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RANKING THE STRICTNESS LEVEL OF SHARIA STOCK SCREENING STANDARDS: A COMPARATIVE ANALYSIS OF GLOBAL SHARIA STOCK INDICES

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ABSTRACT: This study aims to rank the level of strictness in Sharia stock screening standards across five major indices DJIM, MSCI Islamic, FTSE Shariah, KLSI, and ISSI. The research uses a qualitative-comparative analysis with a weighted scoring approach based on five key indicators: debt ratio, non-halal income tolerance, prohibited sectors, purification mechanisms, and technical screening methods. The results show that DJIM and MSCI fall into the very strict category, FTSE and KLSI are moderate, while ISSI is categorized as lenient. This variation provides important insights for investors and regulators in assessing how far an index reflects Sharia compliance and prudential standards.

Keyword: Sharia screening, stock index, strictness, Islamic investment

INTRODUCTION

The Islamic capital market is a vital component in the development of the Islamic financial system, offering investment alternatives in accordance with Sharia principles. One of its main instruments is Sharia-compliant stocks, which can only be categorized as halal if the issuing companies are not involved in non-Sharia-compliant activities and meet specific financial ratio criteria. Within the framework of Islamic law, stock screening serves as a crucial mechanism to ensure adherence to principles such as the prohibition of riba (usury), gharar (excessive uncertainty), maysir (gambling), and business sectors that are contrary to Sharia.

These regulations have been formalized through OJK Regulation No. 35/POJK.04/2017 and DSN-MUI Fatwa No. 135/DSN-MUI/V/2020. The screening process is conducted in two stages: qualitative and quantitative. Normatively, the maximum allowable interest-based debt is 45% of total assets, and the tolerance for non-halal income is 10%. These principles serve as the foundation for the preparation of the Sharia Securities List (DES) and indices such as ISSI, JII, and JII70.

However, in global practice, Sharia stock indices such as the Dow Jones Islamic Market (DJIM), MSCI Islamic, FTSE Shariah, and AAOIFI standards employ different methodologies. DJIM, for instance, sets the maximum debt threshold at 33% of market capitalization and a non-halal income tolerance of 5%. Malaysia's KLSI even applies two different tolerance thresholds 5% and 20% depending on the type of non-compliant activity (Ayedh et al., 2019). Some indices use total assets as the denominator in ratio calculations, while others use the average monthly market capitalization (Hanif, 2019; Ashraf & Khawaja, 2016).

These differences result in significant variations in screening outcomes. Derigs and Marzban (2008) found that nine different screening methodologies applied to S&P 500 stocks produced vastly different universes, even though the Sharia principles used were similar. This variation was also highlighted by Khatkhatay and Nisar (2007), who argued that lax financial tolerance could obscure the Sharia integrity of investments. Zandi et al. (2014) added that without harmonization, such inconsistencies could lead to Sharia arbitrage and normative confusion among global investors.

Empirical research supports these findings. Abdul Rahman, Yahya, and Nasir (2010) discovered a significant mismatch between DJIM and KLSI in their Sharia-compliant stock lists, despite both claiming to follow the same principles. In Indonesia, Rizaldy and Ahmed (2021) found that DJIM approved only a small portion of the stocks listed by ISSI, yet those stocks delivered better returns. Nainggolan (2015) emphasized that differences in screening intensity affect the number of stocks in a portfolio, risk exposure, and long-term profitability potential.

From a normative perspective, Obaidullah (2009) asserted that the absence of standardized criteria creates confusion for investors and hinders the global integration of Islamic capital markets. In fact, one of the maqāṣid al-sharīʻah (objectives of Islamic law) in finance is to ensure legal clarity (ḥifẓ al-dīn) and protect wealth (ḥifẓ al-māl). This lack of harmonization creates a gap between the ideal principles of Islamic law and the actual practices in the financial industry.

Unfortunately, most existing studies only compare screening methods descriptively. There is still no explicit evaluation model capable of systematically mapping and ranking the strictness levels of screening standards across indices. Yet, as Bousalam (2016) pointed out, such ranking is urgently needed to prevent Sharia arbitrage and to serve as a guide for investors, academics, and financial authorities in assessing the quality and integrity of Sharia indices.

While previous studies (e.g., Khatkhatay & Nisar, 2007; Dewandaru et al., 2015) have documented variations in Shariah stock screening practices, these analyses have largely remained descriptive or focused on portfolio performance outcomes. To date, there is no systematic and structured evaluative framework that consistently measures and compares the stringency levels of Shariah screening methodologies across different indices. This gap represents a significant research void, especially considering growing concerns over Sharia arbitrage and inconsistent screening standards.

This study aims to fill that gap by developing a comparative ranking of Sharia stock screening strictness levels. Using an evaluative approach based on data and Islamic legal principles, this research is expected to not only contribute academically to the Islamic capital market literature but also serve as a practical tool for making more Sharia-conscious investment decisions.

