

# FATAWA SHARES, STOCKS, FUTURES, BONDS, OPTIONS 2000-2021

**From:** Masud

**Sent:** Monday, July 12, 2021

**Subject:** INVESTMENT IN FAMILY HOME FUNDS CORPORATE SUKUK

**Question:**

Dear Professor,

Assalaam alaekum warahmatullah. I hope this email finds you well.

A corporate sukuk has been launched in Nigeria and we are considering investing in it. The sukuk has been approved by the SEC and the CBN FRACE. The sukuk is structured on the basis of a sale, lease and repurchase of certain assets between the originator and the issuer. The Originator is a quasi-govt institution (owned by the Fed Min of Finance and the Nigeria Sovereign Investment Authority). The Originator will sell assets to the Issuer. The Originator will use the cash proceeds from the sale to build low-cost housing. The issuer will lease the assets back to the originator. The lease paid by the originator will be used to pay rentals to sukuk holders. At the maturity of the sukuk, the originator will buy the asset back from issuer, and the issuer will use the payment to settle the principal investment of the sukuk holders. Attached is the pricing supplement. The structure is contained in page 18 and is extracted below:

“Key Steps

A Special Purpose Vehicle (SPV) will be set up by FHFL for the specific purpose of a Sukuk issuance and duly registered as a public limited liability company. Board membership of the company shall comprise of the FHFL’s representatives and the Trustees.

1. Family Homes Funds Ltd (“FHF”) provides ISPO guarantee to secure rentals as per regulatory requirements. Other respective Agreements/Contracts such as Deed of Sale, Purchase & Sale undertakings, Trust Deed, etc are executed at the relevant stages of the contract.
2. SPV raises finance by issuing Sukuk notes of equal value.
3. SPV issue Certificates to Investors
4. The Sukuk proceeds are pass down to FHF as Purchase Consideration for the Portfolio of Assets sold to the SPV.
5. FHF, acting as Seller of Portfolio of Assets, transfer the title & beneficial interest of the identified Portfolio of Assets to the SPV pursuant to the Deed of Sale.
6. SPV Leases the Portfolio of Assets to FHF for a period of 7 years.
7. SPV appoints FHF as Service Manager for the maintenance of the Portfolio of Assets.
8. FHF pays periodic Lease Rentals to the SPV.
9. The Service Manager is reimbursed by the SPV for its maintenance expenses.
10. SPV in turn pays the periodic lease rentals to Investors as return for their investment.
11. Upon maturity, pursuant to the Purchase Undertaking, the SPV Sells, based on a sale and purchase contract, the Portfolio of Assets to the FHF for a nominal value which would be the Excise price
12. FHF pays the Excise Price (a nominal Value) for the Portfolio of Assets pursuant to Sales and Purchase undertakings.
13. SPV pass the Excise Price to Sukuk investors and cancels the Certificates

We would appreciate your opinion on it.

Thank you.

Kind regards,

Mas’ud

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Masud

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

These Sukuk are based on bay al 'Inah in which the difference between the issuance amount paid by the Sukuk holders and the total amounts they receive is Riba according to the OIC FA resolution of 2013 meeting in Riyadh. Additionally, it is clear that the sale is not a true sale especially when it says that beneficial interest is transferred not full interest with full delivery. You know that there are several Sukuk that were approved by some Shari'ah board but yet they are based on either 'Inah or Tawarruq; the point that there are some persons who approve 'Inah and Tawarruq does not make them permissible as they violate the basic principles of Islamic finance and of EARNING A RETURN ACCORDING TO OUR RELIGIONS. I DO NOT APPROVE INVESTING IN THESE SUKUK.

By the way, same objective could be achieved by structuring it as Sukuk for house building with Wakalah to build and rent/buy from Sukuk holders; with same collaterals, no 'Inah, and same payment schedule without using existing assets buy and sale.

But unfortunately, the ill shari'ah advice took them to 'Inah instead.

This is an example of how good objective is approached by bad means similar to issuing lottery to renovate schools.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**Reply:**

Dear Professor,

Assalaam Alaikum Warahmatullah. I trust this email finds you well.

Thank you for your guidance on this. In the interest of promoting market standard and cohesion, we informally engaged with both the FRACE secretariat and the transaction adviser to understand the basis of their approval and explain why we could not invest in the instrument.

We were referred to the UK sukuk (which was structured on this basis) and the AAOIFI Standard 9 paragraph 8/5 which allows a sellback to the Seller/Lessee after a reasonable time must have expired between the lease contract and the time of the sale of the asset to the lessee. We have extracted from the AAOIFI Standard below:

We note that the OIC Resolution did not take into consideration the effluxion of time and change of value of the asset between when the first sale and the sellback take place in its prohibition.

We would like to understand if

1. the effluxion of time between the first and the sellback or
2. the change of value of asset between the time of the first sale and the sellback cure the inah problem

We would also appreciate your guidance on the AAOIFI and OIC FA position.

Thank you

Kind regards,

Mas'ud

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Masud

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for your kind email and I am glad that you did some research on the issue. This will make the OIC FA decision better understood.

Passage of a period of time, long enough so, that a change of value of the asset has an effect is considered when this change of value is effective in the resale to the first seller. But when this different value of the asset is immaterial to the resale it becomes ineffective and the Inah becomes obviously there. This meaning is not addressed by the AAOIFI standard 9.

Please notice that the undertaking is given at the time of the first sale and it determined the price of the resale and its conditions of payment. This shows you that the text you quoted from AAOIFI standard nine is, in fact, incomplete.

To make it complete, there must be either no undertaking, or the undertaking must not define price and conditions or the undertaking must be done after such a period of time during which changes may have happened and these changes can be taken into consideration in the undertaking.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Imam Abuelezz

**Sent:** Thursday, June 3, 2021

**Subject:** RBC Mutual Fund

**Question:**

Assalam alaykum dear Dr. Monzer,

I hope this email finds you well and in the best health.

RBC Bank has a special fund investment that has some ethical criteria and seems close to the Islamic criteria and Muslim community in Canada is asking about it. We would really appreciate you view on that matter and if it is permissible for Muslims to invest in it? Please find attached a document with the detailed information.

Thank you so, much and Jazakumullah Khayran.

Sincerely,

Abuelezz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Imam Abuelezz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The core RBC funds are a great improvement on the part of conventional funds. They are taking into considerations issue of environment, social and governance in a very good way, a matter which bring them closer to our criteria.

Unfortunately, you notice that a major issue of Justice is still missing in these funds, which is the avoidance of Riba. Riba is a great Zulm/oppression. Or even the greatest economic Zulm after the Zulm of believing in multiple Gods. These RBC funds do not avoid Riba, rather one of their funds is in bonds only, that is pure Riba as if Riba is not related to society and governance. These funds miss the main fundamental issue in Islamic finance and investment which is avoidance of the major injustice in the economies of today which is interest.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Abdelkarim

**Sent:** Wednesday, April 28, 2021

**Subject:** On the halalness of investing in Gamestop

**Question:**

**Reply**

Selaam wahleikoem Dr. Khaf

First and foremost Ramadan kareem,

As of recently I have been looking into the company Gamestop (\$GME) to invest in. They used to be a dying company on the verge of bankruptcy, but as of recently the company has been through a complete overhaul of management and business plan. The company has made the shift over from mainly retail stores to an E-commerce based company with E-Commerce experts from amazon joining the management, led by R cohen who built a multi-billion dollar E-commerce pet shop.

GME is a company that sells everything that can be seen as tech. They mainly sell things such as monitors, projectors, keyboards, mice, gaming consoles, PC's, videogames, accessories and other software.

All of their long-term debt will be paid off at the end of April which for me personally is a huge plus regarding riba?.

