



***Osservatorio sulla Finanza
Islamica***
***European Research Centre for
Islamic Finance***

www.ercif.org

Agenda:

- European Research Centre for Islamic Finance - Ercif.org**
- The New Project: Bachelor and Master degree in Finance and Islamic Finance**
- European Journal of Islamic Finance - EJIF**
- Research for Sharia compliant Italian SMEs**

ERCIF: Objectives

- Studying the Islamic finance Phenomenon**
- Diffusion of Islamic financial culture**
- Studying the compatibility of products for being Sharia Compliant**
- Creation of an international network of scholars**
- Implementation of integration policies and attraction of capital in the territory**

ERCIF: Actions

- Defining specific areas of research (companies Sharia compliance, accounting, governance models)**
- Launching and implementation of a course in Islamic finance**
- Designing and realization of a Mooc on Islamic finance**
- Planning and organizing initiatives for attracting investment to Turin**

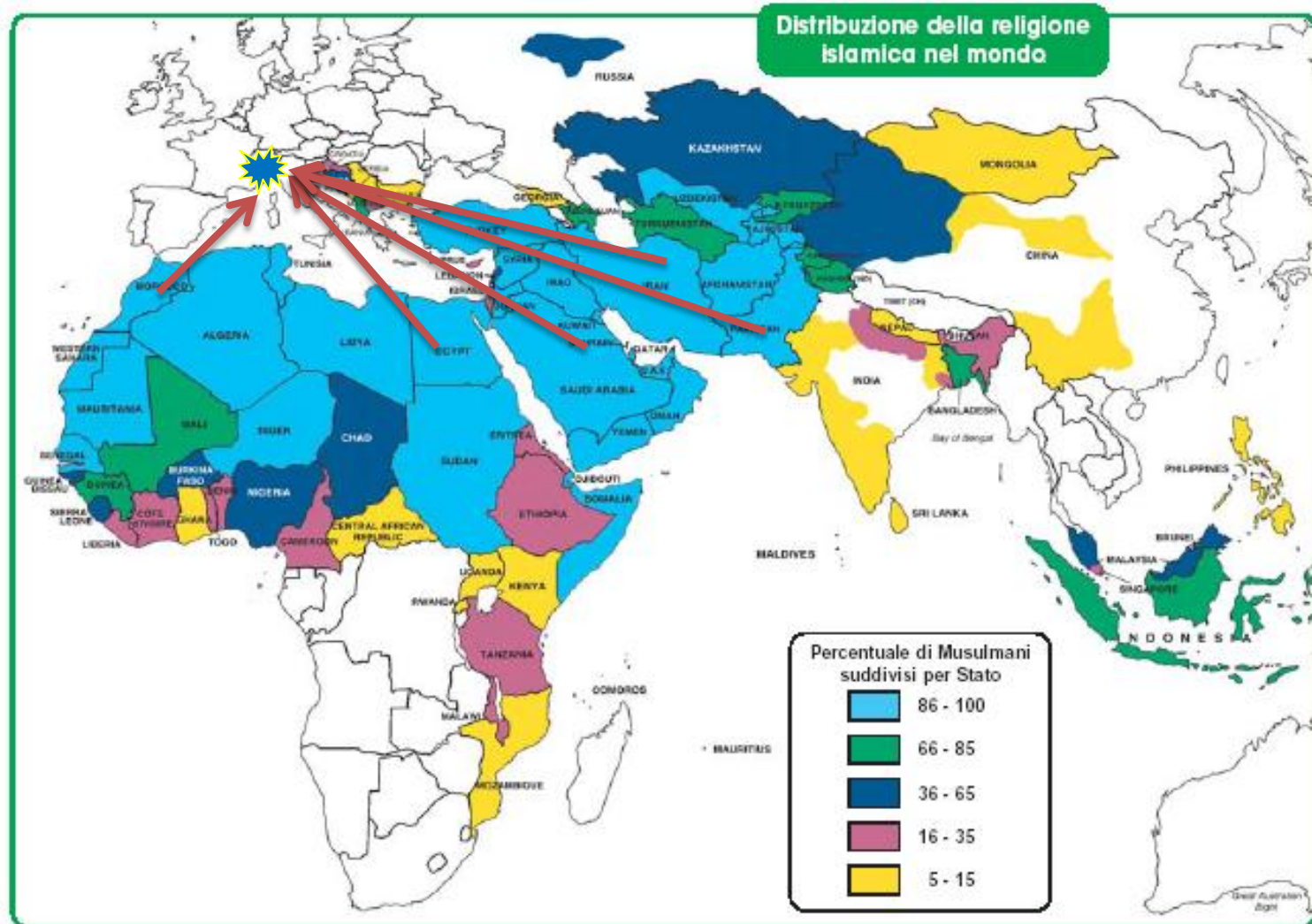
ERCIF: Results

- Publication of some monographs and several articles in international journals**
- Creation of the European Journal of Islamic Finance (EJIF)**
- Carrying out a course in Islamic finance for 60 participants**
- Conclusion of an agreement with banks for the development of Sharia compliance products**
- Creation of network with almost 150 scholars and professionals (Malaysia, Qatar, Saudi Arabia, UAE,..etc) who are working and interested in Islamic Finance**

The new Project : Bachelor and Master degree in Finance and Islamic Finance

- The project aims for construction and establishment of a path for a bachelor degree (3Y), master (2Y) degree and PhD (3Y) programs that are conducted in English in Finance with particular reference to Islamic finance for students from Middle Eastern countries. This project would allow a comprehensive education within a European context with a specific focus to the Sharia compliance financial assets activities.
- The School will be composed of professors of the University of Turin and visiting professors from the leading universities and institutions in Muslim countries.

The new Project:





Figures:

- ❑ **University of Turin: 70,000 students**
- ❑ **Politecnico of Turin: 30,000 students**
- ❑ **University with a history more than 600 years**
- ❑ **Currently more than 3,000 students from muslim countries**



European Journal of Islamic Finance



EJIF **European Journal of Islamic Finance**