LITERATURE REVIEW

Dow Jones Islamic Market Index (DJIM)

The Dow Jones Islamic Market Index (DJIM) is one of the earliest and most influential global Shariah-compliant stock indices. Launched in 1999 by Dow Jones Indexes in collaboration with a Shariah advisory board, DJIM aims to provide a benchmark for Shariah-compliant investments in global markets (Ayedh et al., 2019). Not only was DJIM a pioneer, but it also became a primary reference for both institutional and retail investors in building Shariah-compliant investment portfolios.

Methodologically, DJIM applies a two-stage screening process: qualitative and quantitative screening. In the qualitative stage, DJIM excludes companies operating in sectors deemed non-compliant with Shariah, such as alcohol, gambling, pornography, weapons, and conventional interest-based financial services (Derigs & Marzban, 2008; Ayedh et al., 2019). These criteria are largely consistent with other indices, but DJIM is known for stricter enforcement of sectoral definitions.

In the quantitative stage, DJIM uses three main financial ratios to assess a company’s compliance with Shariah. First, total interest-bearing debt must not exceed 33% of the company's total market capitalization. Second, income derived from non-halal activities must not exceed 5% of total revenue. Third, the ratio of accounts receivable and liquid assets to total assets must remain below 49% (Hanif, 2019). These ratios are calculated based on a 12-month average market capitalization, rather than total assets, which is considered to better reflect the company's actual value (Ho, 2015).

The 5% tolerance policy for non-halal income is based on the principle of al-balwa, which refers to unavoidable circumstances in the modern economy. This principle allows for minor non-halal involvement, provided it is marginal and purified through a cleansing mechanism (Khatkhatay & Nisar, 2007).

The income purification (cleansing) process is another distinctive feature of DJIM. Investors are encouraged to calculate and remove the portion of dividends or capital gains derived from non-compliant sources and donate it for social purposes. This mechanism aims to maintain the purity of wealth (tazkiyah al-māl) and reinforce the spiritual dimension of investing (Obaidullah, 2009).

In comparative studies, DJIM is often cited as the most conservative and selective index. Research by Derigs and Marzban (2008) classified DJIM among indices with the strictest standards. Pok (2012) referred to DJIM as the global baseline, as many other indices benchmark their methodology against DJIM’s approach. However, Ho (2015) noted that DJIM’s high level of selectivity may result in a lower number of screened stocks, especially in emerging markets, which could affect portfolio diversification.

With its relatively strict and systematic approach, DJIM offers a consistent, transparent, and thorough screening model. The combination of fiqh principles and modern financial methodology makes DJIM one of the most respected Shariah indices globally, serving as a key reference in the development of screening models across various jurisdictions.

MSCI Islamic Index

The MSCI Islamic Index is one of the most widely used global Shariah indices internationally, especially by investment managers and global Shariah-compliant mutual funds. Developed by Morgan Stanley Capital International (MSCI) as part of the MSCI Global Islamic Indices family, it has officially received fatwa certification from an independent Shariah board since 2007 (Ho, 2015).

Methodologically, MSCI employs two stages of screening: qualitative and quantitative. In the qualitative stage, MSCI excludes companies involved in non-Shariah-compliant activities such as interest-based financial services, alcohol, gambling (maysir), pork-based products, pornography, and other sectors containing high uncertainty (gharar), such as conventional insurance and speculative derivatives (Ayedh et al., 2019; Ho, 2015; Shanmugam & Zahari, 2009).

The key difference between MSCI and other indices lies in its quantitative methodology, which adopts asset-based ratios rather than market capitalization. Under this approach, total interest-bearing debt must not exceed 33.33% of total assets. The combined value of cash and interest-bearing instruments must also remain below the same threshold. Additionally, accounts receivable and liquid assets such as cash are limited to a maximum of 33.33% of total assets. Meanwhile, revenue from non-Shariah-compliant activities must not exceed 5% of a company's total income (Ho, 2015; Dewandaru et al., 2015).

MSCI also implements a dividend purification rule, requiring investors to cleanse the portion of profits derived from non-halal income. However, unlike DJIM, which provides a detailed purification methodology, MSCI only recommends purification based on the proportion of non-halal income as reported in the financial statements (Obaidullah, 2009).

Empirical studies show that MSCI tends to produce portfolios with smaller market coverage compared to other indices. Dewandaru et al. (2015) note that when measured by market capitalization, MSCI generates the smallest portfolio size among DJIM, FTSE, and ISSI, indicating the implications of its stricter asset-based quantitative standards.

Furthermore, the sectors prohibited by MSCI are generally in line with those of other global indices such as DJIM and FTSE. However, MSCI is among the most explicit in excluding sectors such as music, entertainment media, weapons, and the trading of precious metals without physical delivery (Ho, 2015; Khatkhatay & Nisar, 2007).