Islamic Finance apps and Islamic investing sites deem the company as "Questionable". This is because some of the games they sell can contain haraam things such as gambling, alcohol and nudity (these games are M rated). I went on a search for their incomes on their 10K filing but I was unable to find a detailed breakdown of how much incomes comes from where. Their breakdown consists of:

Hardware sales

Software sales

Others: According to Pegi (Pan European Game Information) 7% of games are M rated

8% of the rated games have forms of sexual reference (hand symbols or gestures are included in this rating), 1,4% have gambling references, 1.2% have a reference to drug use (including alcohol and tobacco)

I personally, along with many other people think that the social benefit of games outweigh the harms it can cause. The benefits being stress relieve, problem solving, active brain-function and mood uplifting. fatawaa's on gaming that I've read consider gaming to be halal as long as they do not intervene with remembering and worshipping Allah.

Could you give your opinion on this matter?

Jazakallah khairan

Abdelkarim

### **My Answer**

I am very negative about investment in gaming companies, I wouldn't like encouraging these companies, it is enough here socially and psychologically that games are produced and pushed in the market by the Chinese and the American capital I wouldn't consider investing in them anything that I accept. Sorry.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Faraz

**Sent:** Wednesday, March 24, 2021

**Subject:** Questions on ETFs already bought

**Question:**

Salaam,

Hope you are doing well. I had some questions about Islamic finance and was referred to you. May Allah bless you and keep you well. Please let me know if you have a standard fee/suggested donation for such consultations.

**I don't charge for question of personal investors. When you invest for others for fees or return I may charge you.**

Question: I started investing in stocks (ETFs) last year with the intention to have halal earnings. I kept away from interest-based investment vehicles and reviewed ETF portfolio to make sure that there were no stocks in the "financial" industry. I made some modest gains in the past year.

I have since learned that there are apps and much more detailed information about what stocks are halal and haram. I "screened" a couple of the popular stocks and they are not haram.

**Unfortunately, when we invest in a world that has a lot of bad things and practices we need to apply more screening. Also, even with the more prudent screening we still have to purify our earning from any Haram, as all the Haram, small or large, is wrong and not permissible.**

- one ETF I owned turned out to have 14.28% of its holdings in the financial sector. I do not know how I ended up buying this-- I was very careful and this may have slipped through. As soon as I realized it was haram, I sold it. Do I have to donate away profits even though it was a mistake?

**The Prophet, pbuh, told us that God will not question us for mistakes, but that does not mean that it is OK to gain any Haram increments. Increments from Haram should be given**

up. But because either we do not know from whom or it is not rationally appropriate to return it to the source, we instead give it to charity, it is not Haram for the poor and needy.

- other ETFs I have bought are not yet screened by the popular apps. I will likely start screening them myself by reading their 10Ks etc. If there are some that are not halal, do I have to give up all profits?

You should give up to charity, preferably Muslim, an amount out of total gain that you believe, with your best educated guess or knowledge, it is coming from Haram. That amount you in fact did not earn because Haram does not give earning (Haram should have been destroyed or eliminated). Not the whole profit because part of it came from permissible companies.

Basically: are we liable for mistakes and for not knowing even though we thought we did due diligence?

We are required to make repair, even for innocent mistakes although we are not held sinful by Allah.

Salaam

Allah barik feek

Faraz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Faraz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions in red:

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Nabil

**Sent:** Thursday, March 4, 2021

**Subject:** Trading

**Question:**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh

1. I would like kindly ask you if it is halal to trade index as dax and Nasdaq, then give as charity the percentage of the no sharia compliant

The OIC FIQH ACADEMY ruled that index units are not permissible to buy, own, sell or trade. The essential reason is that index unit do not represent a productive asset. This is in contrast to an indexed fund which actually owns the shares of companies in the index.

2. Is short selling halal for an intraday trading

Short sale is not permissible also according to the OIC FA. The reason here is that it is a sale of what one does not own. This violates the correct Sayings of the Prophet, pbuh. In addition, day trading itself is another problem because it is a speculative behavior by its nature, it is not

any real investment. Pure speculation, its behaviors and its tools are not permissible in Shari'ah.

Jazak Allah Khair wa baraka allah fik

Nabil

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nabil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions in red:

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Ali

**Sent:** Wednesday, February 24, 2021

**Subject:** stock options

**Question:**

Are stock options halal or haram (calls and puts specifically, if other options exist I don't know).

JAK

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The OIC Fiqh Academy ruled that options (call and puts and all their likes) are not permissible to buy, own, sell and trade.

This is not only correct but extra correct as assets in Shari'ah must be real and able to produce added value, in addition to being ethically acceptable. Options are parasitic assets that do not represent ownership of any asset that is real and able to generate added value.

Of, course in many things there are people who may say otherwise!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**Reply**

Salamualikom,

Very sorry, quick follow up. Is there any legitimate disagreement that you are aware of? It seems to me that it cannot be halal, but I know nothing of course. Some friends have told me they've heard of scholars saying its halal but I am skeptical.

JAK.

**My Answer:**

In every matter there are people who say otherwise.

Sent from my iPhone

Monzer Kahf

**Reply**

Salamualikom Br Monzer,

Thank you so, much for your response. I wish I had done my due diligence earlier. Over the past year, I have made an insanely lucrative amount of money trading options. Enough to change my life and my family's life for many generations.

I never, ever do this, and I hate cherry-picking or doing "fatwa shopping." I know there are all kinds of idiots and uneducated people saying all kinds of things. I am specifically asking if you've ever heard of a legitimate scholar (s) saying options trading is halal. If not, then there is no possible way for me to take that money. Alhamdulillah. Would it be possible to recoup my initial investment? If it is better not to, I will not, and kheir Inshallah.

Do I leave the money in my account and never touch it? Do I buy impossible options and leave the money to liquidate worthless? Do I give it for charity?

Will appreciate your counsel. JAK.

Ali

**My Answer:**

I am not aware of any legitimate other opinion for trading options. I know there is a view about using options to protect already existing position provided such options are either exercised or let die but definitely not sold or traded.

My advice is to recover your principal and give remainder to Muslim charity even if you do it over a period of time. Pray at night to Allah that you do that for Him and in obedience of His religion. God will then reward you from His plenty.

Monzer Kahf

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**From:** Mohamed

**Sent:** Tuesday, February 23, 2021

**Subject:** Lego Investment

**Question:**

Dear Doctor,

I have a question. Is it allowed to invest in lego? I mean buying sets that will go end of life and selling them via ebay, when they are end of life to a higher price.

Best wishes

Mohamed

**My Answer:**

Explain please why and how the price increases?

Monzer Kahf

**Reply**

Doctor thank you so, much for the fast reply.

Lego is a children's toys brand from Europe – I thought it is known in America as well - sorry.

For example:

I buy this set at lego.com <<http://lego.com>> for 279 \$:

<https://www.lego.com/en-us/product/assembly-square-10255>

People collect these sets – they were made for children one day but nowadays a lot of grown people build them and play with their own children with them as well, use them for relaxation or to remember their own childhood.

And there are also a lot of collectors.

So, it goes end of life, that means it is not sold anymore by the manufacturer lets say in 2022.

The people still want that set so, they pay for example 400 \$.

If I sell it, I make 129 \$

Sometimes sets go up in price, some fall some go totally up lets say from 279 to 2000 – but this is only if a set is very demanded.

So, my question is, if this ok or if it is gambling...for me it looks like normal trading like with gold or with land. But I don't know if it is allowed if I speculate on rising prices.

Btw for me it is also ok if does not rise since I have children who can play with these sets and I like them as well – since we played with them in the 90s and they remember me on my childhood.

I hope I explained it clearly.

Asalamu alikum

Mohamed

### **More Reply**

Yes, they do issue it for a specific time but usually they then stop.

If they put it again into the market it gets a new release number usually. So, people normally search for the old numbers.

It's like with cars – Oldtimers for example have a growing worth if they are in good condition.

Here it is a bit similar.

It increases because the manufacturer stops producing the set.

It increases depending on the market by Supply and Demand. Some sets have a high demand and not so, high supply then usually the price goes up. Some have a high supply and less demand. That is usually when the price drops and you lose maybe some of your invested money.

