

# FATAWA STOCKS, SHARES, FUTURES, OPTIONS AND COMMODITIES 2003

## Investing in Stocks

From: Monzer Kahf  
Sent: Sunday, January 11, 2004 4:56 AM  
To: Islam on Line  
Subject: RE: Investing in Stocks

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.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Please find below the criteria as I wrote them in answering another question:  
The OIC (Organization of Islamic Conference) Fiqh Academy that includes Fiqh  
Scholars representing the 53 Muslim countries in addition to others experts  
selected on their scholarly reputation, in several resolutions and recommendations  
dealt with purchasing stocks. This can be summarized as follows:

- 1 - Stocks of companies whose products are not permitted in Shari'ah are prohibited to own, purchase, sell etc. Examples: interest-based banks and insurance companies, entertainment buz, etc.
- 2 - Stocks of companies that abide by the rules of Shari'ah, such as Islamic banks and Islamic Insurance companies are permissible.
- 3- Stocks of companies whose products are permissible but the company indulges in non-allowed transactions such as getting interest based financing, depositing in banks for interest, making contracts that include prohibited conditions, e.g., selling gold and/or silver and/or currencies in other than spot , or giving donations or selling arms to aggressors such as Israel. Also companies that produce permissible products but also produce non permissible products as a minor line of production, and this category 3 includes most companies in the world such as Microsoft and IBM. All these stocks are not permissible, in principle according to the Fiqh Academy. And this is a decision that actually represents a majority.

A group of respected scholars disagrees and consider this resolution too Idealistic to a degree that creates hardship for Muslims all over. This group suggests that

stocks of such companies (category 3) may be permissible within a few conditions that are mainly:

a - No more than 15% of the company's net income comes from interest and other prohibited transactions

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

d - Companies must not be a producer of aggressive and/or harmful products such as military industries and environment violating industries

e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends) THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY, FOR the purpose of preserving your investment clean and pure.

Dow Jones created an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

Mutual funds are companies that buy and sell stocks and bonds. Apply the same criteria on them and select mutual funds that do not deal with stocks of prohibited companies, i.e., category 1 and that you can estimate their problematic area to be less than 15% and make your charitable contribution a bit on the safest side.....

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

Question:

From: Islam on Line

Sent: Tuesday, January 06, 2004 2:44 AM

To: monzer@kahf.net

Subject: Investing on Stocks

Name of Questioner                      Gender Male                      Age 21-30

Education Graduate                      Date Submitted 12/29/2003

Country of Origin India                      User Ref. No. KRKWUF                      Country of Res. India

Question

Assalamu Alaikum. First of all please accept my heartfelt thanks for the excellent service you are providing. My question is regarding investing in stocks. Is it Halal? Off late I decided to invest in stocks of companies, which do Halal

business, e.g. automobiles, pharmacy, steel, IT companies etc. However before jumping in, I started studying about the stock market, about the companies listed, how it works etc, etc. This insight revealed to me that almost, all companies without exceptions give and take interest in their normal course of business. In fact if the companies have cleared their high-interest debts, they are said to be good, and vice versa. So considering that their business involves give-and-take of interest, is it Halal for Muslims to invest in shares of such companies, and profit from it(either via dividends, or higher resale value, as the stock value appreciates). Please note that as such the core business is Halal. For e.g. I am not talking about investing in companies which produce alcohol for consumption. I know that would be outright Haram. I asked around three esteemed muftis here regarding its validity, and I got conflicting answers in all three cases. One of them said, its Halal, other said its Haram and the third esteemed hazrat said, there are MANY COMPLICATED conditions to comply under which we can invest. But since it is not possible for a common man like me to take care of all these conditions, hence he advised I should better avoid from investing. If the above is Haram, then I have one more related question to you. I am working as a software programmer for a global MNC IT services company(listed on NYSE). My direct job responsibilities are software programming(which is Halal). Now my company has business presence in many countries and our clients(directly or indirectly) include an entire gamut of businesses including banks, insurance companies, etc. etc. Now the moot point here being, since my company pays my salary via its earnings, which comes through all these businesses, which in turn again have interest-based dealings. Also I fathomed that my company itself would be earning interest on its bank-deposits which will show up in its bottom line and hence it will trickle somewhere in my variable pay component which is linked to my-and-company's performance. In such a case, is my service a Halal way of earning. If not, then there is almost no chance(99.99% of businesses today have interest touching them somewhere) for Muslims to be doing Halal service. If yes, then again I see a conflict in two verdicts, i.e. investing in stocks of Halal businesses v/s my service earnings. Also if my service is Halal, and I am given stock options-which forms part of my remuneration - or allowed to purchase stocks at a discount, will that be Halal? Please explain in detail. This particular query has opened up a Pandora's box- full of financial questions related to Halal/Haram rosy in my head, which I will ask one by one in my next queries. Also as I mentioned above, I got conflicting answers from muftis : So what is a Muslim supposed to do in such cases when the rulings are almost contradictory. Take the ruling of least resistance or lenient, (i.e. ruling which suits me) or, play it safe and take the one which is the strictest. Jazakallah Khair. Your brother in Islam.

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From: Monzer Kahf

Sent: Sunday, January 11, 2004 4:55 AM

To: Islam on Line

Subject: RE: Investing in Companies Listed on Stock 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. Mehta

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Please find below the criteria as I wrote them in answering another question.

Please note that capital gains are permissible if the stock is permissible:

The OIC (Organization of Islamic Conference) Fiqh Academy that includes Fiqh Scholars representing the 53 Muslim countries in addition to others experts selected on their scholarly reputation, in several resolutions and recommendations dealt with purchasing stocks. This can be summarized as follows:

- 1 - Stocks of companies whose products are not permitted in Shari'ah are prohibited to own, purchase, sell etc. Examples: interest-based banks and insurance companies, entertainment buz, etc.
- 2 - Stocks of companies that abide by the rules of Shari'ah, such as Islamic banks and Islamic Insurance companies are permissible.
- 3- Stocks of companies whose products are permissible but the company indulges in non-allowed transactions such as getting interest based financing, depositing in banks for interest, making contracts that include prohibited conditions, e.g., selling gold and/or silver and/or currencies in other than spot , or giving donations or selling arms to aggressors such as Israel. Also companies that produce permissible products but also produce non permissible products as a minor line of production, and this category 3 includes most companies in the world such as Microsoft and IBM. All these stocks are not permissible, in principle according to the Fiqh Academy. And this is a decision that actually represents a majority.