Another important aspect is MSCI's emphasis on cross-country methodological consistency, which makes the index more conservative in assessing companies from developing countries whose financial reporting may lack transparency or has not yet adopted international accounting standards (Ho, 2015; Pok, 2012). In this regard, MSCI offers high transparency and a globally replicable standard for investors.

FTSE Shariah Index

FTSE Shariah The FTSE Shariah Global Equity Index Series is one of the major global Shariah indices, launched in October 1999 in response to the growing demand for Shariah-compliant investment products. The index was developed by the FTSE Group in collaboration with Yasaar Ltd, a Shariah advisory firm that conducts regular evaluations to ensure the Shariah compliance of the stocks included in the index (Obaidullah, 2009; Ho, 2015).

Like other Shariah indices, FTSE applies two main screening stages: business activity screening and financial screening. In the qualitative stage, companies are excluded from the index if they are involved in sectors that are not compliant with Shariah principles, such as conventional finance, alcohol, pork-related products, gambling, tobacco, non-Islamic entertainment, weapons, and pornography (Ayedh et al., 2019; Derigs & Marzban, 2008). Initially, FTSE used an absolute exclusion method, but later adopted a 5% revenue threshold for non-Shariah-compliant activities, reflecting a slightly more flexible approach compared to the Dow Jones Islamic Market Index (DJIM).

In the quantitative screening stage, FTSE applies financial ratios based on total assets rather than market capitalization. These ratios include total interest-bearing debt not exceeding 33% of total assets, cash and interest-bearing instruments not exceeding 33% of total assets, and accounts receivable and cash not exceeding 50% of total assets (Dewandaru et al., 2015; Ayedh et al., 2019). Additionally, FTSE requires that total revenue derived from non-Shariah-compliant activities must not exceed 5% of a company’s total revenue, in line with common international standards.

Regarding purification, FTSE encourages investors to cleanse the portion of income derived from non-Shariah-compliant activities, although the specific mechanisms are not as stringent as those of DJIM. Obaidullah (2009) notes that dividend-based and cash distribution purification is a common approach used by indices such as FTSE and MSCI, under the assumption that only income actually received by investors must be purified.

A comparative study by Dewandaru et al. (2015) found that FTSE offers portfolios with broader market coverage compared to MSCI and DJIM, though still smaller than ISSI. In the Indonesian context, research by Rizaldy and Firmansyah (2021) shows that FTSE includes fewer stocks than ISSI after screening, yet tends to produce more Shariah-stable portfolios.

Furthermore, the sectors prohibited under FTSE are similar to those in DJIM and MSCI, but FTSE is more explicit in including sectors such as entertainment media, gold and silver trading, and non-Shariah-compliant stockbrokers (Ho, 2015; Derigs & Marzban, 2008). This indicates that while FTSE may be more flexible in quantitative terms, it maintains strict adherence to Shariah principles in sectoral screening.

Overall, FTSE offers a balance between Shariah principles and global market needs by providing a replicable methodology that can be applied across different countries. This is why the FTSE Shariah Index is widely used by international financial institutions, including Bursa Malaysia through the FTSE-Bursa Malaysia Hijrah Shariah Index, launched in 2007 (Mohd Hussin et al., 2012).

Kuala Lumpur Shariah Index (KLSI)

Kuala Lumpur Shariah Index (KLSI) is one of the oldest Shariah-compliant indices launched in Southeast Asia, introduced by Bursa Malaysia in 1999. This index plays a crucial role in the development of the Islamic capital market in Malaysia, alongside the standards set by the Securities Commission Malaysia (SC) and the Shariah Advisory Council (SAC), which serve as the main authorities for stock screening (Ho, 2015; Yusof & Majid, 2007).

The screening approach in KLSI is conducted in two stages: qualitative (business) and quantitative (financial). In the qualitative stage, companies are excluded if they operate in sectors considered contrary to Shariah principles, such as alcohol, gambling, interest-based finance (conventional banks), pornography, pork-based products, non-Islamic entertainment, and weapons (Ayedh et al., 2019; Raza, 2021).

A distinctive feature of the screening method in Malaysia is the consideration of local context and public policy. For example, the tobacco and entertainment industries still receive some tolerance in the form of threshold values, which were initially set at 5% for non-halal sectors and later extended to 20% for certain sectors based on maslahah (public interest) considerations (Yusof & Majid, 2007; Bin Mahfouz & Ahmed, 2014, as cited in Raza, 2021).

On the quantitative side, the screening method used by KLSI sets several key ratios. The ratio of total interest-bearing debt to total assets must not exceed 33%. The ratio of cash and conventional financial instruments to total assets must also not exceed 33%, and the ratio of receivables to total assets must not be more than 50% (Khatkhatay & Nisar, 2007; Dewandaru et al., 2015). The methodology employed by KLSI aligns with the total asset-based approach used by indices such as FTSE and MSCI, in contrast to DJIM, which uses market capitalization as the denominator in its financial ratios. This difference in the denominator significantly affects the strictness of the screening and the resulting portfolio size (Obaidullah, 2009; Raza, 2021).