Mohamed

### **My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I remember the story of Imam Ahmed when he was asked about sufists before answering he required to watch them what do they do... then his answer was: I do not notice anything specifically not permissible but I do not advise you to do like them. This I also my answer. The context to me looks not desirable.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**Rply**

Asalamu alaikum warshmatullah wa barakatou

Dear Br. And doctor Monzer,

Thank you so, much for your advice. One more question: I have already an for me high amount invested. Can I sell these parts and stop or do I have to live with the loss of my money.

I will for sure stop buying from now on.

Gazakumullahu khairan

Mohamed

**My Answer:**

I suggest selling them asap to recover your principal or to minimize losses, any profit you make I suggest giving it to charity.

From my iphone

Monzer Kahf

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**From:** Ansari

**Sent:** Monday, February 1, 2021

**Subject:** RRSP Matching in Canada

**Question:**

Salam Dr. Kahf,

I pray you and your family are doing well and safe and sound in these difficult times.

I had one question regarding RRSP matching in Canada.

I recently received an offer alhamdu le Allah for a new job. One of the benefits is matching my contributions to an RRSP investment fund (similar to 401k matching in the US). This is where you setup pre-tax contributions to a managed fund (mutual fund perhaps?) and the company will match the contributions up to a certain % of your salary.

The challenge is you need to invest in one of the funds offered through a third company, for example Manulife in Canada. The funds usually offer different risk levels, different underlying stock holdings, sometimes you can even choose cash + interest, and I even heard about currency fund investments as well.

My concern is I cannot select the specific stocks, and although the company offers a list of the underlying stocks for each fund option, I am sure they won't all be halal.

What do you think? I can opt out of the matching and then I will loose the matching funds which are provided as a benefit, or I could select a fund and then find a formula or someway to cleanse it, if permitted.

I dont have the list of available options yet, but based on your recommendations, I can review the list and pickup the closest to Sharia compliant and follow up with you if there are any more questions, with your permission of course.

Jazaka Allah Khayran

Best regards

Mohammad

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala

Aalihi wa Sahbihi Ajma'in

Dear Br. Ansari

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The nature of our Shari'ah makes it always prefers creating easiness rather than difficulties. My opinion on this matter has always been to make the RRSP contribution because it is, itself, beneficial you and your family and also because it gives you the privilege of this employment fringe benefit, matching.

As you said, at the beginning and at any periodical review select funds that are closest to Shari'ah and every year estimate to the best of your educated guess the amount needed for cleansing and give that amount to Muslim charity, so, that the fund remain pure and Halal with the Will of Allah.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**Reply**

Salam Dr. Kahf

Jazaka Allah Khayran for your answer below. I will heed your advice and review the available funds and choose the one closest to compliance.

Maybe a couple of follow ups with your permission:

1. If one of the funds is a bond/cash with interest bearing, would it be OK to remove the interest part periodically to cleanse the fund?
2. If another fund is for investing in currencies (buying / selling international currencies), would that be Shariah compliant?

Jazaka Allah Khayran

Kind regards

Mohammad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ansari

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. I wouldn't accept to choose a bond\cash fund at all. If you want to avoid risk you may take utility funds which are closer to interest rate in their movement, but again still choose the fund that has least interest-ridden shares.
2. most currency practices in the regulated markets and on the internet forum have major Shari'ah violations. In matters of currency the Prophet, pbuh, made additional conditions that are normally not fulfilled in currency funds and by currency internet platforms.

Wa Allahu A'alam

Dr. Monzer Kahf

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**From:** Omar

**Sent:** Tuesday, January 12, 2021

**Subject:** Option Trading - Call Options

**Question:**

Salam Dr. Kahf,

I have been investing in the stock market for the past year and have been learning a lot about investing. I had a question if buying call options are permissible in Islam. I have reviewed this subject and I can't seem to find a good answer. I was wondering if you could clarify this with me JAK.

Omar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

About options (call or put, American and European) the OIC Fiqh Academy determined that they are not permissible, according to Shari'ah, to be purchased, owned, sold and/or traded.

The real reason is because although options are financial rights, they are not able to create value, like shares or physical assets. They are pure speculative tools. You may find more details on my website [www.kahf.net](http://www.kahf.net) under the item Fatawa.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Kabir

**Sent:** Friday, December 11, 2020

**Subject:** Exchange Trade Funds (ETF)

**Question:**

Assalamu Alaikum Wa RahmatuLah,

Please I will like to know whether investing in Commodity ETFs can be Shariah compliant if Asset Manager of the Fund is investing only in Shariah compliant Commodities including Gold and Silver?

Thank you,

May Allah continue to preserve your emaan.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Kabir

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In my opinion playing in the commodity market in any way, unless you are part of any commodity, producer, manufacturer, or wholesale trader, is purely speculative and accordingly non-permissible. This is not investment, this is an attempt to profiteering only. Of course, this also include currency markets.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam  
Best Regards  
Dr. Monzer Kahf  
Professor, Islamic Finance & Economics  
www.kahf.net <<http://www.kahf.net/>> ; [www.kahf.com/blog](http://www.kahf.com/blog) <<http://www.kahf.com/blog>>

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**From:** Asia  
**Sent:** Saturday, November 21, 2020  
**Subject:** investing with a trader  
**Question:**

Salam.

I want yo know if financial trading investments are halal?

This is where I would give for example £100 to a expert trader, who acts as a agent, and they would give me a profit return of say £1000. I have been told the duration from investing to return is a week. The return would be in the profit the money has made and not interest. The businesses they trade in are not haram (I. e., not alcohol, nightclubs, pubs casinos etc) and they have assured me its all 100% halal.

(Also if they lie about it being 100% halal, would I get a sin for trading with them?)

I have tried to research this online and have found that there is such a thing as halal trading. I want to know if this 100% possible in Islam.

Jzk

Kind regards,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Asia

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There is no such profit in any investment be careful not to be cheated by these people. This is one.

Two: in financial investment you need to know what is it exactly? It is not sufficient that a broker, who like to take you money to invest it, tells you it is Halal. If he is going to invest in shares of permissible companies, it may be true Halal but if he invests in bitcoin, it is not Halal.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Nayeem  
**Sent:** Tuesday, October 20, 2020  
**Subject:** Investing in Stocks  
**Question:**

As salaam u alaikum Doctor, Professor.

While trying to google different Fatwas surrounding stock market I was led to your website and while I can say I have gone through the pdf document of fatawas with your answers as available on the web page, it still leaves me with confusion regarding some aspects. While you have answered these specific questions, the answers have varied from not allowed, not desired to, not allowed. Hence I am repeating this question purely in terms of Stocks only and not commodities or forex.

I am from India and the stock exchange has a Sharia index for filtering out stocks of companies that fall under the Sharia guidelines. There are other lists available as well which look into debt and interest based earning and class of business and receivables to classify the stock as halal or not. So I am sure that the stocks I can invest are in Halal.

If you could be kind enough to answer my below queries, it would be much appreciated.

I plan to build a portfolio based on the stocks, but I do not want to miss out on daily trading or swing based trading on my own technical analysis. In this regard, is it permissible to:

1. Is it Haram to sell a stock first in case my analysis says a stock is going to fall, this is like borrowing from the market and returning the same day. I will not sell it today and then return the stock after few days. It will be same day closing.

**In my opinion day trading is not trading is speculation on prices regardless of the technical functions and research. In this regard I consider it non-permissible. Day trading it means you are price tick watcher not investor nor trader.**

2. Use broker provided margin for same day trading either in the stock I hold long term or new sharia compliant stock. (The broker provides 10X leeway but has to be closed same day, no interest charged apart from flat brokerage fee per executed order).

**Worse than above, you add margin to day trading making the speculation on larger amount!**

3. Utilize technical analysis for same day trading. This is more like an educated guess than a gamble I believe so would like some clarity on it.

