

FATAWA STOCKS, SHARES, SUKUK, COMMODITIES, OPTIONS, ETC. 2006

Trading Shares and Stocks

Subject: Trading in Stocks

From: Siraj through Islam on line

Sent: Sunday, November 19, 2006 3:29 AM

Question

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

I have read on your website about trading stocks and have a question. I recently attended a stock-trading training course with a view to trade stocks of companies that are not involved with the likes of alcohol, weapons, gambling, etc. However, whilst at this course I learnt that most big companies trade options and futures, and make a significant portion of their money from such activities, which I believe are not allowed in Islam. Examples were mainly ones that were very rich in cash, such as large energy companies. Another was Dell Computers, the lecturers at the course said that Dell made more money from trading options than it did from its profits from selling computers. This has given me a lot of doubts as to whether I can trade in any large company, as it is likely to be similar to investing in a bank, since the majority of profits are made from Haram sources. Could you please advise me on this. I have looked at the Dow Jones Islamic Index website, and their methods for excluding companies does not seem to consider the matter of those that make significant money from futures and options, which according to the course I did, is quite a lot of big companies. 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. Siraj

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

the reason is that the matter is still controversial at least in some of its aspects. I believe that it is Haram to trade futures and options and I say that companies that make more money from these than from computers are not computer companies but are classified in Shari'ah as future and options traders and as such must be excluded from permissibility of trading. Check the info you got in that course for each company on its own and if it is correct exclude them from your trading.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Buying and Selling Shares

From: Imtiyaz through Islam online

Sent: Wednesday, September 20, 2006 7:00 AM

Question

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

I want to know that if buying and selling of shares of the company is permitted. Suppose, I buy a share of Rs.10/- and after three months the price is Rs.3000/-.Is it permitted to buy this type of shares? Also please tell me if this shares buying and selling are permitted then please give me atleast one example of the company name with whom I can do business that is buying and selling of shares. Jazakum Allah 4C82uCu 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. Imtiyaz

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Buying a share in a company is becoming a partner in that company and giving authority to its management to do its business on your behalf and to your benefit, even if you buy the share for the purpose of capital gain. You cannot give authority to anyone to make any Haram transaction on your behalf. A Haram is Haram whether one does it oneself or through one's agent (the company's management). This means that you cannot buy stocks of many companies, those whose main business is Haram and also those that do Haram transactions. The principle of buying a share and then selling it is permissible because the share represents a small fraction of the net assets of the company.

We can't give you names of companies or brokers to do business with because this is an investment advice and we, in Islam on line and in the Fatwa Division, can't give such an advice.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Permissible Investments in Islam

From: Ahsan through Islam on line

Sent: Tuesday, August 15, 2006 1:33 AM

Question

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

My question is about the types of investments which are permissible in Islam. More specifically, I would like to know this in the light of investments available in India. Here are lots of investment options available, however, I believe all involve interest (Riba) and thus are Haram. My brother mentions that purchasing equity shares is permissible. Can you elaborate more on this? Also since I am a working individual I also pay income tax. A number of tax saving schemes are available here. Is it permissible to save tax by opting for these schemes. Are there any halaal tax saving schemes available in India? I would really appreciate a detailed answer bcos Muslims have a lot of wealth

locked up in banks in India which gain interest which is of no use to them as it is Haram. Also there are no banks here which practice Islamic banking... Jazakallah khair for your time and response. 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. Ahsan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Obviously I can't advise you about investment in India, this is your own homework that you have to undertake. I can tell you some of the general rules that govern investment in Shari'ah:

1. Any investment is permissible as long as it does not violate any of the Shari'ah injunctions. You can undertake any business, out of millions of permissible businesses and invest directly in it alone or with your friends or relatives.
2. God has only prohibited what is bad or wrong. Riba (interest) is prohibited because it is unjust completely and totally. So are gambling, porno, liquor, cigarettes, etc.
3. You can buy the stocks of any company that does not deal in Riba or does not produce any of these prohibited bad things.
4. If the above is really difficult, you can invest in stocks of companies whose main line of business is permissible but they do a little amount of non-permissible activities provided you estimate the percentage of total profit (dividends and capital gain) that arises from the Haram activities and give it away to Muslim charity.
5. Tax-saving schemes are permissible if they are not interest-based. Any interest (or any other Haram) income from interest-based schemes for tax saving must be given away to Muslim charity, it must not be allowed to stay mingled with your proper money because it is in fact not yours and it is Haram for you.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Buying Stocks in Companies Dealing with Conventional Banks

