

Shariah Guidelines for Trading and Investment in Stocks

The Sharia Board of Alrajhi Bank has issued its resolution No. (485) regarding the legal rule (sharia opinion) on the investment and trading in the stocks of the joint stock companies, as follows:

Joint stock companies, in terms of their objectives, activities and controls of dealing in their stocks, are classified into three types:

A. Type One:

Joint stock companies with permissible objectives and activities: It is permissible to invest and deal in the stocks of this type of companies in accordance with the stated Terms and Conditions of sale (trading).

B. Type Two:

Joint stock companies with illicit objectives and activities, including trading in wine, tobacco, pork, gambling, interest bearing banking activities, companies with insolvent activities or firms, funds dealing in interest-bearing bonds, and companies specialized in debt handling and dealing. It is to be pointed out here that it is categorically impermissible to invest and trade in the stocks of this type of companies.

C. Type Three:

Companies whose objectives and activities are permissible but may have illicit matters in their dealings, such as dealing in usurious interest-bearing loans or deposits. The Shariah Board has approved the permissibility of investment and trading in the stocks of these companies (type three), subject to the following controls:

I. The following safeguards and controls shall be in place upon investment and trading in this type of joint stock companies:

- Permissibility of dealing in the stocks of this type of companies shall be restricted to exigency. In this regard, if certain joint stock companies are found to comply with avoidance of dealing in usury and are found to satisfy the need for such dealing, they should be preferred to similar but non complying companies.
- Total amount of interest-bearing (long or short term) loans shall not exceed 30% of the total market value of assets of the borrowing company unless this value goes below the book value of the assets, with due consideration to the fact that interest-bearing borrowing is impermissible regardless of the volume of the borrowed amount.
- The earnings generated from the illicit component shall not exceed 5% of the total earnings of the respective company, whether such earnings are generated from interest-bearing investment or from the practice of illicit activity, ownership of an illicit item or otherwise. In case certain earnings are not disclosed, they shall be explored with due diligence and prudence.

- The rates stated in this decision are solely based on diligence and discretion and may therefore be subject to review as necessary.

II. If the conditions of this type of companies change to the extent that the foregoing controls are rendered inapplicable, the stocks of these companies shall be sold as soon as practically possible, preferably within a deadline not to exceed ninety (90) days from the date of confirmed change of such conditions.

III. In determining company activities and the stated rates for permissibility to invest or deal in their stocks, reference shall be made to the latest audited or non-audited annual, quarterly or monthly financial statements of these companies.

IV. It is not permissible to participate in the incorporation of companies whose articles of association state that their objectives or activities provide for dealing in illicit transactions.

V. The investor customer shall dispose of the illicit component of the said companies.

Disclaimer:

"The classification of companies based on the aforementioned sharia controls , is a service provided by ARC to its clients in order to help them determine the Sharia compliant and the Sharia non-compliant companies in the light of data and financial statements published and made available by the said companies, without ARC bearing any responsibility thereof."