**It does not make a difference. The matter is you do not add value to the economy and you only watch the price tick.**

4. From your earlier answered questions it is clearly evident that futures, options and paper based commodity trading are forbidden.

**Yes.**

Thank you,

Wassalam,

Regards,

Nayeem

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nayeem

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers in red below your questions.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Ali

**Sent:** Tuesday, September 8, 2020

**Subject:** Changing the financials of a stock after buying it

**Question:**

Assalamualaikum Brother Monzer

I pray that you are in good health.

I purchased stocks in Exxon Mobil a while back. I've just realized that Exxon Mobil's Debt to Equity has increased to 37%, from around 26% due to the stock price falling significantly. Does this mean it is no longer shariah compliant and should I sell it and take a loss.

Thank you for your advice.

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The answer is technically yes, you need to sell as the share is no more fulfilling the conditions of tolerance. Shari'ah Boards usually require to sell such share within 180 days and give the dividends of this period to charity.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Masud

**Sent:** Monday, September 21, 2020

**Subject:** Financing of Equity Contribution

**Question:**

Dear Professor Kahf,

Assalaam Alaekum warahmatullah. I trust this email finds you well.

We have been approached by some clients with approved trade finance facilities with conventional banks for supply of petroleum products. The common types are:

1. Letter of credit for import finance
2. Bank Guarantee for local purchase
3. Controlled Bulk Trading facility
4. Credit facility

Specific scenarios:

1. The banks will usually require the customer to provide equity contribution of between 15% to 50% of the transaction value to activate the facility. The typical transaction dynamic for 2 above (bank guarantee) is as follows:

- a. Customer obtains a proforma invoice for supply of petroleum products from a supplier
- b. Customer is required to fund account with its equity contribution
- c. The bank places a lien on the equity contribution (to cover trade and any ancillary charges)
- d. Bank issues a BG for the full transaction value in favor of suppliers
- e. Product is supplied and confirmed by contract employers
- f. Payment is made by contract employer into a contract proceeds account with the bank
- g. Payment in f above is used to pay the supplier and BG is discharged
- h. The bank only provides its own funding based on the BG where payment in (f) is not made and the applicable interest on the facility kicks in

Question-can we use a Mudarabah contract or Murabahah contract with the customer to finance the equity contribution required in 1(b) above?

I don't understand the word contract employer, this is the first time I hear it. but I shall assume it means the customer or his customer to whom he sells these products so they take delivery from supplier on his behalf, and I take your assurance that the contract with the conventional bank does not have interest (except if the guarantee is called in by the supplier), and the guarantee contract is done between the customer and the CB and we have nothing in it and the amount we finance (which is paid to the bank as required equity) shall be used fully and only as part of payment to the supplier and other expenses related to the goods themselves, no part is going to be used as fees for the guarantee or any implicit (under name of fee, expenses, bank charges, etc.) or explicit interest; with all the above I see that it is permissible to finance this equity on Murabahah provided a partial quantity of the whole trade must be identified (preferably in a separate supplier invoice) and this quantity is delivered to shipping truck company or truck drivers as agents of Lotus and the second sale to the customer is signed after this delivery to Lotus's agents and before delivery to his clients (otherwise this is considered disposition before ownership).

I do not think that Mudarabah applies because the guarantee the Mudarib obtained is conventional with interest under name of fees.

2. The transaction dynamic for 3 (Controlled Bulk Trading) is similar to 1 above. The difference is in step 1(f) above where, instead of a contract employer, the products are sold in the open market under the supervision of a collateral manager appointed by the bank. Sale proceeds is used to pay the supplier on the due date. The bank's lending kicks in where there is insufficient money in the sales proceeds account on the payment date.

Question-can we use a Mudarabah contract or Murabahah contract with the customer to finance the equity contribution required under this transaction dynamic?

Yes, for Murabahah with same assumptions and conditions as above. Last phrase becomes before sale in the open market.

3. The transaction dynamic in 4 (credit facility) is also similar to 1 above with the difference in step 1(d) where instead of issuing a BG, the bank provides the balance of the funding and pays the supplier prior to delivery of products (this is usually required where NNPC is the supplier).

Question-can we use a Mudarabah contract or Murabahah contract with the customer to finance the equity contribution required under this transaction dynamic?

Same as above, it becomes a syndicated finance from Islamic and conventional sources.

Thank you.

Kind regards,

Mas'ud

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala

Aalihi wa Sahbihi Ajma'in

Dear Br. Masud

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers in red below your questions

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Anas

**Sent:** Saturday, September 19, 2020

**Subject:** Savings and investment in America

**Question:**

أخي العزيز الدكتور منذر / سلمه المولى  
السلام عليكم ورحمة الله  
الموضوع : طلب ارشادات مالية إسلامية  
أدعو الله تعالى أن تكون والأهل الكرام بخير وعافية، واحمده اليك على فضله العميم .  
ترددتني أسئلة من أصدقاء ومن أقارب امريكا تطلب ارشادات مالية حول:  
1-حسابات k401، وكيفية زكاتها،  
2-و المجالات التي تستثمر فيها تلك الحسابات وهل هي موافقة للشريعة،  
3-وعن ودائع CD وزكاتها (الذي اذكره انها ربوية محرمة لكني لست متابعاً للمستجدات فيها)  
4-وعن الاسهم الامريكية الجائز الاستثمار فيها،وكيفية تزكيتها. .  
وانا قد بعد عهدي بتفاصيل ذلك في امريكا.  
ارجو نصيحتي ( بالعربية أو الإنجليزية) فيما أرشد اليه السائلين من :  
(أ) من مطبوعات موثوقة وبسيطة للقارئ تشرح بالانجليزية هذه المسائل ،  
(ب) وأيضا الدلالة على اية جهات استشارية فقهية ومالية رصينة تعرف الواقع في امريكا وتقدم الفتوى أو المشورة ( مجاناً  
او بأجر) حول هذه القضايا.  
مع خالص المودة، وأطيب الدعوات الى الله أن يبارك في جهودكم  
أنس

**My Answer:**

الأخ المكرم الدكتور أنس  
السلام عليكم ورحمة الله وبركاته  
أرجو أن تكونوا والأهل بتمام الصحة والعافية وعلى خير ما يرضي الله عنكم ويرضيكم،  
هذه القضايا عالجتها كثيرا في كثير من الأسئلة التي وجهت إلي وهي موثقة في قسم الفتاوى على صفحتي على الانترنت  
monzer@kahf.net وفيها تفصيلات كثيرة يصعب جدا اختصارها بكلمات قليلة. وما يزال عندي فتاوى السنة الأخيرة لم  
أضفها بعد وهي ليست كثيرة.  
مع أسمى التقدير وأعز التحية  
أ.د. منذر قحف  
تمويل واقتصاد إسلامي

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
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**From:** Hussain  
**Sent:** Tuesday, September 8, 2020  
**Subject:** Fixed return on investment

**Question:**

Aoa, A company is offering 0.5% daily of the invested amount for 760 days. although, the amount won't remain there like deposited amounts in bank. Once you have deposited you'll get only 0.5% of the amount daily. Kindly, tell, is it halal or haram?

**My Answer:**

Bismillah al Rahman al Rahim  
Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in  
Dear Br. Hussain  
Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh  
As you described it, if this is not Riba what is then Riba? If you give a 1000 dollar the company will give you back 3800 of daily payment of 5 dollar every day! What is this extra 2800 for? If the agreement is investment, there must be no guarantee of the amount given daily and normal investment does not give that much anyway! The guarantee makes it definitely Riba and at a high rate that because of the daily payment will exceed 100% per annum.  
Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
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**From:** Roomi  
**Sent:** Monday, August 31, 2020  
**Subject:** Investment in commodities and currencies

Aslamualikum...

Sir actually I want to know that investment in commodity exchange & currency market via Stocksons company is halal or haram?  
This company is giving profit to their investor(acc to %) within specific working days ..  
So I want to know is this permissible to invest in that company kindly do let me know about this.

