Shar-E: Jurnal Kajian Ekonomi Hukum Syariah
Vol. 9 No. 1 Januari 2023, hal. 23-32
p-ISSN: 2442-5877
e-ISSN: 2686-1674

Screening and Trading Procedures In The Sharia Capital Market

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ABSTRACT

Sharia capital market is an activity concerned with public offerings and trading of securities, public companies related to securities issued, as well as institutions and professions related to securities that are run on the basis of sharia principles. This is certainly not separated from the screening procedures that must be passed to get into the Jakarta Islamic Indexs (JII). This means not all types of shares can enter in JII. The purpose of this screening is to fulfill the principle that an investor only transactions (trading) on something kosher or not contrary to Islamic Sharia. This paper will try to expose the screening procedure until trading in the sharia capital market.
Keywords: Sharia Capital Market, Screening, Trading.

ABSTRAK

Pasar Modal Syariah adalah suatu sarana kegiatan yang berkaitan dengan penawaran umum dan perdagangan efek (trading), perusahaan publik terkait dengan efek yang diterbitkan, serta institusi dan profesi terkait efek yang dijalankan berdasarkan prinsip syariah. Hal ini tentunya tidak terlepas dari prosedur penyaringan yang harus dilalui untuk masuk ke dalam Jakarta Islamic Indexs (JII) artinya tidak semua jenis saham bisa masuk di JII. Tujuan dari penyaringan (screening) adalah untuk memenuhi prinsip bahwa seorang investor hanya melakukan transaksi pada sesuatu yang halal atau tidak bertentangan dengan syariat Islam. Tulisan ini akan mencoba memaparkan prosedur perdagangan dan penyaringan di pasar modal syariah.
Kata Kunci: Pasar Modal Syariah, Screening, Trading.

A. Introduction

The economy of a country cannot be separated from the role of the financial market, as it serves as a means for the convergence of two mutually beneficial desires: those who need funds and those who have excess funds. (Nurlita, 2014) The financial market is divided into two, namely the money market (Rivai,2007) and the capital market. (Kasmir, 2008 and Nasution, 2015)

Discussing the Islamic capital market certainly cannot be separated from what is called the screening procedure. Screening stocks is very important because Islamic investors (Islamic funds investors) are only allowed to invest in industries or companies that meet or are in line with the Sharia-compliant category. The process of screening is a means of implementing the principles of *fiqh muamalat* and identifying companies that comply with Sharia principles, making them suitable for Muslim investors. This selection process helps investors feel more secure and confident when buying or selling securities in the Islamic capital market.

B. Screening Procedures in the Sharia Capital Market

Before discussing further about the screening procedure in the Sharia capital market, it is important to understand the participants of the capital market, namely issuers, underwriters, which include three parties (lead underwriters, public accountants and appraisal companies), capital market supervisory agency, stock exchange, securities trading intermediaries and investors. (Rukmana, 2010)

In Sharia capital market activities, in addition to the above institutions, there is Dewan Syariah Nasional (DSN) which serves as a reference center for all Sharia aspects related to Sharia capital market activities. DSN is responsible for providing fatwas related to issuance, trading, portfolio management of Sharia securities, and other activities related to Sharia securities. (Nasution, 2007)

To be included in the Jakarta Islamic Index (JII), companies must first meet the screening standard known as screening. The purpose of Sharia stock selection is to meet the principle that a Muslim only takes what is halal and avoids what is haram. The next goal is to provide instruments to investors to invest in stocks that comply with Sharia principles.

Screening is essentially conducted in two aspects, namely Core Business Screening and Financial Ratio Screening. Both screening aspects have been regulated by the Fatwa of the National Sharia Council of Indonesia (DSN MUI). Core Business Screening, or the screening of business activities, is regulated in DSN Fatwa No. 20/DSN-MUI/IV/2001, Article 8 on Guidelines for Implementing Investments for Sharia Mutual Funds and DSN Fatwa Number. 40/DSN-MUI/X/2003, Article 4 paragraph 3 on the Capital Market and General Guidelines for the Implementation of Sharia Principles in the Capital Market. These two fatwas explain that the core business or activities carried out by issuer companies must not contradict Sharia principles, such as gambling activities, conventional financial institutions *(ribawi)*, including conventional banking and insurance, businesses that produce, distribute, and trade in prohibited food and drinks, and businesses that produce, distribute, and/or provide goods or services that are harmful to morals *(mudharat)*. (Yafiz, 2008)

