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Comparative Analysis of Sharia Stock Screening Methods in Indonesia, Malaysia, and the United States

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Abstract:
This study aims to find out and understand how the sharia stock screening model applies in Indonesia, Malaysia, and the United States and find a harmonization solution. The method used in this study is descriptive-qualitative through a literature study approach. Research data was obtained from various sources both online and offline, such as journal articles, books, and websites related to the screening of Sharia-compliant stocks, to be further analyzed using the content analysis method. The results show that there are differences in the screening criteria for sharia stocks on the Indonesian Stock Exchange, the Malaysian Stock Exchange, and the American Stock Exchange, both qualitatively and quantitatively. This difference is seen as a natural thing in Islamic teachings because it is in the realm of muamalah fiqh, which of course is adapted to the conditions of the people of each country. However, it is necessary to consider generalizing the implementation of strict and uniform sharia stock screening in order to increase understanding, interaction, and economic cooperation among Muslim countries at the global level.

Keywords: Comparative Study, Stock Screening, Sharia Stocks, Sharia Compliance

JEL Classification Code: B26, D53, F02

1. Introduction

Investment in the capital market has become part of modern society's life today, as if it is their need in order to maintain or increase the value of their assets. The threat of inflation and anticipating economic uncertainty are the main factors that motivate some people to carry out investment activities (Priscilla, 2021). One of the most popular investment instruments is stock. Shares are securities that prove capital participation in the company, and with this proof of participation, the shareholder has the right to get a share of the results of the company's business. Stocks are high-risk, high-return investments, or investment instruments with a high risk because the price fluctuates but a high expected return. Sharia stocks are securities that show someone's ownership of a company whose business does not conflict with Sharia principles (Hanafi, 2011).

Sharia stocks have been the subject of discussion among *fiqh* scholars (fuqaha) since the 1970s (Hussein, 2005). Scholars have different opinions about the law of shares and buying and selling. Some jurists are of the opinion that the practice of buying and selling shares is full of elements of speculation, but some scholars allow stock transactions as buying and selling transactions in general (Wilson, 1997). This difference of opinion is due to the fact that the activity of buying and selling shares is something new, and there is no argument that explicitly mentions stocks. The jurists who allow stock activities refer to the *syirkah* concept in *muamalah fiqh* studies. *Syirkah*, which is identified with shares, is *syirkah sukuti*, which involves many parties. According to various scholars, Islamic stocks are one of the capital market activities that fulfill the investment desires of Muslim investors (Hanafi, 2011).

To provide assurance about whether a company's shares are in compliance with sharia or not, shares must be pre-selected, or what is known as "sharia screening" (Derigs and Marzban, 2008). The screening carried out on Islamic stocks will theoretically have several implications: first, shares that have passed the screening process can then be categorized as a "List of Sharia Securities (DES)" or "Shariah Compliance Securities"; second, there is strict screening on the side of financial performance, so sharia stocks are stocks that have the best performance compared to others; third, Islamic stocks are stocks that are likely to have a fairly low probability of volatility and are more resistant to shocks that occur in an economy, for example, financial crises (Ardiansyah et al., 2017).

In the process of screening Islamic stocks, each country has different standards (Derigs and Marzban, 2008). With these different standards, of course, the screening mechanisms and procedures are also different. For example, while Indonesia and Malaysia are both developing countries with a Muslim majority and are geographically close, the screening techniques used in these two countries differ. Meanwhile, the United States, as the country with the largest economy in the world, also applies screening methods with its own standards. The sharia screening methodology in the United States implied by the Dow Jones Islamic Market US Index is more stringent in terms of the financing aspects of the company's income statement and balance sheet (Najib et al., 2014).

The cause of the diversity of the limitations of the financial screening criteria is due to the variety of indicators for determining sharia-compliant companies as well as by looking at the conditions of the companies and the decisions of the sharia board. Differences in the conditions of investors and companies listed on the Islamic stock index in the region where the Islamic stock index is located, the extent of the interpretation of a legal boundary influenced by the flow of schools of thought in the Sharia stock index's coverage area. This is what has contributed to the non-uniformity of the process and the limitations of the screening criteria among the three countries.

From the results of previous research by Egi Arvian Firmansyah (2017), which compared the selection of Islamic stocks between the Indonesian and Malaysian Stock Exchanges, it was found that there were differences in selection criteria in Indonesia and Malaysia both qualitatively and quantitatively. This is based on the understanding of the jurisprudence adopted by each country as well as the vision and target investors want to achieve. The screening criteria for sharia stocks in Malaysia were initially looser than those in Indonesia, but have now been adjusted with the revision of the screening criteria in 2013. What Malaysia has done should be imitated by Indonesia and other countries by constantly adjusting the screening criteria so that its development is more acceptable to the market.

