

Islamic Brokerage Industry in the light of Islamic Principles

**Diyanah Islamic Financial Services
(Pvt) Limited**

The Pioneers of Islamic Brokerage Services in Pakistan

Management Experience In Stock Market

- The Executive Management of the Company has a vast experience of more than 17 years of Pakistani Stock Markets.
- Currently associated with Hum Securities (Pvt) Limited since its establishment in 2005.
- Have deep knowledge of the mechanism and regulations of the concerned authorities.
- Also have profound analyses of various leaps and bounds which occurred in different time periods in the Stock Market.

Why Islamic Brokerage is Essential

- Keeping in mind the history of the stock market, it can be concluded that Interest based marginal trading system (Badla System) is responsible for all the crises, as;
 - a) It exploits the greed of the investor.
 - b) Investor starts speculation instead of trading.
 - c) It promotes gambling rather than investment.
- Stock Markets can become stable by eliminating Riba, speculation and other unethical ways of trading.
- Stability and Credibility of Islamic Financial Institutions during the crisis of 2008 and 2009 strengthened our beliefs and we strongly feel the absence of an IBH in Pakistani Capital Market.

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- IBH can bring stability by following Shariah standards of investment, and educate investors to make them aware of Islamic modes of investments in the Stock Market.
- By following IBH models in different countries we have developed our company in order to follow Shariah investment regulations.

Formation of Diyanah Islamic Financial Services (Pvt) Limited

- In the initial era of 2007, we started working on the Ideology of Islamic Brokerage House (IBH) under the supervision of Mufti Asfar nominated by Mufti Zubair Usmani of Darul Uloom Karachi.
- In this concern Mufti Asfar developed 7 comprehensive Questions regarding the income and operations of a Brokerage House for the Daul Ufta of Darul Uloom Korangi.
- We have received 6 Answers from those 7 Questions. The last Question which is related to Day trading is still under consideration, and it's Answer is still awaited.

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- On the Basis of Darul Uloom recommendations and their general Fatwa issued regarding the trading of shares and the Shariah Screening Criteria, we structured an Islamic department with the name of “Hum Islamic Brokerage Services” in Hum Securities Limited from 1st of Ramadan 2010.
- We also contacted all the Shariah Advisors and Madaris of different Schools of Thought and presented them our papers for their kind perusal.
- Furthermore on advices of different Shariah advisors, we decided to form a separate Shariah Complaint Company by the name of DIYANAH ISLAMIC FINANCIAL SERVICES rather than converting Hum Securities Limited into a Shariah Compliant Company.



**Difference between
Islamic & Conventional
Brokerage System
(International Standard)**

In Islamic Brokerage Houses, certain restrictions have been imposed on their clients to invest in the Stock Market by Shariah Compliances, which are described as:

1. Only Shariah Compliance Scripts are allowed for trading:

Shariah Compliance Scripts are those which have been filtered by the Shariah Screening Criteria, prepared by renowned Shariah Scholars from all over the world. The criteria is described as:

- 1. Core business of the Investee Company should be Halal**
- 2. Debt to Asset ratio should be less than or equal to 40%**
- 3. Non-Compliant Investments to Total Assets ratio should be less than 33%**
- 4. Non-complaint Income to Total Revenue ratio should be less than 5%**
- 5. Illiquid Assets to Total Assets ratio should be at least 20%**
- 6. The market price per share should be greater than the net liquid assets per share**

2. Intraday Trading should be prohibited:

Day trading has little to do with actual investing. Usually day traders watch the market and buy and sell on short-term price fluctuation (normally within one day). For this reason, a number of Islamic scholars have termed this as closer to gambling and thus it is prohibited.

3. Margin Finance is not allowed:

Margin trading is termed as buying stocks and using money loaned from the broker, so Interest (Riba) is paid for this loan. Though margin trading is not allowed apparently in Islam, as this contract comprises Riba.

Note: Inshallah we will be replacing this with Murabaha

4. Prohibition for Derivatives—Options & Futures:

Scholars disagree on the validity of forwards, futures and options. Some scholars argue that, in these contracts, the sold commodity and the payment of the price are made in future date, so it contains Al-Gharar and Gambling.

5. Prohibition of Short Selling:

Short selling is not allowed in Shariah, as it is gambling and cheating the buyer, as the seller sells the product that he borrows but he does not own it.

6. Trading of Right Allotment Letter is Prohibited:

Right Allotment is an agreement letter between Share holder and the Company. So it is not considered to be a share and completely prohibited for trading.

7. Provisional Trading for IPO's is Prohibited:

Provisional trading for IPO's is not allowed, except those IPO companies which physically exist and are established.

Islamic Brokerage Houses & Islamic Indices

The Ideology of Islamic Brokerage Houses has been developed and spread over all the giant economies in the world.

