

# **BSE 500 SHARIAH** *Methodology*



June 2024

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# Introduction

## Index Objective

The BSE 500 SHARIAH includes all Shariah-compliant companies that are included in the broad-based BSE 500. The index is capped market capitalization weighted, with single constituents subject to a weight cap of 9%.

*For more information on the BSE 500, please refer to the BSE Indices Methodology document available at [www.bseindia.com](http://www.bseindia.com) and [www.asiaindex.co.in](http://www.asiaindex.co.in).*

## Highlights

The index conforms to Islamic canonical law, Shariah, to which observant Muslims adhere in their daily lives. Shariah has certain strictures regarding finance and commercial activities permitted for Muslims.

Key attributes of the BSE 500 SHARIAH:

- The index is screened for Shariah compliance
- The index is liquid and investable
- Shariah compliance is as per the strictest standards observed in Asia
- The index is maintained for compliance on a periodic basis

## Shariah Compliance Screening

Asia Index Private Ltd. has contracted with ShariahCap LLP to provide the list of Shariah compliant stocks. ShariahCap is India based consulting company specializing in providing Shariah compliance solutions to the Indian financial sector. Its team consists of qualified experts and researchers who work under the guidance of following scholars:

- Dr. Shariq Nisar – PhD in Economics
- Mufti Ashfaque Kazi – Expert in issuing Shariah Guidance and Rulings
- Dr. Khalid Waheed Falahi – PhD Economics and expert in Shariah Matters

## Sector-based Screens

During the selection process, each company's latest audited financial statement is reviewed to assess the company's involvement in any Shariah non-compliant activities. Companies that are found to be involved in business non-compliant activities are removed. Hence companies involved in following activities as their core business are excluded:

Alcohol, conventional financial services, gambling, non-halal food, pork, tobacco, vulgar entertainment, narcotics are prohibited. Companies involved in production, distribution, consumption, trading, advertising, marketing of these activities will be excluded.

## Accounting-Based Screens:

After removing companies with business non-compliant activities, the remaining companies are further examined for compliance with the following threshold on an ongoing basis.

1. Debt / Total Asset < 25%
2. Non-Permissible Revenue (including all Interest Incomes) / Total Revenue < 4%

**Dividend Purification Ratio calculates as follows:**

- Dividends \* (Non-Permissible Revenue<sup>1</sup> / Total Revenue)

## Index Family

The BSE 500 SHARIAH is part of the BSE group of indices

For information on the other BSE indices, please refer to the BSE Indices Methodology available at [www.bseindia.com](http://www.bseindia.com) and [www.asiaindex.co.in](http://www.asiaindex.co.in).

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

Supporting Document	URL
AIPL Equity Index Policy	<a href="#">AIPL Equity Index Policy</a>
AIPL Index Mathematics Methodology	<a href="#">AIPL Index Mathematics Methodology</a>
AIPL Indices' Float Adjustment Methodology	<a href="#">AIPL Indices Float Adjustment Methodology</a>

This methodology was created by Asia Index Private Limited to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of Asia Index Private Limited so that the index continues to achieve its objective.

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<sup>1</sup> Non-permissible revenue includes all forms of revenue or income from non-permissible business activities (e.g., alcohol sales, gambling revenue, etc.) and also includes all forms of interest income.

# Eligibility Criteria and Index Construction

## **Index Eligibility**

The selection universe for the BSE 500 SHARIAH is defined as all constituents of the BSE 500. Only common stocks are eligible for index inclusion. The selection universe is screened for Shariah compliance and all non-Shariah compliant stocks are removed. The remaining Shariah-compliant stocks form the index.

## **Constituent Selection**

On a quarterly basis, all common stocks in the BSE 500 are screened for Shariah compliance. Only those constituents of the BSE 500 passing the Shariah screens form the BSE 500 SHARIAH. Due to the exclusion of non-Shariah compliant stocks, the BSE 500 SHARIAH regularly consists of fewer than 500 constituents.

## **Constituent Weightings**

Index constituents are weighted based on their float-adjusted market capitalization, subject to a 9% constituent weight cap. Weight caps are applied at each quarterly rebalancing.

*For more information on weighting schemes, please see AIPL Index Mathematics Methodology*

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*For more information on the treatment of corporate actions using a non-market capitalization scheme, please see AIPL Equity Index Policy.*

## **Index Calculations**

The BSE 500 SHARIAH is calculated using the divisor methodology used in Asia Index Pvt. Ltd's equity indices.