Meanwhile, Financial Ratio Screening is regulated in DSN Fatwa Number. 20/DSN-MUI/IV/2001, Article 10, which states that an issuer is not eligible for investment if the debt-to-equity ratio is heavily dependent on debt financing that essentially involves usury, and if an issuer has a debt-to-equity ratio of more than 82% (debt 45%, equity 55%). Sharia-compliant stocks require a maximum limit of *ribawi* debt of 45% of equity. With these criteria, they serve as a filter for the health of the company, as Sharia banks have clearer mitigation in selecting financing objects. Additionally, from a capital standpoint, companies with more equity than debt will have higher financial health levels than those without. (Syafrida, 2015)

Shares that are included in the Sharia Stock List are those that have passed the set criteria for business objects and ratios. The assessment of these criteria is carried out twice a year based on six-monthly reports and periodic year-end reports. (Hanafi, 2011)

The selection process for shares that enter the Sharia index includes the following steps:

1. Selecting a group of shares with a primary business type that does not contradict Sharia principles and have been listed for more than three months (unless they are in the top 10 in terms of capitalization).
2. Selecting shares based on annual financial reports or the latest ten-year data that have a maximum obligation-to-asset ratio of 90%.
3. Selecting 60 shares from the above stock composition based on the largest average market capitalization for the past year.
4. Selecting 30 shares in order of average liquidity based on regular trading value for the past year. (Soemitra, 2014)

Every January and July of each year, a reassessment or, in other words, a reassessment is carried out twice a year. Meanwhile, if the issuer makes changes to its business type, it will continue to be monitored based on public data and media. The daily stock price index is calculated using the last traded stock price on the exchange. (Sudarsono, 2012)

JII Issuer Screening Process

Sharia Selection 1. The issuer does not engage in gambling or prohibited trading activities. 2. It is not a conventional financial institution. 3. It does not produce, distribute, or trade in prohibited foods and drinks. 4. It is not involved in producing, distributing, or providing goods or services that are detrimental to public morals.
⇩
Capitalization Selection This process screens 60 stocks with the highest marketcapitalization on the BEJ
⇩
Transaction Volume Selection This process screens 30 stocks with the highest average daily transaction value on the BEJ
⇩
Issuer Evaluation Process every 6 months

The Stock Exchange has established regulations to prevent actions that may cause harm or loss to others and actions that are indicated to be incompatible with the principles of Sharia in securities trading. The implementation of securities trading must be carried out according to the principle of caution and is not allowed to engage in speculation, manipulation, vice, injustice, and other actions that contain certain elements as listed below: (Ibrahim, 2013)

1. *Dharar* is an act that can cause harm to other people.
2. *Gharar is uncertainty in a contract, whether in terms of the quality or quantity of the subject matter of the contract or in terms of its delivery.*
3. *Riba is the addition of a premium in the exchange of ribawi goods (al-amwal al-ribawiyah) and the addition of interest on the principal amount of a debt in exchange for a deferral of payment, such as in margin trading transactions.*
4. *Maisir is a game that places one party at a disadvantage to the other due to the nature of the game.*
5. *Risywah is the act of giving something to someone in order to obtain something that is not rightfully theirs.*
6. *Taghrir is the attempt to influence others, through words or actions containing falsehoods, to engage in a transaction, such as in the practice of wash salesand pre-arranged trades.*
7. *Ghisysy is a form of tadlis, where the seller highlights the advantages or special features of the item being sold while concealing its defects, such as in the transactions of marking at the close and alternate trade.*
8. *Tanajusy/najsy is the act of bidding on an item with a higher price by a party that has no intention of purchasing it, in order to create the impression that there are many interested parties, such as in the transactions of pump and dump, hype and dump,and creating fake demand/supply.*
9. *Ihtikar is the act of buying a commodity that is in high demand when the price is high and hoarding it with the intention of selling it at a higher price in the future, such as in the transactions of pooling interest and cornering.*
10. *Bai al-ma'dumis a type of sale and purchase contract that does not involve the actual product at the time of the transaction, as in short selling transactions.*
11. *Ghabn refers to the imbalance between two commodities (objects) exchanged in a contract, whether in terms of quality or quantity.*
12. *GhabnFahisy is a such as the sale of a commodity at a price significantly below the market price, such as in insider trading transactions.*