Raza (2021) examined the performance of seven Shariah portfolios based on various screening approaches, including MSCI, FTSE, and Malaysian indices like KLSI. He found that total asset-based approaches like KLSI tend to result in portfolios with lower volatility but more moderate returns, whereas market capitalization-based approaches yield higher returns but are more susceptible to market fluctuations.

Another study by Ayedh et al. (2019) showed that the Malaysian approach to Shariah screening tends to be more flexible while maintaining a strong Shariah framework, making it more inclusive toward local issuers without compromising fundamental Islamic principles. This approach also reflects fiqh principles such as ‘umum al-balwa and darurah tubih al-mahzurat, which are often used as Shariah justifications for certain tolerances (Ho, 2015; Raza, 2021).

Indonesia Sharia Stock Index (ISSI)

Indonesia Sharia Stock Index (ISSI) is a national sharia-compliant stock index launched by the Indonesia Stock Exchange (IDX) in 2011, aimed at providing a benchmark for the performance of sharia-compliant stocks in Indonesia. The ISSI includes all stocks listed in the Sharia Securities List (Daftar Efek Syariah or DES), which is published twice a year by the Financial Services Authority (OJK), based on fatwas and guidelines from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) (OJK, 2017).

The screening methodology of the ISSI consists of two stages: qualitative and quantitative screening. In the qualitative screening, companies are excluded if they are proven to engage in business activities that contradict Islamic principles. Prohibited activities include gambling and games of chance, interest-based financial services such as conventional banks and insurance, risk trading involving elements of gharar or maysir, and the production or distribution of haram goods or services, either by substance or method of acquisition. Additionally, activities that are morally damaging such as pornography and narcotics as well as any business that contradicts DSN-MUI fatwas are prohibited (OJK, 2017; Dewandaru et al., 2015).

However, compared to global indices such as DJIM, MSCI, and FTSE, the sector criteria of the ISSI are relatively more lenient. Some sectors like media, entertainment, hotels, and tobacco which are explicitly prohibited by global indices are not explicitly mentioned in ISSI's screening policy. According to Rizaldy and Firmansyah (2021), this lack of clarity reflects a weak effort to harmonize with international sharia standards, potentially affecting the perception of sharia compliance among global investors.

On the quantitative aspect, the ISSI uses two main financial ratios: (1) interest-based debt must not exceed 45% of total assets; and (2) income from interest or other non-halal activities must not exceed 10% of total income. These thresholds are looser than those of DJIM and MSCI, which limit debt to a maximum of 33% and non-halal income to 5% (Dewandaru et al., 2015). Additionally, ISSI does not incorporate receivables and cash ratios, which are used by other indices. Moreover, ISSI uses total assets as the denominator for ratio calculations similar to MSCI and FTSE whereas DJIM uses market capitalization as its basis.

The absence of cash and receivable ratio criteria, along with the leniency in debt and non-halal income thresholds, makes ISSI the least stringent index in terms of selection. As a result, the number of stocks passing ISSI screening is significantly larger. A study by Dewandaru et al. (2015) shows that ISSI includes over 60% of stocks listed on the IDX, while DJIM includes only around 29%. This makes ISSI the most quantitatively inclusive index.

However, such inclusivity also brings consequences for the sharia quality of the portfolio. Rizaldy and Firmansyah (2021) found that ISSI portfolios perform worse than global indices in terms of risk-adjusted returns (Sharpe ratio and Jensen's alpha). Moreover, ISSI does not explicitly outline a purification or cleansing mechanism for non-halal income, which is important in the context of wealth purification (tazkiyah al-māl) (Hanif, 2019; Obaidullah, 2009).

ISSI's more flexible approach can be understood within the context of a growing domestic market and as an application of the principles of maslahah mursalah and ʻumum al-balwā, which allow for leniency in addressing unavoidable elements of the modern economic system. However, this flexibility also raises concerns about sharia arbitrage choosing the most lenient standards for financial gain. This underlines the importance of developing a more objective and comparative screening strictness rating model, as proposed in this study.

Sharia stock screening practices across different countries show methodological diversity that reflects varying interpretations of sharia principles in the context of modern capital markets. This is due to the absence of a single global authority setting uniform standards for sharia securities screening. As a result, each index provider such as DJIM, MSCI, FTSE, KLSI, and ISSI has developed its own approach. Derigs and Marzban (2008) note that this condition leads to significant differences in the number and types of stocks considered sharia-compliant, despite sharing the same foundational principles.