Based on this background, it was found that differences in screening standards between countries were caused by several factors, so that, until now, there has been no agreement on international Sharia screening standards. The existence of differences in the standard model for screening Islamic stocks certainly raises several problems. Sharia issues come to the fore considering that this difference reflects confusion in the Islamic financial system because, if the reference source is the same, of course it would be better if the sharia standards were the same. In addition, different screening models also provide an indication that the quality of a sharia-compliant stock is also different, depending on how strict or good the criteria and selection are implemented (Ardiansyah et al., 2017). The different screening techniques for sharia stocks on various world exchanges cause investors to be confused about investing (Soke Fun Ho et al., 2012).

This paper aims to find out and understand how the Islamic capital market screening model is carried out by Indonesia, Malaysia, and the United States and find a harmonization solution. The benefits of this research can provide insight for regulators, investors, and other related parties in developing a more effective and consistent method of screening Islamic stocks in various countries.

2. Literature Review

In the process of developing a modern Islamic financial system, several attempts have been made to determine the Shariah compliance status of companies listed on the securities market. The term "Sharia stock screening" refers to the process of maintaining strict Sharia compliance for certain types of shares (Pok, 2012). In other words, the process of screening Islamic stocks is to check whether a stock is categorized as an Islamic stock by detecting prohibited activities (Soke Fun Ho et al., 2012).

The history of setting screening criteria was initiated by a team of scholars consisting of Muhammad Taqi Usmani (Pakistan), Saleh Tug (Turkey), and Sheikh Mohammad Al Tayyeb Al Najar (Egypt) in 1987 with the aim of finding a solution that allows Muslim investors to own shares of listed companies on the stock exchange (Adam & Bakar, 2014; Mian, 2008). Later, stock screening *fatwa*'s began to appear in the 1990s as a result of the dot-com bubble, which attracted many Muslim youths to trade on the international stock market, using their wealth to earn high profits. During this period of time, Muslim youths inquired about the permissibility of trading these stocks. However, at that time, there were no guidelines for determining Shariah-compliant companies. In order to recognize Shariah-compliant companies, Sheikh Nizam Yaqoubi proposed general criteria to be applied to identify Shariah-compliant companies. A group of Islamic scholars adopted the same stance and participated in Sharia committees in various financial institutions (Gamaleldin, 2015).

In general, in the screening process, there are two aspects that must be fulfilled by issuers so that their companies can be included in the Islamic stock index: qualitative aspects and quantitative aspects. More details can be seen in figure 1 and figure 2

Figure 1: Sharia Stock Screening Process

Qualitative aspects include business object criteria, such as whether the company is engaged in a prohibited sector with elements of usury, *gharar*, and *maysir* (Fielnanda, 2017). The issuer's business object (company) is the core business run by each issuer and must be *halal* according to Islamic teachings. These are the absolute and most basic requirements for an issuer to be classified as a sharia share issuer. *Halal* and *haram* are the basic criteria that issuers must fulfill (Ramadani & Aziz, 2018). These criteria are absolute decisions determined by the sharia boards of each country. The *halal-haram* criteria have expanded in meaning and now include everything that is considered dangerous *(madarat)* and in the public interest *(maslahah)*. In countries that already have a variety of issuer businesses, the prohibition of business objects is wider than in countries that do not have a variety of issuer businesses (Hanafi, 2011).

Meanwhile, the quantitative aspect (accounting) is a criterion that is intended for the company's financial aspects, which consist of aspects of capital, debt, and company income (Fauzani, 2021). The criteria used in each country are different from other countries, depending on the condition of the issuer and the decision of the sharia board. These differences have different footings in classical fiqh scholars' opinions on these issues. The ratio of the amount of debt in a business compared to its own capital varies. Likewise, the amount of non-halal income that is unavoidable in today's business world has different limits based on criteria (Hanafi, 2011).

In Malaysia, apart from the assessment in terms of aspects of business and financial criteria, there are additional assessment aspects determined by the Malaysia Sharia Advisory Council, namely aspects regarding corporate image in the public eye that must be good and bring benefits *(maslahah)* to society (Tanin et al., 2021). Determining the status of a company based on its image is generally done on a case-by-case basis, judging by its track record so far for evidence of its good or bad history in running its business (Ayedh et al., 2020).

