

FATAWA SHARES, STOCKS, OPTIONS AND COMMODITIES 2008-2012

Understanding Islamic stand on stock trading

From: mohamed

Sent: Thursday, July 24, 2008

Question: shares trading

Salaam

I read through the forum about shares trading (stock market) and came to the conclusion that most of the fatwas are of the opinion that it is "Halal" as it is considered to be an investment with risk and rewards as long as the business is not doing anything "Haram".

Let's look into this in detail. First of all, stock market is not about investment. It is about stock trading. Just like any other commodities like rice, wheat, etc. Companies stocks are traded here. Is it allowed to trade stocks? If so how is it different from currency? If so how is it different from interest? You cannot say you will get back the money when u r lending for interest. In today's scenario, u may not get back at all. That is also a risk. So is it acceptable to give for interest when u may or may not get back the debt amount in today's scenario?

For this conversation, let's assume that trading socks are allowed and see if it makes Islamic sense. How are companies' stocks valued today? The companies' stocks generally trades anywhere between 3 to 20% higher than its actual value. It could be more. It could be less. But this is the play zone considered to be a good bet. Yes. Stock trading is all about betting and not investing. If you are buying a stock, you are betting that its value is X amount and if you look at the balance sheet of the company it may very well be X - 5% or X - 10%. People continue to bet on how much it will go or come down. This has got nothing to with Investment. Your money is not going to go to the company to be useful for productive purposes or what we call as Investment.

(Money goes to the company's investment only when it goes public. After that the increase and decrease goes to the shareholders and not to the company. Thereby not to the actual investment)

Interest is banned in Islam for various reasons. It's not just the risk-reward scenario. It's also about money being created outside real economy. That is the reason for banning interests.

When we charge interest, we are getting reward for others work, thereby creating a hole in real economy and thereby affecting people. The bigger the whole the more problem it creates for people. Like today's World Bank and IMF.

It is because of this and gambling's in stock markets so much paper money is created outside real economy and you can see the rich-poor gap. If stock markets are valued at 20% times actual worth of the company, imagine what would happen if all those 20% are put in real economy creating jobs, products and goods needed for people.

I am not saying investments cannot be made at all. You can always invest at real value. What it's worth and not gambles with 3% or 5% or 15% above. The reason is because people are

willing to gamble at higher percentages, slowly and slowly money from actual economy gets into stock market thereby affecting the real economy. The rich who can invest keep on getting richer while the poor who is working in real economy is getting poorer. (Although not everybody gains in stocks. Some gain and some lose).

Also after being an investor you don't have any say in the company... It is all done by the board. They lie and cook the balance sheet and do all sorts of things to have the share price increase. Who gets the benefit when companies go bankrupt? What about corporate bond holders' role? How do they fit in this scenario? Do we know all this? What about corporates that have huge debts and assets those are outside its balance sheet? How are they valued in stock prices? Do we know all those?

These are loopholes created by the rich in the name of "reforms" and "liberalization" to collect (tax) money from people indirectly and benefit them. This is even much worse than getting interest from Banks. At least in banks(not all) we know they don't lend money for speculative purpose but only lend in real economy and help people.(Banks also invest in stocks and mutual funds but those are mostly insurance and retirement benefits. again not all banks are same..% may vary).

Millions can be made or lost in speculations in stock markets. We have seen this time and again all over the world. Most of the time the value will just go up or down based on rumors and speculations by bigger players. It is one thing that if we want to make money. It is another to give it an Islamic brand. Considering the whole system itself as is let's call it as what it is.

Regards

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

While I agree with many of what you said, let me please make a few points crystal clear so that we do not confuse matters together:

1. Riba, in finance, is a conditioned increment in a debt whether when it is initiated by a loan or when you change its maturity forward (rescheduling) or backward (discounting). This definition is derived from the Qur'an [2:275] that prohibits Riba while permits Sale. This is exactly interest as known in today's world. There is no distinction between high rate and low rate as verse 2:279 prohibits anything above principal. The reason of prohibition is because it is Zulm (oppression or a positive act of injustice). If you look closely you will notice that a debt does not create increment in reality. This means that any presumed increment is not real and it must therefore come from the property of other persons (take a close look at Verse 30:39 and think of its meaning. Hence, interest is not prohibited because of speculation or because it is taken from the poor because of risk or lack of it.
2. A price in the market is determined by both supply and demand not only by supply alone.
3. A share (stock) represents a part of a company. Owning a share means owning a part of a company with all the right of the rights and obligations involved in such ownership. When you own a share you become a part of the ownership and management of the company and the board of directors acts on your collective behalf along with other owners. If one neglects

one's right to vote the BOD still acts on one's behalf because it continues to be the representative of owners of shares.

4. An owner is absolutely authorized over the owned property. One can do whatever one pleases with one's property. If this property is permissible to own, according to Shari'ah, it is also permissible to sell and trade even if it is only a common indivisible share of a quantum. This means that as long as share represent parts of permissible companies, they are permissible to trade. Prices of shares shall be affected by supply and demand not only by the balance sheet or book valuation of the company; it is the market valuation that matters. Demand is of course affected by many factors part of the quantity of property available in the hands of people that are used for this trade.
5. Unless a government disallows, by law, quick sale after a purchase, you cannot prevent quick trading of share that creates speculative trading. We have examples of quick sale after purchase, even with making high profit in the market of the Prophet, pbuh. To claim prohibition is very difficult.
6. We hate speculation in shares and any other properties commodities, services. Speculative trading may create quick profit but in most of the cases it is zero sum practice in which the profit comes only from the loss of another person. I agree with you that most of transactions in the financial market are speculative and bad but they are very difficult to prohibit them in the actual market. Besides, when you buy in the secondary market you may be really an investor and your action is to own a part of a company and be a part of its activities. Buying from an old shareholder also liberates the funds of the latter for new investment (or of course another speculative trade). But the action of the other person is in that person's hands not in yours.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Omair

Sent: Thursday, February 26, 2009

Question: Employee Stock Purchase Plan (ESPP)

Bismillah,

Assalamualaykum wa Rahmatu Allah

I hope this message finds you in good health and eeman. May Allah reward you for all your contributions. Ameen I am trying to find an answer to my question about ESPP (Employee Stock Purchase Plan) but am not able to find any answers yet. I would like to know if you have any knowledge in regards to permissibility and impressibility of such transactions. There are slight variations in every company's ESPP I am stating mine here.

1. My company allows voluntary contribution (1% -15%) of paycheck to be contributed towards ESPP.
2. There are two enrollment periods usually "April-May" and "Oct-Nov" to enroll in next available ESPP contributions

3. First ESPP contribution period starts from Jan 1st to June 30th and second period starts from July 1st to Dec 31st
4. For example I enroll in "April-May" open enrollment period to agree to contribute 10% of my income from each pay check withheld for ESPP starting from July 1st till Dec 31st.
5. 10 % of my income will be withheld by my company from each pay check from until ESPP period is over i.e. July 1st till Dec 31st. Money will be collected for six months in a stock account keeping that money inaccessible for me (Certain companies allow access). Let's say collected amount for those six months is \$3000
6. On Jan 1st following the contributions from six months, my company buys my company stocks on the lowest of the two prices so for instance on July 1st my company stock price was \$12 per stock (closed price) and on Dec 31st the stock price was \$10 per stock at close of the market.
7. The company will pick the lowest price on above two dates which is \$10 and give 15% additional discount making my purchase price \$8.50 and buy \$3000 dollar worth stocks and depositing 350 company stocks in my Stock funds brokerage account (such as etrade etc.).
8. The value of those 350 + stocks will fluctuate according to the market until I sell them at a certain price.
9. Keep in mind that enrollment is voluntary but once I enroll in the ESPP I can't change contribution percentage or stop until that six-month period is over. I can stop or change in the next enrollment period which is either April-May or Oct-Nov but not the current one.
10. Some companies also allow employees to choose if they don't want to buy stocks on a discounted price with all the collected money but their deadline is usually two weeks before ESPP ends. For instance, I am contributing 10% every paycheck from July 1st to Dec 31st. The company is supposing to buy lowest price stock on July 1st or Dec 31st but on Dec 18 I change my mind and keep the collected amount withheld every month without purchasing any stocks with them. That cash is available if I choose not to proceed but once Dec 18th passed I can't make any changes.

According to a brother such transactions fall under the category of Gharar, a concept I am unaware of. I will greatly appreciate your answer if such transactions are permissible or not. Please give proof/reason for your conclusion.

Should you have any other questions in order to clarify the above, feel free to email me. Jazakum Allahu Khayran for your help.

Wasalaamualaykum wa Rahmatu Allah

Omair

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Omair

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't see any Gharar in it, I rather see a Wakalah matter and a concession from the company to give you even a discount below the lowest price of the share. It is a fringe benefit added to your salary. When you accept this plan, you are not buying at an unknown price (an element of Gharar) rather you are giving an agency to another person to buy for you at the best of these prices, add to it the company is even giving you an added 15% discount. In my opinion this plan is permissible to offer and to accept.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ali

Sent: Saturday, September 19, 2009

Location:

Question: purification of investment in shares

Assalamualaikum

I need your urgent advice as it has caused me severe anxiety and depression.

I bought shares in companies whose main business is halal and made approx. £1800 loss. Then I inversed this money in similar companies and made profits of about £5700. But I did not consider the other requirements such as income from interest, debts vs assets etc. The losses and profits I made from companies definitely did not meet all the Shari'ah criteria. Now can I minus my total investments from the total income and done the rest to charity. This would be approx. 4000. This I would be more than pleased to do as my original investments would help me clear most of my debts. Or should I look at each company separately and bear the losses and donate all profits. Though because I was unaware of the rules, some of the profit I made, I had already spent and to pay that back plus the remainder of the profits would be a burden on me. Please advise me as this is really affecting my health and my Iman may Allah have mercy on you and me.

Ali

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ali,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If you get your principal back and give to Muslim charity all the (net) profit, this will be sufficient with Istighfar and pledge to check in the future the Shari'ah ruling before taking action.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ebrahim

Sent: Thursday, March 10, 2011

Location: South Africa

Question: Legitimacy of investment in shares

Salaams Dr Kahf

My name is Ebrahim. I pray you are in good health. I attended your Zakah workshop in South Africa.

Your views and arguments really resonated with me, especially that of Zakah on the asset value. May Allah bless you for this work?

Shaikh, if you have the time I would appreciate if you could answer a few questions that are not on your website.

I understand that from a practical point of view, Muslim Scholars have ruled that Muslims can invest in the shares on the stock market provided the main line of business be halal etc. and the investor purifies his profits through some charity (cleansing the contamination of Riba etc.). Having said this every single stock on the market has some degree of leverage.

Questions:

1) By stripping out the interest and keeping the profits, the investor is still benefiting from the power of financial leverage?

When we live in a society that has different rules of the game from those in our Shari'ah we need to make many compromises and find a narrow path between all the messes. This is where this relaxation of rule came in regard to investing in shares with the known criteria. BTW, although AAOIFI set them in a way that appear fixed and determined, the idea behind them must be carried with their application. This means being relaxation of prohibition the general principle that "necessity should be given their right size, no more and no less al darurat tuqaddaru bi qadariha الضرورات تقدر بقدرها" still applies. In other words, if we are in a market where 2% interest income gives sufficient room for the Muslim investor to maneuver, the criteria for that market becomes 2% not 5%. Going back to the question: leverage or any other transaction done by another person can be tolerated if I need to deal with that person and her total undertaking while the same is not tolerated if I am going to do it myself. Meaning: if leverage is done by the company, I cannot buy the share on interest leveraging, but I can buy it on Murabahah leveraging. Same, if the company deals with little Haram and I need to deal with its stock because it is within the list that allows me to have leveled game ground that does not mean I may do the same little Haram myself.

2) If we can invest in share that use leverage and strip out the interest, how am I any different as an entrepreneur using financial leverage and stripping out the interest portion and giving it to charity?

The difference is big; it is between tolerating others because humanly I live with them AND taking an action myself that is not permissible in my moral and religious system.

Regarding the underlying core business

3) Can Muslims invest in retail companies or the likes that have a very minute small of haram sales and after use the same rule of giving a % to charity to purify the investment?

I.e., a retailer like Walmart that sells pork, alcohol -

How far should one take this, because further down the line there is a good chance of haram contamination.

Buying their shares is subject to same criteria, but being a CEO of that company is a different story. Or even being a store manager who is going to be responsible for acquisition and sale of such substances. To take it further, being a cashier in such store with a chance of selling liquor is not permissible for a Muslim, so being an office boy who carry purchases to customer's car...

Regarding Islamic estates:

4) Is it possible to get your template for Islamic wills in a word document? Do you charge for this?

Please find it attached but see if it needs any changes for SAR laws.

I will really appreciate your thoughts on these issues I am grappling with.

Kind regards and Peace be with you

Ebrahim

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ebrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers in red below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mazher

Sent: Friday, April 22, 2011

Location: India

Question: Trading Silver and Futures

Dear Sir,

I am from Mumbai, India & have invested in futures in silver. I just want to know whether it's Haram or Halal.

Please guide me as per Shari'ah.

Thanks,

Mazheruddin

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mazher

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Futures in gold, silver and currencies are not permissible because they violate the very authentic and famous Hadith " gold for gold, silver for silver, . . . etc." as this Hadith requires that exchange of currencies must observe the condition of being with delivery of full and both currencies at the time of contract. This means the prohibition of futures and margins.

Further, speculation on currencies, gold, silver and other commodities is also prohibited because it does not create value. This is why the OIC Fiqh Academy resolved that all futures are not permissible in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mohammed

Sent: Tuesday, November 22, 2011

Location: Johannesburg, South Africa

Question: Shari'ah criteria in stock trading

Assalamualaykum

I earn a living by trading of the JSE (stock market) using predetermined chart formations, and market research. I am very limited as I am unsure of what is and is not Shari'ah compliant. I currently only buy certain equities (that are not related to entertainment, finance or any other haram activity). I would like to know if it is permissible to short the market. I understand that it is haram to sell something that I do not own, however there is an agreement between myself and the bank (the owner of the stocks I wish to short) that gives me permission to sell them on the open market. Shorting is also linked to the forex market as forex is traded in pairs (for example the euro/usd). This means that if I execute a forex trade in which I buy the dollar, I'm automatically going short on the Euro and vice versa.

Short is not permissible in shares for two reasons: the most important is the unknowability of what you give back. When you borrow a share you can sell it because borrowing transfers ownership. But Shari'ah does not recognize a share as a financial entity, it is only a representation of a part of the real entity (which is the composite of company in all its tangible and intangible assets minus its liabilities). This means that you are presumed to know what the share represents today but you certainly cannot tell what it represents when you pay it back to the lender. This is why Salam (sale with cash payment and future delivery) is also not permissible in shares. The second reason is the interest involved in shorting shares whether implicit or explicit.

I know that shorting is sometimes a part of forex. This is one of the two big reasons I always say that forex and all internet trading of currencies are not permissible. The second reason is speculation. Speculation all is Haram but it is worse with currencies because currencies are not assets for trade they are mediums of exchange.

My second question is in connection with trading futures (specifically the ALSI). I understand that regular futures are haram as one would not take delivery of the underlying asset; however there is no underlying asset on the ALSI as it is an index. Whenever it reaches its expiry date, it simply rolls over (for example the September 11th contracts became December 11th contracts). The other issue that makes them haram is the interest but I've found a trading house that is willing to provide me with interest free accounts. All I have to do is pay a slightly higher (fixed) cost per trade.

If this is an index the matter becomes more Haram. Shari'ah does not accept all virtual assets. Indexes and derivatives are not assets they are only images of assets created for speculation. They should not be owned or traded.

Your assistance in these matters is greatly appreciated.

May Allah reward you for your effort?

Wassalam

Regards

Mohammed

My Answer:

Please explain the terms JSE and ALSI

MK

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below questions in red

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Please ignore that part of the question for now. I'll search for a better definition and ask about it in a separate question.

Shukran for your answers. With regards to shorting, you have mentioned that "you certainly cannot tell what does it represent when you pay it back to the lender"...does this really matter as the loan was for the equity and not for cash? Is it also not the same as me, for example, taking a cash loan of \$10 000 from you. Considering the increasing cost of living, inflation and other economic conditions, we cannot be sure what the value of the money will be at a future date. According to my limited, humble, understanding (and I stand to be corrected), it doesn't matter what the future value is because the loan was for the money and not for the value of the money. Similarly if I borrow gold, I should return the exact amount of gold and not the value of the gold (unless otherwise agreed upon).

Your argument is correct, the value does not matter but you missed the point totally. When you borrow a share what do you borrow? You borrow a basket of asset (not their value). This basket is changeable every minute, how do you know what to pay back?

With regards to forex and speculation, I have attended seminars by experts locally and we work on a fixed strategy (I am currently only paper trading as I wanted to be 100% sure if it is Halal). The strategy has a high hit rate and is based on chart formations.

It doesn't matter what experts tell you. If you ask me, I believe any trade of currencies is Haram unless those who need to buy or sell it for their own use and payment and those money exchangers, national and international, who buy from the first group and sell to them. All internet so called trading (but it is only speculation and should not be called trading) is Haram for the two reasons mentioned earlier. This is my opinion.

Kindly comment.
May Allah reward you for your time.

Sorry I'm not grasping your response. If you could elaborate further. Let say hypothetically I want to go short 100 AGL (Anglo American - listed on the Johannesburg stock exchange). I would call my broker (Standard Bank or South Africa) and tell them I'd want to short 100 AGL @ ZAR305. They will allocate 100 shares to me and those shares will be sold on the open market on my behalf with the proceeds coming into my account. The trade works out as planned and when the price gets to ZAR285. I'll call Standard Bank again and instruct them to close my short. I'll buy 100 AGL shares on the open market and return them to Standard Bank.

I don't understand what you mean by "This basket is changeable every minute, how do you know what to pay back?" does it matter? I'm borrowing 100 share so I'll return 100 shares.