Roomi

**My Answer:**

Please tell me in detail what does the company do. I do not give opinion on basis of websites  
Wa Allahu A'alam

Please tell me in detail what does the company do. I do not give opinion on basis of websites  
Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**Follow up**

Sir they claim that they are investing in commodity exchange like platinum petroleum etc and in currency market & giving profit to their investors in specific working days..

**My Answer:**

I can't give opinions on claims without a clear business model.

As for commodity markets and currency markets, they are heavily speculative and placing money in them is neither investment nor trade. It is a highly speculative kind of activities that the OIC Fiqh Academy ruled mostly non permissible.

Sent from my iPhone

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**From:** Wael

**Sent:** Thursday, August 27, 2020

**Subject:** Question on Stock Grant

As-Salamu alaykum wa Rahmatu Allah wa Barakatuh

Respected doctor Monzer, hope this message reaches you while you and your respected family are in the best of your health and Iman.

Doctor, may you kindly respond to Br. Mohammad's below question?

Jazakum Allah khayran

Salams

Imam Dr. Wael

**From:** Mohammad

**Date:** Thu, Aug 27, 2020 at 7:53 AM

**Subject:** Question on Stock Grant

Salam Dr. Wael,

I trust you are doing well and the family is doing great.

I have a financial question that I need advice on, and would really appreciate it if you can forward it to Dr. Kahf. There is a time-limit on me making a decision, so really would be helpful if it can be sent sooner rather than later.

- I work for a company which recently went public. As part of this move, they are giving each employee a number of stocks as a 'stock grant'. There is no cost to the employee, they just have to continue to be employed for the next 6 months or so.
- The issue is when I check whether I can invest in this company, using an app called Islamicly, it says it is not permissible due to it's large debt size.
- The shares are taxable income and will be considered part of my compensation.
- Once the grant is 'vested' I will be able to sell it for market value (minus a number of shares to cover tax obligations)
- I have the option of declining the grant, which means I will not receive the shares. There is no guarantee of an alternative grant (I.e. no cash equivalent) although I am asking about that option. I have until September 4th to decline.

What should I do? Should I :

1. Decline the grant, regardless of whether there is alternative cash compensation if I do.
2. Accept the grant and keep the shares (I think no since it is not permissible to invest?)
2. Accept, and then immediately sell it and keep the money. The trading platform will sell some shares to cover my taxes, then the rest is mine.
3. Accept, and then donate it to charity in US (since it is a US company and I am in Canada, I may not get a tax benefit / donation receipt benefit)
4. Accept, and then sell it and then donate to charity in Canada (which will give me a tax receipt to claim against my income)

Sorry for any confusion. I am open to the question being shared publicly if any personal details are removed (I.e. company name)

The company listing is <https://finance.yahoo.com/quote/RXT> (please do not share if posting publicly).

Jazakom Allah Khayran.

Mohammad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Wael and Br. Mohammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I understand this situation and my suggestion is as follows:

1. If there is no cash option take the stocks option,
2. Estimate you net after tax on the day you take the stock option, this will be the compensation\grant given by the company,
3. Sell the share when you are permitted and it is convenient to sell (you don't need to sell at loss if you expect prices to improve) and of course pay the taxes,
4. Give to Muslim charity in Canada the difference between 3 and 1 and benefit from the charity tax reduction, ask it to dedicate the amount to poor and needy anywhere.

This way you benefit from the grant because it is Halal to accept it from this company, you abide by the rules and you do not add to your income any non-permissible amount InShaAllah.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**Follow up**

Salam Dr. Kahf,

Jazaka Allah Khayran for the detailed answer. I shall do so Insha Allah

One last question - should I focus on selling the stock to get just a bit of profit (which I will donate), or on just getting rid of it as soon as possible?

Thank you.

Mohammad

**My Answer:**

Certainly, your focus should be on getting rid of the Haram. This is because the principle is not to own these shares.

Sent from my iPhone

-----  
**From:** Wael

**Sent:** Wednesday, July 29, 2020

**Subject:** Participating in a defined benefit pension

**Question:**

Assalamu alaykum wa rahmatu Allah wa barakatuh

How are you doing doctor Monzer? Eid Mubarak to you and your family!

May you kindly help replying the following question of Br. Bilal?

Jazakum Allah khayran

Salams

Wael

**From:** Bilal

Date: Thu, Jul 2, 2020

**Subject:** Participating in a defined benefit pension

Assalam-u-ailikum Imam Shehab,

I have been working at a bank for over 4 years. You gave me a fatwa about working at a bank after I started working there, and it seems like the nature of my job would make it permissible to work there.

Last year, I found out that employees are automatically entered into a defined benefit pension plan after 2 years of service. I was concerned that this may not be halal, so I decided to find out more information. I was able to confirm that I'm not making any contributions towards the plan, and the amount of my pension fund is based on a calculation involving my average salary and my years of service with the bank. I was also able to confirm that the target allocation of the pension fund is 50% bonds.

I just wanted to make sure with you whether participating in this pension plan is permissible. Is there any other information I would need to find out before you can make a recommendation on it? Please let me know.

Thank you,

Bilal

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Imam Dr. Wael,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for your kind email and Eid Mubarak to you and your family and the community of your Toronto Masjid,

Please inform the questioner the following:

Since he does not make any contributions to this pension plan, as he said in his question, this pension plan is then considered a grant or gift, as a fringe benefit of his employment, and it is permissible as long as the job he does in the bank is permissible. It does not matter how funds in this plan are invested because the employee is not the investor.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam  
Best Regards  
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**From:** Omar  
**Sent:** Sunday, July 12, 2020  
**Subject:** Donor Advised Funds  
**Question:**

Asalamu Alaykum Dr. Kahf,  
InshaAllah you and family remain in continued good health. I just messaged Ammar about this and he requested I forward it to your email.

Recently I became aware of this tax-advantaged method of donation. Through a Donor Advised Fund a person can invest a large sum (i.e. "bunched") one year to be distributed gradually in the future. For example, \$48K can be transferred to the DAF in a given year and the person can benefit from deductions on \$24K (\$48K - \$24K standard deduction for married filing jointly). Then a person can direct the DAF to invest in charities from that money (which may be invested and grow) for two or more years.

My question is whether donations through a DAF can be considered as one's Zakah if the intention is made for it, as legally the DAF owns the funds and technically is not bound to donate the money as one requested it, though they are expected and entrusted to do so in practice. If we treat it as if DAF payments to charities are one's own, I expect that would also mean we treat the money held in the DAF as part of one's own wealth when calculating Zakah owed.

Or should it be the money put into the DAF is intended to be one's Zakah, and can an intention be made it will be for multiple years (balance carried forward if it exceeds what is due)? In that case, I expect one doesn't treat the money in the DAF as part of one's own wealth when calculating Zakah. However, that brings up the question of timing of distributions and whether DAF investment gains or losses matter for Zakah.

For reference, my search for halal DAFs lead me to the following (assuming we should avoid ones that invest in bonds etc):

<https://aMuslimcf.org/donors/dafs/> <<https://aMuslimcf.org/donors/dafs/>>

<https://irusawaqf.org/donor-advised-funds/> <<https://irusawaqf.org/donor-advised-funds/>>

<https://www.azzadfunds.com/donor-advised-funds/> <<https://www.azzadfunds.com/donor-advised-funds/>>

Jazak Allah khayr,

Omar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

These DAFs may raise a few points, the bottom line come to two issues:

What do you own (not what do you advise) and how much permissible is their investment?

For the second point, the easy one, two issues attract our attention: 1) whether the management observes the criteria recommended by collective Ijtihad for financial investment in environment like America where you can almost find no company abiding fully by our moral standards. Here, clearly we there are managers who observe these criteria like Azzad Company that one may count on. 2) the issue of purification; even when you observe these investment criteria there will be still a non-permissible income. This calls for the purification principle. But I may brush aside this issue because the destination of these donations and their investment is purely charitable, although I prefer that non-permissible income should be given to charities that help poor and needy not for any other charities such as mosques or general Da'wah or education...