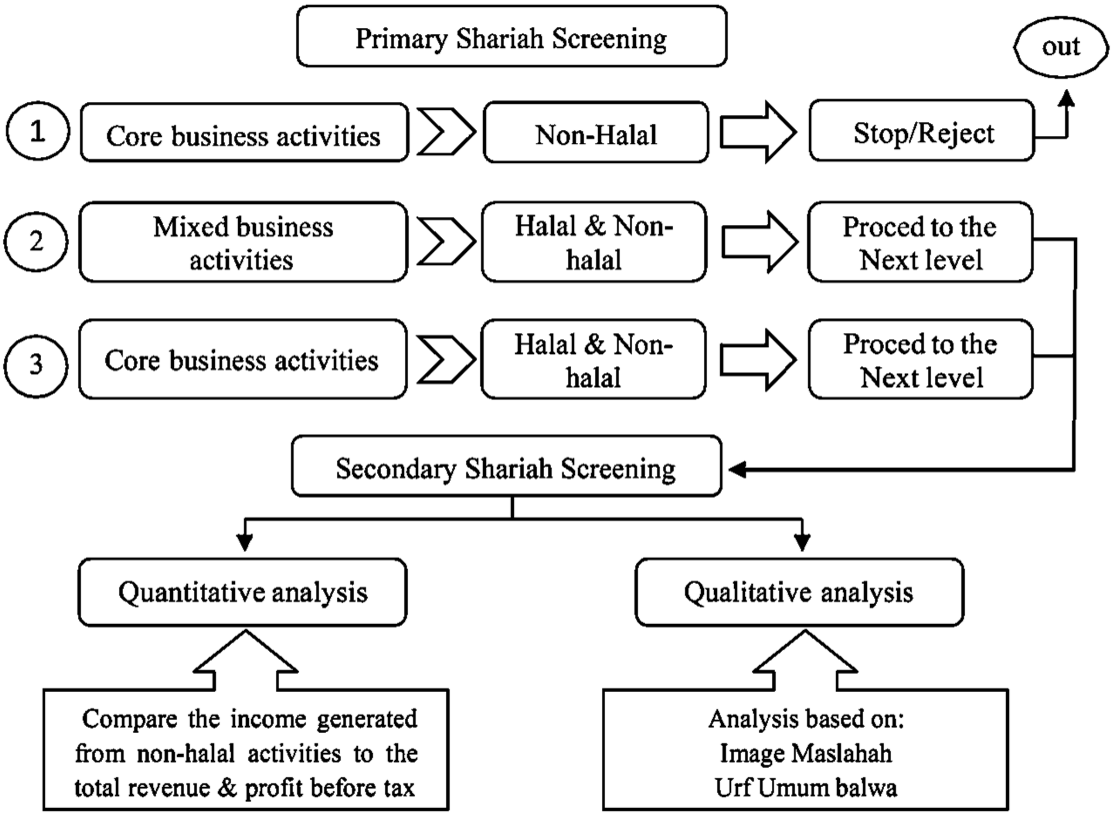

Figure 2: Framework of Sharia Stock Screening Process
Source: Adapted Fauzan (2021)

Islamic stock indexes use sharia screening standards in their stock selection process (Zainudin et al., 2016). The Sharia Stock Index assists investors in distinguishing between shares that are permissible in Islam and those that are not (Abbes, 2012). In other words, this index meets the needs of investors who want to invest their capital according to sharia (Salahuddin & Hermansyah, 2014). According to Pok (2012), there are three reasons for creating and perfecting the Sharia Stock Index, including: 1) There is a strong demand for Islamic financial products from a large number of Muslim communities around the world; 2) oil-rich countries (mostly Middle Eastern countries) are very demanding and prefer to invest their capital in Islamic products; 3) many Sharia products have become competitive and attractive, not only for Muslim investors but also for non-Muslims.

To help investors choose stocks that are included in the Sharia stock index, several top stocks that meet Sharia compliance needs are presented. This was created to meet the needs of all investors who wish to allocate their capital in accordance with Sharia provisions (Salahuddin & Hermansyah, 2014). In comparison to conventional stock indices, Sharia or Sharia Stock Indices have specific rules and conditions that determine the market and their stocks. Also, Islamic stocks must be associated with *halal* products and qualities such as safety, environmental friendliness, and process efficiency to convince stock issuers (Zainudin et al., 2016).

The first Islamic equity index was introduced in Malaysia by RHB Unit Trust Asset Management Bhd in 1996, followed after that by the formation of the Dow Jones Islamic Market World (DJIMI) in 1999 (Yildirim, Ramazan and Ilhan, 2018). Meanwhile, Indonesia has the Jakarta Islamic Index (JII), which was formed in 2000, and the Indonesia Sharia Stock Index (ISSI), which was launched in 2011. These developments help create more opportunities for investors seeking Sharia investments to compare their portfolios and for asset managers to create new products that serve the investment community. According to the Financial Services Authority's (OJK) report, the number of sharia issuers listed on the Indonesia Stock Exchange as of September 2022 reached 524, or 64%, of the total issuers.