C. Trading Procedures in the Sharia Capital Market

The evaluation of a security is heavily influenced by the financial performance of the issuing company. There are several techniques for analyzing securities. In selecting stocks, two approaches are used: fundamental and technical. Fundamental factors that can affect stock prices include sales, sales growth, dividend policy, shareholder meetings, management, and others. Predicting future stock prices can be done manually or with the help of computer programs by examining the development of stock prices over time. Both of these technical analysis techniques will influence investors to buy or sell their securities. (Soemitra, 2014)

There are two forms of stock trading in the Stock Exchange, namely stock transactions in the Primary Market and stock transactions in the Secondary Market. (Haroen, 2000) However, before that, a public offering must be made, which includes:

1. Pre-issuance, which includes preparations made to meet the requirements of the public offering.
2. The issuance phase, which is the period during which the public offering is made until the offered shares are listed on the stock exchange.
3. The post-issuance phase, which involves reporting as a consequence of the public offering. (Sudarsono, 2012)

These stages of the public offering can be illustrated in the following diagram:

Before Issuance		**Issuance**		**Post Issuance**
Company Internal	**OJK**	**Primary Market**	**Secondary Market**	**Reporting**
1. Go Public Plan 2. General Meeting of Shareholders 3. Show: • Professional Underwriter • Supporters • Supporting Institution 4. Preparing documents 5. Confirmation as a selling agent by the underwriter 6. Preliminary contract with the Stock Exchange 7. Signing an agreement 8. Public expose	1. Registration statement 2. Limited expose in OJK 3. Response to: Completeness of documents Adequacy and clarity of information Transparency (legal, accounting, financial, and management aspects) 4. Written comments within 45 days 5. Registration statement declared effective	1. Public offering 2. Allocation to investors by the underwriting syndicate 3. Distribution of securities to investors electronically	1. The issuer lists its shares on the stock exchange 2. Trading on the stock exchange	1. Periodic reports, such as savings reports and mid-year reports 2. Reports of significant and relevant events, such as acquisitions and changes in management

1. The Primary Market

The primary market is the initial sale of stocks and bonds by issuers to investors during the Initial Public Offering (IPO). The issuer obtains funds needed to develop its business from the sale of securities in the primary market, (Rukmana, 2010) which offers securities to the public by a company that will go public. The underwriter, lead manager, and selling agent offer and sell the securities in the primary market. Therefore, the primary market is the trading place for newly issued securities by the issuer before they are traded in the secondary market. (Irmayanto, 2004) The stock price in the primary market is a fixed price that cannot be negotiated, and the underwriter and issuer(Haroen, 2000) have agreed upon this price. The general procedures for purchasing securities in the primary market are as follows:

a. The buyer contacts the selling agent appointed by the underwriter to fill out the order form. The completed order form is returned to the selling agent along with the investor's signature and a copy of the investor's identification card and the amount of funds matching the value of the ordered securities. The order form typically contains information about the securities' price, the quantity of securities ordered, the buyer's identity, the date of allotment, the refund of excess demand, the amount paid, the selling agent contacted, and the ordering procedures. The unit used is called a lot, where 1 (one) lot of shares in Indonesia currently represents 500 (five hundred) shares, and the share price multiples are called points.

b. In the event that there is more demand for securities than what is being offered, the next step is the allotment period and refund period. The underwriter conducts the allotment process within 12 working days after the offering period ends. During this process, small investors are given priority. On the other hand, the refund period is when the underwriter returns excess funds resulting from unfulfilled orders no later than 4 working days after the allotment period ends.

c. The securities are only delivered once the issuer confirms that the correct number of securities have been fulfilled. The underwriter or selling agent is responsible for delivering the securities within 12 working days after the allotment period ends. Investors must provide proof of purchase by signing the underwriter or selling agent (Awaluddin, 2016).