Sorry for the bother. May Allah reward you.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Mr., what you need to understand is that the 100 shares are not a financial asset just 100 shares like any other 100 shares. The company consists of assets – liabilities in addition to its market evaluation (which is part of the intangible). On Nov 22 you borrow 100/ 20,000,000 (the number of shares in the market) X (assets – liability +_ market evaluation effect as on Nov 22) when you pay back (the value is irrelevant) you pay 100/20,000,000 X (assets – liability +/_ market evaluation variant as on Jan 15 2012) are these two sets inside the parentheses the same. They cannot by any means

Why it is so? Because the share is just a quantity or real assets.

MK

From: Khaled

Sent: Monday, July 30, 2012

Question: Investment in stocks and shares

Assalamu Alaykum br. Monzer,

Ramadan Mubarak to you and your family. May this month be a blessing and great reward for us all InShaAllah.

I'm currently using the methodology adopted by the Dow Jones Islamic Market Indexes when deciding whether an equity investment is Shari'ah compliant or not. As you are probably aware,

the methodology excludes specific industries (e.g. alcohol, conventional financial services, tobacco, etc.) and adopts financial ratio screens for cash, account receivables and debt.

I am considering a potential investment into a company for my clients that passes both the industry as well as the financial ratio screens. However, a portion of its revenues comes from cigarette and alcohol sales. What portion of revenues that come from questionable/haram sources would generally make an investment non-compliant? The company that I'm looking at is at about 20% of revenues. Would revenue be a good measure, or should I be looking at net profits?

Juzitum Khair

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. KHALED

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Following the criteria of Islamic DJ, the percentage of Haram income to total revenue (before deducting administrative expenses) should not exceed 5%. Also please remember that applying the DJ criteria does not exempt the investor from purification because whatever the percentage of Haram the Haram income must be given to charity, it should not be kept by the Muslim investor. On the other hand if the Haram income exceed the 5% then the share does not pass the minimum level of acceptability.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Awadz

Sent: Saturday, November 24, 2012

Question: Stock Trading Understanding & Philosophy

Assalamu Alaykum wa Rahmatullah wa Barakatuh

Dear Dr. Monzer,

I have a conflict understanding stock market.

My question:

- 1) What means by stock/shares/equities in traded market?
- 2) What stock market represent? Ownership of whole company, or owning some part of liabilities/equities/assets in the company,
- 3) If stock market means of owning/ownership a company. It does mean we buy/sell all parts of assets/liabilities/equities, including "cash & cash equivalent".

"Cash & cash equivalent" raising my attention, because if we buy "cash & cash equivalent" with not same value, than its consider Riba.

For example; if Company ABC "cash & cash equivalent" Per share is 1.00\$, but the company quoted in board 0.95\$ (quoted in full net assets price including cash & cash equivalent), then its Riba by 0.05\$ because we buy cash with cash with not a same amount like Islamic principle "gold with gold must be equal".

But if we buy Company ABC with 1.20\$ it's ok because we paid cash with cash (1.00\$) equal, and 0.20\$ is non-monetary assets price (minus cash & cash equivalent).

But here raise attention and uncertain, what we really own of the company and to own IN the company account? an assets, liabilities or its equity which does have only intangible value or no real economic value, then it will be an issue what we own not paid equally if it monetary item.

4) Is it Stock Market create real economic (every day shares transaction), where I see Secondary Market does not give a single impact on economy either bad or good (Only Primary market/IPO creates real value, because there is where company receive money).

5) All trading paper stock, bond, derivative, is traded financial product which create attention to create money by speculate or taking less fair opportunities by other people, is it in the Islamic value? And if is not can we still working in that field?

In my years working in financial industry, in my understanding and research, all financial product creates more excessive unfair trading opportunities.

Example:

Stock Market = more minority shareholders get killed and tricked by big institutions (mostly banking, insurance company, hedge fund etc.) by sudden price attack, insider trading, and market control etc.

Commodities = the real price of commodities is been set only because of news spread and technical demand and supply, which creates more false price (not real economic value price) and false real/physical demand and supply. This will hurts the domestic community also create too much inflationary effect.

Bond = make value of money dropping and losing, creates Unlimited debt of interest effect (Time Value of Money Compounding effect), hurt economic in real long-term effect.

To find a blessing Job and Wealth. Thank You.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Awadz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You need to study a course on this matter. I cannot explain these in a short Fatwa

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Investment in shares of Halal-main-line-of-business companies

From: Augustine

Sent: Tuesday, January 08, 2008

Question: Shares of Pharmaceuticals

Assalamu Alaykum Dr Monzer

I am Augustine and wanted to ask you a question that relates to our company share scheme.

The company I work for is GlaxoSmithKline Pharmaceuticals and it operates a share match program for employees where for every share you purchase (using tax free income) you get an additional free share as an employee benefit. Currently I can purchase up to £125 of shares and in return get an additional £125 of reward shares. The reward shares are then held in trust for 3 years after which you can then transfer it into your name and get a share certificate or sell it at profit (after paying tax). In order to gain tax relief on your share holdings, you need to keep it in trust for an additional 2 years due to the Inland Revenue tax regulations. GSK is a listed company on the FTSE 100 and produces ethical products; however they also deal un-Islamically as they borrow some money on Riba in order to fund part of their business. On average they borrow between £2.3 bn - £4.0 bn annually and have an annual turnover of £20-23 bn. could you advise me on the ruling of these employee schemes?

Jazaka Allahu Khairan for taking the time and reading my email.

Salam Alaykum, brother Augustine

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Augustine

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The scheme as described is permissible to take. The matter of holding the shares, when you have a choice depends on the percentage of Shari'ah-Haram transaction to total transaction. This may be measured by earned interest to total net revenues, total interest-based liability to total figure of balance sheet or total interest earning assets to total market capitalization value of the company. Amount of loans to turnover seems to be not high as mentioned in your email. You may like to check other measures too. If the ratios you find are high (there is no real definition in Shari'ah of what is high, it is a matter of tolerance, and depends on circumstances) you may then like to sell these shares as soon as you can otherwise you may keep them. One easy way may be by looking at the companies under Islamic FTSE index, is this company in this index or not?

Under all circumstances, that is whether you sell quickly or keep, you need to apply the purification principle by giving to charity a ration of dividends and capital gain that you estimate as coming from Haram transactions.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ezatullah

Sent: Tuesday, February 26, 2008

Question: shares in airport

Salam Alaykum Sheikh

Can you please advise me having shares in local airport company? I live in New Zealand looking forward to your Islamic advice.

Jazaka Allahu Khairan

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ezatullah

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Investment in shares is subject to the following conditions: 1) main line of business must be permissible, 2) the company must not be ridden with interest transactions or other prohibited transactions on both sides of its income expenses account and its balance sheet and, 3) you should estimate, to the best of your educated guess. The percentage of both capital gain and dividends that is attributable to non-permissible transactions and give that equivalent amount to Muslim charity (this is called the purification principle). It is apparent that main line of business of an airport is permissible, it deals with interest and rent to liquor stores and may be other prohibited materials and transactions. These you should estimate by looking at the balance sheet and other closing accounts. It is noticed that the tolerance level is subjective because we are dealing with exceptions since the principle is that one may not invest in a company that may make any Haram no matter how little it may be. In investment in shares we are going out of this general principle because of the hardship it causes to Muslim investors. Exceptions have always certain degree of subjectivity!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Asad

Sent: Tuesday, April 29, 2008

Question: Margin trading and credit card use

Assalamu Alaykum,

First of all, I would like to thank you that I am immensely benefitting from your contributions on Islamic finance by frequently accessing Islamonline.net and monzer.kahf.com.

My question is about trading on margin. I understand that margin trading usually incurs interest. But here is a specific scenario. What if one buys stocks (Islamically permissible, of course) on margin and sells them on the same day (day trading) where some brokers don't charge interest if you close the positions on the same day? Will this be allowed Islamically?

Wassalam, Asad

My Answer:

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Technically trading stocks on margin without incurring interest is permissible but day trading is in fact not beneficial, it's mere speculation and speculation is very much hated in Shari'ah. Day trading of stocks is not buying a stock because you like it and like to hold it, it is rather profiteering not profit creating.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Asad

Sent: Sunday, September 28, 2008

Assalamu Alaykum,

Dear Scholar,

After pondering over the matter, I have some more concerns here; therefore, I am reopening this e-mail thread. I hope that you would enlighten me with the knowledge that Allah has blessed you.

1) What about short selling that doesn't incur any interest—opening and closing the position the same day thus avoiding paying the interest; will this be permissible?

2) What about possession and use of credit cards such as Visa/Master card etc. where you may avoid paying interest when paying by due date. Is this way of using credit cards and avoid paying interest permissible?

Happy Eid (in advance).

Jazaka Allahu Khair. Wassalam,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Short sale of stocks if closed on the same day is not Haram but again it is not any benefit to humanity, society or whatever. It is much closer to gambling in only transferring wealth from one person to another, it does not add value. Many countries are reconsidering short legal permissibility on pure economic grounds. I hate it but cannot claim that it is Haram.

2. It is permissible to use credit cards if you can guarantee that you will not fall into any interest. Two things you should be aware of: 1) pay within the grace period; and, 2) do not withdraw cash from an ATM machine with the credit card. You are then a free rider on an interest-based system!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Asad

Sent: Wednesday, October 01, 2008

Assalamu Alaykum,

Dear Prof. Dr. Monzer Kahf,

I highly appreciate your prompt response.

Having a global Islamic financial system would require time, money and effort in that direction. Today's financial system, based on interest, is crumbling, but there is no alternative system in place at such scale that would replace it. A gradual change (such changes usually take time) may help towards establishing a profit-creating system intended for the welfare of everyone—a truly global Islamic financial system catering to the need of everyone.

The present financial system is full of manipulations where Dow may rise above 700 points one day and then fall drastically the next day. In this grossly unexpected volatile system, if I intend to day trade or swing trade using my money or trade differently, such as going long on leverage and short, but always close such interest-bearing positions on the same day to avoid paying interest, hoping and praying that the money earned would be devoted to building or helping the truly welfare-oriented system envisioned by us, will this be okay?

I always benefit from your wise education and guidance, particularly in these changing scenarios.

Jazaka Allahu Khair.

Wassalam, Asad

My Answer:

Dear Br. Asad,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I said my opinion and find no reason for any addition; I still do not recommend this kind of profiteering. On a pure business note, people lose more in it than gain and the final winners are the brokers who get commissions!

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

From: Ibrahim

Sent: Wednesday, March 04, 2009

Question: Borrowing money to trade stocks

Assalamalaikum Dr. Kahf

If I were to borrow money from my line of credit and invest in the stock markets, and if I were to make profit. Would the profit earned all be considered haram income or is the interest that I pay only haram or the one time transaction.

Also, is there any disposition for taking a mortgage in Canada to purchase a home? I know there exist some Islamic Housing projects like ISNA but they are work out to be very expensive and there exists many restrictions.

Jazakallah

Ibrahim

Assalamalaikum:

Just wondering haven't received your response.

Jazakallah

My Answer:

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I sent it to you on Feb 27, please find a copy below:

Best Regards,

Wassalam

Monzer Kahf

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Borrowing money on interest to make business is Haram. It is Riba and the Prophet pbuh said that giving Riba is as Haram as taking it. Both invoke the Wrath of God. You don't begin from Haram to make a permissible action. When someone begins with a Haram she/he will be covered with the Haram all over!

2. If you live in Canada and you need to buy a residence for yourself and your family and you cannot meet the conditions of the Islamic finance you can then take a conventional mortgage that you can afford. This is the Fatwa of the Second International conference on Fiqh that was held in Detroit in the fall of 1999.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Khalid

Sent: Monday, August 17, 2009

Question: Stocks question

Salaams Br. Monzer Kahf,

My name is Khalid and I went to one of your classes last week but missed the one on stocks. I have a question about stocks, this is what I do:

I buy a stock after extensive research that it has a potential of growing up because of a new product or good news and have the intention of making 10% regardless of how much time it takes, whether it's one hour, two days or a week. Is that ok and could you please tell me what I am allowed to do in the stock market. Thanks a lot.

Salaams,

Khalid

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Khalid

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please notice that when you buy a stock you become a partial owner on the company who delegates authority to its management to take decision. This means, From Shari'ah point of view that you are responsible, literally, for every decision done by the management. Consequently, you must be selective in what stock you buy. For these criteria please make some research on the internet. And of course, keeping in mind that all companies listed in New York Exchange make many non-permissible transactions, you need to estimate the Haram income and give it away to Muslim charity because you share of such Haram income is not Halal to you!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ibrahim

Sent: Sunday, February 07, 2010

Question: Stock trading

Assalamu Alaykum

I am always in confusion when it comes to buying and selling stocks.

Therefore I stopped until I understand the Shari'ah ruling. My situation is as follows:

I am buying stocks for the sole purpose of making profit. I don't care if the company is doing well or not, expanding their business or not, hiring new employees or not, serving the community or not. I am always cautious not to deal with companies that trade in Haram goods or services. My sole purpose is making money.

Considering my intentions, my question is, is this type of trading

Shari'ah compliant?

Please advise, Jazakum Allah Khair

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In my opinion this is pure speculation and I believe that speculation is not a thing that Shari'ah likes. I wouldn't go for such a practice. Trade must add a sense of service and investment in a company must have an element of belonging. If you do not belong to a company why investing in it? We must cease the thinking that shares are just a commodity people trade them like they trade other commodity (I wish it is like they trade other commodity, rather we made trading them much easier and faster so that it become closer to gambling than to trading).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abdullah

Sent: Sunday, March 21, 2010

Question: Margins in stock trading

Salam Dr. Kahf

I was reading your fatwa's regarding margin trading where you mentioned that using margin is allowable for stocks if there is no interest incurred. Let's say that the broker is willing to let me trade on margin for an optional monthly fee unrelated to whether I use the service or not. For example the broker charges me 99\$ per month and I can use a margin account. Now whether I use the margin or not I will still be charged 99\$ so it's not tied to the loan amount. Would this be considered Interest or can this be considered a fee for the service, thereby being halal?

Thank you

Abdullah

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Abdullah

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am amazed how we try often to beat the Fatwa because we are eager to live on the edge of Halal. Riba is not defined as proportional to a loan but an increment in a loan or debt. If opening a margin account cost physically more than a regular account say one more paper to fill that material additional cost can be charged to the user. But any amount above that material cost is a price of lending and it is Riba But if there is no additional cost then all this 99 Dollar is Riba, it does not matter whether it is proportional or not.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abul Basher

Sent: Friday, June 18, 2010

Location: Dhaka, Bangladesh

Question: Trading stocks

Dear Dr. Monzer Kahf,

Assalamualikum. Hope you are well by the grace of All Mighty Allah. I am Mohammad Abul Basher, from Bangladesh. I have interest in stock business. But I want to know clearly is stock business halal or haram? I have asked many men, scholars, Imam, Islamic scholar, mufti and other professionals. Some say halal and some say haram. Tabligh Jaamat group people say it is totally haram. I see many Muslims as they known good Muslims as well as good people are doing stock business. So I am confused about this. Please make me clear. May Allah bless you.

Abul Basher

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Abul Basher

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Buying and owning share/stocks of companies whose business is permissible and that do not undertake transactions that violate Shari'ah is permissible. This amounts to being a partner in these companies. On the other hand, speculation in shares is not a matter that is useful or Shari'ah encouraged. Speculation on prices when especially when heated is really harmful and prohibited.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Rifai

Sent: Wednesday, September 29, 2010

Question: Investing in stock market

Salam Dr Kahf,

Is it permissible to invest in permissible stocks in stock market to make a quick buck knowing you are not going to hold the stocks for long term?

Barkallahfeeq

Jazakallah

Rifai

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rifai

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

What you said is not investment. How can you call it investment and you said it is not intended for investment. This is price speculation. I don't find any reason how it can be permitted in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Anouar

Sent: Saturday, November 27, 2010

Location: Vancouver, Canada

Question: trading shares

Dear Dr. Monzer,

Assalamu Alaykum wa rahmatu Allah,

My name is Anouar and I am living in Canada. I recently started discovering some investing opportunities for stock purchase as a short term investor. I wanted to have some advice on

some of the points that are still ambiguous to me. I would like to thank you in advance for your time and effort and Jazaka Allah Khairan.

I don't agree that such short term activities in stocks can be called investment, they seem speculation on prices that does not create any real value. In my opinion short term speculation on stocks is Haram and cannot be called investment.

I summarized the screening criteria I found for Shari'ah-compliant companies below:

BUSINESS ACTIVITY SCREENING

Initially, companies involved in any of the following activities will be filtered out as non Shari'ah-compliant:

- Conventional Finance (non-Islamic Banking, Finance and Insurance, etc.)
- Alcohol
- Pork related products and non-halal food production, packaging and processing or any other activity related to pork and non-halal food
- Entertainment (Casinos, Gambling, Cinema, Music, Pornography and Hotels)
- Tobacco
- Weapons, arms and defense manufacturing

FINANCIAL RATIOS SCREENING

The remaining companies are then further screened on a financial basis. The following financial ratios must be met for companies to be considered Shari'ah-compliant:

1. Debt is less than 33% of total assets
2. Accounts receivable and cash are less than 50% of total assets
3. Cash and Interest bearing items are less than 33% of total assets
4. Total interest and non-compliant activities income should not exceed 5% of total revenue

Based on the above, I found that some Shari'ah-compliant investors use the "Assets" and some others use "trailing 12-month average market cap" for computing the Financial Ratios. What confuses me here is that the market cap (mkt cap) is changing daily and volatile? So I wanted to have your advice on what best to use in this case?

The argument for of using assets or MCA has two aspects. One theoretical depending on what is the variable that affects management decision and practical were you find big difference some times. I would exclude a company that does not pass either of these two measures.

I have few questions regarding some of the formulas used:

1. Total debt: I wanted to ask you is it correct to assume that:

Total debt = "Notes Payable & Short Term Debt" + "Current Port. Of LT Debt & Capital Leases" + "Long Term Debt" + "Capital Lease Obligations"

The idea of total debt is to be sure that the company does not depend on interest-based debt in generating its activities and then income. Any non-interest bearing debt should not be included including debt for rent and non interest facilities.

2. Accounts receivable and cash: Does cash mean "cash" or "Cash & Equivalents"

Yes because the idea here is to see whether trade should be at book or market value. Cash and its equivalent and debt should only be exchange at face value. If they are a majority their rule applies.

