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The Screening Process of Islamic Indexes: A Case of Karachi Meezan Index

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Abstract

Strong and fair screening process is one of the fundamental factors for Islamic equity indices to service in market. The Muslim investors wish to make investment in such a way that does not contradict with their religion, Islam. Hence, while making their decision towards Islamic equities, the investors confirm Islamic perspective and Sharia transparency of the Islamic indices on priority bases. The current available literature only covers the Sharia component of the whole screening process adopted by Karachi Meezan Index. The complete screening process adopted by said index has another essential component known as "Technical Filter". This component plays same role to include or exclude equity from the Karachi Meezan Index as Sharia component plays; on behalf of technical filter we can exclude equity from Karachi Meezan Index. Reputation, performance, free float market capitalization, and impact cost are key elements of technical filter. Therefore, pure qualitative study is conducted to fill this gap by describing sequential and detailed screening process methodology through narrative views of high ranked policy makers' employees working in Karachi Meezan Index.

Key Words: *Screening process, Sharia filter, Technical filter, KMI*

1. Introduction

Under the present financial system, the most important area for individual and financial institutions is investment in equities. It provides an opportunity to both financial institutions to borrow financial resources freely involving interest; it also provides opportunity for an individual who is looking for interest free investments. In the end of nineteenth century, business community witnessed a dramatic growth in Islamic equity fund globally. The main reason of demand creation was awareness of Muslims to participate in capital investment market. By the end of 2002, for instance, 105 Islamic equity funds worth almost US$5 billion were launched in which 48 percent are located in the Middle East, 30 percent in Europe and North America, and 22 percent in Asia (Nasir, 2010).

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The common attribute of all screening criteria is to follow the Sharia screening methodology established by their independent Sharia supervisory board. The Sharia methodology mainly deals with a set of qualitative and quantitative screens. Generally in qualitative screens, the most focused area is nature of the business of Investee Company. In qualitative screen, it is necessary to ensure that business of the Investee's Company is in accordance with the rules of Sharia known as halal; there is zero tolerance formula adopted by screening providers in this regard. Whereas in quantitative screens, the most focused areas are different financial ratios and their extent to which they are applicable. These ratios are: debt to total asset, impermissible income into total revenue, and ratio of liquid into non-liquid asset etc. The main object of quantitative screens is to quantify, the extent companies are involved in non- compliant activities such as Riba. Financial statements are supportive documents for this purpose (Derigs, 2008). Although the extent to which these ratios are acceptable or act as general bench mark of tolerance, is debatable among the Sharia supervisory board of each index.

Apart from the Sharia screen, there is another filter or screen known as technical filter. Technical filter is a key indicator and measurement tool to include or exclude equity from the Karachi Meezan index. Similar to Shariah screen, it also serves as an equal alternative in screening process. In other words, it can be stated that sharia filter and technical filter are two essential elements of screening process of equities. It is mandatory for a company being part of Karachi Meezan index to meet requirements of sharia filter as well as technical filter. An index provider can exclude a company from it, which does not fulfill requirements of technical filter. In technical filter, performance and reputation of company, size of free float market capitalization and impact cost are areas to be judged for making decision to include or exclude specific equity.

There are three types of Muslim investors: First, majority of them have interest in Islamic funds due to their faith to avoid Riba and other prohibited activities. Second, few of them look for high return and seek to secure their investment rather than Sharia status of funds. Third, those who look for both: high return as well as earning as a result of Sharia compliance funds. Sharia filter of screening ensures investment in Sharia compliance avenues, while high return and secured investment are ensured by technical filter. The available literature about screening processes significantly cover the Sharia filter of screening; whereas little and unorganized literature is available with respect to technical filter of Islamic funds managers in Pakistan. The lack of literature leads to questions like: what process do you follow to add a company (equity) into Karachi Meezan Index? How many steps are there to be followed in screening process? How technical filter is actually working? Therefore, this is study is an attempt to fill this gap by developing a detailed framework of screening process adopted by Karachi Meezan Index.

1.1. Research questions

- How does the screening process of equities happen in the Karachi Meezan Index?
- How many steps are actually involved in the screening process of equities developed by Karachi Meezan Index?
- How do you consider the core business activity while doing screening?
- How do you consider the factor of debt borrowed by company in screening process?
- Why it is necessary to judge the ratio of liquid and non-liquid assets for doing screening?
- How do you define the sources of income of a company for screening process?
- Why it is compulsory to know about the avenues where companies deploy their surplus?
- Why it is mandatory in screening process that the price of a share should be more than the value of liquid assets represented by the share?

