

# FATAWA MONEY EXCHANGE - - SARF 2006

## Leverage Options in Currencies

**Subject: Leverage Option on My Foreign currency Exchange Account**

From: Mahmoud through Islam online

Sent: Monday, September 04, 2006 1:53 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I am intend to open an account with a foreign currency exchange broker (FOREX broker) to trade with foreign currency. Most of the brokers offer 100 leverage. 100 leverage means that every \$1000 dollar I trade with the broker could loan me interest free short-term \$100,000 to make my trade. The broker makes their profit from the commission and from the spread (the difference between Buy and Sell prices). The broker offer interest free loan to encourage trader trading more. The more trades happen, the more commission and profit the broker gets. Internally, the broker may hedge all leveraged trade (the broker make a short-term loan from other financial institute as well as buy insurance to secure the trades), but I do not exposed to that loan process at all while trading. It is like a car dealer buy a car lot from a car manufacturer to trade with (sell them), but of coarse the car manufacturer loaned the money to build the factory and insured it. So, it is permissible for the car dealer to carry on with his business, knowing that the car manufacturer loaned money with interest. My question is. Is it permissible to have leverage option on my foreigner exchange account as it is interest free loan? Jazakum Allahu Khairan for your constant help

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. Mahmoud,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Your broker did not give the right info! Here it is: Trading in the currency market is a margin trade by definition. It does not require a loan. It a lie by the broker to claim that he gives you a loan! Currency and commodity markets deal an margin that is for \$1000 deposit you can make trades in the amount of 100,000 because the margin in only 1%! But notice that there is a daily adjustment that is: if the price goes up (down) by 0.5% you gain (loose) \$500 and you can withdraw it if you want or you have to replenish it in case of loss to maintain your position. otherwise your position is liquidated immediately to cove the loss! This is done on daily basis.

The problem in Forex is: trading requires to be cash this means spot because forward trading of currencies is clearly forbidden by the Prophet Muhammad pbuh, this is a kind of Riba called Riba al Fadl. There is no way that forward currency trading is acceptable by all means and in all forms. The second condition in currency trading is that it must be with full payment at the time of the contract. the trades are done on margin of 1% that is not full payment. FOREX, AS IT IS PRESENTLY ON THE INTERNET BY ALL COMPANIES IS NOT PERMISSIBLE. Besides it is too risky.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam  
Sincerely,  
Dr. Monzer Kahf

---

## Internet Currency Trading

### **Subject: Forex Trading with Leverage**

From: Huseyn through Islam om line  
Sent: Thursday, July 06, 2006 8:40 AM  
Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
I would like to find out if forex trading with leverage with companies like [www.gftforex.com](http://www.gftforex.com) is halal. please check [gftforex.com](http://gftforex.com) for details on how they run their forex trading online etc. jazaak allahu khayr

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. Huseyn

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Please you check the website and give me the details. But I can tell you the Islamic rules for trading currencies: There must be full delivery of the full amount of both currencies at the time of the sale contracts.

This means 1) No margin is permissible. 2) No leverage is permissible. 3) No forward is permissible. It also means that only spot (like when you go to a local money exchanger or office of a local bank and exchange cash for cash) is permissible. It can be done electronically if the full amount of both currencies is debited/credited at the exact same time of the contract. What these internet companies usually do does not fulfill these conditions!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

---

Subject: Forex

From: Marwan

Sent: Tuesday, December 26, 2006 5:21 AM

Question

As-Salamu `alaykum wa rahmato ALLAH, Dear Dr.Monzer

I have been introduced to the forex market ( the foreign currency exchange market ) which is mainly based on a system like the stock market , but instead of buying stocks in companies i buy currencies , it works like this , i open an account with a broker and transfer money to my account in US dollars and based on some calculations and economic indicators i choose for example to sell

a part of this money and buy euro and wait a few days then the euro value goes up then i sell and make profit , all the selling and buying are made spontaneously at the same moment which is called spot trading .

What i want to ask is whether is this halal or haram?

and the forex market is mainly based on leverage which means that if i put 1000 \$ in my account i can buy currencies up to 100,000 \$ which is having a ratio of 1:100 , meaning that the broker lend me money to trade with and i pay this money after selling my positions ( my currencies ) with no interest . And the ratio is kept 1:100 for the broker to secure himself cause if he lend me 100,000\$ for me to make (on an extreme scale) a loss , i will be selling the currencies for 99,000\$ , so if i made a loss he will securing himself by the 1000\$ in my account .