A group of respected scholars disagrees and consider this resolution too Idealistic to a degree that creates hardship for Muslims all over. This group suggests that stocks of such companies (category 3) may be permissible within a few conditions that are mainly:

- a - N more than 15%of the company's net income comes prom interest and other prohibited transactions
- b - Borrowing / equity ratio must not exceed 33%
- c - Companies of category 1 must be avoided totally
- d -Companies must not be a producer of aggressive and/or harmful products such as military industries and environment violating industries
- e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends)

THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure.

Dow Jones crated an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

Mutual funds are companies that buy and sell stocks and bonds. Apply the same criteria on them and select mutual funds that do not deal with stocks of prohibited companies, i.e., category 1 and that you can estimate their problematic area to be less than 15% and make your charitable contribution a bit on the safest side.....

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

Question:

From: Islam on Line  
Sent: Tuesday, January 06, 2004 2:43 AM  
To: monzer@kahf.net  
Subject: Investing in Companies Listed on Stock Exchange  
Name of Questioner MEHTAB      Gender Male      Age 31-45  
Education Post Graduate      Date Submitted 12/29/2003  
Country of Origin Pakistan      User Ref. No. KFG1YR      Country of Res. Pakistan  
Question

Assalam o Alaikum Dear Sir, Is it permissible to invest in Companies listed on Stock Exchange. Are capital gains obtained from sale of shares Halal. In case the overall profit of the company includes some interest income, how can we deal with that. And is the concept of limited liability (over which the companies are established today ) Islamic.

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From: Monzer Kahf  
Sent: Sunday, January 11, 2004 4:53 AM  
To: Islam on Line  
Subject: RE: Shares in a Football Club

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. Salem

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Please find below the criteria as I wrote them in answering another question. I need the full balance sheet and the consolidated but detailed profit and loss account to give you an exact answer on a specific stock:

The OIC (Organization of Islamic Conference) Fiqh Academy that includes Fiqh Scholars representing the 53 Muslim countries in addition to others experts selected on their scholarly reputation, in several resolutions and recommendations dealt with purchasing stocks. This can be summarized as follows:

1 - Stocks of companies whose products are not permitted in Shari'ah are prohibited to own, purchase, sell etc. Examples: interest-based banks and insurance companies, entertainment buz, etc.

2 - Stocks of companies that abide by the rules of Shari'ah, such as Islamic banks and Islamic Insurance companies are permissible.

3- Stocks of companies whose products are permissible but the company indulges in non-allowed transactions such as getting interest based financing, depositing in banks for interest, making contracts that include prohibited conditions, e.g., selling gold and/or silver and/or currencies in other than spot , or giving donations or selling arms to aggressors such as Israel. Also companies that produce permissible products but also produce non permissible products as a minor line of production, and this category 3 includes most companies in the world such as Microsoft and IBM. All these stocks are not permissible, in principle according to the Fiqh Academy. And this is a decision that actually represents a majority.

A group of respected scholars disagrees and consider this resolution too Idealistic to a degree that creates hardship for Muslims all over. This group suggests that stocks of such companies (category 3) may be permissible within a few conditions that are mainly:

a - N more than 15%of the company's net income comes prom interest and other prohibited transactions

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

d -Companies must not be a producer of aggressive and/or harmful products such as military industries and environment violating industries

e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends)

THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure.

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

Question:

From: Islam on Line  
Sent: Tuesday, January 06, 2004 2:41 AM  
To: monzer@kahf.net  
Subject: Shares in a Football Club  
Name of Questioner Salem      Gender Male      Age 31-45  
Education Post Graduate      Date Submitted 12/29/2003  
Country of Origin Syria      User Ref. No. B1J7B5      Country of Res. U K  
Question

Assalamu alaykum brother/sister in Islam: I have bought shares in a football club in UK three years ago. The main activity of the club is Halal as their main income comes from selling tickets to people, TV broadcasting, advertisement and sponsorship, etc. Each year they give shareholders dividend based on their annual profit. For example the dividend was 1 penny per share three years ago, then increased to 2 pennies per share last year and to 3 pennies this year. I would like to know if these shares and their profits are Halal according to Shari'ah law especially that I do not know to analyze the financial club details. Please find below the clubs main financial information for the last year as this could help you in your fatwa: 1-Total interest bearing debt is £25508811 2-Total assets are £62845182 3-Total accounts receivable £2485161 4-Cash £5278028 5-Total impure income is nil. 6-Total revenues £48875318 Jazakum Allah Khairan

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From: Monzer Kahf  
Sent: Saturday, January 10, 2004 7:53 AM  
To: Housam  
Subject: RE: stocks

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. Husam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- the minority's opinion is not part of the OIC Fiqh Academy's resolution. The resolutions of are usually taken by consensus and they do not represent the Ijma' of the Ummah's Ulama'. They are strong because they came as a result of collective Ijtihad. The resolutions sometimes come is a compromising language in order to create consensus. This is one of them. It says "in principle" in Arabic "al Asl" Then people interprets it in different ways: either "this is in principle and there are details" or "this is the only and final principle" You must recognize how compromises are languaged!

The dissent of this minority was formulated after the resolution but it was apparent during it too! I don't know the views of Zarka and Qaradawi, both were not present in the meeting and obviously that does not reduce the importance of their opinions (I was in it like many others who are students of both of them). The two main figures in this dissent are Taqi Uthmani of Pakistan and Abd al Sattar Abu Ghuddah from Syria, Both are members of the Academy. There was also an opinion from the Islamic Fiqh Academy of India which is an informal body of Shari'ah Scholars in India (some of them are highly respected). I think the minority' opinion is realistic although we may not agree on the criteria the group that advises Dow Jones Islamic Market Index presented to the Dow Jones, it becomes a matter of personal judgment to determine what can be obliterated and the group itself is clear that its ruling is an exception because we are dealing with exceptional situation. Certainly it is much better to invest either directly in permissible projects or in stocks of the first category only (the completely permissible like Islamic banks).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Housam

Sent: Friday, January 09, 2004 9:56 AM

To: monzer@kahf.com

Subject: stocks

dear brother

I have read some of your answers regarding the permissibility of investing in stocks. you have quoted that a minority of scholars have approved dealing with



stocks that deals with Halal business but involved in some Haram transaction according to a definite criteria. Was this opinion part of the OIC resolution about dealing in stocks or it did come later after the resolution or was it discussed during the session that led to the resolution.