With regard to sharia screening, Sani and Othman (2013) conducted research on the revision of sharia screening methods based on the conditions of companies that meet sharia criteria. This study concludes that 77% have been declared sharia. This means that there are still 23% that are not in accordance with Sharia. While the shares selected using the MSCI are sharia-compliant, only 39% of the companies are entitled to such status.

Ardiansyah et al. (2017) have researched a theme that also discusses sharia stock screening. In general, this study provides an overview of the differences in screening methods in the five ASEAN countries. This difference is caused by factors such as differences in community structure, differences in the financial industry, and differences in schools of thought (Ardiansyah et al., 2017). However, screening from a *fiqh* perspective is not discussed in this study. Regarding research under the theme of Sharia stock screening, Fielnanda (2017) concluded that there was still a compromise of usury, as much as 45% of the capital at issuers, indicating that the practice of Islamic sharia was not yet *kaffah*.

A similar study was conducted by Zandi et al., (2014) on "Stock Market Screening: An Analogical Study on Conventional and Shariah-Compliant Stock Markets". This study attempts to compare Sharia-compliant stocks listed on the Bursa Malaysia. Are stocks that have passed the screening process at SAC and SC also accepted as sharia shares by the International Index? A sample of 35 Islamic stocks listed on the Malaysian Exchange were tested against four stock screening criteria, consisting of DJIM, MSCI, FTSE, and S&P. The results show that Sharia-compliant stocks listed on the Malaysian Exchange are not all accepted as Sharia-compliant stocks in the four indices. DJIM, MSCI, FTSE, and S&P This is due to high debt and low market capitalization, which are the main factors dropping Malaysian Islamic stocks from the other four indexes.

3. Research Methods

The method used in this research is the descriptive-qualitative method. The approach is in the form of literature study research, namely using various sources of literature as a source of research data obtained from various sources, both online and offline, such as journal articles, books, and websites (Jaya, 2020; Hamzah, 2020). The number of samples for this study comes from three countries that have established their respective Sharia Indexes, namely Malaysia, Indonesia, and the United States. Malaysia and Indonesia were selected based on two criteria: developing countries and pioneering countries that have advanced in implementing Islamic economics. The United States was chosen because it is also a pioneer, has an advanced economy, and is a country that has a major influence on the world economy. The indices (which are included in the Main Exchange) studied in this paper are the Kuala Lumpur Syariah Index (Malaysia), the Indonesia Sharia Stock Index (Indonesia), and the Dow Jones Islamic Market Index (United States).

This study analyzes, compares, and contrasts only the methodological aspects of sharia selection used by the Sharia Board to screen the effects of sharia in the countries selected for this study. This type of selection allows these securities to be categorized as Sharia-compliant and Sharia-non-compliant, so that Sharia-compliant securities can be listed in the indices owned by the selected countries (Kasi & Muhammad, 2016). The data were then analyzed descriptively with the aim of knowing the differences in the approaches to screening Islamic stocks on the stock exchanges of Indonesia, Malaysia, and the United States. The data analysis in this study used the method of content analysis, which is a systematic technique for analyzing message content and processing it against data or facts compiled from various sources, both primary and secondary, then drawing conclusions in an effort to bring out the characteristics of the message in a logical, critical, objective, and systematic way (Suyanto & Sutinah, 2015).

4. Finding and Discussion

Sharia Stock Screening Criteria in Malaysia

There are two Islamic stock indices in Malaysia: the Kuala Lumpur Sharia Index (KLSI) and the Rashid Husein Berhad Islamic Market Index (RHBIMI). KLSI was founded by the government, while RHBIMI was founded by the private sector (Rashid Hussain Group Malaysia). The emergence of these two indices shows the great interest of Malaysian investors and investors from other countries towards Islamic investment in Malaysia. This development can be seen from issuers whose shares are always increasing, and currently Islamic shares control 88% of all shares listed in the Kuala Lumpur Stock Exchange (KLSE) (Hanafi, 2011).

KLSI is the Malaysian Islamic capital market, which was established by the Malaysian government on April 17, 1999. This KLSI is a weighted average index and consists of stocks listed on the Kuala Lumpur main board. Composite Index (KLCI). These shares have undergone screening according to the provisions set by the Sharia Advisory Council (SAC) of the Malaysian Securities Commission (SC). The launch was based on requests from local and foreign investors who wished to invest in sharia-based stocks. RHBIMI is the first Islamic capital market in Malaysia, which was introduced by Rashid Hussein Group Malaysia on June 1, 1992. RHBIMI is a capitalization-based index based on companies listed on the main and second boards of the KLSE (Hanafi, 2011).

