

FATAWA MONEY EXCHANGE AND SARF 2003

Forex Trading in light of Fiqh

From: Monzer Kahf
Sent: Saturday, October 18, 2003 7:12 AM
To: MOAZZAM
Subject: Forex Trading in light of Fiqh

My Answer:

Bismi Allah al Rahman al Rahim
Al Hamdu li Allah Rabb al 'Alamin
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Moazzam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

This transaction falls in the category of Sarf (currency exchange) contract that is well known in our Fiqh.

The answer to your first question is YES. Exchanging dollars for euro and vice versa is permissible provided the contract and delivery of both currencies is done at the same time (cash) in each of the two transactions (buying the euros and later buying the dollars).

The second transaction is different. The Prophet, pbuh, said about Sarf that it MUST BE "HA' BI HA' " OR "YADAN BI YAD". It literally means "give and take" or "hand to hand". Hence in Sarf it is always required that delivery of both currency must be full in cash at the time of the contract, otherwise the transaction becomes Riba-based (i. e. involving interest as we know). Forex on margin and forex futures are all not permitted in Shari'ah. They do not fulfill the condition put by the Prophet, pbuh.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: MOAZZAM
Sent: Saturday, October 18, 2003 5:01 AM
To: monzer@kahf.com
Subject: Forex Trading in light of Fiqh

Dear Scholar,

Assalamu Alaykum, I am posting this question to you directly because I was unable to find its answer on your site <http://monzer.kahf.com/> under Fatwa section. I hope you will not mind me accessing you directly.

My question is if one covert 5,000USD to Euro when Euro is weak and then covert Euro to USD when it's strong, in the end earning more USD. Is Harm or Halal.

If it is Halal then my second question is regarding Forex Trading, which is offered on-line by most of the Forex related sites now a days e.g.

<http://www.realtimeforex.com/> Whether trading on-line with an investment of say 5,000USD on which temporary playing margin is given (which can be 50,000USD) but no actual payment of the margin is done, is acceptable as per the Fiqh or not.

Best Regards, Moazzam.

From: Monzer Kahf
Sent: Tuesday, September 02, 2003 8:04 PM
To: Ibrahim
Subject: forex, foreign exchange

My Answer:

Bismi Allah al Rahman al Rahim
Al Hamdu li Allah Rabb al 'Alamin
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.
trading currencies is permissible only on stop basis. This is when settlement is done at the time of the trade or at the end of the day at the most. Settlement means crediting the account of the buyer for the whole amount of the currency purchased and debiting her account for the whole amount of the currency sold. The Prophet, pbuh, emphasized that in currency dealings (gold for silver and vice versa at his time) the delivery must be at the time of the contract " Yadan bi Yad" that means give and take at the same time on the spot of the contract.

Any future forex involves Riba al Buyu' which is also known as Riba al Fadl.

This is prohibited clearly in several authentic Sayings of the Prophet, pbuh.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Ibrahim

Sent: Friday, August 29, 2003 8:45 PM

To: monzer@kahf.net

Subject: forex

Assalam Alaikum Dr. Monzer:

I would like to know if forex trading that is done nowadays on the world market permissible. The following is a description of a company that provides forex trading.

What is Forex?

Forex, or Foreign Exchange, is the simultaneous buying of one currency while selling for another. This market of exchange has more buyers and sellers and daily volume than any other in the world. Taking place in the major financial institutions across the globe, the forex market is open 24-hours a day.

Buying/Selling

In the forex market currencies are always priced in pairs; therefore all trades result in the simultaneous buying of one currency and the selling of another. The objective of currency trading is to buy the currency that increases in value relative to the one you sold. If you have bought a currency and the price appreciates in value, then you must sell the currency back in order to lock in the profit.

currency trading

- What is Forex?
- Buying/Selling
- Quoting Conventions
- Margin
- Rollover
- What Every Currency Trader Should Know

forex trading

Quoting Conventions

Currencies are quoted in pairs. The first listed currency is known as the base currency, while the second is called the counter or quote currency. In the wholesale market, currencies are quoted using five significant numbers, with the last placeholder called a point or a pip

Like all financial products, FX quotes include a "bid" and "ask". By quoting both the bid and ask in real time, FXCM ensures that traders always receive a fair price on all transactions. As in any traded instrument, there is an immediate cost in establishing a position. For example, USD/JPY may bid at 131.40 and ask at 131.45, this five-pip spread defines the trader's cost, which can be recovered with a favorable currency move in the market.

Margin

The margin deposit is not a down payment on a purchase of equity, as many perceive margins to be in the stock markets. Rather, the margin is a performance bond, or good faith deposit, to ensure against trading losses. The margin requirement allows traders to hold a position much larger than the account value. FXCM's online trading platform has margin management capabilities, which allow for this high leverage.

In the event that funds in the account fall below margin requirements, the FXCM dealing Desk will close all open positions. This prevents clients' accounts from falling into a negative balance, even in a highly volatile, fast moving market.

Rollover

For positions open at 5pm EST, there is a daily rollover interest rate a trader either pays or earns, depending on your established margin and position in the market. If you do not want to earn or pay interest on your positions, simply make sure it is closed at 5pm EST, the established end of the market day.

What Every Currency Trader Should Know

The forex market is one of the most popular markets for speculation due to its enormous size, liquidity, and tendency for currencies to move in strong trends. An enticing aspect of trading currencies is the high degree of leverage available.