2. Literature Review

Making an investment in current operationalized Islamic capital market is modified by number of screening criteria and methods (Tahir & Khan, 2015). Mainly, this section deals with the process of screening of equities followed by Karachi Meezan Index and the steps involved in the process to answer the question "how does the process of screening work in current financial system in Karachi Meezan Index?"

2.1. Importance of Sharia Screening Criteria

Management of financial portfolios is essential for survival in a market. An organization associated with portfolio management is required to fulfill needs of their customers and provide services to them according to their will (Derigs, 2008). An investor who believes in a specific religion like Islam only wishes to invest in an avenue that does not contradict with Islamic principles and beliefs. Similarly, investment in equities provides wide range of opportunities to financial institutions to arrange their financial resources in Sharia compliant manner. A borrower who believes in a religion seeks for Sharia compliant avenues to borrow funds to fulfill their needs. It is important to remember that portfolio manager can only be called successful if he performs in a way that meets the criteria of both investors and borrowers; because the concept of capital market is incomplete without Islamic investors and borrowers.

The number of Islamic investors is increasing day by day along with worth of capital. An Islamic investor and borrower have priorities and are committed to the zero-tolerance formula on Sharia aspects. In other words, “inclusion” and “exclusion” are important factor to be considered by a fund manager. The word “inclusion” refers to the situation in which a fund manager develops a list of assets or avenues that fulfill the basic criteria of Sharia, and are accepted by investors; whereas, the word “exclusion” represents assets and avenues that do not fall under the basic Sharia principles (Derigs, 2008). As discussed earlier, Muslim investors do not compromise on Sharia legitimacy regarding investment activities. That is the reason why Muslim investors are always careful about their investment decision and seek to invest their capital in an avenue or an equity that does not contradict with their religion, Islam.

In order to answer these questions, investment in Islamic capital market is directed by several screening norms and procedures. For instance, AAOIFI’s screen criteria, Dow Jones Islamic Market Index Criteria, and Karachi Meezan Index are the famous Sharia screening norms for making permissible (Halal) investment in equities. Factors other than receivable ration are: core business of a company, debt to equity ratio, ratio of liquid asset into non-liquid asset, ratio of impermissible income, and ratio of investment of the surplus in non-Sharia compliance avenues into total investment are important while screening for Islamic compliant investment (Tahir & Khan, 2015). Aim of this study is to diagnose the complete procedure of overall screening process that is followed in Karachi Meezan Index, and to find out the components considerable for screening process other than Sharia’s factors.

2.2 Components of Sharia Screen Criteria

2.2.1 Qualitative Components

As Islamic equity funds witnessed increase in demand, the Islamic indices developers focused on establishing Sharia criteria to strengthen the interest of investors and build their confidence in Islamic equity markets. To understand it better, Sharia criteria can be divided into two categories namely Qualitative Sharia criteria and Quantitative Sharia criteria. In other words, Sharia criteria as a whole have two components: qualitative and quantitative. The qualitative component of Sharia criteria mainly deals with core business activities of the companies in terms of relevance with Sharia requirements, as there are certain activities which are strictly prohibited in Sharia. Businesses that are not permitted in Sharia are for instance: Alcohol, pork related products, conventional financial institutions (banks and insurance companies), entertainment business (hotels, gambling and night clubs, pornography), tobacco, weapons, defense, etc. (Tahir & Khan 2015). The qualitative Sharia criteria plays vital role in entire screening process as an independent construct in screening process. This criterion provides snapshot for indices providers to easily take decision about inclusion and exclusion of a specific company into their respective indices (Maiyaki, 2013).

2.2.2 Quantitative Components

Similar to qualitative component, the quantitative component of Sharia criteria also focuses on various financial ratios related to the core business of the company. Derigs, (2008) describe the quantitative component of Sharia Criteria in following words:

"Formally, quantitative sharia screen are financial ratios which are compared to a maximum allowable threshold level. Those ratios focus on different aspects of an investment like liquidity, interest, debt and non-permissible income. Each Sharia board uses a bundle of ratios for screening the assets and an asset is compliant if and only if it passes all screens included in the bundle" (p. 290).