Is it considered Haram to go against the resolution of the OIC regarding dealing with this type of stocks, as this resolution does represent a kind of 'IJMA'AH".

also can you mention some of the names of these scholars that represent the minority and do you have the opinion of DR. QARADAWI AND DR. ZARKA on dealing with stocks especially in the USA.

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From: Monzer Kahf  
Sent: Friday, January 02, 2004 7:08 AM  
To: Wael  
Subject: RE: Questions regarding stocks

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. Wael

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- for the purification factor I think, in many companies, interest paid may be more relevant than interest earned. Paid interest affects capital growth (and consequently gains) because it tells about the amount of borrowing of the company. You may take as a better criterion the ratio of leverage (borrowing/equity) and put aside for charity a percentage of the capital gain that is equal to the percentage of leverage .

2- I agree with you that boycotting the products is very important but it is also important that there must be a reduction in the flow of capital from the Muslim world to the countries that are unjustifiably and militantly aggressive toward the Muslim Ummah, including the USA under the policies of its current administration. However, the role of Muslims who live in the these Countries must be different because we are part of the economies of these countries and any boycott, by us must not negatively affect the Muslim communities themselves, not even by restricting their businesses. What we may avoid is these companies that are outrageously in support of the American militarism including the stocks of companies in the military industry. In fact all peace loving people, American, Canadian and otherwise try always to avoid these companies in their investment as it is apparent in the socially conscious funds.

Wa Allahu A'lam

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

Question:

From: Wael  
Sent: Thursday, January 01, 2004 12:24 AM  
To: monzer@kahf.com  
Subject: Questions regarding stocks

Assalam Alaykum Dr. Monzer,  
I sent you an email before thanking you on the great deal of knowledge you provided in your web site , especially with regard to the stock market dealings. Now, after I read your Q&A s, I have a Q of my own that I couldn't find an answer for in your Fatwa page .  
I hope you have time to answer me, if not please don't bother, I know you should be busy with your research etc.

The Questions is :

1- How can I purify the proceeds that come from selling stocks, I am talking here about Capital gain/loss.

Usually in my experience , the interest income of a company is usually minimal, but I couldn't figure out how to deal with the debt in the company's Balance sheet. Let's say the company has Debt/Equity ratio of 25% , and 0.5-1% in interest income,

My thinking is that I bought the stock with the 25% debt and sold it really quickly with the 25% debt intact, so I used to remove 5% of the profit in case there's any, to compensate for any impure money I don't know about in the profit.

Is this correct?

2-Now I am Muslim and live in Canada, I was wondering about dealing US registered companies , basically I am talking about two distinct types:

1- US registered companies, which is the vast majority of companies listed their,

2- Canadian/non US companies, but they do business in the US, sometime they have subsidiaries there, property etc.

what about these two types , in light of what's happening now, politically.

The reason I am asking is I have some reasoning about it and want you to correct me if I am wrong:

1 - Most Canadian companies the suits me have dealing with the Americans.

2- when I excluded the us companies , I found it hard to find foreign companies traded in the US that is more closer to the Islamic eligibility criteria, so I had to chose a handful of companies that satisfy the rules but in most cases

not as close as some of the American firms would have been. for instance if I screen for companies with 0 debt I have a better chance getting quite a number of them in the us than in the Candian/foriegn market, this way I can further screen those for the other rules.

3 - If a US or Canadian companies that deal with the US don't pay them taxes, and satisfy the Islamic rules, is that makes it permissible? .  
you know some companies don't pay taxes because they are in the red,.

4- with regard to boycotting US related stuff, I got the idea that a stock in a US firm is not like a US product, because buying a stock of a company don't add to that company's bottom line, unlike its actual product. This of course as long as the stock is not sold as a public offering to raise funds. what you think about this reasoning, I am just brain storming here. And if I chose companies that don't pay the US taxes due to loss or exempt then.

5- its strange that a company is registered in one company and do most of their business in another, and with everything connected now that can I tell whether it's Halal or Haram.

I think I didn't represent my questions in the best way possible , it might even have been confusing but hopefully with your great experience you will understand where I am coming form..

Again Thank u in advance and if you are willing to answer me and need any clarification just let me know, Jazak Allah Khairan  
Wael

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From: Monzer Kahf  
Sent: Tuesday, November 18, 2003 6:13 AM  
To: Islam on Line  
Subject: RE: Speculating in Stocks

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 Sr. Fathia

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

What do you mean by the word "speculation on stock"? Is it bidding with other people whether the price of a given stock will rise or fall? This is Forbidden because it is a form of gambling.

If you mean buying a stock, then watching the movement of its price and once you find a profitable price selling it, this is permissible if the activities of the company to which the stock belongs are permissible and if the contract is correct. Stocks bought through organized markets (stock exchanges) are normally received immediately, on behalf of the buyer, by the broker, as being the buyer's Agent. Hence there is no problem of possession (delivery) because they are possessed (received) by the Agent. Hence, selling them in the next moment becomes permissible because you own them and you received them too. Stocks of companies whose activities are prohibited are also prohibited.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Tuesday, November 18, 2003 3:45 AM

To: monzer@kahf.net

Subject: Speculating in Stocks

Name of Questioner fathia      Gender Female      Age 31-45

Education High School      Date Submitted 11/15/2003

Country of Origin Tunisia      User Ref. No. 4K8STI      Country of Res. Tunisia

Question

Salamu alaykum wa Rahmatu Allah wa Barakatuh. Dear brother I wanna know if speculating in stocks is Haram in Islam and if the benefit we can make on it is considered as Riba. Jazakum Allah Khair wa Salamu alaykum

From: Monzer Kahf

Sent: Tuesday, October 28, 2003 6:54 AM

To: Islam on Line

Subject: RE: stock 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.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Buying a stock is buying a share (part) of a company that makes you a partner owner of the company. This means that once you buy a stock of a company you become partially responsible for the action/decision of the company's manage

meant although you intended to trade the stock with no participation in meeting of share holders keeping in mind that attendance of these manage real meetings is your right.