2. The Secondary Market

The secondary market is where securities are sold after the primary market closes (Manan, 2012) and the trading process differs from that of the primary market. In the primary market, trading only takes place when the issuer offers new securities, and prices are determined subjectively by the underwriters and issuer. In contrast, in the secondary market, trading occurs at any time during trading days, and prices are largely determined by market mechanisms. Transactions are carried out through brokers, and multiple trades may occur per day. (Nafiq, 2009).

Stock trading in the secondary market is conducted on a stock exchange by matching supply and demand for securities. The money from trading goes to the broker's account, not the issuer's. Prices in the secondary market are no longer determined solely by the issuer and underwriters as in the primary market. Instead, they are based on supply and demand mechanisms, which can lead to higher or lower prices than in the primary market. If a company's prospects are good, its securities will be in demand, causing their prices to rise. Conversely, if a company's prospects are poor, its securities will experience an increase in supply, causing their prices to fall.

The implementation of securities trading on the Exchange is carried out using the Jakarta Automated Trading System (JATS). Securities trading on the Exchange can only be conducted by Exchange Members (EMs) who are also members of the KPEI Clearing House. EMs are responsible for all transactions carried out on the Exchange, whether for their own interests or for the interests of their clients.

a. Account Opening

An individual who wishes to become an investor must first become a client or open an account with a securities company (EM/broker). Prospective investors fill out a form provided by the EM and provide accurate information. Typically, prospective investors are required to deposit a certain amount of money as collateral, ranging from IDR 10 million to IDR 25 million. Once officially registered as a client, investors can engage in trading activities (Susilo, 2009).

b. Order Submission

Order submission by clients can be carried out through three methods: (Umam, 2013) manually through traders on the trading floor, remote trading through the EM's office, or direct order input by clients through the internet (online trading).

c. Order Processing

In carrying out the order and transaction processing, there are several regulations and specifications required by the BEI, including:

1) Only limited orders can be executed on the Exchange by EMs.
2) Regular and cash market trading units (round lots) are conducted in multiples of 500 securities.
3) The price fractions for trading in the Regular and Cash Markets must be in units of securities (round lots) or multiples thereof, which is 100 securities. The Unit Price Change (Fraction) is determined by Regulation II-A Kep-00023/BEI/04-2016 and is as follows:

No.	**Price Range**	**Price Fraction**	**Maximum Change**
1	< Rp. 200.	Rp. 1	Rp. 10
2	Rp. 200 s/d < Rp. 500	Rp. 5	Rp. 50
3	Rp. 500 s/d < Rp. 2.000	Rp. 10	Rp. 100
4	Rp. 2000 s/d < Rp. 5.000	Rp. 25	Rp. 250
5	>Rp. 5.000	Rp. 50	Rp. 500

4) Auto-Rejection: Bid and ask prices submitted to JATS must be within a certain price range. If an EM submits a price outside this range, it will be automatically rejected by JATS (auto-rejection).

The current auto-rejection limits are in accordance with SK DireksiNomor Kep-00113/BEI/12-2016, namelyauto-rejection applies to certain bid or ask prices for shares traded on the Exchange. Bid or ask prices below IDR 50 or above certain percentage limits of the Reference Price are subject to auto-rejection. For shares in the price range of IDR 50 to IDR 200, bid or ask prices that are more than 35% above or below the Reference Price are subject to auto-rejection. For shares in the price range of IDR 200 to IDR 5,000, bid or ask prices that are more than 25% above or below the Reference Price are subject to auto-rejection. For shares above IDR 5,000, bid or ask prices that are more than 20% above or below the Reference Price are subject to auto-rejection.

