

# FATAWA STOCKS, SHARES, FUTURES, OPTIONS, ETC. 2013-2015

From: Idriss

Sent: Tuesday, October 23, 2012

**Question: Paper wealth**

Salamu Alaykum wa Rahmatullah wa Barakatuh dr. Kahf,

I would like to ask you about the position of contemporary Muslim economists and scholars with regards to paper wealth? Maybe you could link me to a good article written on this jest.

Barak Allah feekoum,

Idriss

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Idriss

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

There is no paper wealth. There is paper money and even now electronic money.

There is also virtual wealth such as owning options in Western finance markets or owning futures.

Money is what people accept in their transactions and in savings, and measuring values of other things. It does not matter whether it is paper, pieces of animal hides small bags of salt, or sea shells.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Barak Allah feekoum ya doctor,

There are people that claim that paper money is haram and therefore if you would like to pay Zakah, you should first convert it to gold or silver. What is your take on this doctor?

Idriss

**My Answer:**

Both statements are incorrect, it is not even worth answering or discussing.

Monzer

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From: Shafiq

Sent: Tuesday, November 13, 2012

**Subject: Investing in shares**

As salamulikum dear brother

Praying all is well with you and your family. Brother I really need your help in this matter. I been working all my life since I am in Canada but I didn't invest a penny, for the fear of that if it's not allowed in Islam or if it's not halal. Can you please suggest me some company that I can invest on it please. I work for Rogers can I buy their share or can I invest with them?

Brother your help regarding this will be really appreciate. .

JazkaAllah Khairan, may Allah swt bless you and give you the Tawfiq to help His servants

Wassalam

Shafiqah

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Shafiqah

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I am not an investment adviser, sorry for not being able to advice. I know the Islamic Housing Cooperative which is in area of Toronto has good past record in return. You may check it on the internet and check with some members of it. there are also a few mutual funds which tries to follow certain Shari'ah criteria that you need to check.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Farhad

Sent: Tuesday, December 11, 2012

**Question: Options**

as'salamu'laikum wrb

I understand option trading is haram, but when it is used as the example below as a means of I guess "insurance" does it become permissible, or nonetheless it is impermissible transaction?

Example:

You've owned 1,000 shares of Google (NASDAQ: GOOGLE) @ \$100 USD since it's IPO with the interest of owning them long term because you believed in the business model after analyzing the prospectus/industry, etc... but you wanted some insurance on the downside because it was/is a young company with lots of competition from mature companies like Microsoft (NASDAQ: MSFT). 1,000 shares would have cost you \$100,000 USD back in August 2004), and so you bought 10 put option contracts (LEAPS) which expire 2 years from that point as insurance. In case within the next two years, the stock price actually drops below your strike price of \$100, you just exercise the option and sell...

is this permissible?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Farhan

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

You and those dear ones who referred you are most welcome.

What you said is correct about trading options. They are not tradable assets. Besides, the OIC Fiqh Academy does not differentiate between trading options and using them for hedging.

There are scholars, and I agree fully with them under the existing market circumstances (until the whole financial market is re-designed in accordance with Shari'ah, a matter which is not expected in this century). Accordingly I always say that using the current system, wrong as it is,

for hedging an existing position, whether as asset as in your example or as a liability such as when a company has to pay an amount in foreign currency, is permissible provided that the option is not sold, this means either practicing it or letting it die at maturity.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Malik

Sent: Sunday, March 24, 2013

**Question: Day Trading**

Assalam Alaykum Dr. Kahf,

Got two Questions:

1. Please correct me if I am wrong, As I understand from different articles that day trading is permissible in Islam provided that the stocks purchased are from permissible companies i.e. the companies are not involved in a business which is Haram e.g. Banks, Liquor Brewery etc.
2. In day trading I buy stock for \$2000/- and may be after one hour I feel that price is going up and I put my stock for sale and it is sold giving me a gain of e.g. \$100/- in two hours of trading, So I have now \$2100/- in my account. During this process my broker charged me his commission for this transaction.

In real sense the actual funds are transferred and received after three days when account is settled. I think It is probably due to time it takes to update the books of the company and books of the broker however as even the funds are not yet transferred but since the transaction is complete I can buy another stock from the same funds on the same day as my book balance shows that I have now \$2100/- less brokers commission.

Your opinion is requested. Jazakum ALLAH.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Malik

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Day trading in regulated market is purely speculative I believe it is not permissible in our Shari'ah. This applies to commodity, stocks and currencies. Of course trading shares of companies whose main line of business is not permissible or there are other reasons in its activities is a different issue not based on speculation.

Speculation in anything is not permissible. Speculation is not easy to define but it is profiteering (in contrast to making profit by providing a market service) from quick price changes. But we know for sure some speculative behaviors and speculative contracts. example of the first is day trading and internet currency platforms and examples of the latters are trading futures, options, indexes and CFD, etc.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Amir

Sent: Thursday, April 18, 2013

Subject: Trading Question

Assalam Alaykum WRWB Professor Kahf,

I hope you are in the best of health.

I currently work for a commodity trading house. I have some questions regarding the permissibility of trading commodities (in the way it is done today), both physical and their derivatives.

I've attached my explanation and my questions at the end. I would be most grateful if you would read the document and answer my questions.

BarakAllahfeek,

Wassalam Alaykum WRWB

Amir

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Amir

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I have to put all your long and intelligent attachment below to make my answers relate to the questions

Please see my answers below the questions:

Sorry for the delay. . .

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Assalam Alaykum WRWB akhi,

Before I can ask my questions I need to give an explanation on what the trading of commodities involves. I will try to be as clear as possible in my explanations InShaAllah, feel free to let me know if anything needs further clarification.

Please bear in mind, there are brothers, including myself, who are working very hard, or have worked very hard to get into this industry on the premise that it is a permissible alternative to other careers in investment banking and finance which are prohibited. As such, I think some clarity on the permissibility of a career in trading commodities is necessary. InShaAllah this will be of benefit to many brothers who are in my position.

In commodities, traders fall in to two types, paper traders and physical traders. Paper traders trade in derivatives, whilst physical traders trade the physical commodity, (be it crude oil, natural gas, or corn for instance) and are involved in taking or making delivery of the tangible good, including the logistics.

Currently, I am on a trainee trader programme at a commodities trading house. My intention is to become a physical trader InShaAllah, and my question is regarding the permissibility of the role. However, physical and paper trading are very intertwined, and so it will be necessary to explain both aspects of trading.

**Derivatives**

The standard definition for derivatives is the following.

Definition: A derivative is a financial instrument or contract whose value derives from the values of other, more basic, underlying assets.

For example, let us consider an oil derivative. The underlying asset would be oil, and thus the value of the derivative would depend on the value of oil.

This definition will become clearer InShaAllah when we consider specific derivatives. There are three types of derivatives which I'll explain InShaAllah. Namely forward contracts, futures contracts and swap contracts.

### **Forward contracts**

Definition: A forward contract is an agreement to buy or sell an asset at a certain future time at a certain future price.

Example: On 25th Feb 2013, trader A agrees to sell 1,000 barrels of crude oil to trader B, for delivery on 15th May 2013, at a price of \$100 per barrel.

The contract will generally specify the terms of delivery, the date and location for delivery of the crude oil, the quantity to be delivered, the quality/specification of the crude oil, and the terms of payment. These are private contracts and they do not need to be reported publicly. Because they are private, they are customizable.

Remark: This "certain future price" isn't necessarily a certain fixed number. For instance, trader A may agree to sell 1,000 barrels of crude oil for delivery on 15th May 2013 at the price which equals the average of the closing (end-of-day) prices for the 13th, 14th and 15th of May.

### **Futures contracts**

Definition: A futures contract is a standardized contract between two parties to buy or sell an asset for a price agreed upon today with delivery and payment occurring at a specified future date.

By standardized we mean the quantity, the quality, and the place of delivery are fixed. This means both parties know exactly what is being delivered, in terms of volume of the asset, its quality and the place of delivery. This is one of the differences with forward contracts. These contracts are not customizable. Moreover, these trades are publicly reported.

Example: The WTI futures contract is a futures contract for the delivery of West Texas Intermediate, an American grade of crude oil. Each WTI futures contract specifies the delivery of 1,000 barrels of WTI crude to Cushing, Oklahoma. This means, for May WTI futures contracts, each trader knows the date of delivery, the quality of the crude to be delivered and the place of delivery.

Note: It is important to note that futures contracts do not predict the price of the underlying commodity in the future. It is the price today to secure delivery of the commodity at a specified date in the future.

Another key difference is that these trades are not private. Rather, they are executed on an exchange. An exchange is essentially a market place where dealers and brokers all come together to trade, and exchanges are becoming more electronic so most trading on the exchange today is done from a computer.

All trades are reported publicly. However, one does not know who they have entered into a trade with.

Example: Trader A enters into a futures contract to sell 1,000 barrels of WTI crude to trader B for delivery in May at \$80 per barrel. Neither trader A nor trader B knows who exactly is on the other side of the trade. The trade is reported publicly, in the sense that

1,000 barrels of WTI have traded at \$80 per barrel; the counterparties involved in the trade are not reported.

Once the transaction is executed on an exchange, the trade is then handed over to what is known as a clearing house. It is the clearing house that provides the trade reporting.

Definition: A clearing house is a financial institution that provides clearing and settlement services for derivatives transactions.

(Clearing will be explained below).

The clearing house, who acts as the middle-man, keeps track of who has bought and who has sold WTI on the exchange. When the contract expires, that is to say the contract stops trading because it is close to the time of delivery, the clearing house will pair buyers and sellers. Because the contract is standardized, they can do this because the quality and quantity of oil is the same for all buyers and sellers of WTI, as is the place and time of delivery.

Effectively, once one has entered into a futures contract, their counterparty is the clearing house. The involvement of a clearing house means that the contract is not directly between the buyer and the seller. Rather, it is between each of them and the clearing house.

Another difference between forward and futures contracts is the way in which these trades are settled financially, i.e. the payment procedure. (Clearing will be explained here). Futures are settled in the following way.

### **Trading on Margin**

When a futures contract is agreed, the full contract price is not paid at that time. Both counterparties will make an initial payment, usually around 5-10% of the total contract value (this varies from one clearing house to another), to the clearing house. This payment is known as the initial margin. Both the buyer and seller will have a margin account with the clearing house, where their money will be deposited.

Example: Suppose, on 25th February, trader A enters into a futures contract to buy 1,000 barrels of WTI crude for August delivery from trader B, at the price of \$100 per barrel. So the total cost is:  $\$100 * 1,000 \text{ bbls} = \$100,000$ .

Suppose further, that the clearing house requires a 10% initial margin. Both trader A and trader B will have to deposit \$10,000 ( $= \$100,000/10$ ) into each of their margin accounts with the clearing house.

Now suppose that at the end of the trading day on 25th February, the closing (end-of-day) price for WTI crude to be delivered in August has fallen to \$99 per barrel. The value of the contract is now:  $\$99 * 1,000 \text{ bbls} = \$99,000$ .

That is to say, trader A can now only sell the 1,000 barrels of WTI crude oil for \$99,000. So trader A has made a loss of \$1,000 ( $= \$100,000 - \$99,000$ ). This \$1,000 will be withdrawn from trader A's margin account, so that he will now have a balance of \$9,000, (he originally deposited \$10,000 as his initial margin). Trader B, who has made \$1,000 profit, will see his margin account increase to \$11,000 to reflect his winnings. This process is called marking to market the account. A trade is first marked to market on the day the trade takes place. It is then marked to market at the close of each subsequent day.

In the example above trader A will have to top up his margin account back to \$10,000, while trader B can withdraw his \$1,000 profit. The trade is said to be cleared.