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European Journal of Islamic Finance

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The European Journal of Islamic Finance is an open access online journal that publishes articles and papers that contribute to the development of both the theory and practice of research methods employed across the whole field of Islamic Business and Management, Finance and Banking studies. The readers of this journal mainly include scientific workers, college teachers and Phd students and other practitioners.

The journal receives manuscripts written in English.

If this is the first time you contribute an article to the journal, please format your manuscript as per the sample paper and then submit it into the online submission system.



EJIF European Journal of Islamic Finance

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Sharia Compliance of Italian SMEs

□ The Research:

- ✓ Analysis for a base of more than 900 thousand company
- ✓ Assumptions:
 - ✓ Unlisted Italian companies and not consolidated to any group
 - ✓ Exclude all Haram (non Halal) activities that are considered not permitted according to Sharia that are required to pass the qualitative screening criteria
 - ✓ For the quantitative screening it was assumed the most rigid formulas and thresholds for all ratios; Liquidity ratio, Interest ratio, and Debt level ratio are all imposed that companies to be eligible to pass should be $< 33\%$

Sharia Compliance of Italian SMEs

Sharia Indices :

- S & P 500 Sharia Index**
- Dow Jones Islamic Market Index**
- Sharia FTSE Global Equity Index**
- MSCI Islamic Index**
- Security Exchange Commission (SEC) Sharia
Advisory Council of Malaysia (SAC)**



Sharia Compliant Screening:

❑ 1- Qualitative Screening Criteria

- ✓ companies must have their activities within the permitted activities **Halal** and avoid all non permitted activities **Haram**.
Non permissible activities are those:

- Alcohol and Pork related products
- Pornography
- Tobacco
- Gambling
- Interest bearing assets & Conventional financial services
- Weapons and defence
- Biological human & animal genetic engineering (cloning)

Sharia Compliant Screening:

❑ 2) Quantitative Screening Criteria

- ✓ After companies pass the qualitative screening, they should pass the quantitative screening in which financial ratios of the companies are tested for not exceeding specific threshold.
- ✓ Thresholds are different in its percentage and calculation formulas among the different global indices.