Stocks of companies whose main line of business is permissible and are committed not to violate Shari'ah in manage real decisions are certainly permissible to buy, own/hold and sell.

Stocks of companies whose main line of business is not permissible such as conventional banks, liquor breweries, casinos and the like are not permissible to buy, own or sell.

Stocks of companies that are permissible but the management, obviously in the name and on behalf of shareholders, makes decisions in violation of Shari'ah such as borrowing and depositing on the basis of interest, are in principle not permitted because Muslims are not permitted to make such decisions in their business.

Evidently, the third category is the largest in the stock markets anywhere in the world and the prohibition of trading their stocks pauses great hardship on small investors who do not know how to invest directly in trade, industry and agriculture. Hardship calls for relaxation of prohibition. This is a known Shari'ah rule. Some Scholars (actually a minority) call for certain relaxation within certain limits that in brief attempt to look for companies with minimum involvement in prohibited transactions such companies who deal in interest but only a little. According to these criteria the third category of companies is divided in two segments: permissible and non permissible depending on the extent of their involvement in prohibited transactions. You can find these criteria on the Web of Dow Jones Islamic market index.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Monday, October 27, 2003 11:47 PM

To: monzer@kahf.net

Subject: The Threshold Between Zakah and non-Zakah

Name of Questioner M

Gender

Age

Education

Date Submitted 10/21/2003

Country of Origin

User Ref. No. F88FBB

Country of Res.

Question

Is it allowed to invest in stock business?

Notes

Dear scholars, As-Salamu `alaykum. I would truly appreciate it if you please elucidate what Islam says about investment in stock business. Would you please e-mail me your opinion rather than posting on line? Jazakum Allah Khairan.

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From: Monzer Kahf  
Sent: Thursday, August 28, 2003 7:44 AM  
To: Islam on Line  
Subject: RE: Trading in Shares

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. Ghufraan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I agree with you that there is excessive heat in the stock market. But you should realize that if a thing is permitted to own it must be permitted to sell and buy. You can't make the distinction you made on intention basis. How about day traders in the sheep markets that used to be held in every village at the time of the Prophet, pbuh? We have a report that a Companion was asked by the prophet to buy a sheep and he went to the market, made some day trading and came back to the Prophet, pbuh, with a sheep and the money back. The Prophet did not prevent him! In fact he prayed for him to become very prosperous, but told him next time does not trade with other people's money without permission! The prophet accepted the sheep and the money also.

For what stocks you may trade please refer to other answers I gave in the Fatwa bank.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Wednesday, August 27, 2003 8:24 AM

To: Monzer Kahf

Subject: Trading in Shares

Name of Questioner Ghufraan

Gender Male

Age

Education

Date Submitted 8/20/2003

Country of Origin

User Ref. No. 7BCN2Q

Country of Res.

Question

Assalamu alaykum Does dealing in stocks i.e. buying & selling shares of various companies not with the intention of possessing partly the ownership of the companies but rather with the sole purpose of earning money by trading in shares allowed? I am asking this question because I feel that trading in shares is a kind of legalized gambling or lottery.

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From: Monzer Kahf

Sent: Wednesday, July 30, 2003 10:51 AM

To: Islam on Line

Subject: RE: Investment in the Stock Market

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. S-F

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- Buying a share in a company makes you a partner (co-owner) in it. Consequently the actions and decisions of the management are done in your name and on your behalf. If the company deals only in permissible transactions, being part of it is certainly permissible but if the company's main line of business is prohibited, such as casinos, conventional banks and companies that produce weapons used by the American present government to murder innocent passers-by in Iraq and Afghanistan, certainly being a partner in it is prohibited.

What remains is the majority of companies whose main line of business is permissible but either it sells to users of mass destruction weapons such as the large computer soft and hard ware companies that are allied with the military industries, or companies that make sometimes prohibited transactions such as borrowing on interest from banks. The principle is that if the involvement of a company with Prohibited transaction is little it may be tolerated and consequently buying its shares becomes permissible. What is "little" is a matter of argument and discussion. A few scholars put certain criteria to determine this "little" and in cooperation with the Dow Jones Company came up with certain listing and indexes of companies whose shares are permissible to buy, own and sell by Muslims. Please consult the Dow Jones Website for the Islamic Market Dow Jones indexes for this listing

2- Bonds represent interest-based loans and their return in Riba that is forbidden in the Qur'an and Sunnah.

3- If there are no Islamic banks, it is permissible to deposit in commercial banks for all those Muslims for whom depositing provides convenience for their transaction and safe keeping of their money. Any interest accrued must not be left to the Bank but rather given to Muslim charities. This interest is not yours because you do not own money resulting from a Riba-based contract. And you do not leave it to the bank because you deserved it according to the law of the land and the bank will only make more Riba-based activity with it (you are adding to its resources and profits) and the bankers then would be making fool out of you! Take it and give it to Muslim charity so that you keep your own money clean of being tinted with Riba. This is not considered Sadaqah but you will be rewarded - God Willing- for preserving your money clean.

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

Question

From: Islam on Line  
Sent: Tuesday, July 29, 2003 3:10 AM  
To: Monzer Kahf  
Subject: Investment in the Stock Market  
Name of Questioner S-F      Gender Male      Age 21-30  
Education Post Graduate      Date Submitted 7/21/2003  
Country of Origin Singapore      User Ref. No. 6BIJXQ      Country of Res.

Question

AsSalaamu 'Alaikum I would like to ask questions pertaining to investments. Are Muslims allowed to invest in the stock market if the investment does not include purchasing shares from companies that deal with gambling or alcohol? How about investments in bonds? Lastly, is it permissible for Muslims to deposit money in a commercial bank (non-Islamic banks) if we instruct the bank not to give interest for that particular savings account? Thank you very much for your kind advice.

-----

From: Monzer Kahf  
Sent: Wednesday, July 30, 2003 6:57 AM  
To: Islam on Line  
Subject: RE: Buying & Selling Shares

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. Bilal

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Buying a share in a company makes you a partner (co-owner) in it. Consequently the actions and decisions of the management are done in your name and on your behalf. If the company deals only in permissible transactions, being part of it is certainly permissible but if the company's main line of business is prohibited, such as casinos, conventional banks and companies that produce weapons used by the American present government to murder innocent passers-by in Iraq and Afghanistan, certainly being a partner in it is prohibited.