FXCM allows positions to be leveraged up to 100:1. Without proper risk management, this high degree of leverage can lead to enormous swings between profit and loss. Knowing that even seasoned traders suffer losses, speculation in the forex market should only be conducted with risk capital funds that if lost will not significantly affect one's personal financial well being.

The FXCM Mini account was designed for those new to online currency trading. There is a smaller deposit required to open an FXCM Mini account and trading sizes are 1/10th the size of a regular account. The smaller trade size enables traders to take smaller risks. The FXCM Mini is intended to introduce traders to the excitement of currency trading while minimizing risk.

From: Monzer Kahf
Sent: Monday, June 02, 2003 6:36 AM
To: Ibrahim
Subject: RE: Currency trading

My Answer:

Bismi Allah al Rahman al Rahim
Al Hamdu li Allah Rabb al 'Alamin
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Only spot currency trading is permissible because in currency, gold and silver transactions the Prophet, pbuh, put the condition that it must be cash only He said: ha' bi ha' meaning give and take at the same time. currency futures are not permissible. In fact they involve Riba.

commodities and stocks futures are decreed not permissible by the OIC Islamic Fiqh Academy (the highest and much respected Fiqh body in the world). The reason is that Shari'ah prohibits selling for future delivery and future payment at the same time. In Shari'ah-recognized sale contracts one at least of the two exchanged things must be immediate.

Wa Allahu A'lam
Wa Alhamdu li Allah Rabbi al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

Question:

From: Ibrahim
Sent: Saturday, May 31, 2003 5:42 PM
To: monzer@kahf.net
Subject: Currency trading

Assalam Alaikum Dr. Kahf:
Is currency trading (Forex) permissible in Islam?
Also, is futures trading permissible?

Inter-Currencies Transactions and Transfers

From: Monzer Kahf
Sent: Saturday, July 19, 2003 7:13 AM
To: Islam on line
Subject: Using Credit Cards Involving Overseas Transactions

My Answer:

Bismi Allah al Rahman al Rahim
Al Hamdu li Allah Rabb al 'Alamin
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Amir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.
international transactions in credit cards are permissible provided no other delays
are made in payment within the grace period. International credit card transactions
involve a contract of sale of a good or service and a Hawalah (transfer) for the
payment. When you make the transaction it is a cash transaction between the
seller and the buyer and the buyer gets the price cash in the contract's currency
immediately (or within no more than three days upon depositing the credit card
slips). The buyer becomes a debtor to the credit card issuer on the moment the
issuer pays the amount and on the same moment the issuer debits the buyer's
account in the buyer's domestic currency. Notice that the exchange (Sarf) takes
place at that moment and both payment by issuer and debiting the buyer are the
two sides of the one record the issuer makes. There is no doubt that there is a span

of days between the day the seller gets the price from the seller's local bank and the issuer paying/debiting but this span of days is not within any of these contracts or between a contract and its execution, this period of time is between the execution of one contract and the execution of another.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on line

Sent: Saturday, July 19, 2003 2:34 AM

To: Monzer Kahf

Subject: Using Credit Cards Involving Overseas Transactions

Name of Questioner Amir

Gender Male

Age 31-45

Education Graduate

Date Submitted 7/8/2003

country of Origin U S

User Ref. No. N2P65N

country of Res. U S

Assalamu Alaikum, The question is about Credit Card usage particularly those involving overseas transactions. I have been informed that since overseas transactions (card usage outside of country of issuance) involve Money Exchange (As-Sarf) coupled with delayed (or differed) payment by the user, it is Haram. Appreciate your kind help and inputs. Jazakum Allahu Khairan katheera.

From: Monzer Kahf

Sent: Sunday, April 27, 2003 6:34 AM

To: Islam on Line

Subject: RE: Installment Facility in Exchanging Currencies

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Money transfer with change of currency must be combined in sequence (the same way it is normally practiced by banks. This means you either buy the foreign currency first (the Indian rupee or USD in your case) then transfer it in Rupees or in Dollars or you transfer Qatari Rials then in India exchange it for Rupees. In either case the exchange of currency must be done on the spot that is you give Rials and get Rupees at the same time and the rate of exchange is market

determined not a Shari'ah matter; and the commission of the transfer service is permitted in Shari'ah.

From Shari'ah point of view, any bank or person can offer any or both of these two services with the above mentioned conditions. If exchange is done with spot delivery, then the Rupees are given as a loan for future payment in India there must be no difference between the total amount of installment and the amount of the loan; any increment is interest. the carrier this transfer service is entitled to normal price of the service which should not exceed what other transferors (banks) charge. any extra charge is not permitted in Shari'ah because it is a form of Ghabn that is prohibited.

Additionally, I like to warn you from dealing with persons and institutions that are not regulated by local governments, many of them may be money cleansers who deal with drugs and smuggling of prohibited items. You don't like your pure money to be mixed with their operations!

Wa Allahu A'lam
Wa Alhamdu li Allah Rabbi al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

Question:

From: Islam on Line
Sent: Saturday, April 26, 2003 11:49 PM
To: Monzer Kahf
Subject: Installment Facility in Changing Currencies
Name of Questioner Mohamed Gender Male Age 31-45
Education Graduate Date Submitted 4/19/2003
country of Origin Qatar User Ref. No. UH8NMJ Country of Res. India
Question

Assalamu Alaikum, In order to transact the money from QATAR (Qatar Riyal) to INDIA (Indian Rupees) as a demand draft, some persons offering installment facility, but they are charging more than the actual bank rate for their services of this installment facility. Can we call this as "INTEREST"?