Remark: Neither trader A nor trader B have to hold the contract until expiry. For

instance, trader B may buy 1,000 barrels from another seller on the exchange for \$99 per barrel, withdraw his money from his margin account and take his \$1000 profit. Trader B would have made \$1,000 without taking delivery or making delivery of any oil. This buying 1,000 barrels would offset his original sale of 1,000 barrels, making his position relative to the clearing house, zero.

Trader A would still be in a contract to take delivery of 1,000 barrels of oil in August, unless he enters into another transaction in which he sells 1,000 barrels of WTI crude oil, before the contract expires.

Paper traders make money in this way. They enter into futures contracts, amongst other derivatives, with no intention to take or make physical delivery of any commodity. They speculate on oil price and study supply, demand, politics and news stories to make a judgment on the direction they believe oil price will take. This means they can “sell” a commodity for future delivery (as trader B did in the example above) without ever holding the product, delivering the product, or even intending to do so. This can be done as long as they do an opposite trade before expiry, to offset their original trade. Similarly one can “buy” the commodity for future delivery, without taking delivery of the goods.

Importantly, the value of the contract lies in its link to the physical commodity. As such, if the contract is held to expiry, the contract must go into physical delivery\*. Because all contracts which are held to expiry are to be delivered, the clearing house will pair buyers and sellers. This always works, because the number of barrels of oil bought and sold will always be equal.

(\*There are futures which are financially settled, with the option of going into physical delivery).

### **Swap contracts**

Since this is about commodities, I will be discussing swaps in the context of commodities.

Definition: A swap is an agreement between two counterparties to exchange cash flows in the future. These are commonly private agreements for a fixed-for-floating exchange of risk.

Remark: These are trades are purely financial, in which no delivery of the physical commodity is involved.

I will illustrate the notion of a swap with an example.

Example\*: Consider ABC Airline. ABC Airline needs to fix the prices it will sell its flights tickets for up to a year forward. Jet fuel prices represent 35% of the airline’s operating costs. Because of this, any fluctuations in jet fuel prices could damage their profits if its ticket prices are fixed. ABC Airline is committed to buy jet fuel on long term delivery month forward contracts. These contracts assure delivery but the delivery price is based on an average monthly price\*\*. This is called a floating price. (This floating price is a price which is always changing according to market forces of supply and demand).

(\*\* Futures contracts specifically for jet fuel do not exist).

ABC Airline is exposed to any volatility that may exist in the jet fuel market. That is to say, a fluctuation in the price of jet fuel could cause their revenue to change greatly, given that their ticket prices are fixed. ABC Airline would like to fix the cost of jet fuel it has to incur. One way of doing this is by entering in to a swap contract.

ABC Airline, who has a floating price risk, enters into a fixed-for-floating swap

transaction with XYZ Bank. This transaction involves the following. ABC Airline agrees to pay a fixed price to XYZ bank in return for the floating price for the jet fuel. (ABC Airline “swaps” its floating price risk for a fixed price).

For instance, suppose ABC Airline would like to fix the cost of jet fuel to be \$110 per barrel. They will pay XYZ Bank \$110 per barrel, and will receive the price of the jet fuel. Whether the price of jet fuel is \$90 or \$120 per barrel is irrelevant to ABC Airline. Their reasoning for entering into this transaction is to fix their costs. As an airline, they are not in the business of trading speculatively and as such, they are not prepared to take such risks. XYZ Bank will enter into such an agreement perhaps with the belief the market will move in their favour, and they will make money. XYZ Bank is now exposed to the floating jet fuel price, and they assume the risk.

Effectively, ABC airline have locked in the price of jet fuel at \$110 per barrel. They pay this fixed amount to XYZ Bank, in exchange for the market price of jet fuel, whatever this may be. They can then transfer this amount to their jet fuel supplier.

In this transaction ABC Airline are said to have bought the swap, whilst XYZ Bank are said to have sold the swap.

In the same way paper traders enter into futures contracts, they will enter into swaps transactions to make a profit. They will assume the position of XYZ Bank in the example above, i.e. entering into the trade, assume the risk, with the belief that the market will move in a certain direction.

Remark: The transaction doesn't necessarily need to have any counterparties involved who are physically involved in the commodity as ABC Airline is above. Swap transactions can be, and often are, agreements between two paper traders holding opposite beliefs as to which direction price will take, both seeking to gain profit.

### **Settlement**

Like forward contracts, swaps are traditionally private contracts, and so are highly customizable (although there are some conventions that traders generally agree upon). Payment is normally due at the end of a contract, typically within the first two weeks following expiry.

Example\*\*: Recall our example above of the swaps transaction between ABC Airline and XYZ Bank. Let us take a specific swaps contract. So suppose ABC Airline enters into a swaps transaction with XYZ Bank, where they agree to pay \$110 per barrel for 100,000 barrels of jet fuel, in order to receive the floating jet fuel average market price for the month of August.

So ABC Airline pays XYZ Bank  $\$110 * 100,000 \text{ bbls} = \$11,000,000$ .

Suppose further that at the end of August, the average August price for jet fuel is calculated to be

- (i) \$115 per barrel;
- (ii) \$105 per barrel.

Let's discuss what happens in each case.

(i) At \$115 per barrel, XYZ Bank will have to pay ABC Airline  $\$115 * 100,000 \text{ bbls} = \$11,500,000$ .

In actuality, we don't both payments taking place between the two companies. Rather, XYZ Bank will pay  $\$11,500,000 - \$11,000,000 = \$500,000$  at some agreed time after the expiry of the contract.

(ii) At \$105 per barrel, XYZ Bank will have to pay ABC Airline



$\$105 * 100,000 \text{ bbls} = \$10,500,000.$

In this case XYZ Bank will pay  $\$10,500,000 - \$11,000,000 = -\$500,000.$  That is to say they will receive  $\$500,000$  from ABC Airline. So at the time when the contract is settled, only one payment will ultimately take place\*\*\*.

(\*\*\* Since swaps are customizable, you could have for a long term swap, i.e. a calendar year swap, where payments are agreed on a monthly basis).

Note: In both cases above, ABC Airline has achieved its goal of fixing the price it pays for jet fuel at  $\$110.$  Any extra income received from the swap will be paid to its fuel supplier. XYZ Bank however is trading speculatively; they may make a profit or a loss.

### **Cleared Swaps**

Although swaps contracts are privately negotiated, clearing houses do offer the option to clear these trades (for a fee). These swaps would be trade on margin, and settlement would be as it is for futures contracts, i.e. they would be marked-to-market daily.

Remark: The way exchanges/clearing houses make their money is by charging members a fee for the (clearing) services they provide.

### **Physical Trading**

Physical traders are involved in the physical delivery of the commodity. They are study markets globally, and aim to identify the best opportunity to make the most profit out of the product they have to offer. For example, it may be more profitable to sell one million barrels of crude oil currently located in Scotland, to a customer in Brazil, than it would be to a refiner in Germany, even after taking into account the costs of transportation and the potential risks. These are the kinds of opportunities physical traders aim to identify and profit from.

### **Hedging**

One of the risks a physical trader has to consider is that the price may change at the time of delivery. For instance, it may take twenty days for his cargo of crude oil to reach Brazil, in which time the market would have moved against him causing him to sustain huge losses. Hedging involves the use of derivatives (like the ones discussed above) to reduce the risk of price change.

Example: Let Trader X be a physical crude oil trader. Suppose he has spotted an opportunity to sell one million barrels of crude he currently has in Scotland, to an oil refinery in the US, US Oil, for  $\$130$  per barrel, due to a local US oil shortage. According to his calculations, it would be more profitable for him to trade with US Oil than it would be to do so with a local customer in Europe, where crude is trading for only  $\$100$  per barrel. Trader X anticipates he will receive  $\$130 * 1,000,000 \text{ bbls} = \$130,000,000$  from US Oil for this trade. His profit is whatever remains after he deducts the price he has paid for the oil, as well as his transportation costs.

Suppose trader X and US Oil agree to enter in to a trade on 11th March, whereby trader X will deliver the one million barrels of crude oil, and US Oil agree to take delivery of those one million barrels. The agreement is that delivery will take place on 31st March, and that the price paid for the crude oil will be the average price of the five days, 25th , 26th , 27th , 28th and 29th March. (Payments are usually agreed on in this way by both parties or in a similar way to avoid the risk of unexpected big price movements in either direction).

This time lag, from the 11th March to the 25th – 29th March causes a great deal of uncertainty for trader X. If the price of crude oil averages to be  $\$102$  over the period

25th – 29th March, he may incur a loss after taking into account transportation costs. Trader X can avoid this price risk by hedging in the following way, using futures contracts.

Having agreed the physical deal with US Oil, trader X can separately enter into WTI crude oil futures contracts, on the exchange, to sell one million barrels of WTI crude\*\*\*\*. This agreement will be at \$130 per barrel due to the local shortage and the fact that this contract reflects the price of WTI crude oil, an American grade of crude oil. The futures agreement of sale of one million barrels at \$130 per barrel means he receives  $\$130 * 1,000,000 = \$130,000,000$ .

(\*\*\*\*This is a completely separate paper trade).

Now we have three possible cases to consider regarding the price at time of delivery.

- (i) The price of crude in the US increases;
- (ii) The price of crude in the US decreases;
- (iii) The price of crude in the US remains the same.

(i) Suppose the price of crude oil in the US has increased to \$140. Trader X will receive  $\$140 * 1,000,000 \text{ bbls} = \$140,000,000$  from US Oil. This means he has gained \$10 per barrel more than he had anticipated. However, in order to kill the obligation to deliver one million barrels of WTI crude oil, trader X must enter into a futures contract to buy one million barrels of WTI crude oil, now at a cost of \$140, since this is the market price. He will make a loss of \$10 per barrel on his paper trade. His extra \$10 per barrel gained on the physical trade would have offset his \$10 per barrel loss on his paper trade. By entering into a futures agreement to buy one million barrels of WTI crude oil trader X will pay  $\$140 * 1,000,000 \text{ bbls} = \$140,000,000$ .

Since he received \$130,000,000 from entering into futures contracts to sell one million barrels of WTI at \$130 per barrel, his paper position would have made him  $\$130,000,000 - \$140,000,000 = -\$10,000,000$ .

That is, a loss of \$10,000,000. Since his physical trade would have earned him \$140,000,000, in total he would have received

$$\$140,000,000 - \$10,000,000 = \$130,000,000.$$

He would have effectively locked in the price of his sale of oil at \$130. By hedging using the futures contract, trader X reduced the risk of large price movements.

(ii) Suppose the price of oil has decreased to \$100 per barrel. Trader X will receive  $\$100 * 1,000,000 \text{ bbls} = \$100,000,000$  from US Oil. This means he has lost \$30 per barrel on his physical trade, compared to what was expected. However, in order to kill the obligation to deliver one million barrels of WTI crude oil, trader X must enter into a futures contract to buy one million barrels of WTI crude oil, now at a cost of \$100, since this is the market price. He will make a profit of \$30 per barrel on his paper trade. His \$30 per barrel loss on the physical trade would be offset by the \$30 per barrel profit gained on his paper trade. By entering into a futures agreement to buy one million barrels of WTI crude oil trader X will pay

$$\$100 * 1,000,000 \text{ bbls} = \$100,000,000.$$

Since he received \$130,000,000 from entering into futures contracts to sell one million barrels of WTI at \$130 per barrel, his paper position would have made him

$$\$130,000,000 - \$100,000,000 = \$30,000,000.$$

Since his physical trade would have earned him \$100,000,000, in total he would have  $\$100,000,000 + \$30,000,000 = \$130,000,000$ .

Once again, he would have effectively locked in the price of his sale of oil at \$130. By hedging using the futures contract, trader X reduced the risk of large price movements.

(iii) Suppose the price of crude oil in the US has remained at \$130 per barrel. In this case he receives \$130 from US Oil. When he enters into one a futures agreement to buy one million barrels of WTI crude oil (to kill his obligation to make delivery), he buys at the same level he sold, and thus makes no profit. Nonetheless, his total amount received is \$130,000,000.