To be included in the sharia index, the company's shares must undergo screening according to the provisions set by the Shariah Advisory Council (SAC), a special body established by the Securities Commission (SC) Malaysia. SAC applies these screening criteria using two methods, namely, qualitatively and quantitatively (Fauzani, 2021). First, a qualitative approach is taken to select business objects in the company so that they do not engage in activities that are prohibited by Islam, including engaging in activities as stated below:

a. Conventional banks.
b. Conventional insurance.
c. Gambling.
d. Liquor and activities related to liquor.
e. Manufacturers of swine and swine-related foods
f. Food and drinks are not *halal*.
g. Entertainment is not in accordance with Sharia.
h. Interest income from conventional accounts and instruments.
i. Tobacco and tobacco-related activities.
j. Other non-sharia activities determined by SAC

Second, quantitative criteria will be used to complete the financial ratios of the company to determine the tolerance mix between allowable and disallowed shares of income and pre-tax profits of a company. The Shariah Advisory Council (SAC) makes several comparisons based on *ijtihad*. If the income from a business that is not allowed by sharia exceeds the benchmark, then the company's shares are not categorized as sharia shares. These limitations are:

a. Maximum 5% from industry:
    1) Conventional banks
    2) Conventional insurance
    3) Gambling
    4) Liquor and activities related to liquor
    5) Manufacturers of swine and swine-related foods
    6) Food and drinks are not halal.
    7) Entertainment is not in accordance with Sharia.
    8) Interest income from conventional accounts and instruments
    9) Tobacco and tobacco-related activities.

10) Other non-sharia activities determined by SAC

b. Maximum industry contribution of 20%:
   1) Hotels and resorts
   2) Stock trading
   3) Stock brokerage business
   4) Rental income from non-halal activities
   5) Other non-sharia activities determined by the SAC

Criteria for issuing Sharia in the United States

The Dow Jones Islamic Market Index (DJIM) launched the Islamic index market in February 1999 and is the first Islamic index in the Muslim world (Ahmad Rodoni, 2008). Sharia Supervisory Board (SSB) as a sharia board for the Dow Jones Islamic Market Index (DJIM), which aims to filter *halal* stocks based on business activity and financial ratios. Based on this filter, there are 2,700 stocks from 64 country indices that comply with sharia principles. DJIMI covers 10 economic sectors, 19 market sectors, 41 industrial groups, and 114 sub-groups (Kamso, 2013). SSB specifically issues companies that operate in the following industries:

a. Alcohol
b. Liquor and its derivative products
c. Conventional Financial Services
d. Entertainment Industry
e. Tobacco
f. Weapons and defence equipment

Then, according to Kamso (2013), there are three criteria for financial ratios that must be met by companies so that Sharia principles must be less than 33%, namely:

$$\text{Debt Ratio} : \frac{\text{Total amount of debt}}{\text{Total assets, average market capitalization over the past 12 months}} < 33\%$$

$$\text{Cash Ratio} : \frac{\text{The amount of cash the company earns interest on}}{\text{Total assets, average market capitalization over the past 12 months}} < 33\%$$

$$\text{Receivables Ratio} : \frac{\text{Total receivables}}{\text{Total assets, average market capitalization over the past 12 months}} < 33\%$$

Criteria for issuing Sharia in Indonesia

For the Indonesian context, the first sharia stock index screening was carried out on the Jakarta Islamic Index (JII), which covered 30 types of stocks as a first step in the development of the capital market in Indonesia. These Sharia shares are a group of shares that have been selected by the Jakarta Stock Exchange (BEJ) together with PT Dana Reksa Investment Management (DIM). Formally, the selection of sharia stocks in Indonesia generally refers to a memorandum of understanding between the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), which was followed up by a decision of the Chairman, which was followed by a memorandum of understanding between DSN-MUI and SROs (self-regulatory organizations). The existence of this Memorandum of Understanding has become a strong support base for the development of sharia principles-based capital markets in Indonesia, which agrees on a pattern of coordination, consultancy, and cooperation relationships for effective and efficient arrangements in order to accelerate the growth of sharia financial products (Ahmad Rodoni, 2008).

DSN-MUI Decision No. 40/DSN-MUI/X/2003, concerning Capital Markets and General Guidelines for Application of Sharia Principles in the Capital Market Sector, Article 3 Number 2 describes the types of business activities that are contrary to Sharia principles, including:

a. Gambling and games that are classified as illegal gambling or trading;
b. Conventional financial institutions *(ribawi)*, including conventional banking and insurance;
c. Producers, distributors, and traders of food and beverages that are haram; and
d. Producers, distributors, and/or providers of goods or services that damage morale and are harmful.
e. Invest in issuers (companies) in which the level *(nisbah)* of the company's debt to *ribawi* financial institutions is more dominant than its capital at the time of the transaction.