All indices generally apply two layers of screening: qualitative (based on business sectors) and quantitative (based on financial ratios). However, differences lie in the strictness of coverage. Indices like DJIM, FTSE, and MSCI explicitly prohibit sectors such as entertainment, media, weapons, tobacco, and hotels, which are considered to contradict Islamic moral values or involve maysir (Derigs & Marzban, 2008; Ayedh et al., 2019). On the other hand, the ISSI, developed in Indonesia, does not explicitly list these sectors as prohibited, although foundational principles like ḥarām li-dhātihi and ḥarām li-ghayrihi are still applied via DSN-MUI fatwas and POJK No. 35/POJK.04/2017 (OJK, 2017).

On the quantitative side, DJIM and MSCI use a maximum debt threshold of 33% of total market capitalization, which is stricter compared to ISSI and FTSE that use total assets as the denominator and allow up to 45% (Khatkhatay & Nisar, 2007; Dewandaru et al., 2015). For income from non-halal activities, DJIM, MSCI, and FTSE set a 5% threshold, whereas ISSI allows up to 10%. These different denominators influence the number of stocks passing the screening: DJIM has a much smaller and more conservative universe of stocks than ISSI, which is more inclusive (Ho, 2015; Rizaldy & Firmansyah, 2021).

In the Indonesian context, a study by Rizaldy and Firmansyah (2021) shows that ISSI includes about 66% of all stocks listed on the IDX, compared to only around 29% for DJIM. While offering a broader range of options for investors, this approach affects the sharia quality and performance of the portfolios. DJIM, for example, outperforms in risk and return metrics such as the Sharpe ratio and Jensen's alpha (Dewandaru et al., 2015).

These differences reflect a broader dilemma in contemporary Islamic jurisprudence between normative ijtihad and economic contextualization. Adam and Abu Bakar (2014) argue that the varying tolerance thresholds can be interpreted as an expression of maslahah mursalah policy taken for the public good, considering the realities of the domestic market. In Indonesia, ISSI's more lenient approach is viewed as a form of darurah fiqh emergency condition due to the scarcity of issuers that are completely free from interest-based transactions and grey sectors.

This comparison reveals a spectrum of strictness in screening methodologies, from very conservative (DJIM), moderate (FTSE and MSCI), adaptive (KLSI), to most inclusive (ISSI). These methodological differences highlight the importance of objectively mapping and rating sharia indices. This is not only to promote harmonization of sharia principles globally but also to help investors assess the sharia integrity of their portfolios in accordance with their belief preferences (Obaidullah, 2009; Gamaleldin, 2015; Tanin et al., 2021).

Pros and Cons of Shariah Screening Methodology

The debate over Shariah-compliant stock screening methodology is one of the central issues in contemporary Islamic finance literature. The absence of a uniform global standard in translating the principles of fiqh muamalah into technical parameters has triggered divergence among various Shariah indices such as DJIM, MSCI, FTSE, KLSI, and ISSI. Each index adopts a different approach in setting qualitative and quantitative criteria, reflecting differences in madhhab fiqh (Islamic legal schools), market contexts, and the level of prudence applied (Derigs & Marzban, 2008; Zandi et al., 2014).

Strict Approach

Indices such as DJIM, MSCI, and FTSE adopt a strict (conservative) approach by explicitly excluding sectors such as alcohol, gambling, weapons, music, entertainment, and even media (Boudt et al., 2019; Adam & Bakar, 2014). This reflects the objectives of maqāṣid al-sharīʻah, particularly in the dimensions of ḥifẓ al-dīn (preservation of religion) and ḥifẓ al-ʻaql (preservation of intellect), as well as the principle of sadd al-dharīʻah as a preventive measure to avoid the infiltration of non-halal elements into the Islamic capital market (Khatkhatay & Nisar, 2007; Ibrahim, 2012).

Quantitatively, the thresholds for debt and non-halal income ratios are also stricter, with maximum limits set at 33% and 5% respectively (Obaidullah, 2005; Ashraf & Khawaja, 2016). The hadith "one-third is a lot" is often used as a fiqh basis for determining a maximum tolerance level that is not considered unjust or harmful to others' rights (Obaidullah, 2015 in Balgis et al., 2021).

In terms of purification (cleansing), AAOIFI and ISRA-Bloomberg emphasize the need to purify all forms of income derived from non-halal sources, including cash dividends, bonus shares, and warrant rights (Hashim & Habib, 2017; ISRA, 2017). However, the two adopt different approaches: AAOIFI requires cleansing based on financial statements, while ISRA is more flexible and focuses on the actual receipt of cash flows.

Moderate Approach

In contrast, ISSI and KLSI represent a more contextual and accommodative approach tailored to domestic economic conditions. For instance, ISSI screening does not explicitly prohibit sectors such as hotels, media, and tobacco, and allows a debt ratio of up to 45% and non-halal income tolerance of up to 10% of total revenue (Dewandaru et al., 2015; OJK, 2017).

The rationale behind this approach is rooted in the principles of al-mashaqqah tajlib al-taysīr (hardship begets ease) and 'umūm al-balwā (widespread hardship), which acknowledge the reality that most listed companies are not entirely free from non-Shariah-compliant elements (Adeyemi & Tekdoğan, 2024; Oseni, 2017).