The first point is definitely the most important and deserves more detail although it is a kind of straightforward. Who, from Shari'ah point of view, owns the large donation that is given to a DAF. Apparently, from my little info collected from the internet, DAF may offer different methodologies:

1. Irrevocable donation that you give and use it for tax deduction; this you give away when it is given to DAF and it invests it and then distributes both principal and return according to your advices. You do not own this donation and it will not appear in your Zakah, itself cannot be Zakah because Zakah requires reaching its final destination on basis of making recipient owner of it at time of distribution, which is not fulfilled by delayed distribution (a charity that distribute to poor and needy is a destination but an organization that distribute to charity is not a destination). Also kee in mind the huge need all over Muslim lands and communities for immediate help.

A version of this is when the DAF distributes only the return not the principal, the Donation then is considered Waqf, and no change is other rulings

2. When DAF returns to you or to your heirs the principal (whether in kind which may have been revalued or in cash) after a given number of years. In this case you are still the owner, and funds or property is given on Wakalah basis. What you give cannot be Zakah but whatever is distributed on your behalf by your agent can be Zakah if it is distributed to Zakah deserving objectives. Of course when you calculate the amount of Zakah due on you each year you have to include the market value of this investment in the Zakatable net worth of yours.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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#### **Follow up**

Asalamu alaikum Dr. Kahf,

I'm just following up, forgive me if the questions are unclear or if this is a topic that you haven't had the time to look into.

A more essential question is whether it is okay to give a Zakah distributor a large amount as Zakah meant for this year and carried forward for other years (I.e. if it exceeds the due for next year, the balance will be carried forward to the subsequent year, and again if it still exceeds, and so on).

Jazak Allah khayr,

Omar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

When it comes to Zakah let us make the focus of our thinking Zakah and its recipients, not the tax exemption.

When there is a need, Zakah can be paid to its recipients in advance. The Prophet, pbuh, had a need once and asked hi Uncle al Abbas to give him Zakah for the following year.

Accordingly, when there are needs such as a famine, war, natural disaster, sufferance, etc. Zakah may be distributed in advance. The normal way is a person estimates one Zakah for current year and, according to the needs, add extra amounts with the intention that these extra are Zakah in advance for following year of two (intention is necessary for distinguishing it from Sadaqah).

On the other hand paying Zakah in advance to be kept for investment with a fund manager is a kind of strange issue. Zakah is paid in advance to the poor and needy not to a fund manager. You may pay whatever you like to the fund manager and each year you calculate your due Zakah and instruct the fund manager to distribute the calculated amount to deserving recipients.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Mujeeb

**Sent:** Wednesday, July 8, 2020

**Subject:** Brighthouse Investment: Would you Kindly review for Muslims

**Question:**

AsSalaamu Alaykum Brother Dr. Monzer

I am asking for a favor. Kindly evaluate this investment option that I am considering. I am summarizing its key elements in the attached document.

This is a stocks-related investment that offers upside stock market participation (up to a maximum ceiling or "Cap Rate"), but also loss absorption up to a specified buffer amount (called "Shield"). US Securities laws have allowed it for Retirement Accounts; it is especially suitable for very senior people (Medicare recipients' type) who should not take uncontrolled risk in the volatile open-ended stock market and may not have time to wait for market recovery.

JazakaAllahu Khair,

Mujeeb

**My Answer:**

Dear Br. Mujeeb,

It is very good to hear from you after such a long time. And I pray to Allah that you and your family are in good health.

The attachment is also addressed to somebody else too. But I took liberty to read it without downloading it to my files.

Whoever wrote the attachment seemed to have given his Shari'ah opinion already and did not leave room to others to opine on it.

Do you still need my view on this kind of use of funds?

**Follow up**

Wa AlaykumusSalaam wa Rehmatullah

Dear Brother Dr. Monzer

Jazaka Allahu Khair for your promptness to my request. I am actively considering this investment, particularly in the face of Wall Street's oblivion to the Main Street's troubles with Pandemic and its economic impact.

I composed the attachment after brief discussions with one promoter of this investment and scanning the prospectus accessible through the link in my email. So, those are amateur observations, though seem like conclusionary observations.

Brighthouse Shield Informational Website:

<https://www.brighthousefinancial.com/products/annuities/shield-annuities/#/>

One item that I left out:

My understanding has been that for Shariah-compliance, each party may get whatever percentage they agreed on (herein called CAP), but in case of a loss the "investor" should bear the entire loss ("Shield"). This investment has different sharing of the loss shield will prevent that. It seems to me that this investment is not similar to the traditional ones where one is a passive financier and the other party is an active manager. Here both parties are passive and each relies on a separate contract.

Kindly favor me with your opinion on all relevant matters. I will be grateful.

Mujeeb

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Mujeeb

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I like to request you please to go back to the fundamentals of earning in Islam. You can earn by work and you can earn by owning. There is no third way. You either work and earn the price of your manhour services or own a property that creates added wealth which is normally done by either increase in the capital values or by generating additional increments such as a cow giving milk.

If there is no property that generates added value, there is no Halal return. Accordingly, the OIC Fiqh Academy ruled that buying units of indices, selling them, holding them and trading them, all that is not permissible: YOU DO NOT OWN ANYTHING THAT PRODUCES INCREMENT. On the other hand, owning a share in a company or units in funds that actually own shares of companies is permissible provided the companies activities are permissible.

This scheme does not seem based on this principle. In this regard it is close to CFDs which do not have ownership of a growable property. This is in my opinion the fundamental of earning in finance and this does not seem existing in the investment model. What do you own? It is

like derivative that relates to certain price, but you do not own a thing that is capable of generating added value.

The fixation of cap in real investment is permissible but the shield is not permissible as you said in your email.

I have cc ed Br. Gaddoor because he was on your first email so he gets my ideas on this matter.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Ajaz

**Sent:** Wednesday, July 8, 2020

**Subject:** CFD Islamic Trading Account

Asalamu alaykum Sir,

I have a question about CFD trading. We have some Trading companies which give Islamic CFD Trading Accounts.

With No overnight charges (Overnight Funding)

A commission-free account

No rollover charges (swaps)

No fees on deposits/withdrawals

No hidden costs

What I read about CFD is not permissible. What above is mentioned will it be permissible to trade CFD with all those conditions which is with in Islam.

Unintentionally I invested some money without knowing it is not permissible and I earned some money. Can I spend that money on me or I cannot.

Please help me as I have lot of tension about it.

Jazaka Allah Khair

Thanks, and Regards

Ajaz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. AJAZ

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

CFD is pure gambling. There is no buy and no ownership and no sell, it is only betting on price change. How can gambling be made Shari'ah compliant? Removing roll over and interest charge is a removal of an additional evil in it which does not change its nature and definition.

IT IS NOT PERMISSIBLE IN OUR SHARI'AH.

The action itself is sinful and requires Istighfar and repentance and whatever you lost is gone... and whatever you earn is Haram for you but you do not return it to whoever may have been the looser to avoid being fooled. You should give it to the poor and needy.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
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Professor, Islamic Finance & Economics  
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## **FATAWA STOCKS, SHARES BONDS OPTIONS, ETC. 2019**

**From:** Juma

**Sent:** Sunday, December 8, 2019

**Subject:** Pension Funds

**Question:**

Dear Prof.

Assalam Alaykum WarahmatuAllah Wabarakatuh,

I hope all is well in Turkey. Here is Zanzibar Alhamdulillah we are doing fine.

I would like to get your opinion on the Pension fund that some of its funds are invested in interest based instruments. Is it permissible for the retirees to use their terminal benefits and pensions to perform Hajj?

One of the Islamic banks has established a Hajj Package for the would be retirees who are expected to retire in not more than a year. They have discussed with pension fund in order to use their expect benefit as a security for the financing. We would like to know if it is proper to include their all benefits that include monthly contributions and returns from interest- based instruments by the pension funds.