*For more information on the index calculation methodology, please refer to the Capped Market Capitalization Indices section of AIPL Index Mathematics Methodology.*

# Index Maintenance

## Rebalancing

The index is rebalanced quarterly, at market open on the Monday following the third Friday of each quarter i.e. March, June, September and December. The rebalancing reference date is after the close of market on the last trading day of February, May, August and November, respectively. The reference universe for the index is composed of the underlying index as of the market open on the upcoming rebalancing effective date. As part of the rebalancing process, the weight of each individual constituent is capped at 9% of the index. The reference date for the prices used in the weighting process is after the close of market on the Wednesday prior to the second Friday of the month.

## Ongoing Maintenance

The index is also reviewed on an ongoing basis to account for events such as mergers, takeovers, delistings, group changes, suspensions, surveillance objections, graded surveillance measure objections, spin-offs/demergers or bankruptcies. Changes to index composition and related weight adjustments are made as soon as they are effective. These changes are typically announced one to five business days prior to the implementation date.

**Additions.** No stocks are added to the index between rebalancings.

**Deletions.** Between rebalancings, a company can be deleted from an index due to events such as mergers, takeovers, delistings, group changes, suspensions, surveillance objections, graded surveillance measure objections, spin-offs/demergers or bankruptcies.

Index constituents removed from an index's underlying universe are also deleted from the index on the same effective date.

- Whenever possible, changes in the index's components are announced at least one to five business days prior to their implementation date.
- Whenever practicable, Asia Index Private Limited uses the day's closing price for all deletions.

## Graded Surveillance Measure (GSM)

On a monthly basis, companies added to the GSM list are dropped. The effective date of the drop begins at market open on the Tuesday following the first Monday of each month. The reference date for the GSM list data is the third Friday of the previous month.

Any company dropped due to inclusion on the GSM list must remain off the list for six consecutive months prior to the rebalancing reference date to be reconsidered for index inclusion.

## Corporate Actions

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Spin-off	In general, the parent company is dropped from the index. However, if information regarding price adjustment is available, the parent company may remain in the index with an adjusted price, at the discretion of the Index Committee.	Yes
Rights Offering	The price is adjusted to the Price of the Parent Company minus the Price of the Rights Offering/Rights Ratio. Index shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Dividend (Bonus), Stock Split, Reverse Stock Split	Index shares are multiplied by, and price is divided by, the split factor.	No
Change in shares (new issue, repurchase, warrant conversion etc.)	None.	No
Special Dividend	Price of stock making special dividend is reduced by the per share special dividend amount after the close of trading on the day before the dividend ex-date.	Yes
Constituent Change	No intraday rebalancing.	No
	Deletions due to delisting, acquisition or any other corporate event resulting in the deletion of the stock from the index will cause the weights of the rest of the stocks in the index to change.	Yes
	Rebalancing changes including additions, deletions and weight changes.	Yes
	Stocks that are reclassified into Z group between rebalancings are removed from the index as soon as practicable	Yes

*For more information on Corporate Actions, please refer to the Non-Market Capitalization Weighted Indices section within AIPL Equity Index Policy.*

## Currency of Calculation and Additional Index Return Series

The index is calculated in Indian rupees.

*For information on various index calculations, please refer to AIPL Index Mathematics Methodology.*

## Base Date and History Availability

Index history availability, base date and base value are shown in the table below.

Index	Launch Date	First Value Date	Base Date	Base Value
BSE 500 SHARIAH	02-May-13	03-Nov-08	03-Nov-08	1000



# Index Data

## Calculation Return Types – Equity Indices

Asia Index Pvt. Ltd. calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by Asia Index Pvt. Ltd.

- Price Return (PR) versions are calculated without adjustments for regular cash dividends.
- Gross Total Return (TR) versions reinvest regular cash dividends at market close on the ex-date.

In the event there are no regular cash dividends on the ex-date, the daily performance of the above two indices will be identical.

For a complete list of indices available, please refer to the daily index levels file (“.SDL”).