Several studies also suggest that a more relaxed approach can enhance inclusivity and domestic market participation, although it may have implications for risk and return performance (Sani & Othman, 2013; Hanif, 2019).

Criticism of Inconsistency

Differences in purification methods also lead to inconsistency. Some indices, such as ISRA-Bloomberg, explicitly disclose the proportion of non-halal income that must be purified, while others, such as ISSI and DJIM, do not provide such information transparently to investors (ISRA, 2017; AAOIFI, 2015).

Moreover, the composition of the Shariah boards responsible for index development plays a significant role. DJIM and FTSE employ cross-border Shariah boards, whereas ISSI is governed nationally by the Indonesian National Shariah Council (DSN-MUI). According to Zandi et al. (2014), this variation reinforces the fragmentation of Shariah interpretations and creates local biases in screening standards.

Furthermore, El-Gamal (2006) argues that much of modern Islamic finance merely replaces conventional terminology without reforming the substance of transactions, thereby leaving room for Shariah arbitrage.

Efforts Toward Harmonization and a Pluralistic Approach

Several scholars have advocated for the development of indices based on a comparative assessment of screening stringency. Ho (2015), for instance, suggests that investors should be able to choose indices according to the level of methodological strictness. Meanwhile, Gamaleldin (2015) and Akartepe (2022) encourage AAOIFI and IFSB to formulate a global methodological framework that is substantive yet remains flexible.

Nonetheless, pluralistic approaches continue to hold legitimacy. Masud (2009) and Hanif (2019) argue that as long as ijtihād jamāʿī is conducted by competent scholars, diversity in standards is valid under Islamic law and reflects the dynamic heritage of fiqh.

Studies on Shariah-compliant stock screening methodologies have been extensive, both in terms of technical design and implications for portfolio performance. Some have emphasized the effectiveness of conservative approaches (Khatkhatay & Nisar, 2007; Derigs & Marzban, 2008), while others have compared them with more inclusive and contextual models as applied in ISSI and KLSI (Adam & Abu Bakar, 2014; Rizaldy & Firmansyah, 2021). However, most of these studies focus on normative evaluations or financial performance rather than the development of objective metrics to rate the relative stringency of different indices.

Research attempting to systematically compare Shariah indices has generally remained at the descriptive or basic statistical level. For example, Dewandaru et al. (2015) highlight the differences in stock inclusion rates between DJIM and ISSI but do not propose a measurable strictness framework as a distinct variable. Ho (2015) advocates for the creation of comparative indices but stops short of offering an operational model. Meanwhile, Tanin et al. (2021) and Ayedh et al. (2019) focus more on the theoretical and institutional frameworks underpinning standard-setting, without translating them into quantitative evaluation tools.

On the other hand, studies such as Adeyemi & Tekdoğan (2024) and Obaidullah (2009) have criticized methodological inconsistencies and called for harmonization, yet they do not develop a strictness scoring tool that would enhance transparency for investors and regulators. In fact, variations in sectoral coverage, ratio denominations, tolerance thresholds, and purification mechanisms have tangible implications for the perception of Shariah compliance and the legitimacy of Islamic investments.

Therefore, a significant gap exists in the literature namely, the absence of an instrument or rating model that objectively assesses the level of screening stringency across global and national Shariah indices. This research seeks to fill that gap by proposing a screening stringency ranking model based on both qualitative and quantitative criteria used by various indices, while anchoring the analysis in Islamic legal principles and contemporary fiqh logic.

RESEARCH METHODS

Type and Research Approach

This study is a normative comparative research that aims to critically analyze the screening methodologies of Shariah-compliant stocks across various global and national indices, and to develop a systematic model for ranking the level of screening stringency. Generally, the approach employed is grounded in Islamic legal theory and methods, with an emphasis on integrating fiqh al-muʿāmalāt studies and institutional analysis within the Islamic capital market system.

This research falls under the category of qualitative-descriptive study, as it seeks to describe, classify, and compare the principles, methods, and screening parameters applied by Shariah indices such as the Dow Jones Islamic Market (DJIM), MSCI Islamic, FTSE Shariah, Kuala Lumpur Shariah Index (KLSI), and Indonesia Sharia Stock Index (ISSI).

Sources and Types of Data

This research utilizes secondary data obtained from official documents of Shariah stock index institutions, capital market authority regulations, and academic literature. The types of data include normative data such as fatwas from the DSN-MUI, OJK regulations, and guidelines from global Shariah indices (DJIM, MSCI, FTSE, KLSI, ISSI), as well as academic data in the form of scholarly journals that discuss screening methodologies and practices in the Islamic capital market. All data will be collected through a literature review and analyzed qualitatively to support the comparison and ranking of screening stringency across indices.