3. Cash and Interest bearing items: is this equal to Cash & Equivalents + Cash or no?

This in fact does not include fiat money held in vaults, it is meant here as assets that generate interest.

4. Total interest and non-compliant activities income: What is meant by this? I found several definitions and sub-items here for example in Reuters.com for a specific company I find "Interest Expense, Net – Operating", "Interest/Investment Income – Operating", "Interest Expense(Income) - Net Operating", "Interest Expense, Net Non-Operating", "Interest/Invest Income - Non-Operating", "Interest Income(Exp), Net Non-Operating", "Minority Interest", "Interest Adjustment - Primary EPS".

a. Does Total interest mean the summation of all the above?

b. Also, some of these interest sub-items listed above are sometimes negative? What does it mean? Should they be considered or discarded?

What is meant here is gross amount of interest earned without deducting interest paid or due on the company. Plus sale revenue from liquor, pork and any other prohibited product plus net (sale revenue- expenses and cost) of prohibited transactions

Final question, for purification, is the amount to be given out from the profits is equal to the Total interest ratio? Is that the recommendation?

It is the amount of No 4 above plus any capital gain that results from prohibited activity such as increased market value as a result of getting a new loan.

And, Jazaka Allah Khairan Again,

Wassalam,

Anouar

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Anouar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Jazaka ALLAHO Khairan Br. Monzer and may ALLAH, subhanahu wa ta ala, guide us to that which pleases him. Ameen.

I know day trading is Haram but I still have some ambiguity how to define short term activities in stock, is it few days, few weeks or few months?

How we differentiate between short-term speculative trading and medium or long term investment?

And, Jazaka Allah Khairan Again.

Anouar

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Anouar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is not the time that defines speculation. It is rather the “waiting for price change.” This is what makes it speculative not investment. Investment in companies means creating new projects/ companies or buying out an old shareholders in order to be a part of the business. But when all my concern is to wait for a price change I am purely speculator. I don't call that investment because it does not have any single characteristic of investment. Investment is increase in the capital capacity of a country. This is not. I know it is called by all persons who in finance as investment, but I also know that they call all speculation investment and they do not shy of it. And I also know where that kind of thinking did and behavior took us to. I MAY BE AN INVESTOR AND SOMETIMES BUY AND SELL ON THE SAME DAY (finding new info that was not available to me or suddenly needing cash or any other possible reason) and I may stay for weeks but still be a speculator. In Day trading that intention is obvious. But would the world production decline if the regulator set the rule that you cannot sell unless you wait for a profit to be declared, e.g., once only every quarter? I think real production would rather be enhanced. This is my view on speculation and investment as I like to call things by their true names.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Karim

Sent: Wednesday, October 03, 2012

Question: Shares of RIM

Dear Dr. Monzer,

My friend asks the following questions, would you be kind to provide me with your input to forward to him? Thanks.

Karim

I am thinking of investing some money into shares for RIM. What I need answered to make sure it is ok to proceed is the following.

1. Would it be okay to invest in RIM since their main source of business is mobile devices? As the mobile devices industry does not encourage anything haram unlike alcohol companies or banks, or tourism companies that encourage immorality.
2. RIM's financial statements are very brief, I didn't see anything that said interest revenues or interest expense, although they may be included in the name "Revenues" and "Expenses", if they did have these revenues or expenses, (and I'm sure these would be very small relative amounts to the core business) would it still be okay to invest with them? Are we only allowed to invest in companies with zero fixed income?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Karim,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There is no company on the lists of Western Stock Exchanges which is Shari'ah compliant by its own declaration and choice. Therefore any company on these Exchanges must be subjected to the second best approach which is the tolerance approach which is based on removal of inconvenience. In other words, there is no company that can be described as Halal but there are many that can be described as permissible on the basis of removal of inconvenience.

This principle implies two basic things (of course after excluding all companies whose main line of business is not permissible in Shari'ah): 1) setting criteria for selection among the evil on the basis of tolerating a minimum level of Haram and 2) necessity to apply the purification criteria because no matter how little the Haram may be it remains Haram and must be (not earned by a Muslim) removed in order to keep the property of a Muslim investor Halal.

Setting one set of criteria on all the markets is not possible because degree of tolerance depends on availability of alternatives. This means that these criteria should vary from one market to another. For instance studies made for New York market came up with max 30% leverage, 30% assets involving Haram and 5% Haram income out of the gross revenue of the company. Similar study for Mumbai took 20%, 20%, and 2%. In KL they apply different numbers too.

Also the denominators of the first 2 ratios are disputed, should they be average assets over the year or at time of investment or average market capitalization?

I believe that the criteria of removal of inconvenience should be defined as a level which gives chance to Muslim investor to choose between different shares and be able to maneuver in a way similar to the non-Muslim investor. Then applying this definition on each market and reviewing the numbers as markets evolve, say once every year. Unfortunately this service does not exist free of cost don't give any opinion on specific shares.

What I suggest is: when a Muslim invest in any company whose main line of business is permissible he should definitely look into its financial numbers and if he does not find that it has substantial activities in Haram areas and nothing is suspicious, he should then estimate a generous level of purification if he decides to invest in the Western markets.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Treasury Bonds and other debt securities

From: Mev

Sent: Thursday, January 10, 2008

Question: Treasury Bonds Purchased by Parents at Birth

Assalamu Alaykum Dr. Kahf,

My husband's father purchased treasury bonds in my husband's name when my husband was a baby as gifts to be cashed when he was an adult. Now in his 20s, my husband has school loans we are paying back so it was decided that my father-in-law would cash the bonds and send them directly to the loan provider to help lessen the school loan debt. Our question is whether we are obligated to "purify" the interest portion of these bonds by donating that amount to a

charity? We are unsure of the answer since it was not my husband's choice to purchase these bonds, however obviously we are benefiting from them.

Thank you; we look forward to your response.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Mev

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If these bonds are in your husband's name it is he who should cash them, he is the only person who can cash them and if anybody else (his father) cashes them it would be on his behalf. Accordingly, the person who should purify his properties from interest is your husband. The amount that is received as a gift, from your husband's point of view is the market value on the day he became authorized over these bonds. This day may be when he became 18 years old or when they were handed over to the owner if the day of handover is after the day of completing 18. Therefore, the amount of purification that should be given to Muslim charity is the difference between the cashed value and the value on the day your husband became authorized over the bonds. Purification for the period before the presumed gift date is the responsibility of the father and it is in the amount that is equal to the difference between the gift amount and the original cost of the bonds as paid by the father many years ago. If the bonds were never given to your husband, though in his name and were always under the full authority of his father, the purification become the responsibility of the father and its amount is the difference between the original amount he paid for these bonds many years ago and the cashed value.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Sent: Monday, February 11, 2008

Question: Bonds in Islam

Dear Br. Monzer Kahf:

Below is a clear, simple explanation of why I think revenue bonds would be okay for you to hold. This is beyond the traditional way of thinking on the subject... I think that the majority of "Islamic investment" schemes are often constructed to get around the rules, rather than adhere to their spirit. This rationale, however, I would feel comfortable following from a religious point of view. Look at his page defining "Sukuk" or Islamic bonds and read it carefully:

<http://en.wikipedia.org/wiki/Sukuk> <<http://en.wikipedia.org/wiki/Sukuk>>

Then read this page on revenue bonds, which are normally issued by municipalities in the US:

http://en.wikipedia.org/wiki/Revenue_bond
<http://en.wikipedia.org/wiki/Revenue_bond>

The fact that revenue bonds are 1) backed by an asset and a specific stream of income; 2) meant for the public good (and not for private gain), and 3) do not provide certainty (the repayment stream which could be seen as interest, but could just as well be seen as a

smoothed out profit stream is certain... but the principal is not certain! And of course, there is a risk of default.). This rationale here may not be perfect, but it is an honest attempt to meet the requirements. And as we both agree, no financial instrument-stocks included- is 100% Islamically correct since we simply do not live in an Islamic economic system, and likely never will in our life time. The markets are far too intertwined for even a place like Malaysia or UAE to exist on its own. The reason we hold stocks is NOT because we think they are 100% Islamically okay, but because we MUST hold them to have any semblance of a normal financial life. It is too impractical to shun them entirely, so we do our best to make the best choice Islamically from what is available to us. We can hold revenue bonds for the same reason- in fact; you may even consider revenue bonds to be more Islamic, because the money is used for public purposes.

Please consider this, and show it to any scholars you trust. It is very important that we figure out SOME way to adopt something other than stocks in your portfolio, because while you may consider a 100% stock portfolio appropriate Islamically, the closer you get to retirement, the more inappropriate such a portfolio will be to you and your family.

I don't know if you recall, but you were kind enough to speak with me at length regarding Islamic estate planning some 6 months ago. I am not sure if this is within your scope of expertise... but do you have well-formed opinions on Islamic finance as well? In regards to whether Muslims in the US should be holding bonds and stocks? I'd love your input if you have any...

Wasalaam,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Bonds are interest-based, they are non-permissible to issue, own, buy or sell according to our Shari'ah. Stocks are shares in companies. Muslims are not permitted to produce or sell anything that is not permissible in Shari'ah; they are also not permitted to make any transactions that are forbidden by our Islamic laws such as interest-based transactions or sale of products before taking actual possession of. Of course what one cannot do must also not be done by one's agent. The management of a company is the agent of its owners. This means that you cannot be a part of a company in which the management does anything that is not permissible according to Shari'ah. This in fact rules out any stock that is listed on the exchanges in America and Europe, etc. Because this position, true and correct as it is, creates a huge difficulty for small Muslim savors/investors, this ruling has to be relaxed as our religion always calls for removal of hardship. The relaxation should be as much as needed to remove this hardship from Muslim savors/investors. Some scholars studies this and came with a set of screening criteria for stocks in the US market: 1) the main line of business should be permissible (ruling out military industry, banks, insurance companies, Hollywood industry, Las Vegas industries, etc.); 2) interest and other prohibited income should not exceed 5% of net income of the company; 3) assets that are suspected of bringing interest must not exceed 22% and dependence on loans must not exceed 33% too; 4) each period, the investor must calculate or estimate educationally

the percentage of both dividends and capital gains that is caused by Haram transactions and give that amount to Muslim charities in order to preserve one's money Halal and pure.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Jesal

Sent: Monday, July 21, 2008

Question: Query on Bonds

Dear Sir,

This query is relating to an Indian instrument i.e. a deep discount bond. These bonds are issued at a discount on the face value and do not carry any specific rate of interest. The holder of the bonds on the maturity date is paid the face value of the bond. Thus the difference between the subscription value and the face value is the income earned by the subscriber of the bond.

The investors in these bonds get no or very low interest payment but earn the difference between the issue price and the redemption value. Tax treatment of income is as per attachment.

Kindly let us know whether such an instrument can be issued as per the Shari'ah law.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Jesal,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a pure interest bond. Please notice that interest is an increment in a debt or loan. The difference between the amount you give as a debt (the purchase price of this bond) and the face value at maturity is the interest. Also please notice that interest doesn't have to be a percentage or periodical, rather any contractual difference between the amount you give and the amount you get at a future time is defined in Shari'ah as interest. THIS KIND OF BOND, AS DESCRIBED IN THE QUESTION, IS IN GROSS VIOLATION OF SHARI'AH AND MUST NOT BE ISSUED, BOUGHT, HELD OR SOLD BY A MUSLIM.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ahmed

Sent: Monday, January 26, 2009

Question: UK Government N&S Premium Bonds

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

We hope this message finds you in the best of health and happiness you and your family.

Following is a financial question sent before and did not receive the reply:

Visitor Question:

Dear Brothers Salam Alaykum, I want to ask what the Shari'ah say in investing in UK government N&S premium bonds, they don't give any interest but there is a monthly prize withdraw, and you may win and may not. Plus act like saving bank so that you can take your money any Time you want or need. Your Advice is much need and appreciated.

Jazakum Allahu Khairan for your constant help

Yours,
Ahamd

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ahmed,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

A bond issued with a prize is an interest-based bond. The prize in it represent the interest. It also has a gambling element. The OIC Fiqh Academy studied this kind of bonds and ruled that it is forbidden to buy, issue and sell on the ground of interest.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Jamal

Sent: Saturday, July 16, 2011

Question: Investment in Bonds

Dear Dr. Kahf-

This is another problem that I am facing right now with a client, and one that has come up many times for me.

My client is near retirement. He has never kept bonds in his retirement account in the past, but he is getting to the point where he will need to draw on the funds very soon. A portfolio that is 100% in stocks is very volatile. In 2008, his portfolio lost 45%. His account has come back, but he cannot afford that again.

There is nothing I can do for him to make the account safer without bonds. This is not because we need interest; it is because stocks and bonds move opposite one another in economic cycles (as you would know as an economist of course).

I know that the easy answer is to say that bonds are Riba and should be avoided. But what is the solution for someone like this? I can buy him treasury inflation protected bonds... these are indexed, rather than paying interest. I believe this is something you support. Is this okay? or is the only alternative to hold cash where I would hold bonds? The inflation protected bonds at least rise with inflation.

Your thoughts on how to handle this would be most appreciated.

Thank you.

Jamal

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Of course Bonds, including the inflation protected, are Haram because they are interest-baring debts. Interest is one of the most serious sins in Shari'ah and they are in fact unjust and a violation of basic right of ownership. There is no way in real life that you only gain and not being exposed to losses. If your customer wants to act within the Shari'ah spirit she should accept this fact and then invest in least volatile shares, or why don't you create a leasing fund that invests in financial lease. This is fixed income. The problem with Riba is not being fixed or variable, it is being an increase that is not true because debts do not generate increments.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Dear Dr. Kahf-

Thank you as always for your response. Do you know of any retail products (Islamic or otherwise) that involve the "leasing fund that invest in a financial lease?" Or can you explain a bit more about how I can put that into practice? Or refer me to someone who has done it before? It is a good suggestion, but in order to implement, I need to know these answers from somewhere.

Wasalaam,

Jamal

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The idea is simple: create a redeemable mutual fund and invest only in lease contracts. Make the focus between long and short leases depends on the liquidity strategy of the fund.

There is an Ijarah fund in Bahrain created by Al Barak Group. There is also a Murabahah fund, which works on similar basis and it is also fixed and secured because debts of Murabahah are fixed and secured.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Asif

Sent: Sunday, July 29, 2012

Question: Strategies of Stock Trading

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Would a strategy like "buy an oversold/undervalued permissible stock and hold it for a maximum of 10% gain or maximum of 5% loss" fall in prohibited category? (The stock will be held as long as one of the conditions is fulfilled)

Jazakallah Khair!

Asif

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. ASIF

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I mentioned to you the rule, its application to what is in your mind is your job and responsibility, and I can't give you a license! If it is speculative, and you know it better than anybody else, it is Haram and if it is not speculative it is then permissible.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Attia

Sent: Wednesday, August 01, 2012

Location: United States

Question: Buying Shares and Bonds

Alsalamo Alaykum

Please advise in what's halal and haram in investing in stocks and bonds

Thank you

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

A company whose main line of business is prohibited is certainly Haram to buy its shares. Also a company which does Haram transactions is also Haram to own because owning a share means that you become a partner in the company.

Bonds are interest-based; they are not permissible in Shari'ah

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Investing in stocks of doubtful and non-permissible companies

From: Latif

Sent: Wednesday, March 12, 2008

Question: buying visa IPOs

Salaam,

I know the answer that I am looking for is pretty much straight forward. But, I wanted to know in detail; my question is regarding investing in Visa's (the credit card company) IPO. Would it be haram?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. LATIF

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The principle is that if its main line of business is to provide credit card finance for interest. It is then not permissible to buy or own its stocks, IPO's or others. But if it has other businesses in addition to issuing credit cards and financing through them, we need to look into degrees of tolerance and financial numbers to determine whether it is tolerable to invest in its IPOs or not.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mohamed

Sent: Tuesday, March 18, 2008

Question: Visa IPO

Slam Dr Monzer,

I ask Allah that this email finds you and your family in the best state of health and Iman.

Tomorrow Visa is turning IPO is it Halal for me to trade their stocks?

Slam

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

To the best of my knowledge: NO, does it have any non-financial activities? That may affect the Fatwa. .

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Samy, Islam on line

Sent: Wednesday, March 19, 2008

Question: How to Get Rid of Shares Bought From a Non-Islamic Bank

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

My Mother bought shares in a non-Islamic bank, before we knew it was haram? Now we know it is, how do we go about rectifying this sin? Just selling the shares? Thanks for all the work you are doing. We are learning a lot

Jazakum Allahu Khairan for your constant help

Yours,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Hamidah

Just sell them and if you made any capital gain or get any dividends you should give that away to Muslim charities or Muslim poor and needy. You may recover your principal only.

Besides we have Verse 11:114 that says "Indeed good deeds wipe out bad deeds". Keep doing Istighfar, prayers, Duaa, and charity. That will clear all bad deeds InShaAllah. Although I should say that buying these shares was because of not knowing the right Shari'ah Ruling about conventional banks and their shares.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Faatima

Sent: Monday, April 14, 2008

Question: Having stocks in companies that deal with Haram

Assalamu Alaykum-wa-Rahmatullah-wa-Barakatuh

Respected scholar please comment on the permissibility of buying and selling of shares in a western institute

May the almighty reward your efforts.

Wasalaam

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Faatima

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You ask too many questions in one shot, that is a bit too much Sister!

Buying, owning and selling stocks in companies: When you buy a share in a company, you become a partner in it. Therefore, if the business of that company is permissible and it does not make any forbidden transactions it is certainly permissible to be part of it. But if the business is forbidden it is Haram to be a part of it example is the pornographic industry, it is of course Haram to own a share in it or even a conventional bank because when you are a partial owner we look at it as if you do the Haram contract of trade yourself because the manager does it on your behalf. Most companies, anywhere in the world, are in between. Here is where a specific judgment is needed. Basically doing any small bit of Haram is not permissible, but do we sometimes TOLERATE some of the Haram if the majority is Halal? It really depends on circumstance. That is: if there are other options we do not tolerate any Haram. But suppose everything becomes mixed, doesn't any living creature must make some choice and then tolerate some of the Haram. The answer is of course YES. Because life to go on under all circumstances. Under circumstances where this category of mixed companies are the great majority in the world, we have to make a decision to choose to tolerate what is least Haram and still avoid what is more Haram on a case by case basis. Markets vary in the amount of predominance of these mixed kinds of companies and individual person also differ in their degree of tolerance. In the final analysis we have to make our decision of how much do we tolerate on a case by case basis.