From: Sherief through Islam on line

Sent: Thursday, August 03, 2006 3:23 AM

Question

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

Is it permissible to buy stocks in the US stock market nowadays and we know that they are managing war against US. And is it permissible to buy stocks in companies deals with conventional banks either deposit or credit? 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. Sherief

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The principle is that it is not permissible for any Muslim to make any thing that is prohibited in Shari'ah whether directly or indirectly through her/his agent. a director or a board of executive directors in a company work on behalf of the shareholders as their agent. If this creates a hardship for individual Muslim investors, hardship calls for relaxation of the prohibition in as much as needed to remove the hardship. This is also a general rule that applies to investment in America or anywhere else.

Under the existing circumstances, the majority of Islamic scholars and leaders have called for boycotting American products and companies, I believe this must be implemented by all Muslims until the government of America is either changes its uneven policy or itself is changed by one that takes a just and fair policy that is consistent with the American constitution. We must recognize that we have in America a country that can correct its government and force it to abide by the fair principle of the constitution.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: investment in Sukuk

From: Suhaib

Sent: Monday, July 17, 2006 2:56 PM

Question

بسم الله الرحمن الرحيم
السلام عليكم ورحمة الله وبركاته
تحياتي الحارة لك يا دكتور منذر
انا صهيب
تعجبني كتاباتك جدا فانت متمكن بالاقتصاد الاسلامي جزاك الله عنا خيرا ، اقرأ لك عن صكوك الاجارة والاعيان المؤجرة ،
وانني ارجو منك يا دكتور ان تبين لي الضوابط الشرعية للاستثمار في صكوك الاجارة والاعيان المؤجرة ، وانني
شاكر لك جزيل الشكر .
والسلام عليكم ورحمة الله وبركاته

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. Suhaib

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Your question is vague. If they are Sukuk issued with approval of respected Shari'ah specialists, that is all you need to invest in them, what else do you mean?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,
Dr. Monzer Kahf

Subject: Halal Investment Questions!

From: Babar

Sent: Wednesday, July 12, 2006 8:27 AM

Question

Assalam-o-Alykum Dr.Monzer,

I'd really appreciate if you can guide me in my investment according to Shari'ah/Islamic laws.. I'm planning to invest my money in Money Market with a brokerage firm, but I don't whether this investment considered Halal (means profit/dividend from this source is Halal or interest)....If it's not Halal, then is there any Halal investment, or any other Halal investment in USA banking systems/investment firms..... Thank you so much for your guidance in this matter. Jazakallah..

Babar

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. Babar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't give any investment advices as I am not a business or investment advisor. I can tell you about the Shari'ah aspect. The Shari'ah conditions in stock and mutual funds investment are:

1. You must select a stock whose company's main line of business is permissible: this rules out conventional banks and insurance companies, liquor and most food companies in the USA, film production, casinos, etc.
2. The non-Halal activities of the company must not be too much (this is a tolerance criteria. In principle it should be zero but since it is too limiting many scholars argue that if interest and other non Halal do not exceed 5% of net revenues it becomes ok).
3. Investment in non Halal must not be high such as receivable (usually interest based) and cash deposits.
4. Dependence on interest loans must be little, no more that one third of net equity plus liabilities.
5. The cleansing condition: you must estimate the percentage of non permissibility in the company and give to Muslim charity an equal percentage of both capital gain and dividend on regular basis.