❑ The Main Ratios:

- ✓ Leverage level (debt level ratio) for testing interest based debt
- ✓ Interest ratio for testing interest bearing securities
- ✓ Liquidity ratio for testing liquid assets (cash/ Accounts receivables)
- ✓ Non permissible income level

A comparative overview for the qualitative criteria

Activity	S&P Sharia index	Dow Jones Islamic Market Index	Sharia FTSE Global Equity Index	MSCI Islamic Index	SEC Sharia advisory Council Malaysia
Alcohol	AI	AI	CB	CB	CB
Tobacco	AI	AI	CB	CB	CB
Pork	AI	AI	CB	CB	CB
Pornography	AI	AI	CB	CB	CB
Gambling	AI	AI	CB	CB	CB
Media	AI	AI	-	-	-
Conventional Financial Services	AI	AI	CB	CB	CB
Conventional Insurance Services	AI	AI	CB	CB	CB
Weapon / Defense	-	AI	CB	-	-
Gold & Silver Hedging	AI	-	-	-	-
Entertainment	AI	AI	CB	CB	CB
Hotels	AI	AI	CB	CB	CB

A comparative overview for the quantitative criteria

	S&P Sharia index	Dow Jones Islamic Market Index	Sharia FTSE Global Equity Index	MSCI Islamic Index	SEC Sharia advisory Council Malaysia
Level of Debt	Total Debt/ Market Capitalization (avg 36 months) < 33 %	Total Debt/ Market Capitalization (avg 24 months) < 33 %	Total Debt/ Total Assets < 33 %	Total Debt/ Total Assets < 33.33 %	Total Debt/ Total Assets < 33 %
Interest Ratio	Cash & Interest bearing Securities/ Market Capitalization (avg 36 months) < 33 %	Cash & Interest bearing Securities/ Market Capitalization (avg 24 months) < 33 %	Cash & Interest bearing Securities/ Total Assets < 33 %	Cash & Interest bearing Securities/ Total Assets < 33.33 %	-
Liquidity Ratio	Accounts Receivables/ Market Capitalization (avg 36 months) < 49 %	Accounts Receivables / Market Capitalization (avg 24 months) < 33 %	Accounts Receivables & Cash / Total Assets < 50 %	Accounts Receivables & Cash / Total Assets < 33.33 %	Cash / Total Assets < 33 %
Non Permissible Income (NPI)	NPI (excluding interest) / Total Revenues < 5 %	-	NPI (including interest) / Total Revenues < 5 %	NPI / Total Revenues < 5 %	Two classes of NPI / Total Revenues Class 1 < 5 % Class 2 < 20 %

Example of Indices:

	Criteria		
	S&P	DJ	
Sector Exclusions			
Adult Entertainment Alcohol Gambling Movies Music Non-Islamic Banking Non-Islamic Finance Non-Islamic Insurance Pork related products Television Tobacco	X		Common sector Exclusions
Hedging of Gold and Silver Cloning Weapons/Arms/Defence goods Manufacturing Hotels Food production packaging and processing	X X	 X X X	Additional Sector Exclusions
Non-permissible income threshold (less than)	5%	5%	
Accounting Ratio Thresholds	<i>Less than</i>		
Total Debt	33%	33%	
Total Cash + Short-Term Investments	33%	33%	
Total Receivables	49%	33%	
Denominator	3 years Avg Mcap	2 Years Avg Mcap	
Dividend Purification			
Formula	(Non-permissible income including interest income)/Total Income		

Source: S&P Dow Jones Indices. For illustrative purposes only.

Outcomes:

❑ 454 Italian SMEs passed the Sharia Compliance Screening

- ✓ Qualitative Criteria Findings:
 - ✓ A strong message regarding the business activities of the Italian SMEs; they are not having a problem with the qualitative criteria of Sharia compliance and there is a great pool and a sufficient market share to start with.



Outcomes:

❑ 454 Italian SMEs passed the Sharia Compliance Screening

- ✓ Quantitative Criteria Findings:
 - ✓ The majority of the excluded companies were out in the quantitative screening because of the Liquidity ratio and the Debt level ratio, however companies could handle this problem if they changed their financial structures, for example debt/equity structure.

Outcomes:

❑ **454 Italian SME**

❑ **Business Sector:**

- ✓ 35% Real Estate
- ✓ 12% Management & Consultancy
- ✓ 10% Wholesale & Retail Trade
- ✓ 8% Construction
- ✓ 35% Others



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