Remark: The hedge itself is a mechanism to secure a price level, rather than something traders do to help increase profits. Indeed, it could be the case that not hedging would have been more profitable for a trader. (For instance, consider case (I), had trader X executed his trade unhedged, he would have received \$140,000,000, giving him \$10,000,000 more than anticipated). However, the hedging reduces the price risk, and this is its purpose.

Hedging isn't limited to futures, and can be done using other derivatives also.

Example: Consider example\* and example\*\* (where swaps were discussed). In this case Airline ABC was a physical trader (physically trading jet fuel), and using swaps contracts to hedge against price risk, by securing the price they paid for jet fuel at \$110.

### **Time value of money**

The time value of money is a principle which states that a certain amount of money today, will have less value/buying power than the same amount in the future. The idea is there is an opportunity to earn interest (by putting money in the bank) and that inflation will drive prices up.

Example: Suppose I have £1,000, and assume the interest rate is 3%. By putting my £1,000 in the bank and earning 3% interest on it, my money after one year will be worth  
$$£1,000 * 1.03 = £1,030.$$

Therefore being paid £1,000 today and being paid £1,030 in exactly one year from now have exactly the same value when assuming a 3% interest rate.

Equivalently, receiving £1,000 exactly one year from now, is the same as receiving today,

$$£1,000 / 1.03 = £970.87.$$

### **Repossession Deals**

The reason for the slight digression to the notion of the time value of money will become clear now. Repossession deals are a specific type of trade that occur in physical trading. I will illustrate the idea with an example.

Example: Recall our last example where trader X delivered one million barrels of crude oil to US Oil, where the voyage for the cargo was 20 days. Suppose this time, that the price of crude oil is \$103.50 in the US. Assume also that the current interest rate is 5%.

Suppose further that he had to pay \$100 per barrel of crude oil in Scotland, and \$3.45 per barrel to ship the crude. To finance this trade, he needs a cash amount of

$$(\$100 + \$3.45) * 1,000,000 = \$103,450,000.$$

He can lock in the \$103.50 per barrel price level by hedging, and thus secure a profit of \$0.05 per barrel, or in total \$50,000 (= \$103,500,000 - \$103,450,000) for his company, Trading House A.

Trading House A, might not be convinced that investing \$103,450,000 in this trade for 20 days for a return of \$50,000 is worthwhile. After all, applying the notion of the time value of money, Trading House A could have at the end of the 20 day period,

$$\$103,450,000 * [1 + (20 * 0.06) / 365] = \$103,733,424.70.$$

That is, a profit of

$$\$103,733,424.70 - \$103,450,000 = \$283,424.70$$

would have been earned, without any risk. Trader X's request for financing would ultimately be rejected on this basis. If he is to receive the financing, he would be charged the 6% interest rate.

What he could do is enter into a repossession deal with a third party, normally a bank. Here is how the deal works.

Trader X contacts Bank XYZ and they enter into an agreement where the bank will purchase the cargo from Trading House A for the duration of the voyage, provided that they repurchase the cargo back at the end of the voyage. This means trader X can return his company's money immediately after entering into the agreement with Bank XYZ. Trader A is financed and Trading House A has its money.

Of course, this service isn't offered for free. When repurchasing the cargo, they will pay the original cargo price, plus an interest rate, say 0.05%. This rate will always be lower than the rate Trading House A will be able to offer, since banks receive their money at the lowest rate, and can in turn loan this money at the lowest rate. So selling the cargo of one million barrels at \$103.45 a barrel (including transportation costs) means he will receive \$103,450,000 from the bank, but will in turn have to pay

$$\$103,450,000 * [1 + (20 * 0.005/365)] = \$103,478,342.50.$$

to repurchase the cargo back. So trader X would still make a profit of \$21,657.5 (= \$103,450,000 - \$103,478,342.50) for the trade, even after the repossession deal.

### Questions

1. Is paper trading halal? To be specific, is trading in the derivatives explained above (mainly futures and swaps) without any intention to take or make delivery of the underlying commodity a halal job?

**No, trading must be on real goods/services and with some kind of real service added in order to create an added value**

2. Are any of the paper derivatives described halal? Do any of the derivatives described above fall under Riba?

**They fall under lack of realism. That is fakeness. Not only Riba is Haram. In fact Riba is Haram because debt do not increase that is because of lack of realism**

3. Is physical trading halal?

**Physical trading with actual delivery intended and performed is Halal.**

4. If one is a physical trader, is it halal to use derivatives to hedge? (As described above, not for profit, but to reduce the risk faced).

**Majority say no along with the Fiqh Academy. Minority say yes provided a derivative is used only for hedging an existing position (asset or liability) and the derivative, say option, is either exercised or let expire, no trading of derivative is practiced.**

5. Some physical traders do paper trading also. If one is a physical trader, i.e. is physically involved in making and/or taking delivery of tangible goods, is it halal for him/her to do some paper trading alongside his/her physical trading?

**Definitely NO. however, one may make a mistake or a wrong judgment. Correcting such a mistake by a reversed transaction appears as paper trading. It is permissible to correct a mistake done.**

6. Are repossession deals halal?

As described repurchase deal is not permissible because in a sale you cannot include a condition of another sale. There is something called option to return, that applies to physically same item purchase be returned and the price given back. This is usually limited, in most Fiqh Books, to 3 days only but there seems no reason for this limit. It can be for a longer period.

7. If one works for an oil refinery, and his job is to essentially watch the market and purchase crude at the best value for the refinery, he may have to hedge to lock in the best prices for the refinery. Would this be a halal job?

Hedging an existing position is permissible in my opinion. Also buying future for intended delivery is permissible. In your question the word hedging is vague here. If you mean buying future supply for future payment, this is permissible in my opinion although majority would say that it must be Salam. My argument is that this is an INDISPENSABLE NEED OF ANY BUSINESS IN TODAY'S WORD AS WELL AS IN THE PAST. It is consistent with "buy on description" that is accepted by many scholars too.

8. Is it halal for a company which engages in such practices (namely a combination of paper and physical trading) if one isn't a trader? Perhaps working in market research analysis, or logistics?

Working in such companies is permissible as long as one is only involved in permissible functions. This also applies on working in a conventional bank. Income obtained against such work is also Halal InShaAllah. However jobs have ranks in the character of Halal. Producing wheat is certainly more Halal, and teaching Islamic finance is also more Halal.

9. Does it make a difference if trading isn't the company's core business?

Of course, the least the evil the better.

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Wa Alaykum Assalam Wa Rahmatullah Ta'ala Wa Barakatuh,

I hope this reaches you in the best of health.

First of all sheikh, I would like to thank you for reading my document and answering my questions. I truly appreciate it. May Allah SWT reward you for your work.

Following your response, I think some follow up questions are necessary. Leaving my job for a career change will impact my life significantly, and so I have to ask a few more questions.

I have attached my questions, this one is much shorter Alhamdulillah.

Jazaka Allah Khairan for your patience.

Amir

Wa Alaykum Assalam Wa Rahmatullah Ta'ala Wa Barakatuh,

I hope this reaches you in the best of health.

### **Hedging**

Firstly, I will address the matter of hedging since I was vague in my question. My question and your answer were:

If one works for an oil refinery, and his job is to essentially watch the market and purchase crude at the best value for the refinery, he may have to hedge to lock in the best prices for the refinery. Would this be a halal job?

Hedging an existing position is permissible in my opinion. Also buying future for intended delivery is permissible. In your question the word hedging is vague here. If you mean buying future supply for future payment, this is permissible in my opinion although majority would say that it must be Salam. My argument is that this is an INDISPENSABLE NEED OF ANY BUSINESS IN TODAY'S WORD AS WELL AS IN THE PAST. It is consistent with "buy on description" that is accepted by many scholars too.

I will give a clear specific example which illustrates how I see traders hedge where I currently work, and to my understanding this is common practice in the oil trading industry. Suppose trader A is an oil trader, who has sold 5 KT (Kilo tonnes) of gasoline to trader B, under the agreement that the price paid will be the average price of gasoline of the 5 closing prices on the 20th, 21st, 22nd, 23rd and 24th May (Suppose the trade is agreed on the 15th May and the date of delivery is 24th May). Trader A then has a physical “long” position of 5 KT of gasoline, since he owns gasoline until 24th May. From the 20th May to the 24th May he effectively sells (5 KT/5 Days =) 1 KT each day of gasoline at a fixed price. By this I mean at the time of market close on 20th May he is only exposed to an unknown price level for 4 KT of gasoline, since the price is known for 1 KT. The table below shows his physical exposure at the end of each day.

Date	Gasoline Physical Exposure
19th May	5 KT
20th May	4 KT
21st May	3 KT
22nd May	2 KT
23rd May	1 KT
24th May	0 KT

To manage this risk, a trader may hedge in the following way. When the trade is initially agreed on the 15th May, trader A will also enter into a completely separate trade in the paper market. He sells 5 KT of gasoline in swaps. This trade has absolutely nothing to do with trader B, he doesn’t even need to know this is happening, this is just trader A managing his risk. This swap deal will mean he has locked in the price he will receive for the physical 5 KT of physical gasoline he has sold. (If he makes a loss on the physical, he will make money on the paper, and if he loses money on the paper he makes it back on the physical, because they’re opposite i.e. long 5 KT physical but short 5 KT paper).

Note: Although the total effect is zero theoretically, hedges in real life won’t be exact, and there will be a small profit or loss. Nonetheless the goal of managing risk is achieved, and risk is minimized greatly.

On the 20th May, at the end of the day, trader A will buy back 1 KT of gasoline in the swaps market, so his paper position is short 4 KT, the exact opposite of the physical 4 KT of gasoline which he is still exposed to (because the prices for the following days are still unknown). He will do this again on the 21st of May, so that his paper position is now short 3 KT while he is exposed to the unknown price for 3 KT of the physical gasoline. He will repeat this process until the 24th May. At the end of this day he will no longer be exposed to any price risk for the total 5 KT of gasoline, and he will buy back the final 1 KT of paper gasoline (i.e. in a swap deal) so that his paper position is zero, as well as his physical position. The table below shows his position each day. (+ indicates a long position, while – indicates a negative position).

Dates	Physical Exposure	Paper Position
19th May	+5 KT	-5 KT

Comments: No price is known, so exposed to full 5 KT physical gasoline. Short 5 KT paper as a hedge.

20th May	+4 KT	-4 KT
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At the end of the day, no longer exposed to 1 KT, so buy 1 KT of gasoline in a swap deal\*.

21st May	+3 KT	-3 KT	Repeat *
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22nd May	+2 KT	-2 KT	Repeat *
23rd May	+1 KT	-1 KT	Repeat *
24th May	0 KT	0 KT	

Repeat \*, now physical gasoline is completely sold and 5 KT of gasoil originally sold in swap deal is now completely bought back.

This is typically how hedging in oil trading is done, normally using futures, swaps or a combination of the two. Is hedging using derivatives in this way halal?

I cannot claim that this kind of hedging Haram. I don't like it and if I were the regulator I would not allow it. my rationale is the huge waste of resources, at the social level. The amount of human and financial resources put in it is huge.

To me socially it is much more that the loss of this physical trader should the risk of prices hit him. physical real trade will average out with time. But the huge amount of resources put in this paper trades and their related risk and physical experiment as you described the trading houses functions, all that makes me believe that the world is much better off without it all. But while I clearly say that the paper trading of these house is Haram, the hedging through swap of this physical trader as you described it, the system as it is, is not Haram.