The DSN-MUI criteria are confirmed by OJK Regulation Number 35/POJK.04/20017 Concerning Criteria and Issuance of Sharia Securities, which explains business activities that are contrary to Sharia principles, including:

a. Gambling and games classified as gambling;
b. *Ribawi* Financial Services;
c. buying and selling risks that contain uncertainty *(gharar)* or gambling *(maysir)*;
d. Produce, distribute, trade, and/or provide:
    1) Goods and/or services that are haram due to their composition *(haram li-dzatihi)*;
    2) Goods and/or services that are haram due to their nature *(haram li-ghairihi)*, as determined by the DSN-MUI; and/or
    3) Goods and/or services that are detrimental to morale; and/or
    4) Other goods or services that are contrary to Sharia principles based on the DSN-MUI provisions;

e. Carry out other activities that are contrary to sharia principles based on the provisions of the DSN-MUI.

The criteria that describe the business object of issuers (companies) that conflict with the Sharia principles above, whether those that have been stipulated by the DSN-MUI, are essentially not much different. In general, both prohibit usury, trading, buying, and selling risks containing *gharar*, *maysir*, and traders of illegal food and drinks, as well as providers of goods or services that are harmful to morale.

Quantitative (accounting) criteria for the Islamic Capital Market in Indonesia have been regulated in POJK Number 35/POJK.04/2017 concerning criteria and the issuance of Sharia Securities Lists, namely not exceeding the financial ratios as follows:

a. Total interest-based debt compared to total assets is not more than 45%.
b. Total non-halal income compared to total business income and other income is not more than 10%.

All sharia financial products, before obtaining approval as *halal* products, must first go through a screening stage carried out by the Sharia Board in each country according to their authority. It is this sharia board that will ensure that every financial product issued is within the sharia framework (Ardiansyah et al., 2017).

The next section presents a comparison of Sharia stock screening on the Indonesia Stock Exchange (ISSI), Malaysia Stock Exchange (KLSESI), and United States Stock Exchange (DJIM) from qualitative and quantitative aspects. For the qualitative aspect, commonly called business criteria, what will be compared is the main business activity of the company that issues the shares. Business criteria are criteria that are compiled based on each issuer's type of business. The category of business type used as an indicator in the business criteria is based on the halalness of the business, both because of the substance (product) and the process. As for the quantitative aspect, various financial ratios will be compared, including the debt-to-asset ratio, non-halal income contribution, cash ratio, and accounts receivable ratio.

Table 1 shows a comparison of the qualitative criteria between ISSI, KLSESI, and DJIM. If one pays attention to the criteria in the ISSI set by the DSN-MUI and the Financial Services Authority (OJK), very little explicitly explains the types of activities that are contrary to sharia principles. This is of course much different when compared to the *fatwa* of the sharia board on the Dow Jones Islamic Market Index (DJIM), which prohibits alcohol, liquor, tobacco, weapons, weapons of war, pornography, and the entertainment industry (Fielnanda, 2017). While Malaysia conducts screening based on the provisions set by the Sharia Advisory Council (SAC) of the Malaysian Securities Commission (SC), which prohibit gambling, *maysir*, entertainment that is contrary to sharia, tobacco, and its derivative products (Adam & Bakar, 2014).

Table 1: Comparison of Qualitative Criteria between ISSI, KLSESI, and DJIM

Indicator	ISSI (Indonesia)	KLSEI (Malaysia)	DJIM (US)
Rule Maker	Dewan Syariah Nasional Majelis Ulama Indonesia (DSN MUI) and Otoritas Jasa Keuangan (OJK)	Syariah Advisory Council (SAC) from Security of Commission Malaysia	Sharia Supervisory Board (SSB)
Prohibited Business Fields	1. Gambling and games are classified as gambling. 2. Prohibited trade (e.g., drugs) 3. Conventional/ *ribawi* financial businesses: conventional banking and insurance 4. Buying and selling risks that contain uncertainty *(gharar)* or gambling *(maisir)* 5. Businesses that produce, distribute, and trade food and beverages that are classified as *haram*, 6. Businesses that produce, distribute, and provide goods or services that damage morale and are harmful (not beneficial and detrimental)	1. Conventional banks 2. Conventional insurance 3. Gambling 4. Liquor and activities related to liquor 5. Manufacturers of swine and swine-related foods 6. Food and drinks are not *halal*. 7. Entertainment is not in accordance with Sharia. 8. Interest income from conventional accounts and instruments 9. Tobacco and tobacco-related activities; and 10. Other non-sharia activities determined by SAC	1. Alcohol 2. Food contains pork and its derivative products. 3. Conventional Financial Services 4. Entertainment Industry 5. Tobacco 6. Weapons and means of defence
Additional Criteria	There are none.	- Public perception of the company - Provide societal benefits *(maslahah)*.	There are none.