Gulf Region

- Wasatah Capital: **Kingdom of Saudi Arabia**
- Abu Dhabi Islamic Financial Services: **UAE**
- Emirates Islamic Financial Services: **UAE**
- Dlala Islamic Brokerage: **Qatar**

Islamic Brokerage Houses & Islamic Indices

SAARC Region

- Wealth City: **India**
- Ammanah Securities: **Sri Lanka**
- Islamic Bank Bangladesh Limited: **Bangladesh**

Islamic Indices in Non-Islamic Countries

Islamic Indices in Giant Economies

- Dow Jones Islamic Market Index (DJIM): **USA**
- MSCI Global Islamic Index
- B.S.E. Tasis 50: **India**

Impact of Islamic Brokerage Houses on Stock Exchanges

IBH brings stability in Share prices

This can be done by banning speculation, allowing only share purchase on cash and removing management malpractices.

Abolition of Speculation and Margin Practices

Speculative activity in existing stocks on the basis of margins not only fails to perform any useful economic function as already indicated, but also harms savers and 'true' investors by generating undue fluctuations in stock prices and injecting an undesirable element of uncertainty and instability in the stock market.

Role of Islamic Financial Institutions in the Stock Exchanges

- **A stock exchange** is an entity where investors and management can generate funds through IPOs, this may also include liquidity of Islamic banks and provide more finance for upcoming Islamic entrepreneurs.
- **The role of Islamic financial institutions** is to provide bridge finance, any of the borrower who have a feasible project, must be financed till the calculated time period.
- When the project will be established and start its production then Bank and Management should generate fund by placing it in Stock market through IPO's and payback the borrowed amount with agreed premium.
- That increase the pace of the industrialization and creates job opportunity in the economy which help the economy to grow at required pace.

Diyana Islamic Investment Products



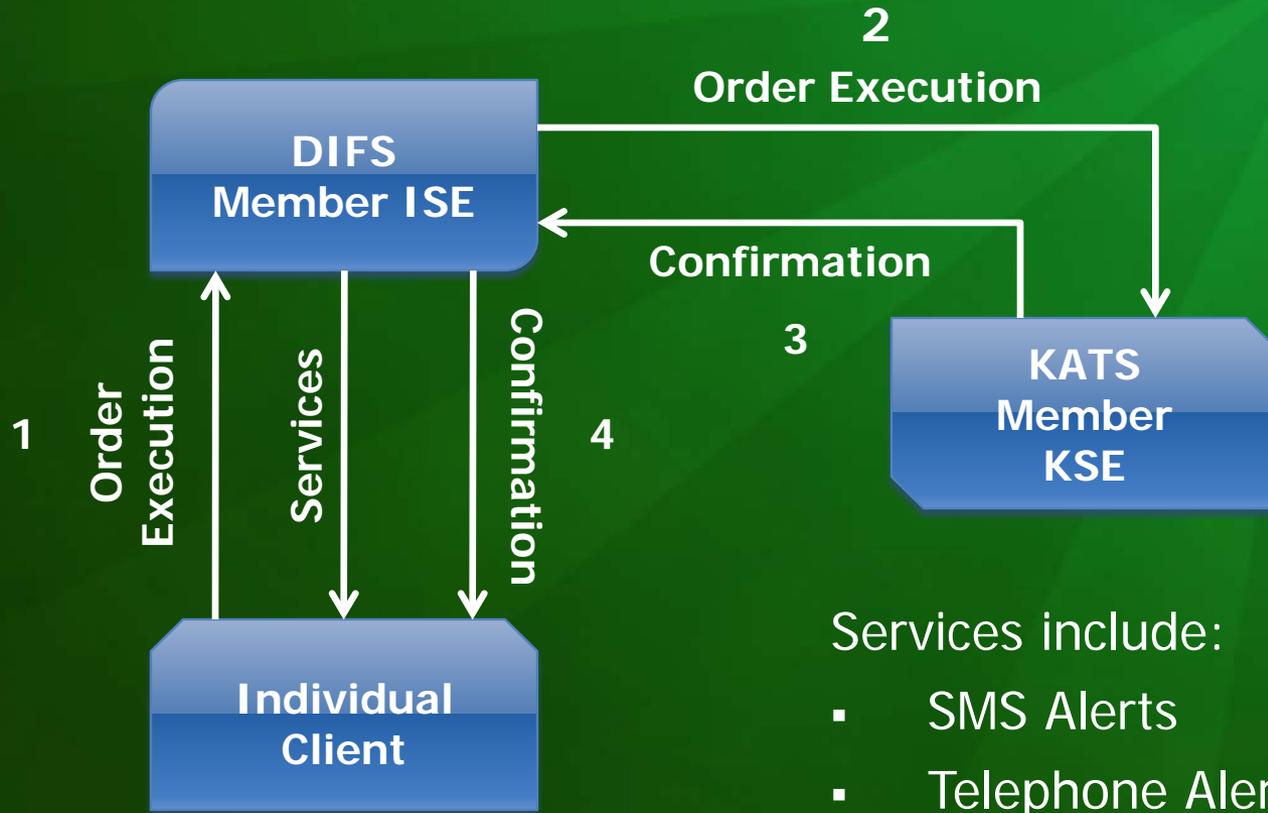
1. Aqd-e-Wakala (BROKERAGE AGREEMENT)

- A normal procedure of buying and selling of shares has been followed, strictly in Shariah compliance scripts by avoiding unethical way of trading. Normal trading charges and taxes will be levied on all transactions.