There are certain funds in the USA that follow these criteria that you should search for, such as DJIMIndex fund, and others.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: rules of investment in Stock Markets and Their Applications

From: Abdallah through Islam on line
Sent: Monday, July 03, 2006 8:31 AM
Question

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

I have some questions about the fatwa mentioned by respected Dr. Monzer Kahf concerning Stock Markets and Their Applications In one of his answers he mentions a fatwa, and a decision added by the ECFR (European Council for Fatwa & Research) that allows trading in stocks (supported only by a minority of scholars - and only for minority of Muslims in the west) and follows by some conditions: In one of the conditions he cites: 3. The unlawful assets should not exceed 10 percent of the total assets, provided that one should get rid of the interests and unlawful earning, whatever their proportion may be, through disposing of them for charitable purposes and that the circulation, in the case of increase in kind assets and benefits, should be confined to debts and cash. My question: suppose I own a stock which has 5% unlawful activity or earnings of its total assets. To calculate the unlawful part in this investment, what should I take as a reference: do I have to calculate the unlawful percentage of the assets (taking total assets as reference) or should I calculate the unlawful percentage of the total income/benefit of the company... or the unlawful percentage of the total turnover/sales or...?? What should I take as a reference here, as I only possess a share of the company? After the percentage is defined, How should the active cleaning process apply on the example when selling the stock? Should I give 5% to charity of the total of the capital of the stocks I sold, or only 5% of the increase (benefit) I gained on selling this stock? What if I sell the share containing 5% unlawful part with loss, at a lower price than initially bought? Selling without any gain, should I then also clean the capital even if it results in less capital than I initially invested? It would be nice and appreciated if this question can be clarified, as I have tried to find an answer in the bank of questions, and tried to submit this question directly, but without success. My best Regards, 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. Abdallah,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

We are always required to apply the best we know. Obviously if we do not apply the best we know we then would be acting according to things that we know there are better than them!

1. You should make your best educated guess to determine the percentage of Haram in the net earning of the company, if you have access to specific info about the balance sheet of the company you should use it or studies made by other Muslim institutions or anything that can make sense, use it.
2. Use this percentage to determine the percentage of Haram in the gains on the stock. Gains include capital gains and distributed dividends.
3. In case of loss or break even, you recovered capital or less, there is nothing to clean obviously because God in the Qur'an allows the principal back in interest lending that happened before one knows about the prohibition.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,
Dr. Monzer Kahf

Subject: Share Market and Shari`ah

From: Ali through Islam on line

Sent: Tuesday, May 30, 2006 12:51 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,
Is it permissible in trading share market according to shariah?
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. Ali

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The term share market is not known to me what do you mean and what is it that you are asking about? is it the stock market? if so what is your specific question?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Buying Shares in a Company Containing un-Islamic Things

From: Arafat through Islam on line

Sent: Thursday, April 13, 2006 4:12 AM

Question

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

I have two questions- 1. According to majority of scholars, a person cannot buy shares in a company, whose main business though is Halal but it also deals in some un-Islamic things like Riba. But some scholars say that it is allowed to buy shares of that company if some conditions are met, like, the company's earnings from the interest are not more than 5% of the net earnings of the company, its debts should be less than 1/3 of its assets and so on. Now my question is how the scholars calculated these percentages? Scholars differ in these percentages and perhaps differ in the conditions too. Is there any quotes from QURAN or HADEETH to support these conditions?

Please state them if there are any. 2. If I buy shares in these companies with the intention of selling them before getting any dividend, so then also I have to consider those conditions set by the scholars or can I buy shares of any company, irrespective of its interest earnings and debt-assets ratio (as long as the main business of the company is Halal)? Remember that I am only considering the shares as goods purchased from the market and selling them for profit, and not taking dividend. 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. Arafat

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The answer to your first question is: No there is nothing in the Qur'an and Sunnah that determines the degree of tolerance of the Haram. This is why the majority argue that it is not permissible to buy any stock whose company does any Haram. The principle is that only zero Haram is tolerated. On the other hand, the minority's view is based on the great inconvenience that such a view cause to a large number of Muslims, it call for relaxation of the rule to a degree that removes this great inconvenience. This is why scholars differ on the conditions.