*For more information on the classification of regular versus special cash dividends, please refer to AIPL Equity Index Policy.*

*For more information on the calculation of return types, please refer to AIPL Index Mathematics Methodology.*

# Index Governance

## **Index Committee**

The Asia Index Pvt. Ltd.'s Index Committee oversees the index. The Index Committee meets quarterly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the index to the market, companies that are being considered as candidates for addition to the index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

Asia Index Private Limited considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Asia Index Pvt. Ltd.'s Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, Dow Jones Indices may publish a consultation inviting comments from external parties.

*For information on Quality Assurance and Internal Reviews of Methodology, please refer to AIPL Equity Index Policy.*

# Index Policy

## Announcements

All index constituents are evaluated daily for data needed to calculate index levels and returns. All events affecting the daily index calculation are typically announced in advance via the Index Corporate Events report (.SDE), delivered daily to all clients. Any unusual treatment of a corporate action or short notice of an event may be communicated via email to clients.

## Pro-forma Files

In addition to the corporate events file (.SDE), Dow Jones Indices provides constituent pro-forma files each time the index rebalances. The pro-forma file is typically provided daily in advance of the rebalancing date and contains all constituents as well as their corresponding weights and index shares effective for the upcoming rebalancing. Since index shares are assigned based on prices prior to the rebalancing effective date, the actual weight of each stock at the rebalancing differs from these weights due to market movements.

Please visit [www.asiaindex.co.in](http://www.asiaindex.co.in) for a complete schedule of rebalancing timelines and pro-forma delivery times.

## Holiday Schedule

The index is calculated on all business days when the BSE is open.

A complete holiday schedule for the year is available on the BSE Ltd. Web site at [www.bseindia.com](http://www.bseindia.com).

**Special Trading Sessions.** The index will be calculated on special trading sessions as declared by the BSE Ltd. Some examples include, but are not limited to, special trading sessions on Saturday and Mahurat trading. Asia Index Private Limited will issue a notice to apprise market participants of such special trading sessions.

If the special trading session falls on the Saturday following the third Friday of any rebalancing month, the new portfolio will be effective at the discretion of the Index Committee. Asia Index Private Limited will issue a notice to inform market participants of the new portfolio's effective date.

## Rebalancing

The Index Committee may change the date of a given rebalancing for reasons including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

## Unexpected Exchange Closures

For information on Unexpected Exchange Closures, please refer to AIPL Equity Index Policy.

## Recalculation Policy

For information on the recalculation policy, please refer to AIPL Equity Index Policy.

*For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to AIPL Equity Index Policy.*

**Contact Information**

For questions regarding an index, please contact: [bseindex@bseindia.com](mailto:bseindex@bseindia.com)

# Index Dissemination

Index levels are available through BSE Ltd. Web site at [www.bseindia.com](http://www.bseindia.com), Asia Index Private Limited's Web site at [www.asiaindex.co.in](http://www.asiaindex.co.in), major quote vendors (see codes below), numerous investment-oriented Web sites, and various print and electronic media.

## Tickers

The table below lists headline indices covered by this document. All versions of the below indices that may exist are also covered by this document.

Index	Return Type	Bloomberg	RIC
BSE 500 SHARIAH	Price Return	BSSH500	SH500
	Total Return	BSSH500T	SH500T

## Index Data

Daily constituent and index level data are available via subscription.

For product information, please contact Asia Index Pvt. Ltd., [www.Asiaindex.co.in/contact-us](http://www.Asiaindex.co.in/contact-us).

## Web site

For further information, please refer to BSE Ltd. Web site at [www.bseindia.com](http://www.bseindia.com) or Asia Index Private Limited's Web site at [www.asiaindex.co.in](http://www.asiaindex.co.in).

# Appendix

## Methodology Changes

Methodology changes since January 1, 2015, are as follows:

Change	Effective Date (After Close)	Previous	Methodology Updated
Index Rebalancing Date	31-May-2024	Index is rebalanced on a monthly basis	Index is rebalanced on a quarterly basis.
Index Maintenance:  Graded Surveillance Measure (GSM)	21-Sept-18	--	<p>On a monthly basis, companies added to the GSM list are dropped. The effective date of the drop begins at market open on the Tuesday following the first Monday of each month. The reference date for the GSM list data is the third Friday of the previous month.</p> <p>Any company previously dropped due to its inclusion on the GSM list must remain off the GSM list for six consecutive months prior to the rebalancing reference date in order to be reconsidered for index inclusion.</p>

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