I also would like to inform you that I'm in the process of applying for Ph.D. in Islamic finance, I intend to identify you as one of my referees In Sha ALLAH.

Many thanks and best regards.

Wassalam.

JUMA

ZANZIBAR, TANZANIA

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Juma

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Many thanks for your kind email,

I am glad to hear that you are going for the Ph.D. it is a good addition for you and I will be glad to give you a good recommendation.

For the pension fund: you really should make effort to advise its management to invest only in Halal investment especially Sukuk and avoid interest which is required not only in our religion but also in Christianity. Second, using potential benefits as security does not pose a problem, with or without inclusion of interest earnings because the latter is only additive and the security is not the main source of repayment of the Hajj package, third, to give an opinion on whether the benefits of the pension funds require purification from the interest element or not I need to know the nature of this pension fund especially whether it is founded on the principle of taxes and benefits to pensioners or on the principle of savings\investment of your own fund and then give them to you back as in most providence fund. The social security organizations based on tax and benefits, as in American social security does not require

purification while returning you invested savings requires purification for all interest earnings by giving them to Muslim charity.

BTW, what happened to IB project that you started a few years ago? And what are you doing these days?

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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Professor, Islamic Finance & Economics

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**From:** Usman

**Sent:** Sunday, December 1, 2019

**Subject:** Day trading

**Question:**

Assalaam-o-Alaikum Dr. Kahf,

I pray that this message finds you in the best of health, Ameen. I had last seen you on your visit to Toronto a few years ago where you had given a lecture on Islamic Finance at a fundraising event for the Muslim Association of Canada's new premises on Adelaide Street in the downtown area!

I have a question of a financial nature that I have not been able to find any conclusive answer to either online or through local scholars. I came across an answer you had given on About Islam to a similar question someone asked you back in April of this year. My question relates to the concept of day trading stocks in the USA and Canada and foreign currencies in various markets worldwide. As I understand it, there is no actual possession of the said commodities involved in such activity. One is only taking a position on the price movement and discharging the holding after a favorable increase in price has occurred shortly thereafter. My question is whether or not this is actually permissible in Islamic law since I would not be taking spot possession of the actual commodity within three business days but only taking advantage of favorable changes in price within minutes or hours?

Looking forward to your reply.

Wassalaam,

Usman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Usman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a question that requires long discussion and can't be really satisfied in a few words. In brief; day trading is speculative by its nature and I consider it \not permissible, it does not bring a return resulting from any trade, trade is beneficial and entails providing services to users of whatever one trades but day trading is pure speculation whether in goods, shares commodities and the like.

Day trading in currency is much more not permissible as it violates the possession condition that is mentioned in the Hadith. In fact, all currency trading on the internet even beyond day trading violate the possession condition and is not permissible.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Karim

**Sent:** Sunday, December 1, 2019

**Subject:** CFDs

**Question:**

Asalamoaleikom wa rahmatAllah wa barakato.

I have a question about CFD trading. Especially CFDs for shares (stocks).Is it allowed in Islam. I understand that CFD trading when the underlying value is currencies or futures is not allowed. But is it allowed when the underlying value is a share?

Kind regards

your brother in Islam Karim

**My Answer:**

CFC is not trading. It is gambling on price variations. No matter what assets on whose price you gamble it remain gambling not a trade. It is not permissible in our religion.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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Professor, Islamic Finance & Economics

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**From:** Ahmed

**Sent:** Saturday, November 30, 2019

**Subject:** Pension and retirement

**Question:**

Assalamu Alaikum

I hope this meets you in good health. My mother recently retired form the g government employment recently and is in the process of getting her pension.

She was given two portions regarding the amounts she had saved.

1. She will be paid a certain amount every month until she is 84 years of age and if she dies before the age of 84 then her heir will get what is remaining
2. She will be paid an amount more than that of 1 above, but it's for life and when she is late her heir do not get anything.

We as her children advised her to proceed with 2, so that she can continue her life as she wishes. Although we have taken the decision we would like to know if the path we took is the right path.

Eagerly awaiting your response

Ahmed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a government pension system created and imposed by law. It is of course based on actuarial studies. The two options are permissible from Shari'ah point of view as long as they are offered as part of the governmental pension system. This is on the ground that a governmental pension system covers not only simple insurance payment but a system for welfare of the recipients and their dependents when they exist.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Khaled

**Sent:** Thursday, November 21, 2019

**Subject:** Retirement Plan Investment Options

**Question:**

Salam Alikum wa rahmatu ALLAH w Barakatuh,

I have emailed you before through sheikh Amine and now I'm reaching on my own for a question that I hope you can help me with. Thank you in advance.

I work at a company in Canada where we contribute to a pension plan for retirement. They have an online computer aided guide that you use to help you select how to invest. I tried to select Islamic options but they are not available. So I simply selected investments that have banks and interest less than 20 %.

After few days I received a call from the management company telling me that I'm under a high risk portfolio that might have me lose it all. I moved the money to a daily interest account temporarily to avoid uneducated selections. I have attached some investment options that are available for me through my company.

I'm seeking advise on how to select a plan that is Islamic compliant and understand teh risks I'm exposed to.

I appreciate your time Dr. Monzer.

Salam

Thank You,

Khaled

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khaled

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You ask me a question which I cannot answer both from Shari'ah point of view and from a legal point of view. I cannot tell you invest in this and do not invest in that.

All I can advise is to avoid interest and with it all fixed income bonds and funds because they are also based on interest and to avoid share of companies that invest in Haram such as the legalized marijuana and casinos and their like.

When you cannot avoid them completely in the pension fund, then select the least evil within the risk level that you can afford and then estimate the amount of Haram in your total investment and give it to Muslim charity.

I cannot select funds for you, sorry...

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Hajara

**Sent:** Tuesday, November 26, 2019

**Subject:** Islamic Commercial Paper

**Question:**

Dear Dr Kahf,

Salaam alaykum wa rahmatullah wa barakatuh.

I hope you and your family are well.

We are trying to develop a structure for a shari'ah compliant commercial paper (CP) to be issued mainly by large manufacturing companies with good credit ratings.

We had previously received approval from you for a non tradeable murabahah CP.

Malaysia favours the Tawarruq structure which does not work for us.

From research, we find a popular structure in Pakistan is the wakala istithmar structure for issuing CPs. Also the Bai Salam structure.

The wakala istithmar CP structure seems to hold promise but we would be grateful if you could shed more light on how we could apply it in a simple (from the issuers perspective) manner.

Also, any other approach to issuing an Islamic CP that you may know of and could work easily.

The challenge is the working capital component of the issuer's cash need.

This is a very exciting development as there are finally issuers willing to use the Islamic finance approach and it will also help the Islamic financial institutions in Nigeria with liquidity,

I look forward to as much detail as you are able to provide.

Thank you

Hajara

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Hajara

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

First let us look at the intuitive quick points:

1. Of course any CP coming out of a real transaction can be owned by creditor and cashed when due. This is in principle the CP.
2. Any cp coming out of Tawarruq, whether based on Murabahah or on Salam is fake and not true because the commodity is not intended for its own self (as clearly stated by the MWL's FA), or the commodity is used as a vehicle like a thin air as described by Ibn Taymiyyah.
3. Can we operationalize the inventory certificate? It is: a company holds inventory which is owned by the certificate holder, with wakalah to buy to itself (with or without wakalah to replenish) and liquidate within short to medium term. Can we add repetitive issuance of this certificate in suitable amount, can it be standardized say for 3 month and 1 billion Naira each Please give me your feed back. It is for a known principal + not necessarily known amount of profit... but representing goods in storage that means it is negotiable..