#### Physical Trading

You said physical trading, with intended and actual delivery, is halal. However I have to add some context so that you see the full picture InShaAllah. In oil trading, there are two types of trading companies who are physically involved. Oil companies (like BP or Saudi Aramco) and trading houses. The trading houses are involved in a different way, the only reason they trade physical oil is to have a better insight into the oil market so that they can make more money in paper trading, this is their intention behind trading physical oil. In fact, they often make a loss in physical trading, but it's worthwhile for them because they hold paper positions which will make them more than they have lost. With this intention, is it halal to be a physical trader in such an environment, where he will be required to share his information with paper traders in his company so that he can help them to make money? (This is why physical traders in sometimes do paper trading as well).

I can't see physical trading Haram even if it is used to support paper trading.

Additionally, is formula pricing halal? For example selling something, as in the hedging example above, at an average of unknown prices? Is selling something at an unknown price halal at all?

Another example of formula pricing is to say I will sell you Saudi crude oil at Brent - \$2, where the \$2 discount represents the lower quality of Saudi Arabian oil compared to Brent, but the price of Brent next month/week is currently unknown.

There is a view in the Hanbali school that this is Halal. The example given is sale at the closing price of the market. I should say there is no reason why it can be prohibited as long as this price is not controlled by one of the parties.

#### Research Analysis

My final question is regarding my current role. Currently, I am on a rotational programme, where I spend 6 – 12 months in different areas of the company so that I develop a good overview of the whole business. My current rotation is in crude research analysis. I study crude supply and demand, changes in market trends etc., and then report this to a crude paper trader. I have to provide him with this information so that he may use it to trade (if he chooses to do so). I forecast supply and demand, and regularly write reports on which

direction I think the price will move. Is this role halal?

This kind of research and reports writing is not Haram in my opinion although it supports the Haram.

To summarize, my follow up questions are:

1. Is hedging using derivatives, as described above, halal?

In my view, hedging a physical position is permissible but hedging a paper position is not permissible and further hedging the derivatives, one for another, as hedging trades is also not acceptable.

2. Is physical trading halal, if the ultimate purpose of the role is to help make money on paper trading?

This is answered earlier; as long as physical trade fulfills all its conditions of actual delivery, it is permissible even if it is to close a paper trade.

3. Is formula pricing halal? Is selling something at an unknown price halal in any case?

This is also answered earlier; it is permissible in the Hanbali school to make a trade at the market's closing price.

4. Given that in my current position in research analysis, I work with a paper trader, is this job halal?

As long as one does not make any haram trade research and analysis cannot be claimed haram.

5. Regarding Riba, the reason I asked if swaps deals come under Riba is because commodity swap deals are nothing to do with the delivery of the physical commodity. They simply involve an exchange of money for money (e.g. one side offers a fixed price in exchange for a floating price). Because of this I wondered, is this Riba?

This is not Riba but it is Haram.

#### **My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Amir

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

please see my answers below the questions:

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asif

Sent: Thursday, July 04, 2013

#### **Question: Investment in Shares on Interest Free Loan**

Dear Sheikh

Assalamwalaikum,

Request your guidance on following issue

Presently, I am investing in the Stock Market, please assist me from Shari'ah point of view that, Is the below activity undertaken by me is permissible or not and if not then what step I can take towards making it permissible.

The main point is, that with my Broker allow one facility – that is , Interest free Fund to me i.e



They lend me Fund equivalent to 2 to 2.5 times of my Holding value (Cash + Shares Value) for which they don't charge any interest. But they provide the fund for short term only, that is up to last stock market working day of the week i.e Friday of every week. If I borrowed the fund on Monday, I have to repay them back by Friday else they will sell my shares and recover the money due or I can sell my shares to square off the liabilities by Friday. But once I avail this facility I am not entitle to lower brokerage rate that is 0.15% but the brokerage in the Category of facility is higher i.e 0.25% for all trading even if I take fund or not. This is a category of Account- MTOF Account

But I make sure that in order to square off liabilities, I sell off only those shares which has been credited to my Demat Account, the shares which I purchased but not credited to Demat Account, I do not sell it.

Regards

Asif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asif

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

There are two points in this facility which each alone is a reason for prohibition. 1) it is a loan for a higher commission. This is a form of Riba according to the rule that any loan which brings any kind of increment to lender is Riba. 2) this is a loan for speculation, that is trading within the week. I believe that while stock trading is permissible, speculation and any speculative behavior is not permissible including day trading, week trading and any trading based on very short term watching prices.

The way out is to buy on long term fundamentals and of course if this is the strategy you may find yourself sometimes in need to a quick sale, it is not Haram as long as it is not speculative. Finally I don't know what is your Demat, but it has nothing to do with the answer as it doesn't matter which share you sell or buy in regard to the question.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Aslam

Sent: Tuesday, July 23, 2013

**Question: Education Savings Plan (529)**

Asalaamualaikum Dr. Kahf,

I hope that this e-mail finds you in the best of health and Iman.

My name is Aslam and I am a university student residing in Canada. I have an Islamic finance related question to ask regarding paying for education.

Actually, a significant while back, my parents invested in a Registered Education Savings Plan (RESP) in order to start saving ahead of time for my university education. I am now entering my third year of studies and could be using the money from this investment to pay for the tuition costs. However, I am now having doubts as to whether this money is halal to use and I would like the opinion of an authority on the matter regarding it.

A short description of an RESP is:

"T RESP is a tax-sheltered education savings account that can help you, your family, or friends save for a child's education after high school. It is also registered by the Government of Canada."

A more detailed description of an RESP and how it works can be found on the following link:

<http://www.cra-arc.gc.ca/tx/ndvds/tpcs/resp-reee/menu-eng.html>

I am not that well-versed in finance but I think one of the issues might be that at least part of the income which the government pays the RESP subscriber towards helping with educational costs may be derived from interest that the government has earned.

Could you kindly look into this matter and let me know what the Islamic view is on using the money from such an investment? I need to submit the form for the collection of RESP funds pretty soon so it would be very much appreciated if you could help me as soon as is convenient. Thank you so much for reading this and forgive me if this causes any inconvenience!

Jazak'Allahkhairun,

Aslam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Aslam

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The principal of RESP is permissible as it is mainly deducted from parents salaries. I don't if this program has a government matching contributions, but if it has, the contribution from the government is also permissible. You must not ask about its source because it is none of your business. What matter to each person is whether what I get is permissible and this is basically determined by what I get it for or against what. This is a grant from the government. It has several kinds of sources some are Halal in Shari'ah some are not, the government and who runs the Haram part are sinful. As far as your parents and you are concern, you get it according to the law a grant in the form of contributions to this RESP

Most likely your parents did not invest this RESP with the Islamic Housing Cooperative in Canada, it is qualified for it and its income is Halal and it distribute handsome income.

Most other investment are interest-based. If they are, then the amount of accumulated interest since day one, all should be given to Muslim charity. This does not make any ditch to the principal, it remains Halal. Now you know the lesson of investment and ask your parent to transfer to the IHC.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Walaikumasalaam wa Rahmatu Allah wa Barakatuh Dear Dr. Kahf,

Thank you so much for taking the time out to reply to me. I really needed this guidance.

From what I understood:

The RESP is not necessarily an investment earning interest but instead is an investment that is being added to by government grants. These grants can be from both halal and haram sources but that should not be of legal concern, from an Islamic standpoint, to the recipient who may

use the grant funds without worry.

Is this understanding correct?

As for the part about investing the RESP with the IHC, I didn't quite understand. Could you kindly elaborate? Jazak'Allahkhairun,

**My Answer:**

Yes, no worry.

Monzer

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From: Khaled

Sent: Tuesday, September 10, 2013

**Question: Rational of 33% debt criterion in shares financial tolerance**

Assalam Alaykum Dr Monzer,

I hope this finds you well and in good spirits. I wanted to ask you about the rational for choosing 33% as the max financial ratio for the compliant stocks regarding debt/market cap. Is there something that you can share with me that talks about the justification of that specific ratio that is often used by the scholars?

Jazakum Allah Khair

Khaled Sultan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khaled

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

A hint is derived from a Hadith of remote meaning which says that one third is even much (about Wasiyyah). When the Shari'ah committee of Islamic DJ index took this number in early 1999 it justified by running a simulated model which showed that since 1929 until 1998 the curve of Islamic index showed same shape as the DJ index and they derived from it that a Muslim investor can then have similar choice and freedom of movement.

A study in the stock exchange of Mumbai showed that 205 is sufficient to achieve the same and I argue that if we run a similar study on Qatar exchange we may conclude that zero% is the appropriate rate . the basic rationale is: what is the level of tolerance of Haran necessary to remove hardship from Muslim investor.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ali

Sent: Wednesday, September 11, 2013

**Question: Optioned-price shares to employee**

AssalamuAlaikum Professor Monzer

I have worked for a company called Dixons for 13 years now. Dixons is an electrical retailer like 'BestBuy' in USA. In 2008 they allocated 5000 shares at an option price of £0.27GBP. I could only exercise this option in 5 years' time (2013) if only the share price was above the option price of £0.27 GBP. If it was below that price after the 5 years then I would lose all of it. The

share price now is £0.47GBP.

I need to give them a decision urgently so please help with your expert knowledge. My questions are:

1 - I see this as a kind of bonus my employer is offering me as if they were saying 'if the company does well in the next 5 years then we will give you a bonus in the form of shares which you can cash in on'. Is my view correct or not?

2 -Can I exercise the share option at £0.27GBP and sell them immediately at £0.47GBP. Do I have to take into account the company fixed assets, loans, and the interest it receives from cash in bank. Should I give a certain portion to charity?

3 - If I can't take the profits for myself, can I exercise the share option and donate the money to charity?

Wassalam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Your understanding of this being a bonus from employer is correct.

It is permissible to exercise this option. If the company does not fulfill the criteria of holding its share (e.g., has more debts on it or more income from non-permissible activities than can be tolerated) you should sell them immediately you may pocket the difference which is the bonus from your employer..

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: akhtar

Sent: Friday, October 18, 2013

**Question: Investment in stocks vs. down payment on mortgage**

Assalam Alaykum Dr. Kahf,

Writing to you today as referred by SH. Kutty and would appreciate your insight. Per my note below, I'm considering purchasing a house on a mortgage and wanted to understand if would be ok to put some savings towards investments vs. all of it going towards the down payment on a house.

Please advise.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Akhtar

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The principle is that you do not revert to interest mortgage if Islamic finance is available in the area, it seems from your examples that you may fulfill the condition of the Islamic housing Coop, if Islamic finance is available and affordable resorting to others is not justified.

The same rule implies that when you have to accept a Haram practice you accept the minimum of it, the minimum means that you put as much as you can toward the down payment to reduce the amount of evil.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Issam

SA Dr. Monzer,

Listed below, please find some comments and questions regarding this subject matter. Please acknowledge my position as a curiosity for the truth given the magnitude and the consequences of my decision and its implications for my life and the lives of others. At times, my comments and answers may seem argumentative yet the intention was to invoke better answers and clearer pictures for ME. Once again, Jazaka Allah Kheir for taking the time and accommodating this healthy dialogue. I look forward to hearing back from you.... Jazaka Allah Kheir. Wassalam Alaykum wa Rahmatu Allah wa Barakatuh

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Essam

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

In a few words, the issue of Riba has nothing to do with the prohibition of futures and option and practically almost all other derivatives (at least as they are traded in New York, although we may think of designing certain Shari'ah compliant hedging processes between Islamic banks and institutions) is lack of realism. [See below]

Speculation is not trade and calling futures trade (or investment) is itself an abuse of the term and an extension way beyond what trade is.

I do not disagree with you! Speculation is a decision process while trading is and act and a behavior. Trading as an act of exchanging two valuable assets will certainly qualify [trading futures] as an investment as long as there is total agreement between two or more parties whereas each side finds a satisfying and hopefully growing value of the other side possession regardless of its subjectivity and immateriality. For example: a right or a privilege to do, act or own something.