Malaysia also has additional criteria, namely that the aspect of corporate image in the public eye must be good and bring benefits *(maslahah)* to society; this does not exist in Indonesia or the United States. Some of the criteria in Table 1 are also not found in the study of *muamalat fiqh* and are legal issues that are ijtihad in nature. For example, cigarette and arms companies are seen as engaging in business activities that are harmful to both health and world peace. Therefore, the expansion of the business ban actually aims to protect human interests *(maslahah)* compared to the interests of the business itself (Hanafi, 2011), with the understanding of prioritizing the benefit and avoiding efforts that are harmful and morally damaging. Besides that, the term *maslahah* in Islam is also known as "ethical investment" (Wilson, 1997) or "socially responsible investment," which has developed since the early 1970s (Fielnanda, 2017). The concept of ethical investment that develops investment prohibits activities that are contrary to morals, such as pornography, liquor, nuclear weapons, and tobacco (Joly, 1993).

In this context, according to the author, it is important for the DSN-MUI and the Financial Services Authority (OJK) to explicitly include it by adding several issuer business criteria, for example, the ban on tobacco and pornography companies. Although there are relatively few companies going public in Indonesia compared to Malaysia and America (Siddiqui, 2007), Therefore, it is important to consider that, given the socio-cultural setting of Indonesian society, which has the world's largest Muslim majority, it is possible that one day, for example, pornographic issuers will be listed on the sharia stock index, which could damage the nation's morale.

Thus, it is expected that the criteria for business objects are expected to not only focus on negative screening (objects of issuers that are *halal* and *haram*), but also emphasize positive screening of company activities that are considered to benefit humanity and improve the world, such as environmental preservation, minimal work accidents, salary equality, environmentally friendly products, and others.

Furthermore, a quantitative selection of Sharia stocks on the Indonesia Stock Exchange (ISSI) and Malaysia Stock Exchange (KLSESI) is presented. For the first quantitative criterion, namely the ratio of debt to assets, the three exchanges stated that too much debt was not in accordance with Sharia. This is because Islamic finance follows the principle of sharing risks and profits (profit and loss sharing), so loans and interest payments on debt are said to not meet sharia criteria. Both ISSI, KLESSI, and DJIM set maximum debt-to-asset ratios. It is understood that if an issuer has too much debt, it faces a high financial risk, which increases the likelihood of the company failing. ISSI has a looser approach (maximum 45%) than KLSESI and DJIM (maximum 33%).

Table 2: Comparison of Qualitative Criteria between ISSI, KLSESI, and DJIM

Indicator	ISSI (Indonesia)	KLSEI (Malaysia)	DJIM (United State)
Debt Ratio (Debt to Asset Ratio)	Maximum 45%	Maximum 33%	Maximum 33%
Non-halal income contribution	Maximum 10%	Maximum 5% from industry: 1. Conventional banks 2. Conventional insurance 3. Gambling 4. Liquor and activities related to liquor 5. Manufacturers of swine and swine-related foods 6. Food and drinks are not *halal*. 7. Entertainment is not in accordance with Sharia.	Maximum 5%.

		8. Interest income from conventional accounts and instruments 9. Tobacco and tobacco-related activities; and 10. Other non-sharia activities determined by SAC Maximum 20% from industry: 1. Hotels and resorts 2. Stock trading 3. Stock brokerage business 4. Rental income from non-halal activities 5. Other non-sharia activities determined by the SAC	
Cash Ratio	There are none.	Not more than 33% (in non-Sharia banks)	Maximum 33%
Receivable Ratio	There are none.	There are none.	Maximum 33%

In the previous Sharia stock screening criteria, SC Malaysia did not have debt criteria because SC Malaysia did not consider debt an important issue in quantitative screening. However, in 2013, SC Malaysia revised its regulations and now has the same consensus as other screening makers to apply a benchmark of one-third, or 33%, as a parameter of debt tolerance level. The divisor in this debt screening is total assets. The determination of the 33% figure is most likely, according to Obaidullah (2015), based on a hadith in which the Prophet advised Abu Bakr not to give away more than a third of his wealth by saying "one third is too much". Therefore, one third (33%) is chosen by sharia law experts as a threshold that is not excessive from a Sharia point of view, even though the use of the hadith is considered out of context (Balgis et al., 2021).