The application of Auto-Rejection to prices above for trading of shares resulting from initial public offerings that are first traded on the Exchange (primary market trading) is set at 2 (two) times the percentage limit of the auto.

d. Transaction Execution

1) Pre-Opening

Exchange members are allowed to submit buy requests and/or sell offers according to the provisions for unit of trading, price change unit, and auto rejection. During the Pre-Opening period, the Opening Price is determined by JATS based on the highest number of sell offers and buy requests that can be assigned to a certain price. Any unassigned sell offers and/or buy requests during the Pre-Opening period will be processed during Session I of trading, except for those that exceed the auto rejection limit.

2) Regular Market

The Regular Market processes sell offers and/or buy requests submitted to JATS based on Price Priority and Time Priority. Time priority is not lost if the amount of securities in both sell offers and buy requests is reduced for the same price level. Transactions on the Regular and Cash Markets become binding at the time JATS matches the sell offer with the buy request.

3) Negotiated Market

In the Negotiated Market, trading of securities is done through direct negotiation between Exchange Members and Customers. The results of the negotiation are then processed through JATS. Exchange Members can submit sell offers and/or buy requests through advertising display boards and can modify or cancel them before the agreement is executed in JATS. The agreement becomes binding when JATS matches the sell offer and buy request.

e. Settlement of Exchange Transactions

1) Regular Market and Cash Market

The settlement of exchange transactions in the Regular Market and Cash Market is ensured by KPEI, and it must be done within a specified time frame. In the Regular Market, settlement must be completed by the third exchange day (T+3), while in the Cash Market, settlement must be done on the same exchange day (T+0). The settlement is carried out through a netting process, where securities and/or funds are transferred to the eligible member's securities account at KSEI. If a member fails to deliver the securities as required, the member must settle the obligation with a cash substitute, which is calculated at 125% of the highest price of the same securities that occurred in the Regular Market and Cash Market. If a member fails to pay KPEI as stated in the Clearing Results List (DHK) Netting, the member's obligation must be settled according to KPEI regulations. Failure to settle the obligations can lead to the suspension of the member's securities trading on the exchange until all obligations are fulfilled, and the member may be subject to penalties in accordance with exchange regulations.

2) Settlement of Negotiated Market Exchange Transactions

In the Negotiated Market, the settlement time for exchange transactions is determined by agreement between the selling member and the buying member, and settlement is made on a per transaction basis, not through netting. If not specified, settlement of exchange transactions must be done by the third exchange day after the transaction (T+3) or on the same exchange day as the transaction (T+0), specifically for the last exchange day of trading for the Rights Issue. The settlement of exchange transactions in the Negotiated Market is carried out by direct transfer between the selling member and the buying member, and it is not guaranteed by KPEI.

f. Transaction Fees

Exchange members must pay transaction fees to the Exchange, KPEI, and KSEI, which are determined based on the transaction value per member, namely:

Transaction Type	Transaction Fee	Margin Requirement	Taxes
Regular Market and Cash Market	0, 03%	0,01%	PPn and other tax obligations
Negotiation Market	0,03% or as per Exchange policy		
Obligasi (Bonds)	0,005%		

Exchange members are required to pay transaction fees to the Exchange, KPEI and KSEI

The Exchange acts as the Withholding Agent and the minimum transaction fee that must be paid by Exchange members is IDR 2,000,000 per month. Even Exchange members in a state of suspension or whose trading rights have been frozen must pay this minimum fee. Payments must be made by the 12th calendar day of the following month and late payments will be charged a penalty of 1% per calendar day of delay. If Exchange members fail to meet their obligations no later than 5 Exchange days after the payment deadline, they will be subject to a penalty and suspension until all transaction fees and penalties are settled.

D. Conclusion

After analyzing the previous discussion, it can be concluded that the screening mechanism for Sharia-compliant stocks must meet the Core Business Screening and Financial Ratio Screening criteria. The Core Business Screening ensures that the company's activities do not conflict with Sharia principles, while the Financial Ratio Screening ensures that the company's financial ratios meet the Sharia criteria.

Regarding the trading procedure or mechanism, it involves several stages such as account opening, order submission through various methods, order processing, transaction execution, and settlement. The order processing stage includes various aspects such as order type, trading unit, price fraction, and auto-rejection. The transaction execution stage involves several markets such as pre-opening, regular, and negotiation markets. Finally, the transaction fees must be paid as per the predetermined amount.

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