That is not accurate definition of either speculation or trade. Trade rather has a sense of service, of added value, speculation does not. This is why trade is only on things that create value and utility to users (consumers).

This also what distinguishes trading from gambling the latter is closer to speculation in "it doesn't matter what you ply, the objective is to get what the other party has" speculation can work with anything presumed acceptable for it such as indexes, trading cannot be on such a notional thing.

Calling prices for commodities futures (and spot) knowing that there are no real commodities for the amount of contract owned and that no purchaser intends anyway to have delivery; this is speculation not trading. In one words commodity futures (including spot) are not real except for one who aims at delivery.

In one word, the reason for prohibition is virtuality in contrast with reality. [Lack of realism]

- Perhaps we can only measure realism of the subject by observing its influence and its ability to change the internal and external behavior of an individual or group or anything of matter or otherwise. With a closer look at the Futures Market, one can easily detect their real effect, purpose and benefits in the market place hence validating their presence and need in our society.

That is not realism otherwise in gambling there is a real effect of change of hand on wealth and a real desire by people to do it.

Realism refers to objects which are of real existence and benefit to people. It may be tangible or intangible like a software program or an equation of chemical medicine. It also applies to objective of contracts. A sale contract has an objective to take goods because one uses them personally or in one's business. Contract which do not aim at delivery are not real and contracts on things that do not have personal or business use are also not real.

- Everything in the future market is based on the physical market where the current supply and demand influence the price movement and initiate the price discovery process in order to stabilize the planning and production process. Example: how can an airline or trucking company manage its fuel costs for six or more months if they didn't book their fuel in advance and managed a stable pricing?

These are real users. I do not consider contracting on future delivery and payments not permissible. What is not permissible is the 99% of "trades" which are not done by users or providers of fuel to use your example. These are the speculators. Imagine a market in which the tens or hundreds of users and suppliers of fuel dealing together, they can deal more effectively and the price does not need to move every minute and the market does not need to hold 24/7 across the world. My concern is about all those who click to buy and sell with no objective of planning cost or production. The reality is: they are not needed, it is past when we were thinking they add to the market in fact they don't!

- Money, contracts, delivered tangible or intangible rights and products are simply financial assets validated by real demand and supply via the willingness to [Pay for] them regardless of their materialness at time of delivery or otherwise. This applies to gambling too,

Willingness to pay does not legitimize a transaction. It clearly applies to options. This is why futures and options are called derivatives. Compare owners of IBM share with owners of IBM share options. By what virtue an owner of the option gain or lose? What does he own? While the owner of the share owns a part of the company which produces things useful to people.

- Future contract is an authorized contract backed by a guarantee via the US government and financially supported by a well-funded Clearing House. Everything about it is real. Regardless of the percentage of deliveries, one can always hold the contract to maturity and take or make a delivery. In my opinion, taking a reverse position and avoid delivery is a RIGHT in a FREE Market and it plays into the dynamics of any market.

Same applies to trading indexes and options, intention of a real transaction is necessary from the beginning. Intention is not a matter in the heart, it is an outside thing that is measured by the nature of the transaction and transactor. If both are real, it is not speculative and then OK, if both are not, it is pure speculation

- The old mighty dollar is NOT a simple fake piece of paper even though it is no longer back with real gold. It derives its authority by the US government and almost accepted in every country on planet earth. It is actually the only currency we can buy oil with at this time.

That is another subject. Money derives its value from people's acceptance (also partially from

being a legal tender declared by a state). It does not have to be backed by any metal gold or otherwise. We do not call for any such backing. One can also use it for gambling but that does not remove it from being a money used for transactions, oil or others, and as a store of value. This has nothing to do with fake transactions that do not have a reality on the ground. Let us go to the dealing room of a commodity market... say there are 100 brokers (behind them there is a million people trading through them), there is a 1000 ton of corn in the warehouse, brokers come in the morning with orders based on endowments of the million people, they shout prices all day long, at the end of the day the million people sleep with different endowments (of course brokers pocketed their commissions, but let us suppose they are working free (Li Waghillah!) some people now have more and some other have less, losses = gains, but nothing changes in the 1000 ton, it is still the same. Can we do better reduce that all to ONLY THE REAL FOOD PRODUCERS AND FARMERS? THINK OF IT!

Future contracts are real financial ASSETS that validated by their influence on the current physical commodity price and movement deriving their authority from a Regulated Government body where it is financially guaranteed by a well-funded Clearing House.

Some year ago we were doing well without options. Then a government regulators introduce options (because if your objective is purely speculative why buying the shares or commodities, options serve this objective better) and they became financial asset, so they are considered by the regulator.. but are they really assets which reflect real assets as you said earlier? What legitimizes the gain or loss of an option owner? He does not own any part of the company, does he?

The OIC Fiqh Academy (I think in a 1992 decision) ruled that all options and futures are not permissible except for spot with handing over of receipt to deliver.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Esam, OnIslam.net

Sent: Wednesday, December 04, 2013

**Question: Share Marketing**

Salam Ustazna,

I hope you are well now. I know you have a lot of work, but if you can answer this question, we will be grateful.

I just want to know if share marketing is allowed in Islam or not. Means if I involve in share marketing, then will it be good or not from the view point of Islam?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nijamuddin

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

This question is vague. What do you mean by share marketing, are you going to sell shares? Or work in marketing them and promoting their sale in the market? Please explain

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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From: Ahmad  
Sent: Monday, March 03, 2014

**Question: Investing in certain shares in the US market**

Dear Br. Monzer,  
Assalam Alaykum,

I sent you a question before and received a prompt and thorough answer and for that I wanted to say Jazaka Allah Khair, it helped me a lot in figuring things out.

To that end, if you don't mind, I wanted to send you another question. I invest some of my money in the US stocks directly. I'm familiar with the financial ratio screens to make sure that the debt doesn't exceed a certain percentage, the interest income, etc. But my question is this: Do I need to do any specific purification for some of those companies? In other words, if I am invested in a company that passes the financial ratios, has a halal line of business, but has a tiny amount of haram. Can I invest in it and do I have to take out something on a regular basis to clean up my investment?

Specifically, the stock I'm looking at is CVS. They are a pharmacy company with a health plan management component. They even will soon stop selling tobacco at their stores. However, they do sell some food in their stores, and some of that is pork(a tiny amount). So should I donate a portion of whatever I earn from them? I'm hoping you can shed light on this for me on a more general basis so that I would learn for the next time I look at this kind of stock.

Jazaka Allah Khair,  
Ahmad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmad

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The answer is YES. Whenever you invest in any non-fully pure company, like an Islamic bank or a company of any other product but which commit itself to Islamic tenets, you have to make purification. Of course purification varies from one company to another and you should use any info available add to it you educated guess and give that amount to Muslim charity.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ahmad  
Sent: Wednesday, March 05, 2014

**Question: Investing in certain shares in the US**

Alaykum Assalam Wa Rahmatullah Wa Barakatuh,

Jazaka Allah Khair for your prompt and informative response once again. A follow up question if you don't mind - if the stock gives out a dividend, is the purification for the dividend, the capital gains, or both?



Jazaka Allah Khair.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmad

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I believe it should be for both and I apply the same percentage I derive from non-pure income calculation on capital gain. Capital gain is also influenced by the activities of the company.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ahmad

I sent you a question before and received a prompt and thorough answer and for that I wanted to say Jazaka Allah Khair, it helped me a lot in figuring things out. <<http://www.qfis.edu.qa/>>

To that end, if you don't mind, I wanted to send you another question. I invest some of my money in the US stocks directly. I'm familiar with the financial ratio screens to make sure that the debt doesn't exceed a certain percentage, the interest income, etc. But my question is this: Do I need to do any specific purification for some of those companies? In other words, if I am invested in a company that passes the financial ratios, has a halal line of business, but has a tiny amount of haram. Can I invest in it and do I have to take out something on a regular basis to clean up my investment? <<http://www.qfis.edu.qa/>>

Specifically, the stock I'm looking at is CVS. They are a pharmacy company with a health plan management component. They even will soon stop selling tobacco at their stores. However, they do sell some food in their stores, and some of that is pork(a tiny amount). So should I donate a portion of whatever I earn from them? I'm hoping you can shed light on this for me on a more general basis so that I would learn for the next time I look at this kind of stock.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmad

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The answer is YES. Whenever you invest in any non-fully pure company, like an Islamic bank or a company of any other product but which commit itself to Islamic tenets, you have to make purification. Of course purification varies from one company to another and you should use any info available add to it you educated guess and give that amount to Muslim charity.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Syed

Sent: Saturday, April 19, 2014

**Question: 529 education saving**

Dear Dr. Kahf

Assalamoalaikum

I hope you have been well. Your advice and opinion has guided me considerably in the past and I pray to Allah that you are rewarded for this kindness. I have a few questions pertaining to some important financial decisions. I would highly appreciate your input and advice

1) I want to be Shari'ah compliant when discussing and deciding about trust/estate planning. Is there any such service in the US

A living trust for the purpose of estate planning is based, in Shari'ah, on the concept of Wakalah which is agency. If you intend to have a living trust so that estate goes to your heirs after death, you have to comply with the Shari'ah rules regarding inheritance, properties, and Wakalah. Please see the suggested format for it on my website [www.kahf.net](http://www.kahf.net) please read it CAREFULLY, AND HAVE YOUR LAWYER AND FINANCIAL ADVISOR READ IT CAREFULLY. If they suggest any change please be sure to test any such suggestion on the Shari'ah aspects. I will be glad to review any such change they may want to make.

Alternatively if you intend a trust to be for charity it must be founded then on the concept of Waqf. This requires changing property effectively at the time of setting the trust and put in it all conditions you desire for distribution (the Wakalah trust also requires, according to American laws to make the ownership in name of trustee, the basic difference is the assignment of properties after death, if family, it means returning of property to heirs. If Waqf there is no distribution to heirs).

2) I am interested in a 529 irs planning for college fund. Is this permissible

It is permissible to establish it. you need to select funds that have least Haram and every year make purification by estimating, to best of your educated guess and according to best info you can obtain, by giving to charity the Haram amount of income. This makes the fund then permissible and Halal for your children beneficiaries.

3) I am considering a life insurance policy by amfam ,which is not whole life nor term. It is somewhat in the middle. It does not give me dividend, but accumulates tax deferred cash value, and retirement option. It is a permanent policy. I understand it is difficult for you to say whether such a coverage is Shari'ah compliant but in your opinion, any such policy , which is permanent, halal at all

This I don't understand well, please explain to me what do you mean by permanent policy. From the description you mentioned it is regular life insurance which is interest-based. If it is necessary for your objective, you are only entitled to your principal (total of premium you paid only) not to any increment above it.

If this insurance is any different, please give me detailed explanation to study and give opinion.

JAK for all your help

Syed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Syed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please see my answers below your questions:

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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From: Intan  
Sent: Thursday, May 01, 2014

**Question: Speculative trading of shares**

Assalamualaikum, Dr Monzer Kahf. Sorry for disturbing you. I'm Intan.. I have a question about the speculative trading of shares. What is the meaning of speculative trading of shares?

There is speculation when the only drive is a quick short term intention of the investment, some forms of it is apparent like day trading, it is speculative by definition. Trading requires certain addition to the goods or the market, day trading adds nothing, it is pure speculative. Speculation may also be apparent from the contracts like trading indexes, this is purely speculation because there is no ownership of a part of a company as when one owns a share. Besides these two features, it is the intention with the short term action.

What is the Islamic perspective on speculative trading of shares? Is it halal?

I believe speculation in shares and in any other thing is Haram, it is against the meaning of trading and of investment. a form similar to speculation was practiced at the time of the Prophet, pbuh, and he prohibited called al Najash. It is an attempt to raise the price on a next buyer by bidding the price up without intention to really buy.

Is there any different between shares and stocks?