Wa Allahu A'lam

Wa Al Hamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Hijaz

Sent: Friday, June 06, 2008

Question: Investment in Insurance Company

Assalamu Alaykum,

I'm under graduate, B.Sc. Accountancy, from Sri Lanka. In my country an insurance company has just announced its IPO (Initial Public Offering). I want to know is it acceptable in Shari'ah to invest in an conservative insurance company's IPO as well as usual share investment. Please provide me solution for questions in the light of Shari'ah. Thank you.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Hijaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Owning an insurance company shares makes you a partial owner of it and then partially responsible for all its actions and investments. Insurance companies investments are all in interest based securities. Interest is not permissible in Shari'ah and therefore its income is not permissible. It is agreed among Scholars that owning shares in conventional insurance companies is not permissible in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam
Prof. Dr. Monzer Kahf

From: Khaled
Sent: Sunday, April 25, 2010
Location: Australia

Question: Investing in company that owns crematoria

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
الحمد لله رب العالمين ، و الصلاة و السلام على سيد الخلق أجمعين
السلام عليكم و رحمة الله و بركاته

Dear Dr. Monzer Kahf,
I have an inquiry about the compliancy in investing in a company that owns and operates funeral homes, cemeteries and crematoria.
The company code is IVC in ASX-200 (Australian Securities Exchange)

جزاك الله خير و أحسن إليك
ابنكم
الطالب/ خالد

My Answer:

Bismillah al Rahman al Rahim
Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in
Dear Br. Khaled
Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh
Funeral companies in the western culture have several practices that violate human dignity including cremation and sometimes some weird ways of funeral and burial. I wouldn't suggest investing in their shares.
Wa Allahu A'lam
Wa Alhamdu Lillahi Rabb al Alamin
Wassalam
Prof. Dr. Monzer Kahf

From: Siddick
Sent: Wednesday, July 14, 2010
Location: Mauritius

Question: tradability of some investment products

As-salaamualaikum

Dear Professor,

Trust that everything's fine on your side and that the University affairs are running smoothly. I am happy to have participated in your training programme in Mauritius and have to be thankful to the All-Mighty for blessing me by having allowed me to meet such a knowledgeable person as you.

Respected Professor, I have attached herewith two investment products that are being proposed to Mauritian investors and would appreciate if you could have a look at them both and let me know:

1. To what extent are they Shari'ah-compliant and the reasons thereof?
2. Can those products be offered to the market via an exchange (i.e., not on OTC basis)? If yes, why? If no, how can they be modified to fit the requirements so that they can be traded on an exchange?

Hope you'll revert as soon as possible

Regards,

Siddick

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Siddick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The Pramer looks as interest based and there is no evidence at all that it is Shari'ah compliant.

The Oasis seems to say it is Shari'ah compliant. If you trust its management then believe it, I don't know them although I heard of them.

Generally, I tend to argue that investment in Shares for short term in the way fund managers usually do is not compatible with the Shari'ah principles. If you buy a share for intending to stay with the company for a long period it is normally permissible if the company's activities are permissible.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Dear Professor,

Wa Alaykum Salaam

Thank you very much.

Just a quick one: can the Oasis' instrument be traded on an exchange. If not. How can it be modified to be tradable on an exchange?

Regards,

Siddick

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Siddick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Essentially, yes, it can be traded on the board, but of course one has to review the final formulation before making a specific statement on this matter

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abdal Rahman

Sent: Saturday, December 31, 2011

Question: shares of companies whose compliance status changes

Salam Alaykum

I have a question about investing in stock

I will describe the situation so that you can understand the question:

I bought stock for ABC Company that company was considered acceptable few months ago from Shari'ah compliance stand point.

2 months later rechecked on the company, her finances changed it became non Shari'ah compliant.

In the meantime the stock prices is going down.

So I'm losing money.

Can I wait to sell the stock until I can regain my loss?

Or I should sell it since I know it became non-compliant from Shari'ah stand point???

Jazaka Allah Khair

Abdal Rahman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If you are investing in America or similar markets, you may apply these tolerance criteria generally as given in the DJ Islamic market index but if you invest in other markets the criteria may be different because they are based on the principle of needs of a large number of people, these needs vary from one market to the other.

In the case you described, you may wait until you cover your principal and any extra is better be given to charity as a part of the purification application.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Yasir

Sent: Friday, September 14, 2012

Question: Stocks of companies that have haram in their subsidiaries

Asalaam Alaykum,

I hope, insha 'Allah, I can ask you some questions and may Allah reward you.

I have read that when investing in stocks, there are some criteria to consider before owning the stocks. For example, it should not be for prohibited activities such as usury, gambling, alcohol, etc.

But, suppose I find out a company that sells products, such as beverages that contain no intoxicants and so the drinks themselves are halal. However, suppose this company has

investments in many other haram things like gambling, and movies and they derive a large part of their income from the haram activities. So because of their investments, we could say that investing in this company is no longer permitted.

Now that I have this knowledge, does it also become haram for me to sell these soft-drinks? Suppose I have a store, and I carry these drinks now ... should I stop selling them?

Furthermore, would I have to stop drinking these drinks?

I hope my questions are not foolish, but I am trying to get the right perspective on these issues, Insha'Allah.

Lastly, when buying things we use in our daily lives, e.g. soap, toothpaste, and food from grocery stores etc. ... do we need to worry at all about the companies behind these products?

Or, should we just leave such matter alone and assume they are halal?

Jazaka-Allah

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Yasir

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In investment we look also for the financial ratios of the company not only the main line of business.

The issue of financial ratios comes in only in order to remove the hardship because there may be no companies that are purely Islamic. In addition when we apply the financial ratios we still need to apply the purification principle: estimating the percentage of the total profit that comes from Haram and give it to Muslim charity.

In addition speculation is also Haram. And one has to be really careful about it when investing in equity.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Assistance activities of the stock market

From: Rinsad

Sent: Monday, March 10, 2008

Question: Islamic Ruling on Developing Software's for the Stock Market

Dear Respected Scholar

I am a Computer Engineering graduate and a Senior Software Engineer by profession. I am working for a company which is developing Software which could be used to analyze the Stock Market prices and do trading in the real-time. We are basically supplying our applications for the Middle East, stock brokers. Our system allows price evaluation and equity trading only (I.e. the customer should have a Buying Power). Our system also emphasizes 'Max Floor' price and 'Min Floor' price on stocks. I am involved in implementing our system basically, in the Saudi

Market. In Saudi, most of the brokers are Banks. The customers should have an account with a bank for trading on stocks. The banks are basically conventional banks but they also provide an Islamic Banking channel. So, the customer can have an account in any of the channel.

The stocks in the Saudi Market are both Haram and Halal stocks. The Haram stocks include Banking, Insurance etc. Even these Haram stocks include some Halal stuff through the terms of Islamic Channels (like Islamic Banking, Takaful) as I mentioned earlier. But most of the stocks are Halal stocks. I am bit confused with the fact, that whether I can develop software for this business and earn from that. When I went to discuss this matter to a local scholar, he suggested me that to identify whether this software is used most of the time (51%) halal or haram, based on that we can make the decision.

When I went on exploring this further, I got some information about how the stock market in Saudi is performed. There are two types of things could be done with our application.

1. Speculation
2. Manipulation

As I had explained earlier, even though the software is providing some restrictions on manipulation (Max Floor, Min Floor), there are some giants doing this but not everybody. But, most of the people use it based on speculation.

Could you guide me on the Islamic Ruling on developing this software? This will not only benefit me, but also for several brothers who are working on this industry.

I am expecting your reply, Regards.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rinsad,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't see any reason why producing and selling the software for trading stocks may be not permissible in Shari'ah. You are producing a tool only and you are not a part of the decision making to buy or sell any stock, permissible or not. Your tool can be used for either. If you know, for sure, that a specific buyer is going to use it only for prohibited transactions, you should not sell it to this specific buyer. But it is not of your business to check the background and intention of any buyer that comes to you. I wouldn't go for checking any percentage or any ration or any stock per se. I think the right question that you ask yourself is: Do I know for sure that this buyer is going to use my product ONLY for Haram transactions, if the answer is yes, don't sell your product to that person/company/broker. This is the only Haram sale.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Mutual funds and retirement schemes

From: IRFAN

Sent: Thursday, March 20, 2008

Question: TATA Mutual Fund

Dear Sir,

Assalamu Alaykum,

Kindly find enclosed here details of latest TATA Mutual Fund, is it permissible for Muslims to invest in such funds, if yes what percentage of income/profit we should treat as interest.

Kindly note that I am an Indian Muslim working in Abu Dhabi UAE (Gulf)

Thanks

My Answer:

Dear Br. Irfan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh The attachment you send does not give any idea about the methods and contracts of intended investment, it does not also mention whether it will abide by the Shari'ah rules and regulations. I CANNOT GIVE AN OPINION BECAUSE YOU DID NOT SEND ME SUFFICIENT INFO.

Best Regards,

Wassalam

Monzer Kahf

From: IRFAN

Sent: Sunday, March 23, 2008

Question:

Dear Sir,

Assalamu Alaykum,

Above referred fund belongs to India, and due to certain reasons they never declared any MF as Shari'ah Compliant or similar. Reasons to seek your opinion on that is few days back I have seen on Islam Online that if in any investment, percentage of interest based investment is less than 20 %, Muslims can invest with the intention that 20 % or some more money will donated in charity (in the name of ALLAH). Please pardon me if I understand wrongly and guide me, I don't want mix any interest in my money but at the same want explore opportunities to grow my capital by HALAL means. Please find below details of the funds I have downloaded from their website www.tatamutualfund.com/product/tata-growing-economies-infrastructure-fund.asp JAZZAQ ALLAH,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It seems you may have a little misunderstanding of the Fatwa about investment in stocks and mutual funds.

As a small investor, the Fatwa states that if the company you are buying its shares has a permissible MAIN LINE OF BUSINESS, and does some non-permissible activities within certain tolerable limits (some Scholars take it as 5% of its activities, you quoted some others saying

20%) then it is permissible to invest in its shares provided you estimate the percentage of total gains that comes from Haram and give it away to Muslim charity.

If you run your own portfolio, you are not permitted to invest the percentage of tolerance in Haram such as interest based bonds. In fact taking any action in regard to investment in Haram is prohibited, in matters of doing the Haram, yourself or through an agent of yours, there is ZERO TOLERANCE.

Let us apply these rules to the fund you named and let us assume that it is a company in which you are a small investor (meaning, you have no power to change its management and prevent it from doing any Haram): in order to know whether it is permissible or not to invest in this mutual fund you need to look at the individual stocks it invest in, one by one and apply the tests of 1) permissibility of main line of business, and 2) whether its financials are such that the percentage of Haram (from Riba and other prohibition does not exceed the tolerance level that you accept). Consequently you must apply the tolerance percentage that you accept on the total of investment in cash, interest-based securities and such stocks that must be excluded, NOT ONLY ON INVESTMENT IN CASH AND INTEREST SECURITIES as you seemed to have thought! This is the reason I told you there is NO SUFFICIENT INFO IN WHAT YOU SENT ME TO DETERMINE A PERCENTAGE OF HARAM IN THIS FUND. To do so you need info about each stock the fund management invests in!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Sent: Tuesday, October 21, 2008

Visitor Question: Is 401k investment halal?

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Following is a financial question:

Question:

Assalamu Alaykum, I searched but didn't find much info on 401k investment on the site. Is 401k investment halal? What if it is based on 100% bonds? Or on some sort of mix of stocks and bonds? (20%B and 80%S). As you know, the investment options available are limited by the company you work for as to where you can place your money and I currently don't have a personal investment account just the open with my company which is in the telecommunications sector. Some scholarly opinions say that you cannot invest in a company if they deal in interest at all. This is difficult as most companies do deal with loans etc. So would that apply with my 401k or other Islamic Mutual funds? May Allah reward you!

Jazakum Allahu Khairan for your constant help

Yours, Sami.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I'm usually set off by persons who do not give their first name because I don't like to speak in vacuum! I give you my name and expect you to be honest in giving a first name.

The principles of investment that apply on personal accounts and personal ventures are the same in Shari'ah as apply on investment through committees and other forms of delegation of authority to fund managers and the like.

First, it is true that a Muslim is supposed to do zero Haram Since the Prophet, pbuh, instructed us that whatever is prohibited must all be avoided and at once. This principle must apply all the time. When we invest ourselves and take our own decision it is not difficult to do that, but when we invest in shares of companies (i.e., buying a share of a listed company) and when we delegate, either voluntarily (e.g., through mutual funds) or because of employment systems (as in 401K), it becomes difficult to stick to that principle. This is a big difficulty that applies to a large number of Muslims, not only a few! This invokes a very important rule in Shari'ah that call for treating needs of a large number of persons the same way we treat necessities. Hence we relax the rule of prohibition as much as necessary to make a Muslim investor as comfortable investing as a non-Muslim, This is we call the principle of tolerance (we tolerate as much of the Haram as needed to remove the difficulty) yet we must couple this principle with the principle of purification (purifying our own property from any Haram) because earning anything prohibited does not make a property of the earner and the prophet, pbuh, said that any flesh raised on Haram deserves to be burned in the fire of Hell.

Putting these two principles together we come to set our position as follows:

1. Whenever we make a decision to invest in the "now failing" financial market we must choose shares with minimum involvement in Haram
2. Buying debts securities must be avoided completely including all kinds of bonds and commercial papers, debentures, etc.
3. The same applies when we select funds and fund's managers, there are Islamic funds that abide by the rules of minimizing the Haram
4. Whenever we have no choice of selecting funds (in 401 K there is some choice so that we select funds that have no bonds and minimum Haram as much as possible), we do not deprive ourselves of employment contract benefits, especially the matching contribution of employers and we continue exercising our selection to the best we can.
5. In all the above, we still MUST estimate to the best we can the amount of increments that come from Haram and give that amount to Muslim charities in implementation of the purification principle.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Suhail

Sent: Monday, March 02, 2009

Location: RAK, UAE

Question: Investment in funds

As-Salam Alaykum wa Rahmatullah wa Barakatuh

Respected Sheikh

We Hope you & your family will be fine with the blessing from Allah SWT.

First, your trip to UAE, I am just waiting Mr. Rashed, CEO to confirm me the day because he has very busy schedule now a days. So as soon as he gives me the date I will discuss with you but for sure this will be at convenient Insha Allah.

Second, Based on your last advises on fund, we are inviting all of those Investors who want to pull their Investment to explain the whole situation because some of them are insisting to withdraw from Fund. But for this we are in need of a letter from your side giving these advises officially at you letter Head so that we can show them.

Now three Real Estate companies in Ras Al Khaimah have given us the Current value of our Lands and this is 52% down from their original Value. What we understood from your previous advises is that we pay them their share from Cash & liquidate some of the Lands to settle their amount & charge them the Losses from this deal.

Status of our fund is that we have 7% cash of the total fund & rest 93% in the Lands. So for example if an Investor has an Investment of AED 100,000/- with us and does not want to stay with us then we will pay him AED 7,000 from the cash which we have in Bank & from the Balance AED 93,000 he may loss 48,360 (52%) so the amount he will get is AED 7,000 + 44,640 = 51,640. I am sorry for going into details because this is sensitive matter & we do not want to commit mistake.

So please write you advices on your letter Head with your signature as soon as it is possible for you. We will be very thankful if you can do it today because Saturday (28/02) we are meeting Investors to explain them the Fund.

Also some of our Investors are willing to buy the share of these Investors who wants to pull at Net Assets Value. We don't see anything wrong but if there is then please advise us.

I look forward for the valuable reply.

With best regards,

Suhail

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Suhail

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I can do that. Please draft the needed letter based on my previous email and send it to me to review, I can then put it on my own letterhead, although it is better to have it on the formal letterhead of QueOne, because by the contract I am now officially the advisor of QueOne.

For the trip to Emirates please give me an advance notice of when do you want to make it. BTW, I heard that there are flights Doha/Sharja on some Arabian Airway (a new company) that gives much cheaper prices.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Saquib

Sent: Thursday, May 14, 2009

Location: Andhra Pradesh, India

Question: Pension plans

Dear Dr. Kahf

ASAK

I am 23 & got my first job about 9 months before. I have been thinking over the past few days ways of investing that is not 'haram'. By reading your articles it is evident that Pension plans are a strict no-no. I will be highly obliged if you can tell the investment devices which are permissible in Islam.

Thanks & Regards

Saquib

Dear Dr. Kahf

ASAK

I am really sorry if I got the wrong impression. But I would just like to elaborate upon it.

A pension plan in which the govt.

* Itself pays after retirement, or

* Deducts certain amount towards this end compulsorily per month whereby it becomes mandatory for the employee.

Is permissible.

Yes, even when the government assigns it to a private party as long as it works on the actuarial principles not on interest. This is because actuarial principles are those that are used in insurance. Insurance is controversial not unanimously prohibited and I belong to group that sees it permissible. But being compulsory makes it also acceptable by those who do not approve of insurance.

However, I work in a private firm & they don't offer such pension plans. Hence, if I need a steady source of income after retirement, am I permitted to buy one of the pension schemes offered by banks or other institutions? If not, then what are my options?

The basic thing you do is to save for old age and invest your savings in a productive way, this is what everybody does and this is what your parents/ancestors and mine used to do through history.

If you find an insurance contract that is not interest-based and yet provides you with this desired pension that will be the second-best option. Most insurance contracts that provide annuities are interest based. Here I need to complete my early statement mentioned earlier. Scholars who approves of insurance have two conditions, the contract should not be interest-based and the object of insurance should permissible (e.g., you may not insure a shipment of liquor or legs of a belly dancer).

Thanks & Regards

Saquib

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Saquib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Did I ever write that 401k or other pension plans are prohibited? I have never said that and I still do not say it.