The allowable threshold level will be discussed comprehensively in later section of this chapter.

2.3. Process of Sharia Screening Criteria

In general, the process of screening is same considering the different criterion Development institutions but in specific it varies from one institution to another. If we look to the general procedure of screenings, the factors involved and base for screening are similar. For instance, in initial stage each and every criterion developer must take into consideration the following factors:

i. Core business of company

ii. Ratio of debt borrowed by the company

iii. Sources of income

iv. Ratio of liquid and illiquid assets

v. The market price of share vs. net liquid assets

2.3.1 Core business of company

Core business of company falls under the qualitative step of screens and it is based upon the line of business adopted by corporations (El-Gamal, 2006). In this preliminary stage, the corporations involved in unlawful activities or in activities which are not permitted in Sharia are excluded. In other words, in the very first level the indices emphasize on excluding companies that are involved in unlawful or impermissible businesses from the list of sharia compliant equities. The detail list of

Table 1: Factors involved in sharia screening process of Islamic indices developers

Name of Organization	Factors in screening process								
	Core business	Debt Ratio	Sources of income	Surplus Deployed avenues	Ratio of Liquid and illiquid assets	Financial ratios	Reputation in public	Public and country interest and other matters	Price of share
SEC Malaysia	□	□	□	□	□	□	□	□	×
DJIM Index	□	□	□	□	□	□	×	×	×
KMI	□	□	□	□		□	×	×	□

impressible business activities consists of: Alcohol, pork related products, conventional financial services (I-e banks and insurance companies), entertainment business (I-e hotels, gambling and night clubs), Tobacco, weapons and defense.

2.3.2 Ratio of debt borrowed by the company

Beside the core business activity of company, other constructs fall under the quantitative step of screening process. The experts and practitioners also focused on establishing rules for financial ratios which really help them to include or exclude a specific equity. As a result, companies with low ratios of prohibited income and interest-based income are included while companies with high and excessive ratios are excluded (El-Gamal, 2006). The problem faced by fund managers to include securities of companies with negligible amount of impermissible expenses and income was to seek verdict from Shariah Scholars. Thus, innovators of this idea struggled and finally succeeded in seeking verdict or fatwa from well-known jurists. The opinions about limitation of interest-based borrowing were different and strict. The scholars emphasized on keeping and controlling this limit into lowest level as much possible, so they permitted fund managers to include only the companies having 5% debt ratio to total assets. But, this opinion became inapplicable with the passage of time due to its strictness. Later on, this limit was relaxed up to 37% by different indices providers. The permissible limits of debt to total assets are 33%, 30% , 37% and less than 33% prescribed by the Dow Jones Islamic Market Index, AAOFI's, Security and Exchange Commission of Malaysia and Karachi Meezan Index respectively (Tahir & Khan, 2015).

2.3.3 Sources of income

Sources of income include both situations: situation one where a company is involved in unlawful activity and generates forbidden income unintentionally; situation two where such income is generated intentionally. In other words, in first situation, sources of income deal with phenomenon in which company does not generate income from its core business activities but generates from deploying its surplus funds in avenues that could fetch interest for the company; in second situation, it deals with phenomenon where company generates income from its core business activity. The flexible and tolerable threshold of income generated from impermissible activities falls under 15% to 33% of total assets of the company. The Dow Jones Islamic market index adopted the threshold not exceeding 30%of total assets of the company. The Security and Exchange Commission of Malaysia suggest that the limit of impermissible revenues should fall below 5% - 25% of total revenue depending on nature of activities.

As compared to the DJIMI and SECP of Malaysia, the bench mark set by Karachi Meezan Index is more flexible, because KMI acknowledges impermissible investment up to 33% of market capitalization (Tahir & Khan, 2015). As screening process of equities happens consequently and ever next step depends on previous one; therefore, the step of screening of sources of income comes after ensuring that the core or key business of a company is Halal along with fulfilling the criteria of debt borrowed by the company and of liquid to non-liquid assets in a given thresholds. So this step is only applicable when the core business of a company is permissible in Sharia, such as: hotels with permissible activities according to Sharia.