What remains is the majority of companies whose main line of business is permissible but either it sells to users of mass destruction weapons such as the large computer soft and hard ware companies that are allied with the military industries, or companies that make sometimes prohibited transactions such as borrowing on interest from banks. The principle is that if the involvement of a company with Prohibited transaction is little it may be tolerated and consequently buying its shares becomes permissible. What is "little" is a matter of argument and discussion. A few scholars put certain criteria to determine this "little" and in cooperation with the Dow Jones Company came up with certain listing and indexes of companies whose shares are permissible to buy, own and sell by Muslims. Please consult the Dow Jones Website for the Islamic Market Dow Jones indexes for this listing

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Monday, July 28, 2003 12:21 AM

To: Monzer Kahf

Subject: Buying & Selling Shares

Name of Questioner Bilal      Gender Male      Age 15-20

Education Graduate      Date Submitted 7/21/2003

Country of Origin Palestine      User Ref. No. XGQY3C      Country of Res. Germany

Question

Salam Alaikum. My Questions is, if buying and selling shares is unlawful or not?  
I want to buy shares and hope that I can make money with it.

-----

From: Monzer Kahf  
Sent: Monday, April 14, 2003 8:51 AM  
To: Islam on Line  
Subject: RE: Dealing with Banks and Buying Shares and Stocks

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 Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.  
Sorry Sister, I forgot to answer the question about stocks.

Buying a stock is like becoming a partner in the ownership of the company. Muslims are not permitted to deal with interest or other prohibited items and contracts. Consequently, stocks of companies whose main business is forbidden are also forbidden to buy, own and trade. The example: stocks of conventional banks, Casinos, liquor breweries, etc.

Stocks of companies that do business within the permitted contracts and items are certainly permitted to buy, own and trade.

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

Question:

From: Islam on Line  
Sent: Monday, April 14, 2003 6:45 AM  
To: Monzer Kahf  
Subject: Dealing with Banks and Buying Shares and Stocks  
Name of Questioner Mona      Gender Female      Age 31-45  
Education Graduate      Date Submitted 4/12/2003  
Country of Origin Egypt      User Ref. No. IVWSXF      Country of Res. Canada

Question

Al Salamu alaykum, I'd like to know if dealing with the bank is Haram. In Canada, dealing with banks is in all aspects of life. Having a retirement saving plan, taking a loan to pay for a car or to start a business. Paying a mortgage to buy a house, using credit card to buy every day's needs. All these dealings are associated with interest. If dealing in interest is Haram, what's the option? I can't just put the money I earn at home and worry that it'll be stolen. No one carries money in his/her pocket or keeps it at home. I asked the Imam in the mosque & he

gave me a vague answer. Please I need to have a practical solution for this matter. I believe that bank system here is much better than in my home country in Egypt. If a man wants to get married & buy a house he has to work all his life to manage to do that. Some people can't even do it. While here anyone who wants to do the same thing can go & do it tomorrow. Bank system facilitates life here in so many ways. You can start a business of course if you satisfy certain criteria as having a good credit history among other things. Also I'd like to know if buying shares, bonds or stocks is Halal. Jazakoum Allah

Notes

I know that in Egypt there are so many people who can't find jobs, can't start business, can't get married & can't buy every day's needs. It doesn't really matter how educated they are. Obviously that leads to so many social problems as : adultery, zawag orfy (which is a major problem now in Egypt), stealing & killing. Now I'm not saying we don't have this in Canada but at least, if you don't have enough money, you're not doomed for the rest of your life to stay so. You can take a loan & start a business or take a loan and be a partner in a company or buy stocks or shares. I appreciate your prompt reply. Thank you

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### **Participation in 401K**

From: Monzer Kahf  
Sent: Monday, December 15, 2003 9:07 PM  
To: Hossam  
Subject: RE: question on participation in 401K

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. Hossam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

401K is a fringe benefit of employment and if employment is permissible it should be in principle permissible too. What remain are the investments you choose in the 401K. The rule is that Muslims are forbidden to be partners in any prohibited activity. The exception is that if the prohibited activity is incidental/trivial within a set of activities in which the majority is permissible it may be tolerated provided that one estimate the percentage of the return that arises from what is prohibited and give it away to Muslim charity. Under this exception the matter become the definition of triviality. Some scholars came with

a set of criteria that seems to me reasonable. They are briefly: interest and other prohibited income should not exceed 10%, cash plus receivables should not exceed 45% of total assets, cash plus receivables plus deposits with banks should not exceed 33% of capitalization value, etc.

For funds in 401K one need to choose those funds that are the farthest from banks, tobacco, liquor, entertainment, hotels, insurance companies etc. and estimate the percentage of the gains that comes from Haram and give it away to Muslim charity.

There are several mistakes in the Website and I think I'm going to close it.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Hossam

Sent: Monday, December 15, 2003 8:56 AM

To: monzer@kahf.com

Subject: question on 401K

Salamu Alaikum

I am unable to locate information on the permissibility of 401K retirement plans in the US. What is the rule around that. Please let me know may Allah reward you.

also on your web site, this section titled : "shares and stocks" in the fatwa section is a broken link. please advise.

thanks

Hossam Gabri, Boston, MA

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From: Monzer Kahf

Sent: Monday, August 18, 2003 7:14 AM

To: Islam on Line

Subject: RE: Participation in the Company's Retirement Plan (401K)

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.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

What you mentioned about the Fiqhi opinions that you are aware of regarding stocks in the mutual funds is correct and you seem to be putting the matter exactly in its proper perspective.

Certainly, there is no clear agreed upon opinion regarding investment (= buying, holding and selling) in stocks of companies that deals sometimes in forbidden transactions. Here are a few points that help in drawing the complete picture:

1.

It is agreed upon that investment in companies whose main line of business is forbidden such as interest-based banks, casinos etc. is not permissible (the Resolution of the OIC Fiqh Academy No. 63 (1/7) of 1412 (1992).

2.

Also no dispute about investing in stocks of companies that limit their transaction to what is permissible in Shari'ah such as Islamic banks provided that the majority of their net worth is used in physical assets and abstract assets and only minority is in form in cash and/or debt. (the same resolution, the condition comes from another Resolution, No. 30 (5/4) of 1408 (1988).

3.

In the same resolution it is stated that "in principle, it is forbidden to invest in companies whose main line of business is permissible but its management sometimes deal in forbidden transaction such as Riba (=interest).