The second criterion is the ratio of non-halal income (non-permissible income). For this criterion, the three stock exchanges have different approaches and thresholds. It is understood that with a state financial system that is not 100% sharia, issuers in Indonesia, Malaysia, and the United States cannot fully obtain *halal* income. There will be income that is not lawful; for example, there are subsidiaries engaged in sectors that are not lawful, or income from interest is received. MUI sets a single threshold of 10%, but SC Malaysia sets a double benchmark of 5% and 20%, depending on the sector. Meanwhile, DJIM also applies a single threshold, namely a maximum of 5%. On the Indonesian and United States stock exchanges, this single threshold is understood to mean that the income from the non-halal sector cannot be more than the main income. DSN MUI requires issuers to purify their income by giving alms. SAC Malaysia argues that the difference in the threshold for non-halal acceptance for the hotel and resort sector, stock trading, stock brokerage business, and leasing from non-halal activities is greater, namely 20%. This is based on the aspect of the benefit *(maslahah)* of this sector being greater for the community than other sectors, which only have a threshold of 5%.

The third criterion is the ratio of cash to total assets. The purpose of this ratio is to compare the cash held by issuers in non-Sharia banking, which of course will generate interest that is not in accordance with Sharia. This ratio of total cash to total assets exists only in Malaysia and the United States stock exchanges, while in Indonesia it does. The Malaysian and United States stock exchanges apply a cash ratio to total assets of a maximum of 33%.

The American stock exchange has an additional ratio, namely the ratio of receivables to total assets. Indonesia and Malaysia do not apply this criterion. The receivables ratio limit applied by DJIM is no more than 33% of total assets. This limit is a tolerance for the company's limited ability to receive cash. The receipt of company payments from partners is carried out periodically so that they become receivables. Some *fuqoha* state that the company's debt can only be used for the benefit of the company itself. Debt may not be transacted with other (third) parties (Siddiqui, 2007). Large debts indicate that the company's transactions will be financed with interest.

In order to minimize investor confusion due to the various screening methods, it is necessary to carry out a unification process or at least standardize the Sharia stock screening model, especially in Muslim countries such as Indonesia and Malaysia and the world in general. It is interesting to note that the International Islamic *Fiqh* Academy, which is a subsidiary organization under the auspices of the Organization of Islamic Cooperation (OIC), has not issued a resolution adopting or supporting the standardization of financial ratio screening methodologies. However, several members of the International Islamic *Fiqh* Academy, in their individual capacities as members of the sharia boards of leading sharia indexes and the AAOIFI, have agreed to the screening of financial ratios (Rahman, 2015).

This unification process can begin with the process of unifying the understanding of policymakers in the Islamic capital market. In the next stage, policy makers can equalize the variables that will be used in the stock selection process based on whether they fall into the *halal* or *haram* category. This is certainly expected to create Sharia-compliant stocks that are more resistant to financial shocks and have better volatility. So this will have a good impact on increasing public confidence in the Islamic stock market (Ardiansyah et al., 2017).

5. Conclusions

There are differences in the screening criteria for sharia stocks on the Indonesian Stock Exchange, the Malaysian Stock Exchange, and the American Stock Exchange, both qualitatively and quantitatively. This difference is seen as a natural thing in Islamic teachings because it is in the realm of *muamalah fiqh*, which of course is adapted to the conditions of the local community. The difference in the qualitative criteria between the three exchanges is not that significant, but it is quite significant in terms of the quantitative criteria. The Indonesian stock exchange has set a higher debt ratio threshold than Malaysia and America. Another difference is in the contribution of non-halal revenue, where the Indonesian Stock Exchange only sets one threshold of 10%, Malaysia sets two thresholds of 5% and 20% depending on the type of sector, and America has one threshold of 5%. Another difference is that the ratio of cash to total assets on the Malaysian and American stock exchanges is a maximum of 33%, while in Indonesia this ratio does not exist. These results indicate that the United States implements more stringent quantitative screening compared to Malaysia and Indonesia.

This study is expected to provide insight for regulators, investors, and other related parties in developing a more effective and consistent method of screening Islamic stocks in various countries. The recommendation from this study is that it is necessary to consider generalizing the application of strict and uniform sharia stock screening in order to increase understanding, interaction, and economic cooperation among Muslim countries at the global level. This study is limited to a comparison of quantitative and qualitative criteria in three countries using secondary data. Further research can be carried out by increasing the number of indices and conducting interviews with screening criteria makers or investors to assess whether the current screening criteria are sufficient or not so that screening criteria improvements can be better.

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