2.3.4 Ratio of liquid and illiquid assets

The term liquidity represents cash and assets equivalent to the cash, whereas equivalent to the cash are short term investments and debts to be received in near future (Accounts receivables) (El-Gamal, 2006). It is necessary for fund managers to find out the threshold of liquid assets into non liquid assets to include a security in Sharia compliance portfolios or exclude it. Because according to the common principle of Sharia, when equity only consists of liquid assets then it can be traded in the market only at par. Although, it can be traded at price different from its par value if it is the combination of both liquid and non-liquid assets (Usmani, 1999). The term "liquid assets" refers to account receivables as well (Tahir & Khan 2015).

According to Meezan index, it is necessary for a company to be called Sharia compliant if its total non-liquid assets (receivables are included) are at least 25% of the total assets. It means if a share represents receivables less than 75%, then the avenue is called Sharia compliant. According to Dow Jones Islamic Index, ratio of receivables should neither be greater than 45% nor equal to 45% of market capitalization (Tahir & Khan 2015). AAOIFI's bench mark of tolerance for liquid assets is 70% of total assets (Usmani, 2015). According to exchange commission of Malaysia, the limit of liquid assets should be less than 33%, although there is no limit regarding ratio of receivables recommended by SEC of Malaysia.

2.3.5 The market price of share vs. net liquid assets

In current financial system, it is difficult to find out a company having complete liquid or complete non-liquid assets, but naturally it has mixture of both liquid and non-liquid assets. The assets of company exist in different shapes, such as in shape of cash, in shape of receivables, in shape of finish goods and in shape of physical assets etc. In this scenario, the share of such type of company represents both liquid and non-liquid assets with different ratios. For a share with same nature, it is necessary that its price should be greater than the worth of liquid amount contained therein (Usmani, 2015). The market value of a share is calculated as :(TA-IA-TL) divided by number of shares. Where, "TA" is represents total assets of company, "IA" represents non-liquid assets and "TL" represents total liabilities of company.

Table 2: General Bench Mark of Tolerance

Islamic Indices Providers	Debt to Total Assets Ratio	Liquid to total Assets Ratio	Account Receivables to total Assets Ratio	Impermissible Income
Dow Jones	Less than 33%	Less than 33%	Less than 45%	Less than or Equal to 5% of Total Revenue
FTSE	Less than 33%	Less than 33%	Less than 50%	Less than or Equal to 5% of Total Revenue
Meezan Karachi 30 Index	Less than 33%	Less than 25%	Less than 75%	Less than 5% of Total Revenue

3. Research Methodology

A qualitative approach is used to conduct this study to dig out the actual steps involved in screening process of equities and to elaborate the Sharia justification of it. For adaptation of qualitative methods, the basic reasons are:

Firstly, the objective of research is to find out the practically implemented screening process of equities followed by criterion developer institutions in Pakistan and to compare with theoretical process. Qualitative methods of data are providing detailed information in this regard than what information is available through quantitative one; because this method enables the participant to share their practical exercises. Practitioners are strong and complete source of information (Ullah, 2014).

Selecting the Case

First of all, a researcher needs to select the targeted audience and organization or other units from whom the required data is going to be collected to design a case study. Habitually, a sample from a large population is selected by researcher in social sciences studies. Sample is a small unit of a large population showing the characteristics of the whole (Ullah, 2014). In this study, organization establishing the criteria for screening of equities is purposely selected by the researcher. KMI is the targeted case of the study where KMI stands for Karachi Meezan Index and a single case study chosen for conducting this study. The optimum level of participants that should be interviewed is five. For inquiry, determination of unit of analyses is compulsory in every research strategy. This unit can be an individual, organization or process of a theory. The units of analyses show the level of research at which it is conducted or tells about the objects that have been researched.

Data Collection

During the setting of case study, it is difficult to search the access point into the case organization which is also a big task for a research. Next, when researcher successively accesses the case organization, then he needs to stay there for a long time to collect the relevant data from that organization. For conducting this study, he accessed the targeted screening developer organization through alumni of researcher who is currently employee in the case organization and the participants are their colleagues.

Data Reporting and Analysis

The steps involved in the data reporting and analysis, are discussed here in detail along with their justification. There are three basic approaches used in conduction the Interviews i.e. Content Analysis, Discourse Analysis, and Thematic Analysis.

