by the Securities and Exchange Commission of Pakistan.

Trading Guidelines

1. Securities may only be sold once ownership has been duly acquired, settlement has been completed in accordance with stock exchange rules, and the securities are reflected in the Central Depository System (CDS) of the Central Depository Company of Pakistan (CDC).

2. All trading structures must be approved in advance in writing by the Shariah Advisor.

3. Special approval may be granted by the Shariah Advisor, in exceptional circumstances, to allow trading in the securities of Shariah non-compliant companies.

4. Any income earned from Shariah non-compliant transactions through the Islamic Brokerage Window shall be donated to charity in accordance with the Charity Guidelines provided by the Shariah Advisor.

5. Any deviation from approved shariah requirements for trading must be reported to the Shariah Advisor immediately.

Prohibitions

1. Interest-based transactions such as interest-based margin financing.

2. Short selling or sale of securities without ownership or possession.

3. Trading in futures, options, derivatives, or any other speculative contracts that have not been approved by the Shariah Advisor.

4. Trading in securities prior to settlement, including pre-settlement exposure.

5. Buy-back arrangements, rollovers, or refinancing of the same securities.

6. Trading in Shariah non-compliant securities without Shariah Advisor’s written approval.

7. Recognition of late payment or penalty amounts as income.

8. Commingling of Islamic brokerage activities with conventional brokerage operations.

Purification Guidelines

1. Any Shariah non-compliant income earned shall be purified by donating it to charity in accordance with the Charity Guidelines provided by the Shariah Advisor.

2. The Shariah Advisor shall provide a charity rate applicable to dividends received by Islamic brokerage clients, enabling them to purify their income accordingly.

3. The Brokerage House shall provide clients, on a periodic basis, with a list of companies and their respective dividend purification rates to facilitate income purification.

4. The obligation to purify dividend income shall remain the responsibility of the client.

Charity Purification Guidelines

Any Shariah non-compliant income earned through the Islamic Brokerage Window, whether arising from interest on bank deposits or from transactions, shall be donated to charity in accordance with the following guidelines.

1. A separate Islamic bank account shall be maintained for charity amounts.

2. Charity amounts shall be transferred to the charity account as soon as the amount is ascertained and approved by the Shariah Advisor.

3. Charity amounts shall be disbursed within a maximum period of 90 days to eligible charitable organizations approved by the Shariah Advisor. In cases where disbursement is proposed to an organization not included in the approved list, special approval shall be obtained from the Shariah Advisor.

4. Charity shall not be paid to individuals or related parties of the brokerage house, Shariah Advisor, or employees of the Brokerage House.

5. Charity amounts shall not be used for marketing, branding, or corporate social responsibility activities.

Divestment Guidelines

1. If any security traded through the Islamic Brokerage Window is subsequently classified as Shariah non-compliant, the relevant clients holding such securities shall be promptly informed. Such securities must either be divested within 90 days from the date of the Shariah Advisor's non-compliance determination or transferred out of the Islamic Brokerage Window sub-account maintained with the CDC.

2. Dividends received during the divestment period shall be purified using the applicable purification rates provided by the Shariah Advisor.

3. Holding Shariah non-compliant securities beyond the permitted period shall require special written approval from the Shariah Advisor.

4. If a security is retained beyond the approved divestment period, any capital gains earned after the divestment deadline shall be donated to charity by the client, at their discretion.

5. In the event if Client fails to divest within the prescribed period, the Islamic Brokerage Window, solely for the purpose of maintaining Shariah compliance may liquidate the position on Client's behalf.

Investment in Sukuk

1. Prior approval of the Shariah Advisor shall be required for trading or investment in Sukuk through the Islamic Brokerage Window.

2. The list of approved Sukuk shall be issued by the Shariah Advisor as part of its published list of Shariah compliant securities.

3. Approval granted to a Sukuk shall remain valid until the maturity of the instrument, unless its Shariah status changes, in which case such change shall be notified by the Shariah Advisor.

Investments Through New Brokerage Structures

1. Any new brokerage product, trading mechanism, or financial structure introduced under the Islamic Brokerage Window shall require prior written approval from the Shariah Advisor before launch.

Marketing Guidelines

1. Marketing and communication material relating to the Islamic Brokerage Window shall not contain any misstatement or misrepresentation.

2. Marketing material shall reflect Islamic ethical values.

3. All marketing material shall be approved by the Shariah Advisor prior to public dissemination.

Shariah Oversight

1. Shariah compliance of the Islamic Brokerage Window shall be subject to periodic review and audit by the Shariah Advisor.

2. The brokerage house shall provide full access to records, systems, and transaction data for Shariah review purposes to the Shariah Advisor.

3. Management of the brokerage house shall implement corrective actions as directed by the Shariah Advisor.

4. The Shariah Advisor shall meet with the Board of Directors, or with the Chief Executive Officer if duly authorized by the Board, at least twice a year or at such other frequency as may be prescribed by the directives of the SECP.

5. The Brokerage House shall appoint a Shariah Compliance Officer or assign Shariah compliance responsibilities to a designated employee within the compliance department.

6. The Brokerage House shall appoint a Shariah Internal Audit resource or assign Shariah internal audit responsibilities to a designated employee within the compliance department.

7. The two resources referred to above shall be separate and independent individuals.