On another ground, please find my answers in red.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Rauf

Sent: Saturday, September 26, 2009

Question: ETFs/Fund Management

Assalaamu Alaykum Dr. Kahf:

Just as a follow up to my earlier question. Since investments based on speculation is not permissible such the stock market, the commodities funds, and so on - that practically rules out the entire "Funds" space. Am I correct?

If that's the case, then how come we have "Islamic Investment Funds" sprung up essentially investing in equities, gold, etc. in the UK and the US, and even in Malaysia and so on. Dow Jones, S&P, FTSE all have Shari'ah based indices.

Jazaka Allah Khayr.

FiAmanAllah

Rauf

Assalaamu Alaykum Dr. Kahf,

Eid Mubarak!

What are your recommendations for a Muslim living in the west to invest their capital?

I know you had mentioned to me earlier that trading stocks, commodities, and currencies with an intention to profit from differences in value whether in the short-term or the long-term is not permissible.

Jazaka Allah Khayr.

FiAmanAllahRauf

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Speculation in shares and commodities as a behavior is prohibited, this includes day trading. Additionally there are contracts that are by their nature speculative such trading indices, CFD and the like. This is my opinion and I STAND FOR IT. But I have never said that establishing equity investment funds or ETFs is prohibited and my opinion does not rule out investment in shares, it rules out speculation and speculative contracts. But of course buying for the purpose

of investing in a company and with expectation that it is growing, etc. is not ruled out. This means that all these Islamic indexes are very useful.

As for commodities, the OIC Fiqh Academy rules out options (also for shares) and futures on the basis of being speculative too especially if you understand the spirit of the ruling and its underlying discussion and argument.

In regard to currencies, the matter goes beyond that. Currency sale and buy is permitted exceptionally to facilitate the needs of those who need to transfer from one currency to another. Internet and all speculative transactions on currencies do not correspond with this need, this is why they are ruled out. Besides trading currencies on internet platforms (all of them) violates other requirement in currency sale (e.g., the whole concept of “pairs” contract is not Shari’ah compliant). This is not a methodology of increasing wealth!

Finally, this is my opinion and I argue that it is consistent with the rulings of Fiqh Academy and based on the Islamic guidance in the Qur’an, Sunnah and axioms of Fiqh, you will go to Malaysia and you will find there many other things, I STRONGLY ARGUE THAT MANY OF WHAT YOU WILL SEE THERE (THAT DIFFERS FROM THE ABOVE) IS IN FACT IN GROSS VIOLATION OF SHARI’AH although it may be endorsed by someone who is called “Shari’ah expert”. At the end of the day, one has to stick to what his heart accepts!

Wa Allahu A’lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Walaykum As salaam Dr. Kahf,

Jazaka Allahu Khayran for your comments. I have a few follow up questions.

1. I guess I am confusing speculation vs investment. Because in my mind when I am investing with the sincere intention to grow my wealth (and not hoard), that still involves speculation, we may call it a healthy speculation. So I am not where & how should I draw the line, may be a bit philosophical.

Of course you can buy and sell while investing but not with the heat that is the spirit of speculation.

2. In regards to currencies, from what I understand is that utilizing currency rate differentials as means to 'create wealth' is not permissible, even if it's a genuine investment and not based excessive speculation or day-trading.

I know in Islam we treat Gold and Silver as currencies. We have goldsmiths producing fancy ornaments/jewelry and selling more than the value of gold, perhaps a mark-up for the 'design' service. We also have people (very common in the Mideast), that deal in gold bars- the business would make income out of gold rate differentials, would this be impermissible as well?

There is no genuine currency trading except by money exchangers who provide service and while they do that they need to buy and sell currencies and to hold balances in different currencies.

Gold and silver are same as currencies because the Saying mentioned it. Jewelers buy, add services and sell. They are entitled to sell at higher than purchase prices although the market may turn against them sometime like any other trader. Sitting on the internet to buy and sell. In the Middle East small gold bullions are used as jewelry, the same applied. Of course there are

people who do many things that are in violation of Shari'ah, especially among jewelers! This is perhaps why we find jewelers/goldsmiths classified as a bad profession in Fiqh!

3. In your opinion based on your extensive experience Masha ALLAH, do you find Malaysians extremely liberal in their approaching Shari'ah Banking? And what about Middle Easterners?

Malaysian practices is not the same as Malaysian scholarship. On scholarship area we have very little differences and most scholars agree on most of the details. There are practices in Malaysia that are not accepted by Malaysian scholars and others (discounting debt under name of sale of debt, sale and buy back at a higher deferred price, loan and renting a safety box at exorbitant rate that amounts to interest, and the like). These were done in the early 1980s based on misinterpreting certain classical Fiqh statements but actually are not accepted by all scholars in Malaysia (they are still in practice by virtue of support from some older traditionalists and by secularists (in Malaysia many secularist appear like very Islamic! When you go to Malaysia you will realize the weaving of the Muslim community there and its culture!). In the Gulf we have a new problem (Tawarruq) that is opposed by an overwhelming decision by the OIC Fiqh Academy but supported by a very small group of traditionalist Shari'ah scholars!

After my education in Malaysian, I am considering traveling to the Middle East for employment opportunities to gain good exposure to the industry. The North American market seems to be reluctant, nervous, and a little conservative in taking Shari'ah Banking to the next level. As I spoke to one of the bankers (Muslim) today, and he mentioned we still don't have a market for it. Personally I don't agree with this assessment.

Jazaka Allah Khayr for your comments Sh. Monzer.

FiAmanAllah

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

All real investment in industry and trade is open. Who can claim that investment means only the finance market? The finance market is merely a service market not a wealth creating place, isn't it?

Besides, also in finance there are opportunity for investment that is not speculative.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Murtada

Sent: Thursday, November 26, 2009

Question: ETF Exchange Traded Funds

Salam Dr. Kahf

I am contemplating launching an informative website about ETFs [Exchange Traded Funds]. Revenue from the website would be from email lists and advertising, eventually. Note though that the writers on the website are not Muslim, and the target audience is everyone, therefore

some/many of the funds that people would be educated about may not be applicable to Muslims. Some of the writers would suggest ETFs to purchase as well - I.e. stock picking.

Are there any Shari'ah issues with the concept?

Murtada

My Answer:

Dear Br. Murtada

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabbi al Alamin, wa al Salatu wa al Salam ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

I don't see a prohibition in setting such website but it seems to me that by doing so you are "wandering around the bushes" of prohibition unless you address it for educating Muslims to do what is right and know what is wrong to avoid it.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abdal Rahman

Sent: Friday, April 16, 2010

Question: Retirement accounts

Salam Alaykum

I'm Abdal Rahman My wife family know you personally through her father I need advice

I'm trying to plan and invest for retirement. I'm having difficulty with finding company that I can trust to be Shari'ah complaint.

I have 2 questions for you do you do personal finance accounting?

What Shari'ah complaint company would you trust?

Abdal Rahman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dr. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't do any accounting or investment for any people. And I don't know of any company in America that is Shari'ah compliant except a few house finance companies that abide by Shari'ah in their finance but I doubt that they accept managing such savings. There are a few Islamic investment funds in America that you find on the internet.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Yacine (Hacene)
Sent: Thursday, October 28, 2010

Question: investing in mutual funds of gold and silver

Assalamu Alaykum,

Sheikh Monzer,

May Allah bless your efforts and reward with Jannah.

Could you assist us with the following Fiqh issue about this kind of investment?

Jazakum Allahu Khairan,

Hacene

Al Salam Alaykum Sheikh,

1. This investment group is called Bullion Management Group. Called They deal with precious metals, Gold, Silver and Platinum. In order for me to invest with them I will have to buy shares through a mutual fund which will buy the metals from BMG, so I do not own real Gold or Silver, just the shares, and these shares will obviously fluctuate with the value change of these metals.

2. The other group that has been presented to me is called Meritas Financial Inc. which is specialized in what is called socially responsible investing (SRI). As per the financial planner these guys do not deal with anything related to, Alcohol, gambling, military, pork products or smoking.

Q: what are my possibilities to invest with these groups, if there are any?

Q: what are the unlawful practices "Islamically" of these groups?

Q: is there a group or fund that you can recommend to me?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Yacine

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For investment in shares of Mutual funds that deal in precious metals: if the fund buys gold or silver actually and takes delivery of it at the time of each transaction, so is when it sells, buying these shares become permissible. The same condition of delivery does not apply to other metals. But if it buys only certificates or deal on internet, it is then a virtual not real fund and it is not permissible in Shari'ah. Of course if it does not take delivery of gold and silver at the time of each transaction, the contracts are not valid.

I don't give advises on investment opportunities.

For the SRI facilities, I need more info, because most of them deal heavily in interest and share of finance institutions. Also I doubt that any of them avoid pork unless they are Muslim.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abdal Rahman

Sent: Saturday, July 30, 2011

Location: USA

Question: 403b scheme investment

Salam Alaykum wa Rahmatu Allah wa Barakatuh

Dear Dr Monzer Kahf

My name is Abdalrahman

I work in USA

My job offer 403b retirement plan, that I can't control the option of funds in that plan. I can put extra money in that plan up to 16000 \$. I tried to ask them to add Islamic fund to the investment profile, they said they can't. From the financial stand point, I'm in the high income range. So putting some money for retirement in tax deferred account is a plus. I plan to leave that job in few years so I will be able to rollover the money to an IRA account that I can control at that time to direct toward Islamic fund. Can I put money in that 403b plan then roll them over later on to Islamic fund, I'm willing to give all the return to charity in the meantime.

Jazaka Allah Khair

Abdal Rahman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The point of saving on the taxes alone does not make sufficient reason to invest in this 403b since there are other venues that give you similar tax deferment benefits. However, if there is a matching contribution from the employer, this adds to it and in my opinion provide the excuse. In either case you will need to apply the purification principle. It means that out of any earning (other than your own contribution and the hospital matching contribution) you should estimate the part that comes from any non-Shari'ah compliant companies and give it to an Islamic charity.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Salam Alaykum wa Rahmatu Allah wa Barakatuh.

Thank four answering my question, I need to clarify my intent and make sure I understand you. Given my high income, I can't put the same amount of money in tax deferred account (comparing 5000 in IRA vs 16000 in 403B). I also can't invest in Roth account.

My personal intent is saving for retirement, with tax deferral as a plus, there is no contribution from the employer, so if there is no contribution I should not invest in this retirement plan. My employer put money as a percent of my income

It might be difficult to figure out which income from these investment comes from interest and which didn't.

I read your fatwa about looking into the details of company reports to see that, I'm afraid this might be complicated for me.

I prefer to get rid of anything I gain in next few years (as purification) until I roll them over to Shari'ah compliant funds

Abdal Rahman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Alhyari

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If there is no matching employer contribution, I suggest that you find other ways of deferring taxes, meanwhile you still can make Shari'ah compliant investment for retirement. I am sure you can find other ways to reduce taxes too. I wouldn't see it appropriate to invest in a mix of non-permissible and permissible and give up the gain to charity.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I 'm opening an IRA account

Can I invest in stocks that are listed in Shari'ah compliant fund without having to do any further screening on my own? And just apply the 5 5 rules.

Is there a list of funds in USA that u would recommend as best Shari'ah compliant.

Abdal Rahman

My Answer:

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am sorry that I cannot give any investment advice. You need to do your own homework, but remember whatever you invest in in America there should be purification because there is no company or fund that is fully Shari'ah compliant.

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

From: Ali

Sent: Thursday, November 01, 2012

Question: Pension Scheme

AssalamuAlaikum

Eid Mubarak brother. I have a question regarding pensions. My company offers a pension scheme where I put in an amount and they match it. Unfortunately the company that manages

our pension does not have a Shari'ah compliant scheme, all the schemes invest in stocks, shares, and others which are not halal... They do however have a savings scheme where the money is put into a savings account instead of investing in stock and shares. But this scheme pays out interest. Is it halal for me to join this scheme as long as I get rid of the interest? From March 2013 the government has made it law that all employees have to have a pension and will be automatically put into a stocks and shares investment pension scheme so I am thinking that the work based saving scheme is the best option for me. Also the work based scheme allows me to put in 1%, 3%, and 5% of my monthly salary. Can I put in any amount or should I put in the minimum amount.

Ali

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ali

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

When investment is done in shares not all of them will be non-permissible. My opinion is to go for the pension plan with shares and gain the matching funds and regularly determine the amount of increases coming from the shares which is not permissible in Shari'ah and give that amount away to Muslim charities in your area as in order to keep your own funds (which include contributions and matching funds) pure and clean from any Haram.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Aymen

Sent: Thursday, February 07, 2013

Question: RRSP investment

Dear Dr Monzer,

Assalamu Alaykum wa Rahmatu Allah wa Barakatuh,

The company I work for (Cisco Systems) offers the employees a benefit package that includes RRSP investment. The way they do it is that if I sign up for it, I automatically invest 4% of my yearly income in RRSP and they would automatically match that by a 4% contribution. So if I invest 4% of my income per year I would end-up getting a total of 8% per year thanks to the company's contribution.

The issue with this is that the money has to be invested and I cannot just contribute money and ask them not to invest it. Also, none of the investment options they provide is Shari'ah compliant. I have fellow Muslims working with me and we have been debating this as some of us decided to go for it and select the least rewarding investment option for a return of less than 1% and decided that every year they would purify their money but taking that money out and giving it away. But some of us are looking for your advice on this matter. Is it permissible to sign up for this package and purify the money from the non halal yearly return by giving that money away regularly or should we completely abstain from it?

JAZAKA ALLAH Khayr for your time and effort and may ALLAH reward you in the dunya and akhira for your help,
Assalamu Alaykum,
Aymen

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Aymen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This and similar 401K plans have advantages to the employees that Shari'ah does not require us to avoid benefitting from. Especially the matching funds and the Halal part of the return in addition to saving for retirement and tax benefits.

It is understood that the choice you have for investment is not unlimited.

What we do in such cases is: take the program, benefit from the matching contribution of employer, select the stocks or funds that have least evil (such as pharmaceuticals, technology and the like) and apply the cleaning principle (مبدأ التطهير) by estimating each year the amount which comes from Haram in the return only and give it to Muslim charity (you also get the tax deduction on it).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Day trading, indices and speculation

From: Sharjeel

Sent: Tuesday, April 15, 2008

Question: day stocks trading

Assalamu Alaykum Wa Rahmatu Allah

Please answer my queries on Islamic shares trading: Is day trading allowed?

According to Islamic Scholars, the criteria for Shari'ah Complaint companies are:

Exclude companies if Total Debt divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.

Exclude companies if the sum of Cash and Interest Bearing Securities divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.

Exclude companies if Accounts Receivables divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 49%.

My question is whether the above criteria are genuine and does day trading affect the above.

Waiting for your reply, Wassalam.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharjeel

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Day trading is permissible as long as you trade permissible stocks and apply the purification principle, I don't like it personally because in my opinion it does not fulfill the objectives of trading as it does not add value, and it is purely speculative. Yet I don't dare say it is Haram because I need a clear cut evidence to claim a prohibition and we know that for commodities it happens that you may buy and sell while still in the market on the same day and we know it happened at the time of the Prophet and he did not prevent it.

On another point please check again the conditions you quoted and compare them with AAOIFI (Accounting and Auditing Organization of Islamic Financial Institutions) standard No. 21, Please don't take your religion and its Halal and Haram from the internet especially when it comes from sites that only God knows who wrote it or whose opinion was it? If you want to learn it please check always the sources you take from. In what you wrote you missed the percentage of Haram and the point that total of debts cash+ debt based securities must not exceed one half of market cap.

Additionally AAOIFI made the number 30% not one third. Besides, I am not convinced that the percentage of cash plus all other interest bearing asset should be taken to market cap; I rather argue that it should be to total book assets because these interest bearing assets are an indication of the management actions/transactions. Management use actual assets they have on balance sheet they do not place or even take any direct decision on the market evaluation of the company that is affected by both demand and general economic conditions both in a given economy and in the world.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Rauf

Sent: Wednesday, April 30, 2008

Question: Investing in indices

Assalamu Alaykum Dr. Kahf:

InShaAllah all is well!

I had a question regarding investing in stock indices like the Dow Jones, S&P and so on. I wanted to know what the conditions around investing in these indices are. I tried looking up some fatwas, unfortunately didn't find anything specific around it.

Jazaka Allahu Khayran for your advice.

AssalaamuAlaikum

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Islamic finance and investment is based on real assets. A Muslim may invest in any real asset that may, by its nature or use, produce value. This is the condition number one in Islamic investment that is always necessary. Of course there are other conditions that go along with this basic condition. These other conditions are: the company must be producing goods/services that pass the Shari'ah screen of permissibility. This test is essentially a moral test as you may very well know. Whenever there are companies that have a permissible main line of business but indulge sometimes in prohibited transactions such as interest lending and borrowing or serving alcohol (e.g., on airlines), etc., then we also apply certain financial test to be sure that such non-permissible activities do not make a substantial part of the company.

Indices fail on the first test itself because they are not assets at all. An index is only a calculation, a certain average that is the product of mental and computer calculation, it is not an asset although it is a good or excellent indicator of the behavior of stocks and may be the market in general but it is not an asset. Suppose you own a thousand unit of DJ industrial index does that mean you own any shares in the 30 companies that are in the index? Owning shares in these companies makes you a partner/producer of all the products of these companies but owning the units of the index does not make you an owner of any part of these companies. Therefore owning units of an index, buying them, selling them, all these are NOT PERMISSIBLE IN SHARI'AH.

On the other hand, one may own units in funds that track the index because these funds actually buy the shares of the companies that are in the index, then by owning such units of the fund you actually own parts of these companies and because you own these real assets you are entitled to increments that arise in them. Whereas owning trading the index is purely a speculation without owning any real asset.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Edgard

Sent: Wednesday, November 26, 2008

Question: question on day trading

Assalamu Alaykum Dr. Kahf,

InShaAllah you are doing well. I saw some of your comments on Islamonline regarding stock day trading and read one of the fatwas on your website and I would like to inquire more about it please. I have recently developed interest in the stock market, mostly in "day trading" due to the potential I saw in it. I understand clearly the risk factors involved (just like in any business) and have plans to mitigate them InShaAllah and at the same time I see a big potential if one follows a strategy with discipline. I am even thinking about doing day/swing trading as a part-time profession but before I do that I wanted to make sure I'm not stepping into Haram territory especially after I realized that people are mixed up on day trading. I also follow the Islamic criteria in picking stocks (I.e. regarding product of company, debt/equity ratio...etc.), I don't do short selling, and no options, only buying and selling.