As discussed earlier, for data reduction, discourse analysis is used to identify initial themes of the study. In qualitative research, identification of study themes is an important task to be addressed during study. Verbal material was collected through narrative interviews from the concerned participants for conducting this study and then used this data for identifying themes. The data was an audio format and transformed into written format by third party. There was a problem while interviewing first participant when audio recorder did not work properly and unfortunately the researcher lost his data. Later, first participant was requested to be interviewed once again and he accepted researcher's request. Different colors are used for identifying themes of study on the basis of categories in data. Red color is used to identify themes related to steps involved in Sharia screening filter of Karachi Meezan Index and green color is used to find out new themes that emerged from data collection. For identification of maximum possible themes, data is read at least twice carefully. Repetitions, metaphors, similarities and different techniques are used for identifying new themes in this study.

4. Analysis and findings

4.1 Sharia filter of screening process

4.1.1 Core business of company

Preliminary, it is mandatory to include a security in Islamic Index whose core business should be lawful according to the Sharia principles. This construct bases upon the line of business adopted by corporations. A Company is only considerable to be listed into Sharia screening process when its core business is permissible in law.

The core business of the investee company must be halal and in line with the dictates of Sharia. Hence, investment in securities of any company dealing in conventional banking, conventional insurance, alcoholic drinks, tobacco, pork production, arms manufacturing, pornography or related activities is not permissible. (P- 02; P- 03)

4.1.2 Ratio of debt borrowed by the investee company

In very first stage, analysis of core business activity of the Investee Company is essential step for screening process. Once indices developers realize that core business of Investee Company is halal, then calculation of various financial ratios such is ratio of debt into total assets of the company is necessary for including a company into index.

When we get ensured that the primary or core objective and business of a company is completely Sharia compliant, then we test the total ratio of debt borrowed by company on the basis of interest either it is less than 37% or not. If a company fulfills this criteria, then we move to next step of financial ratios. Debt in this scenario includes any interest bearing debts, bonds with zero coupon and preference shares… (P- 01)

4.1.2. Ratio of liquid and illiquid assets

Normally, if a company has liquid assets only, and issues shares into market for trading purpose, then its shares are tradable only if the market price of a share and its par value are same. Because in this situation, the share only represents liquid asset which is cash or equivalent to cash, and the price of share which is going to be fixed in the market is also in form of cash, thus exchange of two homogenous assets is happening unequally which is not allowed in Sharia. This scenario is often created at the time of initial price offering (IPO), therefore it is mandatory for a share to be capable for trading with high price than its par so it represents a significant portion of non-liquid assets.

4.1.3. Sources of income

This construct deals with phenomenon in which company does not generate income from its core business activities, rather generates from deploying its surplus funds in avenues that could fetch interest for the company, as well as phenomenon where company generates income from its core business activity.

It is understood that every company deploys their surplus in various avenues and generates income. It is difficult to say that a company invests an avenue which is completely Sharia compliant. That is why scholars set a ratio for non-compliant investment that it should be less than 33% of total assets. Investment in any non-compliant security shall be included for the *calculation of this ratio.* (P- 01)

4.1.5. The market price of share vs. net liquid assets

In current financial system, the assets of a company exist in different forms such as cash, accounts receivables, finished goods and physical assets, etc. In this situation, share of company represents both liquid and non-liquid assets with different ratios. For a share with same nature, it is necessary that its price should be greater than the worth of liquid amount contained therein.

The market price per share should be greater than the net liquid assets per share calculated as: (Total Assets – Illiquid Assets – Total Liabilities) divided by number of shares. For instance, if the par value of a share is 10 rupees and value of the liquid portion is 8 rupees then the price of share should be greater than 8 rupees. (P- 01)

4.2 Technical Filter

Besides the Sharia filter requirement to include an equity in Karachi Meezan index, there is another theme identified through repetition in verbal data known as "Technical filter". According to the participant of study, decision about a company is either according to Shariah or not depending upon its Sharia screening. If a company meets five steps of Sharia screening criteria then it is called Sharia compliant but not vice versa. If we look to the structure of Karachi Meezan 30 index, only 30 companies are included in it. Although, the number of Sharia compliant companies listed with Pakistan stock market are more than 100. Now question arises that what are the criteria for a company to be part of KMI 30? The answer is that, company who has successively followed technical filter as well as sharia criteria becomes part of KMI 30. In other words, a company can only become part of KMI 30 when it fulfills both Sharia and technical criteria. In technical filter, we focus on performance of company. *....Firstly, the decision about a company is either Sharia compliant or not fully dependent upon its Sharia screening. Secondly, there is an Islamic Index in Karachi stock Exchange, now how can a company become part of this Islamic index? It has separate criteria consisting two elements: first, the company should be Sharia compliant. Second, successively follow the technical filter.* (P- 02)