Scoring and Ranking Method

To measure the stringency level of each Shariah stock index, this study uses a weighted scoring system based on five main indicators commonly used in the screening methodology of Shariah indices. The assessment is carried out through content analysis of official methodology documents and academic literature, and classified according to a standardized numerical value scheme.

Assessment Dimensions and Weights

Each index is evaluated based on the following five key components, each with a different weight according to its urgency in the principles of fiqh muamalah and market practices:

Table 1 Assessment and Weighting of Sharia Stock Index Screening

Assessment Component	Weight (%)	Max Score	Evaluation Range
Debt Ratio	25%	25	≤33% = 25; 34–44% = 20; ≥45% = 15
Non Halal Income	25%	25	≤5% = 25; 6–9% = 20; 10% = 15
Forbidden Sector	20%	20	Many explicit sectors = 20; Some = 16; General only = 12
Income Purification	15%	15	Detailed mechanism = 15; Not explicit = 8; None = 0
Technical Screening Method	15%	15	Capitalization-based, routine, and additional ratios = 15; Some = 10; Minimal = 5

Each dimension is multiplied by its weight, then summed:

Total Score = (Debt Ratio Score × 25%) + (Non-Halal Income Score × 25%) + (Forbidden Sector Score × 20%) + (Income Purification Score × 15%) + (Technical Screening Method Score × 15%)

Table 2 Classification of Sharia Stock Index Screening Strictness

Final Score	Category
85-100	Very Strict
70-84	Moderate
60-69	Fairly Loose
< 60	Loose

RESEARCH RESULTS AND DISCUSSION

Results of Scoring and Ranking of Sharia Stock Index Screening

To answer the research question regarding the level of strictness of each global and national Sharia stock index, an analysis was conducted on the five main components that form the basis of the screening methodology: debt ratio, non-halal income, coverage of forbidden sectors, existence of purification (cleansing) mechanisms, and technical screening methods. These five components are evaluated using a weighted numeric scale with a maximum score of 100.

Table 3 Results of Scoring and Ranking of Sharia Stock Index Screening

Index	Debt Ratio	Non-Halal Income	Forbidden Sector	Purification	Screening Method	Total Score	Category
DJIM	25	25	20	15	15	100	Very Strict
MSCI Islamic	25	25	20	8	15	93	Very Strict
FTSE Shariah	25	25	16	8	10	84	Moderate
KLSI	25	20	16	8	10	79	Moderate
ISSI	15	15	12	0	5	47	Loose

Comparative Analysis Between Indices

The Dow Jones Islamic Market Index (DJIM) stands out as the index with the highest level of strictness. Not only does it meet the maximum score for all indicators, but it also excels in terms of fiqh prudence, incorporating principles such as sadd al-dzari'ah (prevention of pathways to impermissibility) and ḥifẓ al-dīn (protection of religion). The use of market capitalization as the basis for ratio denominations, rather than total assets, adds a conservative dimension to the Shariah feasibility assessment.

MSCI Islamic, while slightly behind DJIM due to the lack of clarity in its purification mechanism, is still considered very strict. MSCI uses a ratio-based approach grounded in total assets but upholds the debt and non-halal income tolerance limits of 33.33% and 5%, respectively. This highlights a strong orientation toward the principle of tazkiyah al-māl (purification of wealth), although it has not yet fully implemented this mechanism in practice. Both indices are often referenced by international Shariah mutual funds due to the level of certainty and Shariah integrity they offer, signaling that global investors tend to trust cautious and standardized fiqh approaches.

The FTSE Shariah Index occupies a middle position. Although it sets ratios and tolerances comparable to DJIM and MSCI, FTSE is slightly more lenient in sectoral coverage and technical screening methods. FTSE is more flexible in limiting cash and receivables ratios and purification processes. However, it still maintains a robust fiqh framework that can be replicated internationally.

KLSI, representing Malaysia's approach, reflects an accommodation to the local socio-economic context. The use of dual thresholds (5% and 20%) for non-Shariah activities demonstrates an effort to balance fiqh ideals with the realities of the domestic market. This approach also emphasizes the principle of maslahah mursalah (public interest), prioritizing general benefits. However, this moderate approach has implications for Shariah arbitrage risk, where investors might choose an index based solely on the level of Shariah leniency for financial gain. This risk is amplified when society's understanding of fiqh principles is still limited.

The Indonesia Sharia Stock Index (ISSI) ranks as the most lenient among the indices analyzed. This reflects a preference by the national authorities for inclusivity rather than strict fiqh compliance. With a debt ratio limit of up to 45%, a tolerance for non-halal income up to 10%, and the absence of purification provisions or explicit forbidden sectors, ISSI is better described as administrative Shariah, rather than substantive Shariah.

As a result, ISSI includes over 60% of stocks on the Indonesia Stock Exchange (BEI), making it an extremely inclusive index but one that is questionable in terms of its Shariah integrity. In fact, in maqāṣid al-sharī'ah (objectives of Islamic law), the principles of ḥifẓ al-dīn and ḥifẓ al-māl are fundamental to Islamic finance. ISSI risks neglecting these principles in favor of short-term economic objectives.