Not that I know

I hope you have time to answer my question. Thank you sir. May Allah bless you.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Syahera

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

These questions cannot answered on an email because they require a lot of explanation but Please see below for very brief opinion on each of them:

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ahmad  
Sent: Friday, May 02, 2014

**Question: Investing in a 401(k)**

Assalam Alaykum Wa Rahmatullah,

Sheikh I know you've been asked this before so I apologize for asking again, but I have a question about the 401(k) here in the US. I've been avoiding investing in the 401(k) because I'm worried about Riba and falling into Riba,

However recently I ended up getting money into a 401(k) inadvertently when I changed jobs and since I'm under 59.5 I can't get it back out in the US until I change jobs. So how do I deal with it? I know you've said in the past that you can invest in a 401(k) as long as you purify on a

regular basis, but how would I do that? Should I look at my funds once a quarter, figure out the percentage of financial companies and donate the equivalent amount? Donate the equivalent amount of profit or of account value? What if the percentage at the end of the quarter is less than during the quarter as these funds can change their holdings.

What about companies that are less than obvious? For example, a company may have a halal line of business but be so much in debt that it becomes not halal. Do I need to check every single holding of every single fund? That becomes a full time job in itself.

So to summarize, my questions:

1) How often should I purify?

2) What should I purify - account value or profit?

3) Do I need to check companies that are in halal lines of work for things like too much debt, earning interest, etc. ? Is that even feasible since usually these funds invest in 20-30 companies and I do have a full time job and a family and not a lot of time.

Please advise on the best approach, Jazaka Allah Khair.

Ahmad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The story of 401K in bullet points:

- It is permissible to invest in it to benefit from the employer share and the saving/investment until retirement.
- If you have an open choice of selecting funds you may select funds that are Shari'ah compliant such as Islamic asset management funds in Washington DC, Iman funds of NAIT and AMANA funds of Saturna.
- When there is limited choice of a few funds, most investment committees of \$401K give a choice of funds, choose funds of least Haram, e.g., avoid finance, all fixed income funds, entertainment, etc. you may consider focus of ethical funds, medical and pharmaceutical funds. Technology, utilities, and the like.
- Periodically, e.g., once every year you need to calculate out of the increase in value, (distributed dividends and capital appreciation) according to your best educated guess using all available info, the amount of Haram, interest and others and donate this amount to Islamic charity. This InShaAllah preserves your own property, out of 401K, clean and pure, this is not Sadaqah or Zakah rather it is purification
- The balance (of course without any deduction of potential penalty and taxes because you are not withdrawing) of your share plus all remaining profit plus the vested ( ) amount of employer share is subject to Zakah at 2.5% on the day of your Zakah annually

Please contact me if there are any further clarifications

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Esam, OnIslam.net  
Sent: Thursday, May 08, 2014

**Question: stocks of conventional banks**

Salam Ustazna,

Here is one more question from Nabil. Can we expect the answers today?

Assalam Alaykum Dr. Monzer Kahf. I hope you're well. My question today is that: is it permissible to buy stock for a bank that is not Islamic? Is it Riba to collect the profit by investing in the stock in a non-Islamic bank? Jazaka Allah.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nabil

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Yes of course. Buying a share of a conventional bank makes you partner in the bank. thus you are not only earning Riba (which is the main source of income of the bank) but you are offering Riba based contract to the borrowers and to the depositors. As owner you are delegating the management rights to the board of directors which acts on your behalf and in your name.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdul Nasser

Sent: Thursday, June 12, 2014

**Question: Pension Funds**

AssalamUAleikum Dr. Kahf,

I am a retiree of State Universities Retirement System of Illinois. I get monthly pension as a result of my work at the institutions of higher education in Illinois. Is this pension income halal? Look forward to hearing from you. Jazaka Allah.

Your brother in Islam,

Abdul Nasser

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdul Naser

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Let us put it this way: you worked in a University, of course in a permissible and useful job. The employer gives you certain amount every two weeks and when you retire continue giving you an amount, determined according to a formula based on period of your work, salary and family size, etc. do you see anything doubtful in that? There is no difference whether part of this payment is given directly by the employer and part is given by another agency (either by contract with employer or by law which determines it relation to employer and to you). The pension is a completion of the compensation of your work and you earned it. It is none of your concern what does the pension fund do (most likely they invest the money they receive on

interest and its likes) because if they do anything wrong it is their sin not yours.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Dr. Kahf,

I am so impressed with your promptness that I want to reach out and kiss you...of course only if you would permit me. I say this because, I have reached out to several so called scholars and none has responded so far. This field is so vast, yet our religion is so simple. May Allah reward you for all you do.

AssalamUAleikum Warahmatullahi Wabarakatahu,

Bismillah Hirrahman nir Rahim.

For the risk of imposing upon you and taking advantage of your generosity I would like to ask you another question. I have retirement funds in TIAA-CREFF and Vanguard which are invested in mutual funds. I am looking for funds that would be halal. For example, Vanguard offers Health Care Funds - would those be Halal? I have been unsuccessful finding out the stock list that makes up Dow Jones Islamic Index. Technically, I could construct my retirement portfolio by selecting some stocks that make up that list.

Finally, please direct me to books/resources that I could look into myself. In addition, if you know of a Distance learning program that I could enroll in to delve deeper into this matter would be appreciated.

Again, JAZAKA ALLAH KHEIR Dr. Kahf. May you and your work be blessed immensely. That is my Duaa.

Your brother in Islam,

Abdul Nasser

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdul Maser

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Yes you can construct your own universe of shares to invest in. health care may be better from the point of main line of business but you need to look at each company for its leverage and use of cash.

In all cases you must apply the purification principle by giving what you estimate as Haram income to Muslim charity.

For books and writings look at the internet especially websites of [www.kahf.net](http://www.kahf.net) and Islamic development bank publications and publications of good writers such as M Anas Zarqa, M N Siddiqui.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Shafiq

Sent: Wednesday, October 01, 2014

**Questions: Buying Shares in a shell company**

Dear Dr. Monzer,

Assalam Alaykum wa Rahmatullah wa Barakatuh. I pray that this email finds you in the best of health and spirit enjoying the blessings of Allah Subhanahu wa Ta'ala. I'm thankful for your answering my questions on Zakah in previous emails.

I'm bothering you again with another question on investing in the stock market. My question relates to investing in a security that is falsely presented to investors like a common stock of a company. I'll explain this in detail in this email. I've also attached a few news reports on the recent introduction of Alibaba shares in the New York Stock Exchange. As a matter of fact, investors buying Alibaba shares after its IPO will be buying shares in a shell company controlled by Alibaba founders. Please click here <<http://video.cnn.com/gallery/?video=3000310586>> for a link to a CNBC report on this. I'm providing all of these so that you can address the issue with full available information.

I'll be grateful in you take your valuable time away from your busy schedule to read my analysis and kindly tell me if I'm wrong. Your scholarly opinion and judgment based your deep knowledge and understanding of Fiqh will be greatly appreciated.

Thank you so much with your patience with my long email.

JazakAllah Khairan. Wa alaikumussalam.

Best regards,

Shafiq Rahman

**My Answer**

Please define a shell company and how it is created.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Assalam Alaykum wa Rahmatullah wa Barakatuh.

A shell company is an legally formed entity that has no significant assets or business operations of its own and primarily serves as a medium for facilitating business transactions of another company. It is formed and registered in a tax heaven such as Luxemburg or Cayman Islands. Forming a shell entity is a simple process, especially since there are a number of ways to create a shell company. The principal owner of the business, an attorney or individual acting on behalf of the business, or a third-party agent may submit the filings and necessary paperwork to the state for company formation and registration.

JazakAllah Khairan.

Best regards,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Shafiq

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

After careful reading of all that I received from you it seems that establishing such a company for this purpose only is not permissible and selling and buying its shares is not permissible too.

it is only an exchange of cash payment now for a future cash flow, the latter is uncertain, and not pre-determined. But this does not make it not Riba.

On the other hand it seems not much different from the economic, not legal, meaning of shares as adopted in the capitalist system as being representing a future cash flow.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Islamic Finance and Economics

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Dear Dr. Monzer,

Wa alaikumussalam wa Rahmatullah wa Barakatuh. Thank you so much for your email.

Before I pass judgment I still need more info:

InShaAllah, I'll give you as much info as you need so that you can pass your scholarly judgment on this issue. No other scholar has yet passed judgment on this topic. This is the situation with the so called "Alibaba shares." Chinese govt doesn't allow foreigners to invest and become shareholders (and own assets) of many Chinese companies including Alibaba. So Alibaba formed and registered a shell company in the Cayman Islands. This shell company signed a contract with Alibaba to raise money for Alibaba in the US. Under the contract, in exchange for the money it raises from investors, the shell company will have claim on Alibaba's future profits, but not claim or ownership of assets of Alibaba. Investors who bought shares of the shell company will receive part of Alibaba's future profits under the contract between Alibaba and the shell company. They will not be shareholders of Alibaba partially owning the assets of Alibaba unlike shareholders in a company owning assets of the company. The shareholders in the shell company only own assets of the shell company whose assets consists of contract with Alibaba to receive Alibaba's future profits.

What do shareholders of Alibaba own exactly?

These shareholders own shares in the shell company whose assets consist of a contract to claim future profits of Alibaba. They do not own shares (and assets) of Alibaba.

What do they pay the money for?

In fact, they are paying money to buy shares in the shell company, not shares in Alibaba.

My question is if it is permissible in Shari'ah to buy shares in the shell company of Alibaba?

JazakAllah Khairan.

Best regards,

Shafiq

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Shafiq

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Sorry that previous email did not reach me.

In what you sent you already gave the Fatwa not me!

Before I pass judgment I still need more info: What do shareholders of Alibaba own exactly?

What do they pay the money for?

Wa Allah A'lam



Wa Alhamdu Lillahi Rabb al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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From: Hamza

Sent: Saturday, October 18, 2014

**Question the Islamic Legality of Guaranteed investment funds**

Dear Dr. Monzer, Assalam Alaykum,

I have an inquiry regarding the Islamic legality/ permissibility of investing in Guaranteed investment funds and I am wondering if you can shed some light on this or if you can direct me to a Fiqh Scholar that can know the answer. They are essentially investment funds that are insured by an insurance company, The insurance ensures the principal (initial) amount being invested (capital) against losses at the end of the investment period that is agreed upon between the investor and the investment company (can be 3 yrs., 5 yrs., 10 yrs., 15 yrs. etc.)

No return nor a fixed % of a monthly return is guaranteed. for example, if the initial invested amount was \$ 10K, and the investment period that was agreed upon is 3 years. If at the end of the 3 years when the investor wanted to pull his/her money out it has overall gone down from the initial amount and is now \$ 9K, the insurance company compensates for that \$ 1K loss/difference so that he/she gets back the same invested amount at the beginning, \$ 10K.

However, if he/she decided to pull the money out of the investment before the agreed upon period has past, that insurance against loss does not take effect in the case of a loss in value. and he/she gets back the current market value of stocks he invested in.

Is that Halal? the gains fluctuate every month and there is also possibility that there is no gain nor loss. What do you think about this? are there certain conditions that if met could make this investment type legal if the general ruling is that it isn't? I ask this because the investment company is fairly flexible with few of their conditions.

Jazakum Allah Khairan,

Hamza

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hamza

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I need more details about this kind of investment before I can give an opinion: who pays the insurance premium, is the insurance in accordance with Shari'ah, what kind of investment is done is it in stocks (assuming them all permissible) or in a business that the manager decides, what is the relation between the fund manager and investor, is it a normal mutual fund (a company with one share owned by manager with right to manage and no right to profit and investors shares with right to profit and no right to manage) or is it simple agency relation. Where is such fund established (in Muslim countries where Islamic finance/investment is available) or under different jurisdictions, etc.