5. Conclusions

Sharia filter of screening process is the fundamental reason for investors and borrowers to convert towards Islamic equity funds. And they have strong commitment to invest in equities fulfill the sharia requirements have been discussed earlier. Therefore, majority of customers of the Islamic indices strongly wish to know about the Sharia aspects of the investee company, and do not compromise on Islamic perspective of the company. That is why, generally all the indices developers and specifically, the Islamic index provider in Pakistan need to follow strong Sharia screening process for including equity to strengthen the confidence of investors or ensure that their entire activities whether they are Islamic. Therefore, operations, products, and services of Islamic indices need to be supervised by independent Sharia supervisory board, represented by well-known Sharia scholars. Only the strong Sharia supervision can create interest of investors toward Islamic equities.

The study conclude that on one hand, sharia filter or screen adopted by Karachi Meezan index (KMI) consist of five steps or it is a five-steps process; on the other hand, the same filter adopted by rest of few indices developers consist of eight or nine steps. The additional steps of their screening process are reputation in public, Umum-e-Blwa (plights which are common and difficult to avoid) and public interest (Maslahah). Beside the sharia aspect, the study concluded that there is another aspect of Islamic index to be considered while doing screening of equities to ensure the performance, good reputation and chance of high return of equity. This is known as Technical Filter. Actually, technical filter is three steps process. The first step is taken by Pakistan stock exchange (formerly Karachi stock exchange) to remove an equity from the list to provide to Islamic index, which is banned by security and exchange commission of Pakistan (SECP), which is on defaulter's counter, declared non-tradable for last six months, and not registered with central depository system (CDS) etc. In the second step, the free float market capitalization of company is to be judged. In final step, the impact cost of company or equity is judging for including it into index. The disclosures of financial statements of a company are used for screening purposes.

There are approximately 700 companies listed in Pakistan stock exchange. After withdrawing the defaulter and restricted companies by SECP, rest of the companies are around 450 which are capable of applying for Sharia screening criteria on it (step 1). When Sharia screening criteria is run on these 450 companies, a detailed list of Sharia compliant and noncompliant companies are generated from this activity; for instance, suppose 200 companies were pointed as Sharia compliant (step 2). Finally, we know that there are only 30 companies in KMI. Specification of only 30 companies out of all 200 Sharia compliant companies depends upon "Technical Filter", it is key indicator in this regard. In technical filter, two elements are to be considered. First of all, the company who has maximum free float market capitalization will get more weightages, and second, the company which has the lowest impact cost will get more weightages. In end, we sum the weightages or points and the first 30 companies having highest ranks based on weightages recommended for KMI 30 Index.

5.1 Recommendations and Policy Implications

This study has the following recommendations to the relevant authorities:

- It is recommended to the Karachi Meezan Islamic index to improve the Sharia criteria for screening process, and should be strict with passage of time. Sharia criteria can be improved in to two dimensions: first, the different financial and non-financial ratios of factors involved in this criteria that need to be reduced as much as possible. Second, some other factors like good reputation in public, level of interest of government and general public in a specific company and necessity of company into society need to be added into current screening process.
- It is also recommended to the Karachi Meezan index to ensure Sharia justification of different financial and non-financial ratios, to clarify into which extent they are acceptable or tolerable. It will strengthen interest of investors towards Islamic equities.
- A number of companies are involve in prohibited activities. but the extent to which they are involved is too less from the level of tolerable ratios, so the Karachi Meezan index is strongly recommended to give preference and high weightages to them and include them in Karachi Meezan index on priority bases.
- It is recommended to the Karachi Meezan index to consider corporate social responsibility (CSR) as a factor for technical screening along with free float market capitalization and impact cost. This factor will help our economy.
- It is recommended to the Karachi Meezan index to conduct the screening process of each company quarterly.

5.2 Theoretical Contribution

This research study is an effort to support the existing Sharia screening process followed by Karachi Meezan Index by describing the important information about technical filter that should also need to be followed by the said Islamic index while screening a company. The study described another essential factor of screening process apart from Sharia filter, known as technical filter along with areas to be judged in this filter. The study contributed to describe the sequential process of screening happening in Pakistan. The study also contributes to the literature of Islamic and Sharia compliance equities, particularly to the literature related to the technical side of Islamic indices.

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