For the second question the point is easier: buying a stock makes you a partner/shareholder, i.e., whatever the management does, it does it for you, on your behalf and in your name being your appointed agent to manage the company. You can't escape abiding by the same conditions even when you buy the stock for holding it for a few second! You are then a part of what the management does for those seconds! You may then apply the majority's view or take shelter in the minority's opinion but you can't, for instance buy a stock of a casino!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Putting Money in Stock Investments

From: Salih through Islam on line

Sent: Thursday, February 02, 2006 6:31 AM

Question

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

I worked at a small shop for a while and put the money I made in stock investments. Afterwards, I found out the work I was doing was Haram, and the money was as well. I made about \$440, donated about \$90 initially, spent \$50 and invested the remainder. I believe I've compensated for the \$50 by donating other money and plan to donate the rest, however, the stocks have gone down and show little sign of recovery in a short time. If I take out the money, say initially \$300 to now \$200, and donate the \$200, will I have to compensate the \$100 gone from transaction fees and loss with other money? 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. Salih

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

If you are sure the money you earned is Haram, give to Muslim charity the amount you earned minus the loss in the stock value. You don't need to compensate for this loss.

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

Subject: consultation stocks investment

From: Abukar

Sent: Friday, February 03, 2006 11:05 AM

Question

Dear Brother Dr.Monzer Kahf.

My name is Abukar. I was trained as a Medical Doctor in Somalia but I do not practice here in Toronto, Canada. Your name was given to me from brother at our Mosque after I asked some questions related to RRSP (Registered Retirement Saving Plan).

I work for a non-profit organization and it gives its employee some money to invest in the stock market. In order to qualify this money every employee has match the same amount of money the agency provides. I am one of the employees who receive and match that money.

The other Friday, an imam who gave us the Friday ceremony talked about the Interest (Riba) and I was confused about the speech he gave us. I started to question myself whether what I am doing is right or wrong. I consulted with other religious people and I got different interpretation.

I have been dealing with a company called INVESTOR GROUP (INVESTORSGROUP.COM) for almost five years. I have been asking my financial Planner who is non-Muslim not to invest my money any investment contrary to my religion. I told her that she should not invest investment which deals with Interest, all Entertainments, Military, Hotels and any thing which is morally and socially unacceptable.

My knowledge about investments or religion is very limited therefore my questions are:

Is it right to save money for future?. First it right to invest first on the stock market. Secondly trust a financial advisor who does know nothing about Islam and belief her words.

My financial advisor told me that she invests in Equity funds and equity funds do not deal with interest. She said that equity funds you either loose or gain and Interest related funds you only gain and not loose.

I know you live in America and I think you know what is going in Toronto Stock Market. Here are the investments which were recommended by my financial Advisor.

- 1) Canadian Natural Resource Fund Dsc
- 2) Global Science and Technology Fund DSC
- 3) Summa Fund A
- 4) AGF Canadian Growth Fund C DSC
- 5) Canadian Equity Growth (Mackenzie)

I look forward to hearing from you at your convenient time. Thank You
Abukar

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. Abukar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. It is certainly permissible, rather encouraged to save for the future and also to save to become richer. This is the nature of our Shari'ah as you most likely know. That does not mean that when one saves one becomes more greedy, it rather means that when one becomes richer one gives more in the form of Zakah and charity. And our beloved Prophet said: "it is excellent, rightly earned money to a righteous person."
2. It is also permissible to use the vehicle of RRSP and to accept the employer's contribution for saving.
3. It is also permissible to invest in stocks as equity. Here, however, we need to differentiate between stocks according to the main line of business of the company and according to the structure of its finance. Stocks can be sorted in 3 categories:
4. Permissible (stocks of companies that abide by the Shari'ah rules such as Islamic banks; these do not exist in the American and Canadian stock exchanges); non permissible (stocks of companies whose main line of business is Haram such as conventional banks, conventional insurance companies, military industry, etc.) and stocks that need details. The latter is stocks of companies whose main line of business is permissible but they make Haram transactions such as borrowing/lending, etc. The principle is that this category is also Haram because there is no difference between little and non little of the Haram transactions. but since such a prohibition creates difficulties for many people like you and me, and hardship always call for relaxation of prohibition in our Shari'ah, some scholars argue that it should be permissible to invest in such stocks provided the percentage of the Haram transactions of the companies is low and the investor takes away a share of the profit/gains that is estimated to match the that percentage and gives it to Muslim charity as doubtful earning must not be kept in the ownership of a Muslim.
5. The third category is large in the Canadian/American seen. But that does not mean that every stock is permissible for instance, GE stock does not pass the criteria of "little", so are many other stocks. Check the web of the DJ Islamic market indices for criteria suggested by a group of respected scholars.
6. Remember that the Islamic Housing Cooperative of Canada (in Mississauga) is legally qualified to accept RRSP and it invest only according to Shari'ah especially helping Canadian Muslims buy houses, and it has been making good return. It is an option that does not require the purification obligatory giving to Muslim charity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Share trading Business in Saudi Arabia