In your notes you mentioned that day trading isn't Haram, but you mentioned that it is disliked because it does not bring value to the market. I'm assuming that you're referring to "makrooh" here by the word disliked? Do you still hold this position today? And in this case, Islamically speaking does a transaction have to always bring value to the overall market in order not to be disliked? There are clear signs that there is market manipulation in day trading (by big hedge funds that create artificial momentums and stir the market to make some profits). This is a no-brainer immoral thing and is not what I would ever get into InShaAllah. But aside from those crooks the market has its own natural rhythm when investors get in and out naturally of stocks and I think a day trader (or even a swing trader) goes in the middle to benefit from the small swings in price those supply/demands cause.

I understand that this is a gray area and that is why there are more than one opinion about it and it's not clear cut. But what I want InShaAllah is to gain enough insights and knowledge so that it no longer becomes a gray area. I recently asked Shaikh Nizam Yaqoobi and Yusuf DE Lorenzo whom I was referred to as being knowledgeable people in the field of Islamic Economics and both were of the opinion that it's ok to day trade as long halal stocks are picked and the frequency of trading is a business decision and not Shari'ah decision according to one of them. He also added that day trading with no knowledge/analysis is risky and is like gambling, which I agree with, but my action will be done based on research and analysis. With all this, I'm still not fully convinced either way so if you have any pointers with more details into the topic I would appreciate it.

Jazakum Allah Kheir

My Answer:

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Edgard,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My opinion is still the same, rather I only want a collective decision to declare day trading Haram, in such a meeting I shall vote for Haram. There is plenty of evidence that Riba, Gharar and gambling are prohibited not for the risk or chance (I.e., being research based is irrelevant, add that Gamblers do also a lot of research through studying game theory) but what matters in fact is the creation of value. This is the foundation of Islamic finance/investment being asset-based. I more than hate day trading . . .

One more thing, I was about to neglect your email because you referred to other scholars' opinions, I don't like the attitude of 'compare and contrast' in Shari'ah matters!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Edgard

Walaikumassalamy Dr. Kahf,

Jazaka Allah Kheir for your answer.

Should stock trading be only with the intention of long-term “investing” in a company, i.e., I see a company with a good product/future so I invest in it with the intention to hopefully reap some benefits 1,2 or more years down the road or is trading ok with a lesser frequency? When I look at it, I see that day trading and swing trading (holding the stock for days, or even weeks or months) are not much different except for merely the frequency at which the orders are executed, if the intention is to “trade”. Is this a correct assessment, and in all cases what would be a recommended minimum holding time before a stock is sold so that it doesn’t count as Makrooh?

As for including other opinions in my original email, the intention was not to compare and contrast and I apologize if you saw it this way. My intention was merely for me to better understand the underlying factors of the decisions before I reach my own conclusion. I was trying to create a sort of a bridge between the opinions to hopefully help a convergence to a unified opinion in one way.

I really wish there was a unified decision on this or a detailed discussion since there are a lot of Muslims involved in day trading thinking it is ok.

May Allah reward your efforts in serving the Muslims and your time in answering me.

Edgard

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Edgar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Fatwa is an opinion of a human being, based on the best knowledge of its giver, it binds no body. It is up to any one of us to select whom to ask and what opinion to accept in one's own application and behavior. There are points that have unanimous or at least majority convergence, and of course there are matters otherwise. This is why the Prophet. pbuh, made it the "Ijtihad" of the person when he suggest that one must check with one's own heart no matter how many and what one gets from Fatwa givers. He further made it such that: "The sin is what linger in the chest and you fear it's been seen by other people"

Unfortunately there is no time span that makes a trade not speculative. But there are clear signs that make them speculative . . . one of these signs is day trading, it is nothing but speculative. I can give you an example that came in Sunnah when a person sold a thing he bought in the same day. The Prophet, pbuh, gave one Dinar to a companion and asked him to buy a sheep for him [to slaughter for eating], the man went to the market bought a sheep and as he was coming back a person offered him 2 Dinars for that sheep, he sold it and returned to the market and bought another sheep for one Dinar and lastly came to the Prophet, pbuh, bringing the sheep and giving the Dinar. . . The Prophet did not object to the sale shortly after the buy! Rather he prayed for that man for fluency. Notice in this day trading, the goods were intended for use not for price speculation!

I know that speculation is a thing that is not really consistent with the objectives of Shari'ah and I also know that it is sometimes difficult to put a line between speculation and trade or grabbing opportunities. I also know that in all Shari'ah scholars meetings we always look at

speculation negatively. But there are contracts, and functions that are apparently speculative one of them is day trading in stocks, commodities and currencies.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Edgard

Assalamu Alaykum Dr. Kahf

Jazaka Allah Kheir for your answer and I appreciate your time helping me understand this. I have some comments and notes if you don't mind:

1- In the example of the Sahabi that you gave, you mentioned that the goods were intended for use and not for price speculation. What do we think then of a merchant who perceives a certain demand pressure on a certain thing in the market, and then he buys a quantity and stocks it and then if his prediction is correct he goes out and sells it at a higher market price. Is this considered makrooh/haram/speculation? This merchant's intention from buying the item in the first place was never to use it but purely because he saw people have interest in it (for whatever reasons they have, and this could be as silly as postal stamps). Just like merchants work today, they don't buy to use but purely to make money.

My answer:

In fact, literally the example you mentioned fall under EXACT PROHIBITION as typical example of monopoly [buying items from the market for the purpose of withholding them so that you sell them at the high price].

On the other hand, every merchant buys things to sell them at a higher price, anything wrong in that? Some people thought so and considered that merchant do not contribute any added value and they are only parasitic! That is not the Shari'ah position. Merchants do provide value-creating service by making the items reach their users. Of course merchant's behavior can be non-monopolistic and it is very often so. Merchants provide services and they are compensated for their services by the difference between prices of purchase and prices of sale.

One past thing, a final user does not mean consumer, a final user is a person who intends to use the item for consumption, trade, industry or agriculture. A merchant who buys any item, buys it because she/he trades or wants to trade that item that is not speculation, rather it is service provision. Likewise, an Islamic bank that helps a trader obtain the goods he intends to trade is providing a service to a final user and this service is rewardable.

But an cash investor who has a sum of money and wants to make money though watching internet screen and make a hit here and there does not provide any service and does not create value, that is pure profiteering and speculative.

2- What if this Sahabi found a 2nd and 3rd and 4th guy who paid him 2 dinars as well for the sheep. If he had gone back and forth to the market 4 times he would have come back to the prophet peace be upon him with a sheep and 4 dinars instead of just one. And what if he found a pattern that enabled him on a daily basis to run such transactions? Would that be considered immoral/Un-Islamic or would that be a smart trade? I kind of see day trading or even swing trading (over a period of a few days) like that. I know you mentioned that in the Sahabi example the goods were meant for use, so what if the trade today is in commodities like gold or silver as

an example? If we go to a gold dealer/jeweler, he may buy and sell gold several times a day at different prices based on what his customers are looking for.

My answer:

Are we saying there is no difference between genuine trade and speculation? You need to recognize the difference. a service of a jeweler to customers and of a sheep trader, that may sometimes look like buying and selling within the day is a link in the production cycle, it is a part of the process of having goods and services being produced and reaching their users. But a stock/commodity day or swing trader is not a part of this cycle, it is a pure parasitic on it, adding, cost to it and only trying to profiteer from a wrong system. I agree that there is a need for some liquidity in these markets but there is plenty of liquidity coming from genuine traders, real suppliers and demanders, that adding day trading makes it over liquid and speculative.

3- Making money in stocks today comes from 2 sources, a) the dividend that the company may give, and b) from the rise in price of the stock because of more demand than supply. I think there is no argument about the dividend that it's probably the best form of investment that is closer to Shari'ah rules because this money comes directly from the profit the company makes. As for the 2nd part which exists in all stocks (if they're performing), then isn't this based on speculation in all cases? Typically a stock price increases only if new investors come into the game and buy it, they put a pressure on the supply and the price goes up and people who came before them and bought it at a cheaper price then benefit from this price increase due to demand.

My answer:

Why should this pressure be source of value when there is no change in the production and productive capacity of the company? It is known that company's performance is very different from stock performance, don't you realize it? Suppose a company retains profits and expands projects, that is a genuine source of capital gain that reflect real change not simply speculation. Do you see a value added in the behavior of funds pouring into a liquid market (stocks, derivatives, currencies and commodities)? And what if the market restricts sale to be only after 60 days of buying? And we do not allow short, margin and financing would life be in fact better and these investors' funds will then divert into a productive market, expanding the production capacity.

Is this gain you are mentioning a real increase in the companies whose stocks' prices have increased? Was there an increase in IBM when its stock went up to 130 or a decrease when it went down to 69?

4- Say I decided to invest \$1,000 in Cisco Systems for the long term. 2 years later, the company may have made billions, but the stock price is lower than what I bought it for. Or the company may not even make money and the stock price could be much higher. What I'm trying to say is that stock prices today are not too much connected to the performance of the company as much as they're connected to the perception the company creates of its value, which drives people to either create a buying or selling pressure hence affecting the price. Isn't this then all speculation?

Please forgive my many questions. I am not really fishing for a fatwa that says "yes its ok" because I heard that from others already, but what I want is to better understand the whole concept so that I feel at ease with whatever final decision I make.

My answer:

You said it. This is what is wrong with the system; you want to ride it... that is speculative. We like people to go real and genuine.

I DO NOT FEEL AT ANY EASE INSIDE ME WITH INVESTMENT OF THIS KIND. IF I BUY A STOCK I WOULD DO IT BECAUSE I LIKE THE COMPANY AND LIKE TO KEEP IT FOR LONG,

Jazakum Allah Kheir, Edgard.

From: Ahmad

Sent: Wednesday, October 08, 2008

Question: Stocks and day trading

Thank you for the outstanding effort you do for Muslims in America and all over the world. My question is about Day trading I.e. speculation in:

1. Stocks
2. Index futures I.e. (S&P Futures)

I will highly appreciate if you can elaborate on the Islamic view on trading financial derivatives (Options, Futures,) for long term investment and hedging or short term (day) speculation.

Thank you.....Al Salam Alaykum

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ahmad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Day trading of stocks is a very bad practice; it is only speculative and does not add value to the economy, besides you want to do in the very wrong time!
2. Trading indices is even much worse; it is absolutely Haram because an index is not a productive property!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mumtaz

Sent: Sunday, July 22, 2012

Question: Buying Oversold Stocks to sell at higher prices

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

I had the opportunity to read your answer regarding a day trading question. "I mean to reach a conclusion that: while it is difficult to claim any prohibition of day trading, we look at it with disfavor, it is profiteering from almost pure speculation. And we call on governments to narrow its availability to a large extent. It is a thing that is not Haram but may be very much disliked."

I would kindly request you to give your opinion on a trading strategy where one buys stock when it's extremely oversold in a panic situation and then sells it after the market stabilizes.

One example is Rovi Corporation (ROVI)... the company reported preliminary results and updated its full-year outlook and the stock dropped more than 40% on Wednesday July 18th.

Had someone bought the stock at that extremely oversold position for about \$10 and sold it on Friday July 20th around \$12.50, would the 25% gains be permissible in Islam?

<http://finance.yahoo.com/echarts?s=ROVI+Interactive#symbol=rovi;range=5d;compare=;indicator=volume;charttype=area;crosshair=on;ohlvalues=0;logscale=off;source=undefined;>

Another example is Cepheid (CPHD)... after the company reported earnings on Friday on July 20th; the stock price initially declined 30% to about \$33 and then recovered to \$36. Had someone bought the stock at the extremely oversold position for about \$33 and sold it on the same day after it was recovered to \$36, would the 10% gain be permissible in Islam?

<http://finance.yahoo.com/echarts?s=CPHD+Interactive#symbol=cphd;range=1d;compare=;indicator=volume;charttype=area;crosshair=on;ohlvalues=0;logscale=off;source=undefined;>

I draw a parallel of the above trading with farmer markets where when some news breaks about heavy rains or drought, the price of certain food items **rise** or decline but mostly it's overdone and then some traders buy the items in oversold markets and sell it when cooler heads prevail. This trading makes traders money but also support price from further declines. I wonder if this trading strategy would be totally permissible or would fall in permissible but disliked category.

Jazaka Allah

Asif

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mumtaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't see any prohibition in trading shares whose companies fulfill the criteria of permissibility to own. Of course the objective of trading is making profit, meaning buying at low price and selling at high price. The problem I see is in speculation. Especially after the crisis I came to a complete conviction that speculation is prohibited in our religion. This means that buy and sell must be accompanied always by holding for some time and/or providing a service meanwhile. That is the spirit of trade and that is the distinction between trade and speculation. This applies to shares as well as it applies to other commodities and assets. This also means that I believe in the prohibition of contracts, attitudes and strategies that are designed for pure speculation such as trading indexes and day trading. Buying at low, holding for some time then selling is not prohibited in my opinion.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Syed

Sent: Friday, February 15, 2013

Location: India

Question: Day trading

Assalamu Alaykum,

I live in India and interested in stock trading. I want to know if intraday trading (buy & sell same day) is halal, keeping in mind two things:

1. The stock which I invest are from BSE Tasis Shari'ah (TAQWAA ADVISORY AND SHARIAH INVESTMENT SOLUTIONS) who does analysis on Indian stock companies and provide us the stock wherein Muslim can invest the money.
2. I would be purchasing the quantity of stock which is equal to the amount which I have deposited in my brokers account.

Thank you very much for your help, may god bless you.

Allah Hafiz

Regards,

Syed

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Day trading is a pure speculation on price changes. In my opinion speculation is not permitted on stocks or anything else. Speculation is neither trade nor investment it is an act of zero sum as what you gain is only what another person loses.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Options, derivatives, CFD and Betting on Shares

From: Samy, Islam on line

Sent: Monday, June 30, 2008

Question: Betting on Shares

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Is spread betting haram in Islam? Betting on shares it works exactly the same way as you deal in actual stock market but instead of buying actual share you bet on the share by investing less money. The profits are high so is the loss.

Jazakum Allahu Khairan for your constant help

Yours, Sami Ahamd.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

First please explain this practice in a definite and clear way so I can give you an exact opinion on it. You may email it to me directly if you like at monzer@kahf.com

Second, let me give you the rule of earning in Shari'ah. For all kinds of investment and finance practices, if you do not own an asset that may create value you are not entitled to any earning. This is the basis of the prohibition of betting and gambling and also the basis of prohibition of Riba because a debt does not create increment/value. Further recently I came across a contract called TFC that is trade difference contract whereby the traders agree on a price and if the market price of a commodity goes up or down one of them loses and the other gains and they pay these differences. This is of course Haram because you did not own that commodity whose price changes.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Abdulkerim

Sent: Saturday, March 14, 2009

Question: CFDs

Dear Mr. Dr. Monzer Kahf

Assalamu Alaykum

I would like to know if CFDs (Contract for Difference) Trade is compatible to the Islamic Shari'ah or not.

I have contacted so many financial actors who knows the Islamic finance but no one answer my question.

Unfortunately there are no helpful information on the internet or Islamic blogs too.

So I would be deeply grateful if you help me in that issue

I am a student and study finance at Liechtenstein University

Kind regards, Wa Alaykum selam

Mr. Abdulkerim

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Abdulkerim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

CFO is Haram in Shari'ah, it is in fact a form of gambling. Islamic finance principles require that earning be based on and justified by owning a property that creates value. Lack of ownership of a real asset that may create value makes it not permissible to earn. By virtue of what would you earn any increment? CFD does not make you an owner of the share/commodity you speculate on. It is not permissible but rather pure Haram.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Rauf

Sent: Thursday, March 19, 2009

Question: Options and futures

Assalaamu Alaykum Sh. Monzer:

Is there an alternative to Options and Futures in Islamic Economics, or derivatives in general?
Jazaka Allah Khayr.

Rauf

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Some options have no alternatives such as trading indices. Add to it that practically all derivatives are speculative and speculation is not permissible in Shari'ah. Trading stocks and spot currencies whenever it is not speculative is permissible.

The use of options for hedging an existing non-speculative position, whether an asset or a liability, is permissible according to a minority (I am included) but using option for profiteering is not permissible. In other words trading options is not permissible because they do not create value and therefore can't be a source of profit.

Contracting for a future delivery when the sale is genuine is also permissible. Its example is the producer of cars selling for future delivery and future payment or the user of wheat in a flour mill buying for future delivery and future payment.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Omar

Sent: Saturday, September 26, 2009

Question: Options and day trading

Assaalaamu Alaykum Brother Monzer,

I attended your session on August 9th at the Garden Grove Masjid. I just wanted to clarify a few points and ask a couple questions. Please advise on these. I really appreciate your help on this as I have been in multiple discussions with people that I know and am not sure how to discuss these with them.

1. On one of the Q&A sessions on your website, I noted that you had mentioned day-trading is not haram, although it is derived on speculation. However, during the session at the masjid you indicated it was haram. Along the same lines, how long would a position need to be held for it to not be considered day trading? Please advise.
2. On one of the Q&A sessions on your website, I noted that you had mentioned options are haram. However, during the session you mentioned that it might be ok to use options in order to hedge your positions. I am not sure if that is what you intended on saying. Please clarify if I

had misheard. Along the same lines, is selling covered calls considered haram? How about buying puts?

3. On one of the Q&A sessions on your website, I noted that you had mentioned that being short is not haram, although you are not generating any value by doing such a thing. I just wanted to confirm this statement with you regarding short positions.

4. What is the ruling on ETFs? I know some track certain indices, others are tied to the value of a commodity and others are simply a bucket of stocks put together (I.e. technology ETF). Are these considered a halal investment?

JazakAllah Khair in advance for your response. Please let me know if you want me to clarify any questions. I want to make sure that whatever I use as a tool for investment it is clean from haram and is blessed by Allah SWT.

I truly do appreciate all your help, the work you are putting in your responses and your knowledge. It is truly needed in our society, especially with all the different financial instruments that exist.

