I- ISLAMIC EQUITY INVESTMENT PURIFICATION METHOD:

Purification for Islamic equity investment funds can be done in accordance to the following steps:

Step 1: The first step is to calculate the amount of interest and other non-permissible earnings each company in the portfolio. Let us say company A earned during the year 2003 the amount of $500 from interest and sale of liquor (non-pure income).

Step 2: If company A paid an income tax for the year 2003, then non-pure income should be netted. Suppose it did and tax was, say 10% then only $450 should considered for purification purpose.

Step 3: We then divide this amount on the total number of shares of this company floated in the market. Let us assume company A has 100,000 shares outstanding in the market. The outcome is $.0045 per share. This is the impure income per share.

Step 4: We then multiply this by the number of shares of company A we held in the portfolio during the period under consideration. If for example we hold 50 shares, then the amount we need to dispose off for this company is $. 225.

Step 5: We are suppose to do this purification exercise every quarter. If the share was held in the portfolio for less than one quarter and we are using annualized data then we divide 0.225 over 365 days. Let us say we held it for only 60 days months. Then only $ 0.037 needs to be disposed off out of our investment in this company.

Step 6: We do the same exercise for all the companies in the portfolio. Suppose we ended up with an amount equal to $36.5 for all the companies. This would be the amount we need to dispose of to charity for the whole portfolio.

II- Sources of information:

The amount of interest and non-permissible earnings of a company can be obtained from its published accounts. Since the exercise must be done quarterly it can rely on the quarterly published accounts. However, if the company only publishes accounts half yearly or annually, it would be fine to use the last available data. Data about interest earning is usually easy to obtain. It may not be so for other sources of impure income. In cases where it is not possible to know the exact figures of incidental non permissible income, it would be fine to estimate the same. Estimation can rely on "educated guess" or on applying figures obtained from companies doing similar business. For example, for estimating income derived from sale of pork it would be safe to assume that such income in one supermarket is similar to other supermarkets in the same country and hence can be generalized to estimate figures for supermarkets where data is not available for the same period.

III- Implementation:

Once amount of impure income has been determined, it must be disposed off timely. This can be done directly by the fund manager. In this case, money must be disposed off to charity organization that has been pre approved by the bank management. A criterion must be set for approving charity. For example no charity can receive such funds unless it has been licensed by an official authority, and that it is non-political, and must provide audited accounts for at least two years… etc.

If the fund manager only informs investors of such amounts, (but doesn’t dispose of them directly) this must also be done quarterly and investors should be instructed to, themselves, dispose of the amount to their preferred charity.