4.

the opinion in No. 3 above is challenged by a small minority on the ground that it is too restrictive to the extent that creates a lot of inconvenience/hardship for small investor like you and me. The view of this small minority is that we have to make certain criteria that allow Muslim individuals to invest in stock within limits that have similarities in Shari'ah.

5.

This dissent gave room for the creation of several 'Islamic' mutual funds and 'Islamic' Dow Jones indexes. Of course, people may differ on these criteria because the argument of whether 5% or 10% Haram is tolerable is certainly non conclusive what is conclusive is 0% only. Some argue for one third , some for 15% and others for only 5%. Of course, the less Haram the better! And all agree that a 'cleaning' process by giving to Muslim charities, not as Sadaqah but as money you do not own and you either do not know its owner or it is not advisable to return it to its owner.

6.

What applies to stocks also applies to any pool of stocks that is managed by non Muslims (a Muslim mutual fund must not accept investing in any Haram stock such as casinos or conventional banks) such as the funds in your 401K. The same criteria apply in selecting what Mutual fund you go into because a unit in mutual fund in like a stock in a company. Hence you may have to estimate not only the small percentage the management put in bonds and financial sector but also the percentage of the Haram in the companies they invest in their stocks

when you determine the percentage of giving away for charity to preserve your own money "clean."

7.

References on this subject you find in the papers on whose basis the resolution No 63 above was taken. these are published in volume seven of the journal of the Fiqh Academy, all in Arabic).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Saturday, August 16, 2003 5:39 AM

To: Monzer Kahf

Subject: Participation in the Company's Retirement Plan (401K)

Name of Questioner Idris      Gender Male      Age 21-30

Education Post Graduate      Date Submitted 8/5/2003

Country of Origin Palestine      User Ref. No. BZI2EF      Country of Res.

Question

I would like to participate in my company's retirement plan (called 401k) because it is a way to save long-term, and to reduce my taxes short term. The way it works is by me contributing a percentage of my salary (voluntarily), and the company also making a contribution. The money is invested in mutual funds that are traded in the stock market. This is a long term investment, and because the money is taken out of my salary, I pay fewer taxes. I have to select from a limited number of mutual funds. I have researched the funds and concluded that all of them either involve investment in the financial sector, or are based on guaranteed-return bonds. I identified one of them as the "most" Halal (the most risky too), invests in stocks, but about 4-5% of its investments are in financial markets. I am aware that an argument can be made that given the harm (darar) I incur from taxes, I can exercise the 401 k option with least Haram income, and later when I actually receive return from the plan, can take care to remove and dispense (to charity or public benefit) an amount that accounts for an estimate of the illegal sources of income. I am still concerned because I cannot get my hands on a clear legal opinion on this issue. Also, I am concerned about having stocks in companies that, although their main line of business is acceptable, invariably deal with loads and Riba (and I am not sure this is at all avoidable in the US). I'd appreciate if Islam-Online's scholars can offer an opinion on this matter, and provide a reference or two that are helpful readings on the matter.

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## Savings Bonds and Other Bonds

From: Monzer Kahf  
Sent: Thursday, December 11, 2003 7:12 AM  
To: housam  
Subject: RE: savings bonds

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. Housam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1 - To begin with buying these bonds and holding them is Haram in Shari'ah. These are interest-based loans to the government, no more no less. What is prohibited in interest is not its fixity but rather its being an increment in a loan contract. Riba you know is one of the worst sins in Shari'ah. The indexation of the return in these loans is a different issue that is itself controversial because of its proximity to interest but under all view indexation is not the reason for prohibition in these loans; the reason is being an increment in a loan. Financing government projects can be done in accordance with the Shari'ah on the basis of Ijarah bonds or Mudarabah bonds.

2 - Any interest obtained from others, government, companies or individuals is NOT EARNED from a Shari'ah point of view. You must make Istighfar, quit this kind of investment and give away ALL its return to Muslim charity because it is not yours. As you do not own it there is no Zakah on it!

3 - Zakah on investment in permissible stocks and shares is on the net asset value on the day when Zakah is due. There is nothing in the Shari'ah like this 10% on net income of stocks. Stocks are not agricultural products, even in agriculture the 10 percent is on the entire product not on the net. Such an analogy is far fetched and unsound. Stocks are tradable assets and whatever dividends you may get is normally added to your cash flow and, if not spent, included into your end of the year balance that is subject to Zakah at 2.5%. The net asset value of the stocks is also subject to 2.5% at the end of the year like any other tradable assets.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: housam

Sent: Wednesday, December 10, 2003 8:12 PM

To: monzer@kahf.com

Subject: savings bonds

I would like your opinion about investing the US saving bonds type ( I ) from Shari'ah standpoint

1- the money form these bonds is used for supporting the government operation including ,may be building roads bridges supplying all type of public services--- you have stated in some of what I read for you that participating in such activity is Halal

2- the return on theses funds is paid from the government treasury department, mostly from taxes which the government gets in return for these services

3- the government only promises protection against inflation for the money in this type of funds

4- the rate of return is variable and determined every 6 months by indexing this return to the inflation index that is determined carefully on specific data.

5- so basically this rate might go down to 0%. When I started investing it these Bonds the rate was 7.5% and now it is 2.16% for the same bonds

6- so this investment helps stabilize the buying power for the money and at the same time helps the general public

my other question

do I pay Zakah of the profit only at 10% or on the profit and principle at 2.5%,or this is considered a loan to the government that you pay Zakah on when you cash it as some scholars allow (malki mazhab)

thank you for your help, if you need more information please let me know.