Omar

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Speculation is expressed either by contracts or by behavior. There are certain contracts that are speculative by nature such as options and futures. There are also certain behaviors that are speculative such as day trading of shares, currencies and commodities and hedge funds.

2. Please also realize the difference between a Shari'ah ruling and a Fatwa. A Shari'ah ruling is directly derived from the texts and axioms of Shari'ah. A fatwa is applying this to certain circumstances. As times goes Fatwa may change because of changing circumstances. It is incorrect to apply a given Fatwa outside its circumstances.

3. I know I used to say that day trading is permissible on the ground that it is permissible to buy at any time and sell at any time too. But when I looked at it in the organized markets (stocks, commodities and currencies) and when I noticed its effects especially in this current crisis, I realized that this is pure speculative and should be ruled out.

4. For options the matter is similar. The OIC Fiqh Academy rules that options cannot be an object of trade because they cannot create increase in wealth (they are pure financial rights). This is perfectly correct. But later I notice another use of options in these existing markets that is the use for hedging an existing position (either asset or liability). This kind of use of option does not intend to create a profit (I.e., increase wealth) from options but rather it intend to protect existing wealth and the difference is big! I wish the regulators of organized markets can limit issuance and trade of options to such real users and it can be done. This would have saved us from the existing crisis!

5. Being short itself is not Haram but short as practiced in organized markets is not permissible because it is a speculative contract. We have a short contract known in Shari'ah and it is permissible. It is called Salam Contract. It is defined as contract for future delivery of well-

defined commodity against full payment at the time of contract. This is a real contract not a speculative one it aims at actually taking delivery in the future.

6. The basic difference between an ETF and other funds is being listed and quoted on the board. What matters is what does an ETF invest in. if it invest in permissible contracts and without speculative behavior, it is permissible.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Asalaamualaikum wa Rahmatullah brother Monzer

InShaAllah you had a nice Ramadan and Eid Mubarak to you. I had a quick question for you regarding options. I was discussing this with someone and I didn't have an answer. I was curious as to what the Islamic viewpoint is on this:

I like a particular stock/company, however, I feel like the price may fall lower. Therefore, I don't want to buy the stock. Would it be permissible for me to sell a put on that stock, and if/when the stock reaches the strike price, I am long the stock at that price. I believe by doing this, I can collect a premium, making my cost for the stock lower than the strike price.

Jazaka Allah Khair for your response. I truly do appreciate your help and knowledge. May Allah bless you and your efforts.

Walaikum asalaam

Omar

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for your kind email.

The answer is no. this is the prohibited speculation. Options are not a source of earning in Shari'ah because you do not own a real property by owning an option. Moreover, when you sell a put option you commit yourself to sell a thing which you do not know what it is going to be. That is not permissible too.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ali

Sent: Monday, October 19, 2009

Question: Call options

Alaykum Salam Dear Professor,

What is your recommendations from a Shari'ah perspective on Equity Call options in general? I understand some banks use Arbut as the underlying contract. Please advise.

Regards,
Ali

My Answer:

Dear Students

Assalamu Alaykum Wa Rahmatullah Wa Barakatuh

Please receive Session 7 outline

Sincerely,
Wassalam,

Dr. Monzer Kahf

Dear Br. Ali

Assalamu Alaykum Wa Rahmatullah Wa Barakatuh

The OIC Fiqh academy has ruled that all options cannot be a source of profit. Banks and other person must not seek gains by trading options. Call or put, an option cannot be a source of profit creating because it is not an asset that creates increment. The OIC resolution is even more inclusive it resolves that buying, holding, selling and trading options are not permissible.

On the other hand using call or put options for hedging an existing asset or liability may be discussed but it takes some research in this area.

On the other hand, Arbun is a payment for goods that are in possession of seller and cannot have a set date of delivery otherwise it becomes a Kali' for Kali' that is specifically not accepted by the OIC Fiqh Academy and the matter is well established in the literature.

Sincerely,
Wassalam,

Dr. Monzer Kahf

From: Samad

Sent: Saturday, January 30, 2010

Location: Riyadh, Saudi Arabia

Question: Islamic Equity Derivatives

Assalamualaikum Dr. Kahf

I just came across your training material on the net and I am interested to know more about it.

Samad

Dear Sir

My Answer:

Dear Mr. Samad

I give in house training and public training though a few specialized companies like Euromoney. Would give more detail about your query please?

Kindest Regards,

Prof. Dr. Monzer Kahf

Assalamualaikum

I currently work with Islamic Equity Derivatives. I want to beef up my product knowledge and of course the guiding principles that determine the Shari'ah compliant products and payout. In future I want to be an expert in these. What are the steps that I should take?

Regards

Samad

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Samad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Are you with SAMBA of Saudi Arabia? Fine, personally I have a great suspicion of "Islamic derivatives" especially when they are offered by a conventional bank, both on theoretical basis and on the empirical basis too.

I suggest that you may consider pursuing a formal Masters in Islamic finance from a respected school.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Nafiz

Sent: Thu, 17 Mar 2011

Question: Contract for the Difference, CFD and shares

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Dear brother,

I have a question regarding a financial instrument called CFD (Contract for difference) it is a widely used financial leverage instrument used by investors in western countries. The characteristic of CFD is as follows:

1. Trade in margin
2. No physical exchange of goods or service.
3. Profit and loss can be exceeding initial deposit.

Let's say, you are buying 1000 share of Tesco Plc. which has a market value of £4000 (£4 each), but you will only pay 10% margin of it so £400, now if price goes up £1 you will make profit of £1000 which is more than what you actually pay as deposit and if price goes down you will loss £1000 where its more than you initial deposit. On the other hand you can sell the share instead of buying if you think price will fall. You can also buy or sell commodities like gold, wheat, rice and oil etc. at a margin of full price but there is no physical exchange of share or commodities, you will register with a CFD provider and they will act as your agent. You can Google cfd if you want to know more.

However my question is, is it halal according to sharia law and Islamic point of view? I have Google this question, some people say its ok because you are doing a normal trading but some says according to OIC Fiqh its haram, as its like gambling and its uncertain and there is no physical exchange of goods or services in contract. But what I think gambling involve speculation with massive amount of uncertainty but this you have to know about market and finance and how this work!!! so that you can judge how to trade, hence I also consider as its very high risk and return financial instrument and you actually buy something and make profit or loss from without paying full price of it and you selling something you don't own it could be a big question of Halal or harm.

Please explain if ISLAM allow this kind of trading or is it halal? And why (If possible with reference of Qur'an and hadith)

Thanks

Nafiz

May Allah bless you.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

CFD is pure gambling. You do not buy or sell anything. Just take the price change and calculate loss or profit paid from one to the other. This is Haram. It is earning from pure gambling.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Nafiz

Sent: Friday, March 18, 2011

Dear Brother

I am so pleased that you have answered my question. I have at least ask 15-20 institution and people about it and no one but you answer it. May Allah bless you.

Can you pls also advice if buying stock from equity market is halal (buying in full price but in internet). However why option and future is haram??

Thanks

Nafiz

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Buying stocks in the market may be permissible or Haram depending on what you buy and how you buy. Shares of companies whose main line of business and do not make any prohibited transactions is permissible provided it is not speculative. Not speculative means you buy for investment because you like the company and its profile, not for waiting the price to jump and then sell. The example of this category is shares of Islamic banks (they are listed in exchanges in all the gulf countries).

Buying for investment shares of companies whose main line of business is permissible, such as IBM, but it make interest and other prohibited transactions may be permissible if these transactions do not make high percentage of its activities. The Auditing and Accounting Organization of Islamic Financial Institutions suggested 3 criteria in this regards: 1) income from prohibited activities is no more than 5% of its total activities revenues (not net profit); 2) no

more than 30% of its assets relates to prohibited activities such as interest earning debts; and 3) not more than 30% interest-based leverage (debts on the company). These criteria of course apply to individuals for whom either it is inconvenient or too much limiting to invest in as it is the case in some markets like New York or European markets.

The third category is companies whose main line is prohibited such as conventional banks or military industry such as Boeing. In this category also are companies that do not fulfill the conditions of category 2.

Options and futures are Haram because they are pure speculative, they lack realism.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Nafiz

Sent: Friday, March 18, 2011

Question: Work in A upper Market Which Sells Alcohol

Bismillah rahmanir Rahim

Assalamualikum wa Rahmatullah wa Barakatuh

Dear brother

Thanks for your answer.

I am so much glad that you answer my question promptly and I appreciate you spend you valuable time on my questions.

Just last few bit I want to know.

1. I work for a company they sale alcohol, its super market, is my income halal.

If you do not sell it yourself, as a cashier, or carry it or put on shelves for sale or any other handling of alcohol, your work is not Haram so is your income

2. Can we buy stock for tobacco company, as from your previous mail I understand share of bank is haram.

Tobacco is as Haram as alcohol, is it not harmful?

3. what if I buy share and sell it after 2-3 years as company grow and its share price rise is the profit halal.

Yes, this is investment as opposed to speculation.

4. I am training as an chartered accountant, now accountancy deals with Riba or interest so will my qualification will be seen as halal

It is Halal provided you do not do thing with interest. Learning it is permissible but contracting it is Haram so are activities that are directly related to contracting it.

5. Finally please give me few name of books where I can find all the answer related to halal financing and accountancy related to sharia.

Go to the internet

6. I am looking forward to do a Islamic financial course will you recommend me one.(UK)

I give courses in more than one country, though presently I teach Islamic finance in Qatar. However I had some nice conversation with you. you gave me some knowledge that is really necessary to know for every Muslim living in western world. I think that's all I want to know from you.

May ALLAH give you more Tawfiq and blessing and make you more knowledgeable person.

Thanks

Nafiz

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Karim

Sent: Wednesday, July 13, 2011

Question: Trading S&P index

Dear Dr. Kahf,

I hope you are doing well. In the light of what we learned in your classes I am trying to understand the basis on which an index is marked as tradable? Is it because the person is not purchasing the index itself but is purchasing what it represents (ownership of a proportion of set stocks of the pool of investments)? The reason I ask is because as can be seen below, S&P has what is called tradable indices, so are people trading the index or what the index represents (a group of stocks – like a mutual fund)? In a mutual fund the money you invest right away represents ownership in a group of stocks

Also, does Dow Jones have something similar?

I look forward to your response.

Thanks,

p.s. when will you be back in Doha?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Karim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You should know better than being misled by whatever is said in propaganda.

There is a big difference between trading an index and trading an indexed fund. Trading indices is trading numbers not properties. Only property can produce earnings. Numbers produce nothing. An indexed fund is a fund that owns shares in the same proportions as they are in the index. These are real properties which can be owned and traded. It is the principle of REALISM.

A new question I like you to discuss and give me your input on it:

We can create as many as we like of indexed funds (this is not like creating shares. The latter is limited to the amount of real properties put in the company), would we consider trading units

(shares) of an indexed fund Haram for this reason (I.e., they become in reality fake as they represent the same quantum of properties). It is a serious question that requires deep thinking. Alternatively should we only allow redemption of shares of indexed funds in contrast to trading them on the board?

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Dear Dr. Kahf,

Thanks for your thoughts. You mention that an indexed fund is a fund that owns shares in the same proportion as they are in the index. For me this sounds like a mutual fund other than the fact that the proportion of funds from each investor is allocated using the index as a guide to determine how much should be invested in each of the different stocks. So, if we forget about the index altogether the bottom line is that these funds are actually used to purchase stocks which represent real assets. The index is just a methodology for assigning these funds to the different stocks and to produce an average price of all the stocks which the investor actually owns.

When we think of mutual funds we see that when the person wants to liquidate what is done is an order is given to sell the number owned by the investor in each of the different stocks. Why would an indexed fund be any different? If the investor wants to liquidate, similarly we can see how much he owns in the underlying stocks and liquidate them. But wait a second, in a mutual fund the price you are getting is the actual price of liquidating each of the individual stocks in the market. However, with an indexed fund, the price that you are getting is not the price of the stocks being liquidated but the price of the index at that time. It seems to me that this is the main difference between the two. Is this allowed? Well, you can say that this index price is actually calculated based on the average price of each of the individual stocks, so in reality the price of the index does not deviate from the following calculation:

(Price of stock A + Price per stock B +) / # companies the fund actually invest in

I have not looked at the details of their calculations but I assume that they take into perspective the proportion of funds invested in each of the stocks also in the above calculation.

By the way, you didn't mention in your email if you find the Shari'ah S&P indices mentioned below indexed funds or a plain indices?

I look forward to your thoughts...

Karim

Dear Br. Karim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You came close.

What you wrote provoked a new thought: listing mutual funds on the board and trading their units in the exchange (in contrast to redemption which is sale of shares and giving their actual amount of money) may create a serious problem of fakeness regardless of whether the fund is indexed or not. The reason is trading these units become detached from the assets themselves

and their price may take a totally different direction depending on speculative factors in the market. This may lead us to argue whether the ETF (exchange traded funds) are permissible. Lastly, for the claimed Shari'ah' trading of indexes, if the broker says index it means what it says, otherwise it says indexed fund and this is a registered company like any other mutual fund.

Best Regards,
Wassalam
Monzer Kahf
Prof. Dr. Monzer Kahf

From: Zeeshan
Sent: Monday, September 12, 2011
Location: Canada

Question: Options Trading

Assalamu o Alaykum Sheikh

I have earlier asked you question about Islamic house financing model of a Corp in Canada and after your clarification and help, Alhamdulillah I have switched my house financing to Ansar Corp. I really pray that Allah accept this and I really want to thank you for your advice earlier to reach me the right decision InShaAllah.

I have another question regarding Options Trading, regarding which we friends are divided and unclear. Some of us are involved in its trading. So far what I have gathered about views of various Islamic scholars on Options trading is that it is not halal/or some consider it grey area. What I have gathered is that the reason why some scholars prohibit is that:

- 1) It is considered highly speculative and anything having element of gambling/Gharar is prohibited in Islam. Some of my friends who are very devout Muslims however do not agree with this and they are drawing a good income from options trading every month.
- 2) There is no real asset behind its trading and that is the reason it is considered illegal in Islam. (I however do not know that verse/Ahadith disallow such trading)

I just wanted to know your opinion about it. I understand that options is something that was not available in the times of prophet Mohamed (P.B.U.H). I would really appreciate if you could let me know your opinion about it. Also if you consider it not allowed in Islam, I would greatly appreciate if you could cite references from Quran/Ahadith on the basis of which we draw the conclusion that it is not halal.

JazakAllah Khair for your time and effort.

Zeeshan

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Zeeshan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Option trading is not permissible in Shari'ah. The reason No. 2 which you mentioned is very serious. It is not a matter of a Verse or a Hadith. You will never find a verse or Hadith that tells about every kind of trick and untrue thing people fabricate. It is the principle which is

established in Shari'ah: you are entitled to an earning if you own an asset which can generate an increment. If you do not own an asset and if the asset you own does not generate an increment (by its nature) and if it can generate an increment but it happens that it created a negative increment of course in these three cases you cannot claim any earning.

Take the example of an option to buy an IBM share. There are persons who own the shares of IBM. Their property creates increments (software and hardware computer products) by its nature. The price of their property may increase and then they have earning or may decline and they lose.

Besides them there are people who own options (a right created from nowhere to buy a share) if the price of the share increases, what does the owner of the option own so that he may claim an increase of his property. He does not own any part of IBM. He is simply parasitic who owns a right which is created by our fantasies for the purpose of allowing people to speculate more. There is no property which may create increment that is owned by the option owner. It is all fabricated.

Trading options and deriving returns from them is not permissible in our Shari'ah. The OIC Fiqh Academy rules that is Haram. You may check its decision on its website.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mohamed

Sent: Wednesday, December 07, 2011

Location: Hamburg, Germany

Question: CFD-Trading

My apologies...I'm South African and the JSE is our local market (Johannesburg Stock Exchange)....the ALSI is in short weighted index.

Assalamu w Alaykum ya Dr. Monzer. Thank you for the time to reading my email and answer my question. My English is not very well but I hope you will understand my request.

I am Muslim Sunni, 25 years old. I'm from Lebanon and live in Germany. I like the Islam and love the Qur'an and I will not make anything wrong in my life.

I have asked some sheikh here in Hamburg and read something in the web about the CFD but some Sheikh's say it is "Makrouha" but not "Haram" and other say it is definitely "Haram". CFD trading resembles Qimaar (gambling), in which two people agree that whoever loses the bet on an uncertain outcome, will pay the other a specific amount.

I think it is too easy to say that it has character of "Qimar" because there is no difference between the real buying of shares and the CFD's (only the problem that this is a closed system without real commodity). But the terms are the same, so I'm reading newspaper about business and following the events in this market. It is very difficult to earn money in this market, so it is not like gambling. It is like working with a loan. In my bank it is possible to work without "Riba" when I sell shares at the same day or when I work only with raw materials.

Is CFD Haram or is it possible in Islam to work with it?

I hope you will answer my question.

Thank you in advance.

Salam w Alaykum

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

CFD is not a trade it is a pure gamble. Why?

In Islam and also among all rational persons you can earn if you own an asset and your asset value increases for any reason that is morally acceptable. In CFD you pretend to own only. It is not a sale of an asset but a contract between two persons one pretend to be on sell side the other on the buy side. If the price goes up that who pretended to be a buyer wins and the pretend seller loses. And vice versa. It is a pure gamble because there is no real asset owned by either one.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Short sale of shares

From: Dr. Jeff,

Sent: Saturday, November 07, 2009

Location: Cardiff-by-the-Sea, CA 92007

Question: AR boon and leverage in stocks

ASA Br. Dr. Monzer,

On a different topic from what we last talked about, my existing small private investment fund is a long-short equity fund with a sustainability theme, and I'd like to try to make it Shari'ah compliant. The screening of stocks is fairly straightforward and I am already doing that. The three questions I have are 1) Is there a Shari'ah-compliant way to employ modest leverage in the fund, analogous to buying stocks on margin, possibly using daily Murabahah transactions or some other satisfactory method? 2) Is there a Shari'ah-compliant way to profit from the decline of a stock from a speculatively overvalued level (analogous to short-selling). I've attached the carbon paper by Shari'ah Capital (Yusuf DE Lorenzo) on this topic. They are using this strategy now. What do you think of this? Do you think we could structure something similar? 3) What about investing in mutual funds? For example, many large public companies can be viewed as a conglomeration of many businesses, and we apply Shari'ah screens to them as a whole. So for example, Walmart might be Shari'ah compliant according to current standards even though it has some debt and receives some interest on cash deposits and receives a very small percentage of income from the sale of cigarettes or wine. What about the S&P 500 as a whole? If one buys a mutual fund that invests in the S&P 500 and the S&P 500 taken as a whole passes all current Shari'ah screens, is it Shari'ah-compliant to own this mutual fund?