Please send such details in writing, do not refer me to a website.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ihsan

Sent: Wednesday, October 22, 2014

**Question: 457B saving plan**

Salam Dr Monzer

Hope everything is well with you. I am not sure if you know me, but I am son of Dr Irfan and my sister is the wife of Homam.

I am doing some financial planning in the beginning of my career.

My employer (Cleveland Clinic) allows to invest in 457B which basically allows tax deferred investment and lowers my tax bracket.

The problem is that they don't allow a brokerage account to invest it in Islamic finds like Amana and Azzad. The choices they gave me are 43 portfolio funds, when I reviewed them with Azzad consultants they said nothing is safe 100% in meaning they may be trading in financial institutes or other unwanted companies.

The choices I have:

1. stop putting in 457B, but I will lose the tax deferred advantage and lower my tax bracket.
2. Put them in cash reserve status without any investments in 30 years may reach 600k\$
3. Or keep them in the portfolio they are in and then give charity from them, projected to be in 30 years 2.4 million \$.

I know you get multiple questions similar to this, but I feel we are always subjected to circumstances in the country and employers we are working in.

Also a quick question about the recent fatwa from AMJA fatwa about home financing <http://www.amjaonline.org/en/articles/entry/amja-resident-fatwa-committee-resolution-about-islamic-home-financing-companies-in-the-us>

I feel they came very late since many companies are in the market for at least 10 years and people feel confused. I bought my house through University Islamic Financial to discover it's not 100% clear contract.

JAK

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Ihsan

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please first give a lot of Salam to your dear father.

If I were you I select number 3 of the choices you have. First I choose the least Haram funds among the offered fund in this 457B , then keep in mind to make educated guess about the amount generated from Haram in these funds and try to give it annually so that the fund remains clean.

For Housing I do not accept the analysis of AMJA, I think it is based on their lack of understanding of Islamic finance. to me: the University bank and guidance are fully permissible.

LaRiba is fully Riba

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Hamza

Sent: Wednesday, October 22, 2014

**Question: Islamic Legality of Guaranteed investment funds**

Dear Dr. Monzer, Assalam Alaykum,

I have an inquiry regarding the Islamic legality/ permissibility of investing in Guaranteed investment funds and I am wondering if you can shed some light on this or if you can direct me to a Fiqh Scholar that can know the answer. They are essentially investment funds that are insured by an insurance company, The insurance ensures the principal (initial) amount being invested (capital) against losses at the end of the investment period that is agreed upon between the investor and the investment company (can be 3 yrs., 5 yrs., 10 yrs., 15 yrs. etc.)

No return nor a fixed % of a monthly return is guaranteed. for example, if the initial invested amount was \$ 10K, and the investment period that was agreed upon is 3 years. If at the end of the 3 years when the investor wanted to pull his/her money out it has overall gone down from the initial amount and is now \$ 9K, the insurance company compensates for that \$ 1K loss/difference so that he/she gets back the same invested amount at the beginning, \$ 10K.

However, if he/she decided to pull the money out of the investment before the agreed upon period has past, that insurance against loss does not take effect in the case of a loss in value. and he/she gets back the current market value of stocks he invested in.

Is that Halal? the gains fluctuate every month and there is also possibility that there is no gain nor loss. What do you think about this? are there certain conditions that if met could make this investment type legal if the general ruling is that it isn't? I ask this because the investment company is fairly flexible with few of their conditions.

Jazakum Allah Khairan,

Hamza

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hamza

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I need more details about this kind of investment before I can give an opinion: who pays the insurance premium, is the insurance in accordance with Shari'ah, what kind of investment is done is it in stocks (assuming them all permissible) or in a business that the manager decides, what is the relation between the fund manager and investor, is it a normal mutual fund (a company with one share owned by manager with right to manage and no right to profit and investors shares with right to profit and no right to manage) or is it simple agency relation. Where is such fund established (in Muslim countries where Islamic finance/investment is available) or under different jurisdictions, etc.

Please send such details in writing, do not refer me to a website.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Assalam Alaykum Dr. Monzer,

I appreciate the follow up, here are the details

1. who pays the insurance premium. Me, not the investing company, they are a % that is taken of the profits.
2. is the insurance in accordance with Shari'ah? I do not know what are the guidelines that make it such? could you kindly mention them for me or direct me to a source that outlines those so I can check ?
3. what kind of investment is done? Stocks/company equity. Diverse range of portfolios, the ones I am looking at are mainly in large companies in sectors such as energy, manufacturing, tech startups, no banks or financial institutions nor any liquor or entertainment businesses involved. I have the flexibility to request not investing in any company that does any of the above impermissible acts ( I listed financial because it does not include any financial institutions in the Muslim World).
4. what is the relation between the fund manager and investor, is it a normal mutual fund (a company with one share owned by manager with right to manage and no right to profit and investors shares with right to profit and no right to manage) or is it simple agency relation. it is not a mutual fund, it is what is called segregated funds. The Fund Manager makes day to day investing decisions and within the portfolio and parameters provided by me, the investor. Manager has right to Manage and he gets a % (around 3-4%) of the overall profit for managing the funds then what is left is my profit or is fed back into the money being invested, Insurance premiums and other company % fees are deducted from the overall profits as well. for investor, yes, no right to manage day to day activities of the fund, but I can request changes to where the money is invested. The fund/financial manager has the authority to move fund to other portfolios though if he detects any serious urgent risks without deferring back to me, I believe that I can control/specify what those other portfolios can be.
5. Where is such fund established? Majority of funds are in companies headquartered in North America, and specifically Canada I believe. however most of them most likely have reach outside to broader regions.

Hoping to hear from you soon

Wassalam,

Hamza

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hamza

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

It seems to me that this insurance is permissible. It has the same foundation as what is known in Islamic banking today as the investment risk reserve, IRR. Which is a fund established by Islamic banks funded by a portion of the profit of depositor to guarantee the principal in case the bank makes a loss.

Now of course, provided the equity invested in are permissible.

BTW, if this kind of fund in the USA please give me specific info as I myself may be interested in such investment.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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From: Boudjellal  
Sent: Sunday, December 07, 2014

**question: trading stocks only for price differences**

السلام عليكم ورحمة الله وبركاته أخي البروفيسور منذر قحف،  
أرجو أن تكونوا بخير وعلى صحة جيدة.  
:أخي الكبير منذر، أرجو أن تساعدني في الإجابة على التساؤل التالي  
هل يمكن الحديث عن تاجر محافظ مالية في اقتصاد اسلامي همه الوحيد  
الاستفادة من فروق الأسعار (أسهم أو مكوك) مع توفر شروط البيع  
المعروفة كالحيازة والايجاب والقبول علما أن الدفع قد يكون نقدا أو  
مؤجلا كما هو متاح في المعاملات التجارية السلعية؟  
(speculation) أعتقد أن الإجابة على هذا السؤال تحدد موقفنا من المجازفة  
التي لا يزال يكتنفها الكثير من الغموض لدى الاقتصاديين الاسلاميين  
مع جزيل الشكر المسبق،  
أخوكم بوجلال

**My Answer:**

Bismillah al Rahman al Rahim  
Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala  
Aalihi wa Sahbihi Ajma'in  
Dear Br. Prof. Boudjellal  
Assalam Alaykum wa Rahmatu Allah wa Barakatuh  
There are several indications from the texts and from decisions of Fiqh Academies that  
speculation is not permissible. My opinion is that all contract which are meant for pure  
speculation are not permissible such as day trading, Contract For the Difference, trading  
options, indexes and futures.  
In simple buy and sell, the intention remains in the heart of the buyer/seller and there is  
nothing outside his heart which determines whether it is speculative. In the above mentioned  
transactions the intention is apparent. This is why I consider them not permissible.  
Wa Allah A'lam  
Wa Alhamdu Lillahi Rabb al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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From: Khursheed  
Sent: Thursday, December 25, 2014

**Question: is it permissible to save in 529 College Savings Plans?**

AsSalaamAlaikum Br Monzer

I have scanned through almost all your Fatawa but I could not find any Fatawa for the topic of  
529 College Savings plan.

Would you kindly educate me and help me understand if it is Islamically acceptable for me to  
invest in this plan?

I live in USA.

With the sky rocketing cost of Tuition and college education, I as a parent of 2 toddlers if do not  
project and take action from now on that will be needed for my kids to attend college, the kids

will go through same issue of being in debt (like how most students graduate these days). Needless to say the immense pressure of the student loan that one carries throughout life (or at least for a very long period of time).

After reading the 529 College Savings plan, which is a pre-tax investment, meant for keeping aside funds for purely educational basis of one's child, I wanted to know if it is Halal for me to proceed in that direction Islamically. Since I do understand that the funds gather interest as well, as time passes.

Your insights is greatly appreciated.

JazakAllahKharein

Regards

Khursheed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khursheed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

This kind of saving account is permissible but you need to observe the following:

1. In selecting investment you should opt for funds and shares which have the least Haram (such as bonds, shares of banks beverage industry, insurance companies, weapon industry and the like)
2. Periodically (e.g., once every year) you should estimate (as educated guess) the amount of Haram in their dividends and capital appreciation and give it away (from your own other income) in order to keep the funds Halal for your children to use. This is called the purification principle which we need to do because all such companies mix haram activities to their permissible main lie of business.
3. Zakah is due on this fund an annual basis (lunar, i.e. every 354 days) on the total balance at the rate of 2,5% per year. You may also pay it from other sources to keep this 529 fund ready to use when needed.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Mohd

Sent: Tuesday, January 20, 2015

**Question: Day trading**

Hi sir, I want to know can I buy or sell halal stock for the same day...is it too speculative and really close to GAMBLING, if so what is the solution for us..

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br.

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Yes it is, fully because there is no intent of real investment.

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

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From: Ali  
Sent: Friday, April 03, 2015

**Question: Islamic shares**

Assalam Alaykum Brother Monzer  
Please help me.

I have purchased shares in the European Islamic Investment Bank, which uses the Dow Jones Islamic Index for filtering halal companies. Since then I have made some profits on the initial investment. Now should I donate a percentage to charity as the DJ Islamic Index allows companies who deal in interest and interest related activities to the value of 30%? According to the likes of Mufti Taqi Usmani, one should calculate the haram income and donate to charity. But on the other hand many the company I invest in does not donate to charity as they say muftis have given a certain amount of leeway as stipulated in the DJ Islamic Index criteria and that all middle eastern Islamic institutions invest according to the DJ Islamic Index.

What should I do?

**My Answer:**

Bismillah al Rahman al Rahim  
Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in  
Dear Br. Ali

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

If the shares are of the Islamic investment bank itself, it is supposed to conduct all its activities in accordance with Shari'ah and the usual practice is that any doubtful income will be set aside in a special account for distribution to charity. In this case there is no need for any purification. If these are units in an equity fund managed by the Islamic bank, the fund usually invests in shares then the purification principle applies and it is a must not only in the opinion of Skaikh Usmani but of all scholars and it came in the AAOIFI standard. The purification is a must. Usually Islamic equity funds calculate the percentage of purification and inform all units' holders about it but they do not take responsibility of deducting and distributing it. If the fund does not inform you still are required to estimate it and distribute it to charity because having any Haram income is not tolerated in Shari'ah as the Prophet, pbuh, said that any flesh that grows on Haram is destined to the Hell Fire.

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

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From: Ali  
Sent: Sunday, April 05, 2015

**Question: Islamic shares**

Assalam Alaykum Brother Monzer  
Thank you for your prompt reply.

The shares I have are of the investment bank itself. But it does not apply any purification method to the equities it purchases as it believes just like most other 'Islamic' investment funds, that they are applying the fatwas issued by the AAOIFI.