An empirical study by Rizaldy and Firmansyah (2021) confirms that the ISSI portfolio performs worse than the DJIM, both in terms of risk and return. This provides evidence that loosening standards does not always lead to market efficiency or higher profits.

This study emphasizes the importance of applying fiqh principles proportionally in the design of Shariah index screening. Principles such as darurah tubih al-mahzurat (emergency situations permit the forbidden) and ‘umum al-balwa (general difficulties are forgiven) do offer flexibility but should not be the primary justification for setting investment standards.

Indexes that are too lenient not only reduce global investor confidence but also risk undermining the spiritual value of Shariah investments. In contrast, strict but consistent indices reflect the true values of maqāṣid al-sharī‘ah honesty, caution, and blessing.

Implications Theoretical and Practical

The ranking results, which show a variation in scores from 47 (ISSI) to 100 (DJIM), concretely reflect that the approach to Shariah in the capital market is not uniform. The differences in methodology used are not just technical matters; they represent epistemological differences between normative approaches (based on maqāṣid al-sharī‘ah and the principle of sadd al-dzari‘ah) and contextual approaches (based on maslahah mursalah and local fiqh realities). This is important to analyze as it demonstrates the pluralism of law in contemporary Islamic finance practice.

Indexes like DJIM and MSCI enforce very strict boundaries on each indicator, reflecting their orientation toward extreme prudence (extreme prudentiality) and asset purification (tazkiyah al-māl), which are foundational in classical fiqh muamalah. The choice of using market capitalization as the basis and the strictness of sector exclusions reinforces the interpretation that these indices are not only avoiding explicitly haram activities but also preventing potential syubhat (doubtful activities). Hence, this approach is preventive and protective, safeguarding the integrity of the Shariah-compliant capital market from contamination by values that undermine the spirit of Islamic investment.

On the other hand, the approach of ISSI, which obtained the lowest score, indicates a high degree of flexibility based on the realities of the domestic market. In many ways, this approach can be understood as a form of ijtihad darurah (emergency legal reasoning)—an attempt to facilitate the development of the national Shariah capital market, which is still in its early stages. However, such flexibility also introduces the risk of shariah arbitrage, where market participants opt for the index with the loosest standards solely for short-term profit, rather than out of commitment to Shariah principles. This can undermine the credibility of the Islamic finance industry in the eyes of global investors and contradict the main maqāṣid (objectives) of Islamic finance: preserving religion and wealth (ḥifẓ al-dīn wa al-māl).

From a managerial and investment decision-making perspective, these results provide important insights for formulating value-based investment strategies. Muslim investors, both institutional and retail, can choose indices with the level of strictness that aligns with their personal or institutional preferences. For financial institutions like Shariah-compliant mutual funds, this ranking can assist in setting more transformative investment mandates, not merely legal-formal ones.

From a regulatory perspective, this ranking reveals that the existing regulatory framework, such as POJK and the fatwa DSN-MUI in Indonesia, has yet to create globally competitive standards. This presents a challenge in striving for harmonization between local legalities and global market practices. Without improvements and adjustments to international practices, indices like ISSI risk losing their relevance and trust from cross-border investors. Therefore, the results of this study can serve as input in formulating more accountable and substantive screening policies.

CONCLUSION

This study develops a systematic ranking model for the strictness level of Shariah stock screening by analyzing five Shariah stock indices: DJIM, MSCI Islamic, FTSE Shariah, KLSI, and ISSI. Through five main indicators debt ratio, non-halal income, sector exclusions, purification, and screening methods clear picture emerges showing significant variations in strictness levels among these indices.

DJIM is the index with the strictest approach, upholding Shariah principles comprehensively and consistently. MSCI Islamic also demonstrates a high level of strictness, although not as detailed as DJIM in the aspect of purification. FTSE Shariah and KLSI occupy a middle ground, with methodologies that are relatively moderate and accommodating to the domestic market context. Meanwhile, ISSI exhibits the lowest level of strictness, with a high tolerance for financial ratios and no purification mechanism, as well as a limited scope of prohibited sectors.

The results indicate that there is no harmonization of standards in Shariah stock screening practices. The differences in methodology among the indices can open up opportunities for Shariah arbitrage and obscure the integrity of Islamic principles in investment. Indices with higher strictness better reflect maqāṣid al-sharīʻah, particularly in preserving the purity of wealth and avoiding non-Shariah activities. In contrast, more lenient indices tend to prioritize inclusiveness and domestic market growth but may reduce the credibility and spirituality of investments.

This ranking model can serve as an important tool for investors to adjust their investment choices according to their Shariah preferences, for regulators to evaluate and strengthen national screening policies, and for academics as a foundation for developing studies on the relationship between strictness levels and Shariah portfolio performance.

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