From: Mohammad through Islam online

Sent: Thursday, March 16, 2006 4:18 AM

Question

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

Nowadays share business in Saudi is on boom. Every Saudi investing their money in this and it came to know me this is Halal so could you please guide me in this matter as I am also interested in this it is also learnt that this is permissible because beside the profit there is loss in this. I shall be grateful to you if you kindly shed on this matter.
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. Mohammad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

trading shares in Saudi Arabia is like trading shares in any other country. There are shares that are permissible to trade and others that are not permissible on the basis of what does the company do as a business and what kind of transactions it undertakes. The principle is that whatever is prohibited to do as an individual is also prohibited for the management of a company and if you own shares in a company you are partial owner and the management takes action on your behalf as your agent. This is the general principles. it means that one may not trade shares of conventional banks or any company whose main business is not permissible.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Investment of Awqaf funds in Shares and Stocks

Subject: Investment of Awqaf funds in stocks

From: Zeinoul

Sent: Monday, October 30, 2006 11:52 PM

Question

AA, Awqaf SA would really appreciate some guidance on this issue:

The general norm in the investment of waqf funds is that the corpus ie the capital remains intact.

Example: A person donates R100000 as waqf. The institution, say Awqaf SA, invests that money into a property equity fund or Real Estate Investment Trust (REIT). Reasons: (a) Low risk (b) rental income & (c) long term capital growth (d) underlying assets = real estate. The waqf institution will be entitled to spend the rental income from the REIT on any of its projects in terms of the wishes of the donor.

Another scenario: The funds are invested in a general equity fund. High capital growth but generally lower dividend income, and has a riskier profile. Because the dividend income is low, can the waqf institution utilise a percentage of its capital growth or say pursue a policy of 50/50 eg only spend 50% of capital growth and retain the balance for any downward movement of share prices.

Your advice on the above would be highly appreciated. In fact we are seeking a detailed Shari'ah ruling on the matter both for decision making as well as for academic purposes. Wassalaam Zeinoul

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. Zeinoul,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I dealt with this matter in my book on Awqaf, alas, it is in Arabic, published by Dar al Fikr in Damascus.

My advice is the following:

1. Prepare a form of Waqf for cash you receive to be invested as Waqf and put in it the following (so that they become part of the conditions of the Waqif/founder):
 - * the Nazir (management) is required to maintain the principal of Waqf not declining by continuously and every fiscal year setting aside certain percentage of the total net (after expenses if any) profits (that consist of capital gains plus dividends) as reserves to make up for any decline in future prices.
 - * The management is also required to set aside a percentage of the net total profits to increase the principal of the Waqf not to exceed 50% (in order to give good money for distribution to objectives). This continuous increment to the corpus of the Waqf helps make it grow and provide more future income and also helps keep it not declining in terms of real value of the money.
 - * Funds mentioned in both previous two items are to be invested with the principal of the Waqf and be treated as part of it with the exceptions that the reserves may be changed by the management as prudently needed.
2. If the Waqif/founder does not make such provisions, neither of them can be imposed on the Waqif even if the corpus of the Waqf may erode with time because erosion of Waqf is possible and may happen to any Waqf even real estates (a cultivable land may become arid as a result of desertification, salination, human neglect over generations, changes of metropolices, etc.). The real wish of the Waqif must be respected and not overruled except when it violates the Shari'ah itself and if the Waqif's wish is to distribute 100% of total income to the objectives, then that what should be distributed because it becomes their earned right! Nazir can't decide on behalf of Waqif or beneficiaries.
3. For Awqaf that already exist and did not have the proposed stipulations, we interpret the will of the Waqif as essentially to create a permanent Waqf unless there is a clear indication otherwise. This means that we have to make provisions for reserves of maintaining the real value of the cash Waqf not declining without making it increase. This can be done by making reserves for price fluctuation and for inflation but we can't impose any corpus growth increments and if reserves become sufficient all other income, both capital gains and dividends become the right of the beneficiaries.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Investment in Mutual funds