The AAOIFI Standard notes the following requirements: that (a) the collective amount raised as loan on interest ? whether long-term or short-term debt ? does not exceed 30 per cent of the market capitalization of the corporation; (b) the total amount of interest-taking deposits, whether short-, medium- or long-term, shall not exceed 30 per cent of the market capitalization of total equity; and (c) the amount of income generated from prohibited component does not exceed 5 per cent of the total income of the corporation

My question is that some of the equities will have interest bearing debts up to 30% and haram income up to 5%. Now the AAOIFI has permitted these amounts as has the dow jones Islamic index, FTSE Islamic index and many others.

So should I follow the AAOIFI or still estimate a % to give to charity?

Wassalam

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please note:

1. AAOIFI standards require the purification to be done by a Muslim investor. It did not give these criteria and stayed silent on purification. It says while these are permitted because of general needs a purification remains a must.
2. Any Muslim company that has a Fatwa committee or board and applies these criteria calculates the purification and distribute it by the company before distribution of profit to shareholders. What share-holders get as profit is definitely after purification.
3. Is it you assumption or knowledge obtained from its Shari'ah board that the EIIB does not purify its equity assets? I think it is your assumption because this matter is a main function of the Shari'ah board who will testify at the end of each year that the profit is Halal.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Waqas

Sent: Monday, April 27, 2015

Location: Lahore, Pakistan

**Question: Trading Stock**

Dear Dr. Monzer

Assalam-o-Alaykum

I have bought the shares of a Fertilizer Company in a Stock Exchange. My Question is that is it permissible to Buy or Sell the shares after 3 days of first trade when the shares have been transferred to my account and the shares value is equal or less than the total balance of my account.



Regards

Waqas

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Waqas

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I can advise you on the Islamic aspect of it only and I do not indulge in the applications of the principles. The well-established principle is that a Muslim must only invest in Shari'ah compliant companies. Buying shares in any company makes you a partial owner (partner). Of course it is not permissible to be a partner in a company that produces/trades non permissible items/services.

Unless when used by terrorists to make bombs, fertilizers are permissible. But even a company that produces permissible items may indulge in non-permissible activities such as giving money in interest or borrowing on interests. The Auditing and Accounting Organization of Islamic Financial Institutions studied this issue and adopted the following criteria: 1) interest based borrowing must not be more than 1/3 of its resources of funds, 2) No more than 1/3 of its asset may be used in Shari'ah non-permissible uses such as interest-based deposits in banks, and 3) interest and other Haram earnings must not exceed 5% of its gross income.

In addition, the same AAOIFI stated that any investor in companies that fulfill these conditions must calculate the actual percentage on non-permissible return and give that much to charity as a Muslim must not accept any Haram income even if it is below 5%.

When you invest in any share, you are required to observe the above criteria.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Salim, Canada

Sent: Monday, April 27, 2015

**Question: Investments**

Assalam Alaykum,

Farooq (my son) gave me your name to check into if my funds invested is Shari'ah complaint. I would be happy to send my investment with Royal and Bank of Montreal. I am wonder if I could send these to you and you can let me know if these are Shari'ah complaint or not.

Or you can suggest some funds which we can invest to make it sure that it is Halal.

If there are any fees associated with this work, please let me know.

Wassalam

Salim

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Salim

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I can advise you on the Islamic aspect of it only and I do not indulge in the applications of the principles.

I do not give investment advices.

The well-established principle is that a Muslim must only invest in Shari'ah compliant companies. Buying shares in any company makes you a partial owner (partner). Of course it is not permissible to be a partner in a company that produces/trades non permissible items/services.

Unless when used by terrorists to make bombs, fertilizers are permissible. But even a company that produces permissible items may indulge in non-permissible activities such as giving money in interest or borrowing on interests. The Auditing and Accounting Organization of Islamic Financial Institutions studied this issue and adopted the following criteria: 1) interest based borrowing must not be more than 1/3 of its resources of funds, 2) No more than 1/3 of its asset may be used in Shari'ah non-permissible uses such as interest-based deposits in banks, and 3) interest and other Haram earnings must not exceed 5% of its gross income.

In addition, the same AAOIFI stated that any investor in companies that fulfill these conditions must calculate the actual percentage on non-permissible return and give that much to charity as a Muslim must not accept any Haram income even if it is below 5%.

When you invest in any share, you are required to observe the above criteria.

I must add that there are in the US and Canada funds that are committed to implementing these criteria that you may like to check on your own.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdul Nasser

Sent: Thursday, October 01, 2015

**Question: UAE National Bonds**

Bismillah Rahman Rahim,

AssalamuAleikum Dr. Kahf,

These bonds claim to be Shari'ah compliant. They offer annual profit at a variable rate and occasionally award 50 Dhs. or 100 Dhs. prizes. Once a month there is a drawing for 1M Dhs and sometimes drawing for cars, etc.

Are these prizes Shari'ah compliant?

Jazaka Allah Kheir,

Your brother in Islam,

Abdul Nasser

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdul Nasser

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please give me more details about what you are talking about. I don't have sufficient info to give a Fatwa.

I know the old Dubai National Bond that was issued several years ago to finance five

developmental projects (that include the metro and dry ship basin of Jabal Ali, and other three projects). That was Shari'ah compliant based on promise to buy from the Dubai government.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdul Nasser

Sent: Sunday, October 04, 2015

**Question: UAE National Bonds**

Dear Dr. Kahf,

UAE National Bonds are offered as a Savings Account. You buy bonds in 10 Dhs. denomination, and you redeem at will. If you redeem in less than 90 days, you are levied a 1% penalty. Bonds in the account are eligible for Rewards: prizes of 50 Dhs., 100 Dhs. BMW and even 1M Dhs drawing once a month. Profits are distributed annually. (<http://www.nationalbonds.ae/>)

Here's how part of their website reads:

""It is a Shari'ah compliant Savings Scheme that gives you flexibility, profits and rewards. National Bonds brings you a saving option convenient to your goals and lifestyle. Saving Certificates are easy to purchase and extremely affordable. You can purchase them in units of AED 10 with a minimum purchase requirement being AED 100.

With National Bonds you not only save but also receive healthy yearly profits and the chances to win any of 480,260 rewards in a year.""

These are not tied to any specific project.

Abdul Nasser

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdul Nasser

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

As described this saving account is Riba based. All these prizes are Riba. There is an OIC Fiqh Academy In the 1980s on a very similar case of the prize bond that it is prohibited and Riba.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: kamal

Sent: Thursday, October 01, 2015

**Question: Ooredoo Shares**

Salam Alaykum Dr Monzer,

I have a question and I would be very grateful if you can help me. Is it permissible to buy shares of ooredoo stock? The total loan to total asset ratio is higher than 33%. Please let me know if it's possible to buy this stock.

Thank you

Alaykum Al Salam

Kamal

**My Answer:**

What I know is the rule: NO. if there is no necessity you do not go for doing the Haram and making cleansing afterward. The cleansing principle is always there whenever one has any necessity of general need. Like having to invest in New York market for any reason and there are no Shari'ah compliant companies there.

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From: kamal

Sent: Sunday, October 04, 2015

**Question: Ooredoo Shares**

Thank you very much Dr Monzer for your reply. I heard that it may be possible to buy shares and then pay a penalty Is that possible Sorry to disturb you and thank you for your help Kind Regards, Kamal

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina

Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Kamal

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

In my opinion it is not permissible in the Qatar Exchange to buy any share other than the 17 declared Shari'ah abiding companies. These 17 shares out of 44 represent sufficient variety that makes any tolerance relaxation of the prohibition of Riba not necessary at all. Let us remember that the decision of the OIC Fiqh Academy states that the principle is: we must not invest in share of companies that do any non-permissible activities. Any relaxation is based on necessity or general need which does not exist in Qatar Exchange Market.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohammad

Sent: Sunday, November 08, 2015

**Question: Stock Market**

Assalam Alaykum Dr. Monzer Kahf

Can you please explain me about share market trading is it halal? We know some people say if you deal with halal product it is ok.

My question below please explain me as much as possible

1. What is share market mean?
2. How it works when we buy a share from trading company?
3. What we buy when we pay money from bank?
4. Who we paying this money to? .....
5. How comes be a halal if you can make money either way? I meant to say in share market even if we buy a share and company share goes down still you can make money? ..... so how it can be halal?.....
6. In share market within 5- minute you can lose your all money? like a gambling, so how it's can be halal?

7. Also you can win ten time more than what you invest? so how it can be halal?

Your explanation will be highly appreciated

Wassalam

**My Answer:**

I cannot answer your questions. Please either take a university course about equity investment or study on the internet about the same then ask me any specific question.

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohammad

Sent: Friday, November 06, 2015

**Question: Query about spot trading**

Dear sir,

I asked my brokerage firm about settlement in Forex trading so he replied me as follow: -

All settlements will happen at the end of the day once you will get contract note of your trading after deduction of all the charges. Once you will get contract note then you need to go to your back office and need to place for withdrawal of your profit amount or whatever amount. Once you will place request for withdrawal then amount will come to your bank account with in 24hr.

Does this procedure is halal in Islamic law

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohammad

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Forex does not fulfill in my opinion the specific requirement of delivery as required in Shari'ah whether spot or not. Commodity any buy for price change is by definition speculative. If you have a business of flour mill you may buy wheat on the commodity market. but if this is not your business why buy wheat other than for speculative purpose?

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Mohammad

Sent: Sunday, November 08, 2015

**Question: Query about spot trading**

Dear sir,

I don't know much about halal way to do spot trading in Forex and commodity, if you could guide me in doing halal trading and could tell me the necessary things to keep in mind while trading

Respectfully

Mohammad

**My Answer:**

No. the transaction itself is done with no delivery. It is done in pairs. You can buy yen for Euro. This means you are not buying using your own money, your money is a security only. Yes, it is

affected by the daily settlement and can be withdrawn but this does not make the transaction permissible.

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From: Mohammad

Sent: Monday, November 09, 2015

**Question: Query about spot trading**

Dear sir,

If I don't have any intention of doing for the sake of speculation only for the sake of buy low and sell high when the prices go up in spot trading in Forex and commodity, will it be halal?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohammad

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The Halal way is to avoid any trading in Forex unless you have a shop of money exchange or you are a bank that also practice money exchange and transfer. Even then you may buy and sell currency with the condition of delivery on the part of both sides immediately at time of contract and without speculation.

If you are not one of the above, any trading in currency becomes speculative and has no objective other than speculation on prices of currencies which the Shari'ah has special treatment for because currencies affect the whole economy domestically and internationally. The Shari'ah makes their sale and buy difficult in order to prevent their use for price speculation. In a sale of currency, you must deliver the whole amount at the time of sale by both seller and buyer. This condition cannot be fulfilled in all Forex internet platforms.

Commodity markets are also not for speculation according to Shari'ah. If you are producer or user of a commodity you may buy it or sell it as needed, but if you are not speculation of commodity prices is not Shari'ah compliant whether spot or future.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohammed

Sent: Thursday, November 19, 2015

**Question:**

Salaam

As I can see many people use your reference in-terms of many issue, can you tell me about share market is it HALAL?

Wassalam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohammed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

It is permissible to buy, own, sell and receive dividends of shares of companies whose activities, all, are within the limit of Shari'ah such as Islamic banks and companies that produce permissible goods and services and do not indulge in any Haram actions such as borrowing on interest or lending on interest, etc. there are many such companies in the Muslim countries. However, for companies whose shares are listed in international stock markets most of them do not fulfill these conditions. here where we say that for people who need to invest in such markets there are a few criteria that they should apply: 1) exclude companies whose main line of business is prohibited such as conventional banks, casinos, etc. 2) within the acceptable category we look at the side activities and the percentage of Haram as follows: if there are more than 5% income from Haram, or more than 30% non-permissible use of assets or dependence on loans of more than 30% we also reject these companies, and 2) in all circumstances we must estimate the % of Haram income and give it away to charitable organizations.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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