Assalamu alaykum wa Rahmatullahi wa Barakatuh

Housam

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### **Currency Trading, Commodity Futures, Options, CFD and Forex**

From: Monzer Kahf

Sent: Sunday, December 07, 2003 7:25 AM

To: Hazem

Subject: RE: Fatwa for FOREX 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. Hazem

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

This trade is not permissible in Shari'ah to begin with and all your other questions become subsidiary and irrelevant! When we deal with currencies (currency for another currency) there is a basic requirement that both currencies **MUST BE HANDED OVER IN FULL AT THE TIME OF THE CONTRACT**. The Prophet, pbuh, said it "Ha'a bi Ha'a" and in another version "Yadan bi Yad." Any time differential or any partial payment is defined in Shari'ah as RIBA. You know this is the kind that is called Riba al Buyu'. According to Shari'ah, currencies cannot be traded on margin (actually a margin is not even a partial payment, it is a collateral put in escrow for the implementation of the transaction) nor on futures. Any income from it is RIBA (A Riba that is prohibited in the Correct Sayings in contrast to the Riba of loans or debts that is prohibited in the Qur'an and called very often in Fiqh Riba al Jahiliyyah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Hazem

Sent: Saturday, December 06, 2003 9:40 AM

To: monzer@kahf.com

Subject: Fatwa for FOREX Trading

As-Salamu Alaikum,

I am going to trade in the FOREX through one of the trading brokers like MG Financial Group or Saxo Bank. The trading is done as follows:

- o I send to them an amount let's say 10,000 USD
- o They open an account for me and I start trading using this amount of money.
- o I trade by buying or selling a currency pair by selecting one of the pairs (For Example: EURUSD) and choose buy or sell (For Example: Buy) with an amount equivalent to the amount of unit I selected. (If I buy one unit then I am trading with an amount of 100,000 USD) then the order is placed and the trade is now open.
- o While the trade is open, the broker is blocking an amount of money equivalent to 1% of the money we are trading with (I.e. In case, I buy 1 unit, then I am trading with 100,000 USD then 1000 USD (used margin) of my account balance is blocked for this trade (I.E. I have 9000 USD (Usable Margin) in my account for this trade)
- o While the trade is open, the usable margin (9000 in our example) will be increased or decreased depending on the value of the pair in the market. (If I buy (open trade) EURUSD with 1.2000 and it becomes in the market 1.2100, then the usable margin will be increased by 1000 USD and so on)

- o While the trade is open, if the trade remains open beyond 3:00 PM New Work time, rollover charges is deducted from my account.
- o I will close the open trade by doing a buy or sell (opposite to the initial action of the trade) sell if I buy/Ask and buy if I sell/bid initially. Depending on the difference between the two actions (Buy and Sell), I got my profit or loss.
- o As far as I know, no interest rates are applied to my account
- o Also, the broker takes no commission per trade

Now, here are our questions:

- 1- What is the Shari'ah position in this kind of trading?
- 2- If we sell/bid a pair first and then we buy, is it Halal if we got a profit? As we sell something we do not own yet and then we buy after the fair value gets lower?
- 3- We have an option to trade with only 0.1 unit which means the amount we trade with is equivalent to actual amount we have in our account (10,000 USD), so if trading with a whole one unit (i.e. 100,000 USD) is Haram because the amount we are trading is 10 times our actual account balance, is 0.1 unit trading is Halal?
- 4- Do you know (recommend) if there are any FOREX brokers who deal with Muslims according to Shari'ah?
- 5- Do you know any Islamic references or books about this topic?

Jazakum Allah Kol Khair

Your brother in Islam,

Hazem

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From: Monzer Kahf  
 Sent: Sunday, July 27, 2003 7:00 AM  
 To: Islam on Line  
 Subject: RE: Paper-trading in the futures and options

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. Javed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

First, I really do not know what you mean by paper trading in contrast to real money! I know there is money, either cash in your pocket or demand deposits in your checking account (or money market account) but I am not aware of "real" and probably fictitious kinds of money! Trading in the commodities and options requires payment of either a margin in case of commodities or price in case of options. these will be deducted from your "real" money account with the brokerage firm.

The Fiqh Academy of the OIC (Organization of Islamic Conference) studies both issues in 1412 H and issued its resolution prohibiting trading in commodity futures and in options. Trading in commodities in Shari'ah is required to be real with intention to give and receive physical delivery of the merchandises sold/purchased. This implies that whenever such delivery is not intended and the intention is only for selling what you bought on paper without actual delivery, the transaction is thus invalid. Future trading is normally of this kind. Spot trading, when you actually receive receipts of delivery is permissible provided that sale of what you bought is done after actual possession of delivery receipts.

Options are considered prohibited because "options represent financial rights that are not liable to trading in accordance with the Shari'ah" as the Academy said in its resolution. It means that options are only a fabrication of the law not a real thing, something that is similar to indexes that are a fabrication of mathematics also not real and also prohibited to trade.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Islam on Line

Sent: Sunday, July 27, 2003 4:27 AM

To: Monzer Kahf

Subject: Paper-trading in the futures and options

Name of Questioner Javed      Gender Male      Age 31-45

Education Post Graduate      Date Submitted 7/20/2003

Country of Origin U S      User Ref. No. XNS4SC      Country of Res. U S

Question

Assalam-Alaikum. For the past several months, I have been \*paper-trading in the futures (commodities) and options markets. I wanted to know if investments in futures and options are acceptable in Islam. I think it is acceptable simply because you are investing in a tangible asset such as corn, cattle, coffee, etc. As a Muslim, I certainly do not invest in pork products, or even look at their charts.

Furthermore, I do not take the advice of others. I look at the charts and then make my own interpretation as to how to invest, i.e., whether I feel the commodity will increase or decrease over a certain period of time. Thank you and may ALLAH (swt) bless you. Sincerely, Javed W.

Notes

\*-paper trading is strictly practice before using real money. I have not yet used real money in these investments.

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From: Monzer Kahf  
Sent: Saturday, July 19, 2003 7:29 AM  
To: Islam on Line  
Subject: RE: Options, Commodity And Currency Market

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./Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There aren't many differences about these issues between Shari'ah experts, but there are many unspecialized persons who dare giving opinions and posing them as Shari'ah opinions.

The OIC Fiqh Academy in a resolution in 1412H rules that options are forbidden because options are financial rights that are not tradable from Shari'ah point of view. They are merely law created rights and a fabrication of the organized market, in this way they are similar to trading indexes!

In the same resolution, the OIC Fiqh Academy also ruled that spot commodity trading is permissible since both sellers and buyers of commodity contracts have unequivocal right to delivery within three days (which is still considered a spot period in Shari'ah as long as it is necessitated by logistic arrangement of delivery). It also ruled that future commodities, as they are practices in the commodity markets today, are not permissible because delaying both price and delivery is not permissible in Shari'ah.

For currencies there is a well known unanimous ruling in Shari'ah that trading currencies spot is permissible and all future s in currencies are forbidden, being Riba-based. This is on the basis of a well known correct Saying of the Prophet, pbuh, that trading currencies (at his time was only gold and silver) must be with immediate/complete delivery of both.