2. Aqd-e-Murabaha (SALE/PURCHASE FACILITY AGREEMENT)

- Murabaha is the credit facility agreement for the client provided or arranged by the Islamic Brokerage House for a specified time period for the purchasing of shares under the Shariah rules.

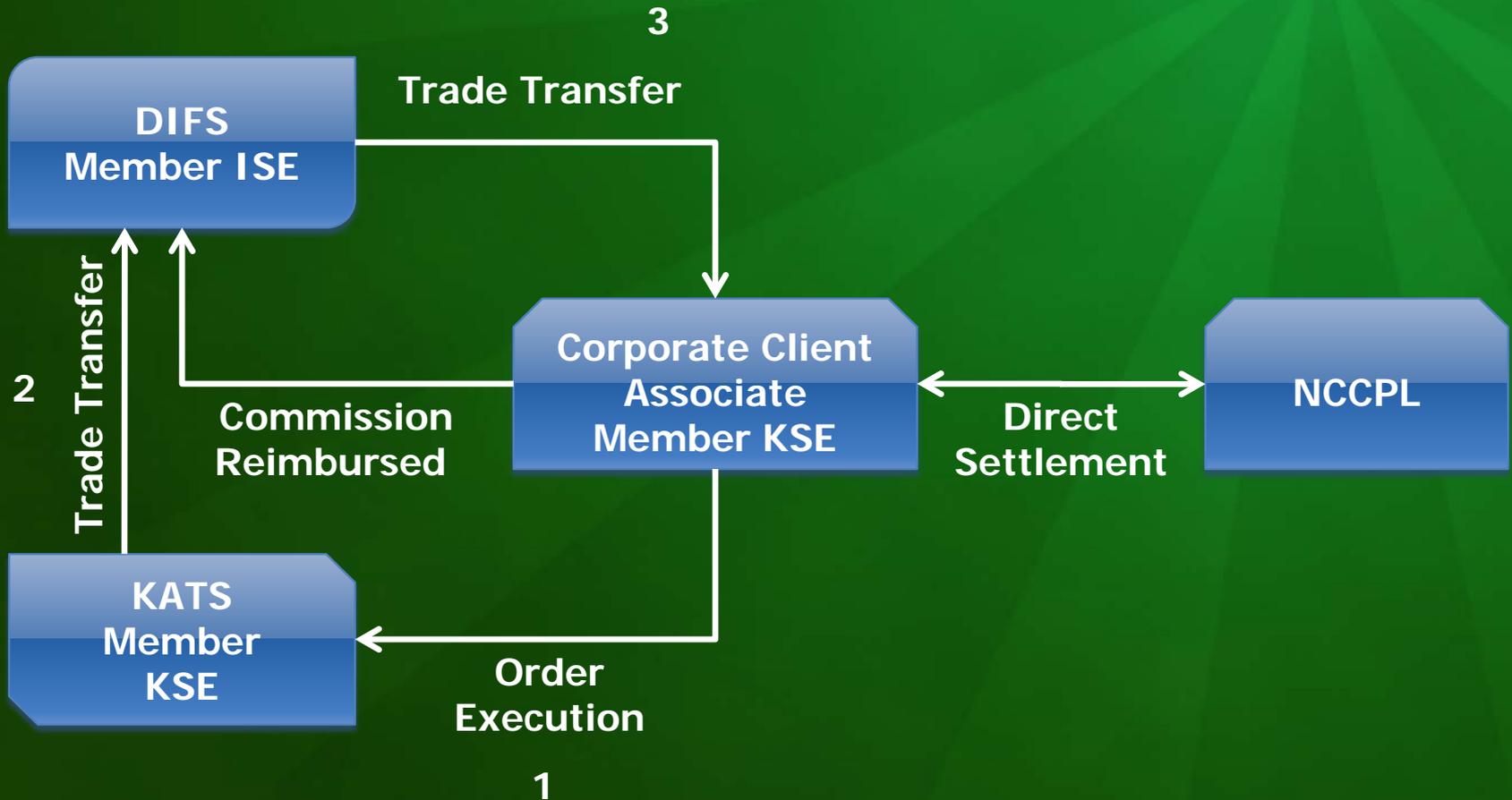
Operations for Individual Clients



Services include:

- SMS Alerts
- Telephone Alerts
- Email Alerts
- Web Updates
- Research Reports

Operations for Corporate Clients



“Finally, we pray to Almighty Allah to provide us strength and guidance for our noble cause.”

Thank You

Khalid Waheed
Chairman

Diyanah Islamic Financial Services