Please let me know if you feel there is a way forward in some of these areas, and perhaps we could work on them. Thanks.

Best Regards,
Jeff, PhD

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dr. Jeff,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thanks for the email,

1. Leveraging in stocks: in principle it is permissible to buy on margin, but can you do that in stocks as you do it in commodities and currencies without interest-based borrowing from the broker? If it can be done it is permissible because it amounts to buying with partial deferred payment. On the other hand if a Murabahah transaction can be accepted by your broker or finance provider, it is also permissible to buy stocks on Murabahah. Remember Murabahah requires definite payment date.
2. Salam and Arbun in stocks do not work because delivery of the stock is delayed. You know when we buy stocks we are not buying the security but what does it represent of assets and liability and market evaluation. These are presumed know to the parties at the time of the contract but can't be known at any future time. This is why any contract that has future delivery of stocks is not permissible. AAOIFI is clear on this point. We can short commodities but not stocks.
3. Investing in non-Islamic mutual funds is not far from the examples that you described. The logic would go along with this argument but I am afraid of it as much as I am also afraid of the screening criteria set in DJ Islamic. I am not comfortable with their too liberal denominator (market capitalization) because managers play with actual assets and liabilities not much with market capitalization except to show themselves big when they apply for new loans, besides the 1/3rd is very arbitrary.
4. I have an added point that I am increasingly growing suspicious of: the whole role of secondary market in stocks being overloaded with speculation. It seems to me that speculative placement of funds in the stock market is not healthy and counterproductive. I would rather encourage IPO investment or commitment to a longer term investment in a stock rather than volatile trading, I tend to see day trading as not permissible in any commodity, currency of stocks because it is essentially speculative, so is short term trading.

Let us talk more about these points and try to achieve sound objectives within the giving of the market as it is today. . .

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Tawfik

Sent: Monday, December 24, 2012

Question:

Dear Sir

Al-Salam Alaykum

I am contemplating an opportunity to structure a fund whereby we purchase shares from Canadian charities at a considerable discount and sell them in the market after a lock up period. There is an option to short sell the shares to minimize the risk rather than waiting till the end of the lock up period.

Are we allowed to do so under Shari'ah rules?

Tawfik

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tawfik

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Shares should first be screened against the Shari'ah criteria for buying shares. For instance Ford shares are not permissible because ford finance makes now a large part of it more than can be tolerated. The generally accepted criteria, beside the main line of business, now are max 5% income from interest and other Haram, 30% assets that may be interest based and 30% interest-based leverage.

Second, short sale is not permissible. AAOIFI mentions this in its standards because it contains interest and a loan of share. Shares cannot be lent.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

**Subject: Share Allotment in IPO (Initial Public Offer) to
Haram income earners**

From: Azam

Sent: Wednesday, June 29, 2011

Question: Share allotment to brewery or tobacco company

Prof. Dr. Monzer Kahf

Assalamu Alaykum Sheikh,

Hope you are doing well by the grace of Almighty Allah.

I have a question with regard to a company owned by Muslims going for an IPO (Initial Public Offer) and its allotment of shares.

In a hypothetical scenario, let's say a company owned by few Muslims is planning to raise money through an IPO (Initial Public Offer). In such case, once the IPO has been officially announced, many types of investors would subscribe for it, such as individual investors, institutional investors, high net worth individuals, etc. In the above scenario, if an institutional

investor, which is a distilleries or tobacco company subscribe for this IPO of the Muslim owned company, can they (the Muslim company) allot shares for that distilleries or Tobacco Company? What is the Shari'ah point of view in this regard? Keeping in mind that, they cannot discriminate the same class of shareholders/subscribers in their allotment of shares.

Looking forward for your early explanation Insha Allah.

Jazakallahu Khairan...!!!

Best Regards,

K H Azam

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In IPOs or when you establish a company whether simple partnership or shareholding what matters is the articles of incorporation and the bylaws that determine its objectives, legal nature and the like. Therefore as long as the objectives of the company is to make business with full observance of the Islamic tenets, it does not matter who owns its shares and from what source does an owner obtain her/his funding from. We are not required to ask these questions to begin with because we are authorized to interfere in other people's business. This kind of money is Haram to receive for the sale of alcoholic drinks or tobacco. This applies to the brewery and the tobacco but money is money once it is received by that company it is permissible for other persons to receive it in exchange of legitimate objectives such as a principal in a company that undertakes permissible activities or in exchange of sale of products that are Halal.

It is permissible to allot the appropriate share to these subscribers.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Commodity trading: Futures and spot

From: Pengiran

Sent: Wednesday, August 12, 2009

Question: trading Commodity on leverage in Islamic perspective

Salam,

I have doubt regarding Trading Commodity (like corn, wheat, soy bean and etc.) on leverage.

For example, I deposit usd 1000 to trade corn commodity. My broker offer me 1:100 leverage so that I be able to trade 100000 worth of margin. There will be no interest from the broker site charge to my account. is this leverage is permitted in Islam?

Need to clear myself of the halal and haram issue on trading commodities on leverage.

Regards,

Pengiran

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Pengiran

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Trading commodities futures is ruled non-permissible by the OIC Fiqh Academy and I fully support this decision. Besides the main reason is the lack of realism in futures as more than 99% of them are not meant for execution by delivery (real buy/sell). Margin (called also leveraging as you described it) is of course a purely speculative tool. It is not permissible on the same basis.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Taheseen

Sent: Sunday, May 30, 2010

Question: Investment in commodities

JazaakAllah Khairan for your reply.

I am a female doctor, at present not working, so I had thought it would be better to invest some of my savings to generate income for my family & other needs.

I will InShaAllah implement what you advised.

I have no doubts over your ruling, but due to my limited understanding of money matters, I need a clarification regarding some other investment (other than the one that I mentioned).

You mentioned that any investment where the principal is guaranteed, the increments over it are not permitted.

Aren't there some businesses like Govt. projects (contracts) where your tender has been approved & thus the cost price and (plus) the profit (payment for services) has been almost guaranteed, as will be paid by the govt. to the contract?

This is sale not investments. In Sale you can contract cost plus. In investment you give your money to a partner or agent, then you must bear the result on your property. In investment the funds remain yours and this makes you entitled to increment and liable for reduction.

I have invested with one relative in one such government project that he is handling, & he needed funds to cover the costs at the beginning. On the ratio of our investment with him, he has guaranteed us variable rate of profits (I. e No fixed amount of profit over the principal amount. He said he could give us a share of the increments, the amount of which is not guaranteed, but the principal is guaranteed to be returned by him.

Suppose he made delivery of the contract but the government committee does not accept it and rather drags him for five year with a lot of legal expenses and finally paid less than the amount that was due, I.e., if the final analysis there is a loss, form where he would guarantee your principal? Is it fair, if you are partner that he loses and you are guaranteed? Partners go in

together, lose in proportion to their capital and distribute the gain as they agreed in the contract (in order to allow for a share to management).

Please understand Sir, I am not arguing for the sake of arguing, I am just seeking advice on matters that I don't know about ,but are very important.

Please don't worry, ask any question until you are satisfied with the answer. All the rules of Shari'ah are logical and consistent.

And I thank you very much for your time & patience in answering my query.

May Allah bless you & your family.

Regards,

Sr. Taheseen

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. The investment that you mentioned seems to me pure interest. Whenever you give money to any other person or entity whereby the principal is guaranteed by that person or entity, any increment above the principal is pure interest that is the Riba that Allah prohibited and threatened severe punishment for it. I suggest that you should give the extra amount (what is above principal) to any Muslim poor families or Muslim charitable organization.

2. For past due Zakah, I suggest that you look at what you have today and calculate its Zakah as of today for past year after you estimate to the best of your knowledge the number of years that you missed it. Add to it Istighfar and seeking forgiveness with additional good deed because it is sinful to neglect paying |Zakah on time.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

As salaam Alaykum,

May Allah bless you & your family for the services you are offering to the Muslims all over the world?

1) Can you enlighten me whether the profits earned from investments in Halal commodities are Halal if the nature of the profits is fixed over a period of time?

To cite my particular case, I have invested through a franchisee of a company which deals in commodities.

For my capital investment of every one lakh Indian Rupees, I would be getting Rs12,500 of the capital plus Rs 12,500 as profits(or earnings) every month for a period of 16 months, at the end of which I would have doubled my investment.

Is such an earning Halal?

2) I have absolutely NO knowledge of finances and have managed my own finances very badly ever since I started earning.

I have for a reasonable period of time given my Zakah every year, sometimes well in advance to the needy, on the basis of my anticipated income (I was in a salaried job then). Unfortunately I never made records of what I earned & what I gave. Either as Zakah or as Sadaqah.

Due to sheer neglect (which has no valid excuse) I overlooked giving Zakah the last two years (actually I am not even sure whether it is 2yrs or 3 yrs. that need to be accounted), then about six months ago I made an arbitrary calculation of my assets for one of those unaccounted years & gave Zakah for it. The other year(s) is still to be accounted for & I am so lost about it all... I don't know where to begin & how to set my matters correct for the Zakah.

For me anything related to money is a foreign language that I don't understand!

Kindly guide me.

JazaakAllah

Dr. Taheseen

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Sorry for addressing you as a brother rather than sister, the name is a male name for Arabs.

Please see below for answers

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

As salaam Alaykum Wa Rahmatullah wa barakaatahu,

Dear Brother Monzer,

It took me some time to get back, as I was looking in to the matters that you had guided me about.

Regarding this particular Question that I had asked, when I got back to my relative with whom I had invested in commodities and sought clarification of how my money is invested & how am I getting the fixed returns on commodities (I told you earlier ,I don't understand finances),

He had the following to say to me:

He is a franchisee of a company, which invests in commodities in several lakhs /crore of rupees. The main company gets a lot of profit, every month, and sometimes they get less, but over the year, on an average they manage to balance out the profit & loss (which he says almost never occurs, because they make sound investments while keeping a watch on the market), but sometimes the profit may be too much, sometimes less, which they average out.

Out of THAT average profit, they give me a fixed amount, while they keep the difference in profits.

IF they get a loss, (which is very rare,) they will still give me the fixed amount, because it averages out, on their large scale investments.

When I asked my relative, to ask the company to give me the returns, in a way, that reflects the fall & rise of the profit /loss, he said he will look in to it, but it will be almost not possible for

them to do it for me alone, as they are handling thousands of investors and it is convenient for them to give out returns on some standard basis ,to all investors....(something to that effect....) While I am still waiting for him to get back to me on this request, I would like to know your view on this.

Waiting in anticipation,

Thanking You,

Dr. Taheseen

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This explanation does not really change anything. He is simply explaining what a loan is. Many people call loans investments even bankers who only deal with loans call their lending investments. The rule is: whenever there is a guarantee of principal and or guarantee of a return, the contract is a loan no matter what name you may give it. Any increment on a loan is prohibited in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Muzammil

Sent: Saturday, February 12, 2011

Location: Egypt

Question: Commodity Trading

Assalamu Alaykum,

I was trading in commodities till yesterday, then I came to know that its haram in futures contract, I was mostly trading crude oil but suffered huge losses due to Egypt unrest, can I trade in commodity to at least recover my initial investment which I have lost, as its from my savings, pls guide me

Regards,

Muzammil

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Muzammil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I believe that trading commodities by persons who do not genuinely work in them as factories and businesses is purely speculative, it is not trade to begin with. Trade is a service provided to consumers and users of goods and services. Not sitting behind a computer and clicking buy and sell. Purely speculative activities are Haram in my opinion.

If a thing is Haram it cannot be given a window of permissibility to regain losses!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Kashif

Sent: Tuesday, May 31, 2011

Location: Windsor, Canada

Question: COMMODITY TRADING

Br Please advise.

Is this business Halal according to Islamic Shari'ah?

The prices on the LME screen are for 3 months (90 days) contract.

For example Copper BID/ASK is 9000/9010 (price per mt) at the moment. 1 lot on copper equals 25 mt.

To buy one lot means I am buying one lot of copper (25 mt) of value (25*9010=\$225250) for three months delivery, today is 28/5/11 so prompt date will be 28/8/11. For the total value of purchase \$225250 we have to pay \$15750 as margin (security) and on maturity 28/8/11, we have to pay balance \$225250-15750 = \$209500 to take delivery. In the meantime, say if any period between 28/5/11 (purchase date) till delivery date (28/8/11) the price falls so much that the loss between bought price and current price exceeds the margin /security paid then to hold the position for the prompt date we have to pay another margin that will eliminate the loss.

For example, on 28/6/11 the price Copper BID/ASK gets 8000/8010 that means loss will be (9010-8000)*25 = \$25250, then to hold the position we have to pay \$25250 to be on the same position. If we fail to pay then the margin \$15750 paid will be wiped out and the position will be lost. However between the purchase date and delivery date, we can also trade the lot purchased. For example, if on 04/6/11 the market goes to BID/ASK 9100/9110, I sell my one lot with delivery date 28/8/11 (since that is our delivery date) so we will make a profit (9100-9010)*25 = \$2750 and our margin will be released which is \$15750 as well since we sold the position / lot which we bought. Similarly we can also choose to sell even if we are having loss. We can also sell in advance and then can buy, same will be scenario (vice versa)

Above was a simple example.

Regards

Kashif

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Kashif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For a company that uses copper as an input in its industry or a copper whole- trader or a copper producer, this transaction is permissible as being intended to be real. But for so called "investor" who does not intend to take or give delivery this transaction is pure speculation. It is not permissible in Shari'ah in my opinion.

Wa Allahu A'lam
Wa Alhamdu Lillahi Rabb al Alamin
Wassalam
Prof. Dr. Monzer Kahf

Subject: Sukuk issues

From: Majid
Sent: Tuesday, February 02, 2010
Location: Iran

Question: SPV and Sukuk Issuance

Assalamu Alaykum

How are you

How is SPV structured? How is it managed? Who owns it?

How may I find the legal structure for SPV in the process of Sukuk issuance?

Thank you,

Majid

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Majid

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is nice to hear from you.

An SPV is a corporation established by a person, it has no capital, no owner, no shareholder and no nothing. It is established so that when a bankruptcy happens to any person who deals with it on either side, debtor or creditor, effect of bankruptcy stops at it because it owns nothing by this way we protect other persons who deal with it.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Carim

Sent: Friday, August 20, 2010

Question: Creating an SPV

Dear Dr. Monzer Kahf,

Assalamualaikum & Ramadan Mubarak

I hope that all is well Insha'Allah.

I am currently working for an investment fund and also doing some studies in the field of Islamic finance. I would greatly appreciate if you could advise me regarding the Shari'ah compliance of the transaction structure that is outlined in the attached presentation.

I am somewhat apprehensive regarding the Shari'ah compliance of such a structure, but as I am not an expert in the field of Islamic finance, I would appreciate your advice and opinion on the matter.

Jazakallah for the assistance. Please reply at your convenience.

Salaams,

Carim

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Carim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please note the following two points:

1. Creating an SPV does not make the Haram permissible.
2. Levels of Shari'ah compliance are for trading shares not participation in equities. When you create a participation in equity any Haram action, small of big, is not permissible.

Studying the details of this structure and giving a formal opinion requires several research hours on my part. I charge US\$ 595 per hour. If you need my services please write me.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Christopher

Sent: Tuesday, October 19, 2010

Question: Sukuk default

Doctor,

I'm a freelance reporter, working on a story for AOL Daily Finance on Shari'ah finance as it may play into the difficulties in Dubai.

With regard to this story, I'm curious about the following: should there be a default on the part of a major Dubai financial institution, and should that default lead to multi-national legal/bankruptcy proceedings where would the Sukuk stand? Would they be treated as debt instruments, and thus have priority over equity? Or would they be treated as equity, and thus be subordinated? So far as I understand it, Shari'ah would seem to mesh uncomfortably with western legal notions governing reorganizations and priority in such matters.

I'm under the impression that what is distinctive about Shari'ah is that it doesn't recognize "bonds" in the traditional sense. Every financial instrument is supposed to have an element of equity or trade in it. That could be at the heart of a tangled multi-national litigation mess.

Am I on the right track here? Feel free to shoot this email back to me with your comments or, if you are going to have a few minutes to spare to speak with me about this early next week, tell me what day and time (New York time) would be best, and what phone line.

Either way, thank you!

Christopher

My Answer:

Chris,

The Sukuk represent actual real equity that is handed to the company. Therefore in case of bankruptcy these properties must be handed over to the Sukuk owners, being their owners and in this sense no other creditors of the institutions can have any claim of these specific assets. These asset may have lost value, this is a loss of the Sukuk holders, or they may have gained value, the gain only can be claimed by the institution because of the binding option to buy that it has from the Sukuk holders. This means: while Sukuk holders are not creditors to the institution, they are not equity sharers in it either. They are equity owners of the assets that are mentioned in the Sukuk documents/prospectus.

If you have any further questions, I am presently in Qatar and you can reach me at 974 4454 6567 on Sunday (this is a first day of the week here) between 8 and 1 local time (we are 7 hours east of N Y).

Doctor,

Thank you for this. I have just one more related question which perhaps you can also answer in email form.

What happened to the Sukuk investors in Investment Dar, when it defaulted last year? Were they able to establish their ownership of the underlying assets on which Sukuk are based? Or were the payments rescheduled so that was unnecessary?

Thanks.

Christopher

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Christopher,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I did not follow on that. The principle is clear and very definite. Sukuk holders should obtain the property in case of default, of course in proportion to their remaining balances. Unfortunately some Sukuk were issued with ambiguity that makes this point not clear. Rather there are Sukuk that are, according to their structure, merely asset based debts.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf