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 2:35 AM  
To: Monzer Kahf

Subject: Options, Commodity And Currency Market

Name of Questioner

Gender

Age

Education

Date Submitted 7/8/2003

Country of Origin

User Ref. No. N2WZCV

Country of Res.

Question

what is the Islamic ruling on the options market, the commodity market in general, and the currency market? and why? and what are the differences in the opinions of the experts? thank you.

-----

From: Monzer Kahf

Sent: Monday, April 28, 2003 6:26 AM

To: Tawfik

Subject: RE: CFD

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. Tawfik

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Yes, Brother Tawfik if the only activity of the company and only source of  
income are from the CFD. NO, if it is only one of its activities.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Tawfik

Sent: Monday, April 28, 2003 3:24 AM

To: monzer@kahf.com

Subject: RE: CFD

Dear Sir

Al Salamu alaykum

Thank you very much for answering my question

IU understands that CFD is forbidden, that lead to the belief that working in  
companies specialized solely in CFD is forbidden as well am I Correct?

Thank you

Tawfik

From: "Monzer Kahf"

To: Tawfik

Subject: RE: CFD

Date: Tue, 22 Apr 2003 11:50:29 -0700

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. Tawfik

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

This CFD is certainly forbidden in Shari'ah. Please allow me tell you that when the OIC Fiqh Academy studies the commodity and stock markets and resolved that future transactions are all not permitted in the Shari'ah, one main argument was that most of these transactions are only undertaken for the purpose of gaining from the price differential. In the CFD the mask is bluntly removed as there is no contract on a commodity that may be (and only in less than 4%) completed to delivery and payment of price.

This CFD is certainly "Min Bab Awla" Haram as compared with future transactions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

From: Tawfik

Sent: Monday, April 21, 2003 4:01 AM

To: mkahf@aol.com

Subject: CFD

Dear Sir

Al Salamu Alaikum

I hope you and you are family are doing well

I want to Ask you about a financial transaction that is taking place in the exchange market, whether it is Halal or not.

A CFD ( Contract for Difference) is instrument - a derivative - that behaves exactly like the price of an individual stock, Currency, Metal or commodity. it is similar to trading stocks on margin but actually, there is no physical transaction taking place.

As an example: other words if you purchase a long contract for buying Euro, you will pay 1000 \$ as a margin and buy 100,000 Euros (CFD) with the spot price of Euro. No actual purchasing of Euro is done as in Spot markets If the Euro goes up

and you sell the contract, you will get your 1000\$ margin + the difference between the selling price and buying price of Euro multiplied by 100,000. the opposite will happen if the price drops & you sell at a loss: you will have back your 1000\$ margin- the difference between the buying and selling price of Euro multiplied by 100,000.

CFD works just like Spot but with one main difference. no actual buying or selling to the named deliverable, Stock shares, currency, metal,..etc. so if I buy a contract, I am trading the difference in the two buying and selling prices (both spots).

like in my example, when I buy a Euro contract, the broker does not actually buy Euro for me from the international Foreign exchange. It is only kept in records as if I had bought Euro at a certain price. if it raises and I sell the contract at a higher price, I get the difference. and if it falls, I pay the difference. but if I request to receive the currency I have bought physically, they will not deliver it since they did not actually buy it.

I hope I made the things a bit clearer.

Is this contract considered as Halal? or Haram

I appreciate your reply

Best regards

Tawfik

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### **Inheriting Banks' Shares**

From: Monzer Kahf

Sent: Saturday, June 21, 2003 6:37 AM

To: Islam on Line

Subject: RE: Are Bank Shares Our Father Left Halal or Haram?

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. Ali

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

These shares entered into the ownership of the heirs on the day your father died. It is not permissible to buy conventional banks' shares and to keep them.

Maintaining them for all this long period was wrong on the part of the adult heirs and the guardians of the minors. You probably did not know may God forgive you and us all.

The rule regarding Riba is laid down in the Qur'an (2: 279) that is you are entitled to your principal and holding Riba-based banks' shares is like dealing in Riba yourself because the bank management deals in the name of the owners of the company.

With that in mind, the heirs are entitled to either the amount paid by your father for these shares or their value on the day of his death, and that much is Halal InShaAllah for them. whatever extra should be given to Muslim charities.

The distribution of the permissible amount of the sale proceeds is as follows: if the deceased did not leave any parents of his own, your mother takes  $12/96$  ( $=1/8$ ), each of the sisters gets  $7/96$  and each of the brothers gets  $14/96$ .

Zakah is due on each person, including minors who own Nisab (# US\$ 1000) every year at the rate of 2.5% repeatedly each lunar year (354 days), the first lunar year begins on the day a person acquires Nisab. and these shares entered in the ownership of each heir on the day of death. each person's entitlement should be added to her/his other Zakatable assets in the calculation of Zakah. However, there is a reasonable convincing opinion that for long term investment only the percentage of the share's value that represents non-fixed assets (i.e., mobile assets that equal for a bank: cash + accounts with other banks + accounts receivables + plus investments and loans - liabilities) is subject to Zakah. This opinion is adopted by the OIC Fiqh Academy and is consistent with the basic rules of Zakah as known in our traditional Fiqh. You certainly may take this opinion and make estimation of such percentage from looking at one of the balance sheets of the bank.

What you do for you deceased father is only to keep praying for him and his forgiveness and to make Sadaqah for him. The Prophet, pbuh, said : Whence a son of Adam dies his deeds come to an end except with regard to three things: a righteous child who makes prayers for him, a permanent charity and a useful knowledge.

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

Question:

From: Islam on Line  
Sent: Friday, June 20, 2003 11:32 PM  
To: Monzer Kahf  
Subject: Are Bank Shares Our Father Left Halal or Haram?  
Name of Questioner ali                      Gender                      Age  
Education                      Date Submitted 6/12/2003



Country of Origin

User Ref. No. ZWXAF5

Country of Res.

Question

As-Salamu `alaykum. Our father died and he left us bank shares which we did not touch for 13 years and recently we sold all the shares and now have it in cash. Now is this money HALAL or HARAM ,if it is Halal how do we distribute it between us ,is there any Zakah on it, and what we shall do for our father may ALLAH forgive him for his sins. We are 5 brothers,2 sisters, and our mother. Thank you for your answer.

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