Subject: Investment in Mutual funds

From: taheseen

Sent: Thursday, November 02, 2006 12:10 AM

Question

Respected Sir, Assalaam Alaikum,

Is it permissible to invest in mutual funds or shares of an establishment that manages banks, gives housing loans(interest based),etc.? Thank you for your time and anticipated reply,

Taheseen

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. Tahseen,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Managing banks and giving interest-based loans are Haram and owning shares in a firm whose main line of business is Haram is not permissible because it means the owner (along with other partners/shareholders) is making the Haram activities through delegation of authority to the executive managers. When we invest in Mutual funds we have to select funds that have the least of Haram shares and then we need to purify our earnings: estimate the percentage of Haram in these funds and give away to Muslim charity the amount of gains (capital gains + dividends) that comes out of the Haram percentage. In case of a loss, no purification applies.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Investment in Bond and Money market

Subject: Investing Money in Bond

From: Rahmat through Islam on line

Sent: Sunday, October 15, 2006 5:42 AM

Question

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

Is it permissible to invest the money in bond? Some retirement plans gradually invest the money in bond as the participant approaches the retirement age. Thank you.

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. Rahmat

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

No, Bonds are interest-based only and investment in bonds is not permissible, there are quite few stocks and mutual funds whose prices are normally stable one can invest in them. Making the contract on a bond is not permissible in Shari'ah and getting the interest return is also not permissible and if interest happens to be gotten one must give it away to Muslim charities in order to keep one's money clean and pure.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Question regarding use of savings bonds

From: Amir

Sent: Sunday, August 06, 2006 7:46 PM

Question

Dr. Kahf: As-salaam alaikum and thank you in advance for taking the time to read my email; I realize that you read many such queries in the course of your work. I am a recent medical school graduate who has approximately \$52,000 in outstanding loans that I am currently repaying monthly. My father purchased U.S. Savings Bonds when I was a child in an effort to have funds to pay for later education (may Allah SWT forgive him; he apparently did not consider the prohibited aspect of interest in bond growth).

My question is this: although I realize that using funds gained from interest is prohibited; would it in this case be permissible to use the funds gained from maturation of the bonds to pay off the debt? My reasoning is that it is the lesser of two evils: while use of interest-accrued funds is not desirable, it is preferable in this situation since by using it to pay off the debt it would decrease the amount of interest paid on the loan in the long term. The way I view this potential strategy is that I would use, for example, \$20,000 to make a sizeable deduction to my debt; and then pay off the percentage of the \$20,000 that was from interest-profit (since the original price of the bond was \$12,000 or so, I would pay \$8,000 to a charity).

Do you think this is an Islamically acceptable alternative to paying off the debt long term and in the process paying a large amount of interest?

Thank you again for your time,

Amir

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

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

What you said is just the right course of action. Use all the amount of the bond to reduce your loan and try to pay off the balance as soon as possible so that you minimize the amount of interest you are paying on this outstanding loan. At the same time know the amount of interest that accrued on the bonds and give it away to charity, after paying off all the debt. As if you have borrowed from the amount of interest that should be given away to charity. That is definitely better because it achieves the objective of the prohibition of interest, that also implies minimizing it when it exists.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Employer's Stock Options