So is leverage considered haram ? As-Salamu `alaykum wa rahmato ALLAH

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. Marwan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The Prophet, pbuh, defines what is permissible and what is not in currency exchange. We have a correct Saying reported by both Bukhari and Muslim to the effect that exchanging gold and silver (the currencies of His time) must be "Yadan bi Yad" or "Ha' bi Ha'." This means both spot and full payment. No leverage. The fact is that the broker does not lend you, (would you believe that the brokerage firm has all this money to lend every one 100 times his/her deposit?), the agent of the broker lies to you if he tells you that the broker lend you! it is the condition of the market transaction that it is based on leverage that is you need only one percent deposit to be able to trade a contract of 100, Whether spot or future. That is why it is called leveraged or margin. you are only required to deposit a margin of the contract you do, notice you have to have the margin whether you buy or sell, so that this margin is not like a Urbun as a part of the price, it is a deposit in an escrow account with the management of the market, via the broker, so that from which, it is deducted (or added) the amount of losses (or profit) that is caused by changes in the price at the end of each day. Besides, this transaction (or if you want to call it trade) is futile as it is a pure speculation and does not affect the economy except in making it less stable and more volatile. IT DOES NOT FULFILL THE CONDITION PUT BY THE PROFIT MUHAMMAD, PBUH, AND IT IS THEREFORE HARAM. Please look also at my previous Fatawa on the subject on Islam on line and on my website.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Marwan

Sent: Thursday, December 28, 2006 1:58 AM

Question

As-Salamu `alaykum wa rahmato ALLAH, Dear Dr.Monzer

Thank you for your quick answer , and i hope i am not bothering you . I don't work in Forex but i have a friend who is has a brokerage company in forex here in Egypt and wants me to do some editing in his website, and accordingly I had to learn all about forex.

There is one last thing i want to ask, there is a large bank in Europe that works in forex mainly, it is not a broker for another firm, and allows individuals to open accounts (but with larger amount of money) and all the spot trading that made on this bank is made at the moment and with money inside the bank there are no contract this banks takes to another bigger bank after 2 or 3 days. Is this also considered the same case or does it differ?

As-Salamu `alaykum wa rahmato ALLAH

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. Marwan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The point is not a matter of big or small bank or taking a contract to another bank or institution.

The point is the definition of contract in the market and the rules of the market. The market's rules are such that you trade on margin or in full payment and you trade spot or future. When you go to the money exchanger in your neighborhood, you give him the Egyptian Pounds and he gives you the Dollars that is of course permissible and has been practiced for centuries in the Muslim land.

Can the transaction in the organized market, on internet or in physical markets, be done the same way? YES, they can if you buy spot with full payment and get the credit and debit into your

account immediately when you make the buy or sell. This can be done on the internet and in a bank or money exchanger. The conditions that must be fulfilled are: spot and full payment. This currency trade becomes permissible in Shari'ah with these two conditions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

-----

## **Trading Gold Certificates**

**Subject: Trading Gold Certificates**

From: Mazen

Sent: Wednesday, April 19, 2006 11:53 AM

Question

Salamu Alykum, Jazak allah khair again.

A quick question: I promise to try to stop asking more questions. I imagin how busy you are.

Is it halal to trade Exchange-traded funds (e.g. GLD). They trade Gold but I am not sure if they deal with ribba. jazak allah khair,

mazen

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. Mazen,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't know what is exchange-traded fund, please explain but gold transactions must be spot only with immediate delivery of the full quantity of gold and its full price. It can't be future or on margin.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Mazen

Sent: Wednesday, April 19, 2006 10:37 PM

Question

It's actually a trust. It holds about 355 tonnes of gold. My understanding that when somebody buy their share/stock, he/she buys a portion of the gold they have (stock/share = 1/10th of an ounce).

Here is a link if you have time and interested in getting more information.

<http://www.streettracksgoldshares.com/> Jazak allah khair.

mazen

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. Mazen

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I think the Shari'ah intended to make trading currencies (including gold and silver) more difficult than other goods, probably to reduce speculation. These shares represent "beneficiary interest" in the trust that owns the gold. It seems to me that trading such shares is not permissible in Shari'ah as they do not require actual and immediate delivery. Beneficiary interest is very different from ownership. It is closer to having a lien on a property or owning it on behalf of another. It seems to me that creating these shares "to reduce the cost of holding gold" adds to speculation and makes gold more amenable to price speculation, is that the intent of the Shari'ah? I beg to stand on the other side.

I didn't answer your other question about shares in a gold holding company because you need to re-read my previous answer.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Mazen

Sent: Wednesday, April 19, 2006 3:14 PM

Question

salamu Alykum,

Gold can carry concerns about authenticity and purity, as well as storage and insurance costs. Exchange-traded funds is away to shed these worries and still own a chunk of gold by investing in exchange-traded funds that make buying and selling gold bullion as easy as buying and selling stocks.

The share price of streetTRACKS Gold Shares (GLD, as an example) roughly tracks the price of gold and represents an investment in gold bullion. In effect you get to own gold without the hassle of storing and insuring.

With GLD, each share is priced at about one-tenth the price of gold bullion. If gold goes to \$650 an ounce, then the price of a share should be about \$65. hope this helps. jazak allah khair,  
mazen

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. Mazen

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

If what you say is correct, this is then worse than trading gold because it looks as a speculative instrument that tracks the gold price but represent nothing real!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

-----