Subject: An Employee Stock Option

From: Younès through Islam on line

Sent: Tuesday, September 05, 2006 1:00 AM

Question

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

I have been searching a lot for the right place to ask my question. I hope you can help me. First of all, I would like to say that I converted to Islam recently and my question is related to the job I held as a non-Muslim. However, I received on my bank account the money from my employee stock option as a Muslim. Explanation: The company I worked for is Inc.. This company is a world leader in consulting on strategy and finance for other companies. The range of clients being consulted is very large including Halal and Haram companies. However, I worked as a back office clerk and had no direct relation to clients. The Company automatically offers an employee stock option to every employee with the aim of relating the employee to the companies' results. The Company places this money in a fund which is managed by another company, the HSBC group. As an employee you could choose which type of stock you wanted according to risk and performance criteria of the different stocks or as I did, you could not do anything and there would a default choice (the least risky). Examples of names of the stocks: EONIA, JP MORGAN EMU, EURO STOXX 326, MSCI World ex EMU. When I left the firm, the value of my stock option was on my consent transferred to my bank account 6 months later, June 2006. By then I had converted to Islam. Thus as a Muslim my question is whether I should look at this money as Halal? I am confused about whether the fact of being Muslim and non Muslim is relevant and also whether there is something I have not understood or missed out on. My question is whether I can consider this money as purely Halal or could there be some aspect that god almighty ALLAH (swt) might dislike or are these just thoughts of mine own coming from an intense dislike towards Haram activities? I'm completely aware that this money did not come out of my own acting or wish, and that I am not responsible for the acts of the company, however, I would like to be sure that this money is Halal before using it. May ALLAH (swt) reward you for your effort. Brother Younès 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. Younès

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Let us look at this issue in an analytical:

1. Employer's options are permissible because they are simply a fringe benefit, i.e., a part of the compensation of the work you give to the employer. This means that whatever funds that were deducted from your wages for these options and whatever matching funds the employer contributed are all within the Halal arena InShaAllah. And your work in that company was also permissible provided you did not, after becoming a Muslim, an interest contract, sign it on behalf of the company, or be a witness to it and of course as long as you gave what you were required normally to give although the company may have indulged into certain non-permissible activities according to Shari'ah.
2. The use of this fund in investing in stocks of certain companies may be permissible or not depending the main line of activity of the company and the degree of its involvement in interest and / or other non permissible activities. you may find some info about these companies on the website of the DJ Islamic market index. Under all circumstances, your principal is Halal InShaAllah as the Qur'an says""you deserve to get your principal back"" Once you know these companies you have invested in these funds, you should apply the purification principle by giving to Muslim charity a proportion of your return (dividends and capital gains) of these stocks that is equal to the percentage of non-permissibility in the companies you invested in. This is because any Haram money that comes legally under your hand but it is not yours according to Shari'ah should not be return to its owner but rather given to charity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: investments and mutual funds. Etc.

From: zarine

Sent: Thursday, December 21, 2006 9:42 PM

Question

Dear brother Monzer, Assalaam Alaikum wa rahmatullahi wa barakaatahu,

Considering all my options, I have disposed off the flat. I got no profit as I had to sell at less rates, but there was no net loss either.

Now with the money I have got from the sale, as well as my savings, I would like to invest in property again, but this time in a clear title property. But I am yet falling short of some money.

1) What I am asking you now is not a challenge question, but I would like to know what options do Muslims have in the absence of any Shari'ah based loans, how can they arrange for capital for investments or starting a good business for that matter. Relatives and friends don't have enough money to borrow from.

2) I came across a company that is giving mutual funds and says this is good for Muslims, as it does not deal with interests, yet it promises a fixed amount of return after three years. Is this permissible? i.e taking a fixed amount return on a mutual fund? I don't think any business can predict that it will always have a profit and that also at a fixed rate. So how can this be possible in this particular company?

3) One option that I have in my mind is, that sooner or later I intend to migrate to Canada, as soon as a decision is taken on the papers that I have filed. Can I ask my brother to buy a house on mortgage for me, in his name, with my capital as the down payment, and the installments to be paid till I go to Canada, by the rent collected on such a house?

This way I feel I can use my money right away, without letting it lie idle in the bank, and buying in Canada is a better option for me in the absence of any caretaker in India on my behalf?

Kindly reply to my queries. With regards and wishing for your good health always,
zarine.

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. Zarine

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I am not aware of any Islamic mutual fund that guarantees the principal and there are nowadays Islamic banks and finance companies in most parts of the world that provide financing to persons and companies in accordance with Shari'ah. check with Islamic banks in Saudi and in other countries. If you want to buy in Canada you may like to check with the Islamic Housing Cooperative in Mississauga near Toronto. Otherwise I go buy the Fatwa of the International conference on Fiqh that was held in America in 1999 and its resolution is: for families that do not have Islamic financing and they need housing that they can get conventional mortgage. It seems that this does not apply to your buying in Canada at this point of time.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf