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Zainab

**Sent:** Friday, September 20, 2019

**Subject:** Stock Market

Al Salam Alikum Dr. Kahf

I hope this email finds well. I am a researcher in the area of Islamic finance and I am very keen to know your view on trading in the stock market. I understand that many scholars state that as long the company investment itself is halal then trading in its stock is halal. However, I find it very hard to accept that this does not come under Gharar, unless before trading, the trader makes enough research and analysis of the company to minimise the risk to the level as if he is trading in the actual company itself and not merely in its stock as at this point the risk will become the standard risk of trading in your own business and dose not involve the level of risk of Gharar and become closer to gambling than trade.

I will highly appreciate your thoughts on this point as I give training on Islamic Finance to non-Muslims and we do come across this point quite often.

I highly appreciate your time and thank you very much.

Best regards

Dr. Zainab

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Zainab

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I agree with you. The principle is an issue of specuation in contrast to real market action of placement or investment. I do not think the issue here is Gharar because info is available and one who does not obtain it makes a personal mistake of taking decision on ignaurance.

Can we develop appropriate criteria to define speculation in an exclusive\inclusive maanner? Certain behaviours and contracts can be surely specuative\speculation tools such as day trading, options, short sale, etc. But the distinction between genuine buy\sell and speculative buy\sell is not easy without going inside the person or looking ex-post at one's series of decisions.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Aamir

**Sent:** Thursday, September 19, 2019

**Subject:** Commercial Investment questions

as-salāmu 'alaykum wa-rah̄matu llāh shaykh,

I hope you are in the best of health and imaan.

I am considering investing in a commercial investment (office space) opportunity.

The investment is set up as a "General Partnership" and "Limited Partnership". I will be buying units of the LP. There is no loan / interest; this agreement is to buy equity in the operating business itself that will **collect rent from office space tenants**.

However I would very much appreciate your thoughts on if there are any "Islamic red flags" or anything impermissible in this agreement. Particularly in the Partnership Distribution structure.

I've attached the 1-pager Term Sheet.

jazākillāhu khayran

Also:

My apologies for bumping this email. I am waiting for an answer so I can decide whether to pass or not and the decision deadline is coming up soon.

- 1) Is the GP/LP structure Shariah compatible? Are there any issues with the payout or legal structure?
- 2) There is a possibility that the GP decides to go to the bank and borrows an interest-based loan. As an LP, all I can do is vote "no" but if there is majority "yes" vote then the GP will proceed as per vote. What is the Islamic ruling on this?
- 3) There is a possibility that the Property Manager hired by the GP rents out the office space to non-Islamically compatible companies (example: alcohol, banking, entertainment, weaponry, etc.). What is the Islamic ruling on this?

jazākillāhu khayran

Aamir

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Aamir

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

While the structure of General partner and sleeping partners is permissible, the open authority of the GP or MD is definitely not permissible. When a Muslim is part of establishing a company (whether with Muslims or with not Muslims) the charter of the company must specify that Riba and other non-permissible practices must be avoided. This is necessary because the GP or MD act on behalf of all partners and to their benefits.

This is different from investing in existing companies where a shareholder vote is not influential (i.e., buying a 100 share in IBM) where we may tolerate some violations provided they are not dominant and we apply the purification principle.

The prohibition of establishing a new company that may make Haram also applies when a new shareholder enters with an influential number of shares. He/she is required to impose avoidance of any non-permissible practices.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Abdul Nasser

**Sent:** Saturday, September 7, 2019

**Subject:** Annuities

AssalamUAleikum Dr. Kahf?

Are annuities permissible in Islam? Specifically, I worked at universities and contributed (self + employer) to 403b plans. The funds are kept with TIAA-CREFF. I have an option to withdraw the funds or subscribe to a life time annuity. Would it be Islamically correct to opt for annuity?

JazakAllah Kheir

Abdul Nasser

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdul Nasser

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

403b and similar plans are plans for retirement income in addition to the Social security. There are not as necessary and essential as social security which is basic and obligatory by law.

Accordingly one has to select a plan that avoid Riba in as much as possible. It is permissible to contribute to such retirement plans provided we do not indulge in Riba or we can avoid it or minimize it to the extent that allows us to purify our net income by giving any accrued riba to Muslim charity.

Annuities are fundamentally based on interest (Riba). So, if you can choose investment in equity funds which can be fundamentally permissible. This is if you choose funds that avoid riba based companies, then the purification that is to be given to charity become required only as all companies in America get involved in some riba in the course of their normal operations.

403b normally allows you to choose funds instead of annuities as the latter are purely based on interest and have no investment at all in any projects or products that benefit humanity in any manner.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Masud

**Sent:** Tuesday, July 30, 2019

**Subject:** PROPOSED SUKUK STRUCTURE

Professor Kahf

Asssalaam Alaekum Wa rahmatullah Wabarakatuhu

I hope this email finds you well.

We are discussing a potential sukuk issuance for the Islamic bank using blocks of flats jointly developed by the IB and the Lagos State Government. We would like to receive your comments on the proposed structure before taking the conversation further.

Kindly find attached the proposed structure for your comments/approval.

Thank you.

Mas'ud

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mas'ud

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Kindly notice the following:

- a. The word allotted does not fit within the Shari'ah terminology. Please define it. If it means sell to Sterling NIB for an amount paid or to be paid by the latter, please spell this fact sharply.
- b. An Islamic bank of course can lease\sell after it becomes a full owner, including possession (taking delivery).
- c. If the housing units actually exist at the time of lease\promise to sell on future consecutive contracts which is given to the HBL, these units can be sold to Sukuk holders. But if they do not actually exist while land and some actual construction and plans of construction completion actually exist on the ground, the property can also still be sold by the IB to Sukuk Holders because of existence of the mentioned things. But the usufruct cannot be sold (lease cannot be transferred) because it remains a debt on the contractor until completion of construction and availability of usufruct.
- d. While installment payments to Sukuk Holders can start at any time, rent is only deserved after the actual existence of usufruct and for as long as it exists. Payment of the rent for the usufruct period may be distributed over the whole finance period although it is not earned except for the usufruct period.
- e. There must be a clause for force major that may destroy the usufruct and by that relieves both lessees and guarantor of requirement to pay rent as well as execution of further purchases.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Turgay

**Sent:** Sunday, May 5, 2019

**Subject:** Investing in Sharia Fonds

Salamu Aleykum ve rahmetullah ve barakatuh

Dear Prof Kahf

First of all I hope you are good and will have a beautiful Ramadan with your beloved ones. May Allah give barakah to all muslim, Amin.

If you allow I would have two questions:

1) is it allowed to invest money to islamic fonds, like MSCI World islamic Index or with Wahed invest?

They claim to monitor the involved companies of compliance with sharia rulings.

What is your opinion about this? You recommend to stay away or is it ok to invest?

2) I would like to invest in Islamic banks account: but I have concerns because these banks giving a credit to customer and taking more money back depending on the time, isn't this riba ? Also these banks claim to have a sharia board.

Thank you very much in advance, May Allah protect you and Ramadan mubarak.

Salamu Aleykum

Your brother Turgay

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala

Aalihi wa Sahbihi Ajma'in Dear Br. Turgay Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh Thank you for your greeting and Duaa, MAY Allah shower you and your family with lots of the blessings of this month of Ramadan.

1. for funds that announce they follow Shari'ah: unfortunately there are today some false claims by some practitioners of Islamic banking and finance. You really need to check it yourself; first, check if their Shari'ah advisor(s) are to you trustworthy, and second, check the criteria of the fund whether they are convincing that they are implementing what they really announce. I do not know these two funds that you mentioned.
2. depositing in Islamic banks is permissible and the profit is Halal InShaAllah as they use funds in Murabahah, Ijarah and sharing financing contracts. In Murabahah they give goods and services on credit; this is permissible. Some Islamic banks give cash against larger amount of cash in the future, this transaction is called Tawarruq (buying metals from London Metal Exchange Market, they sell it to the customer on credit and then on behalf of the customer sell it for cash and hand the cash to customer), this is not permissible as it is cash for a larger sum in the future which is Riba. You may check if the IB you deposit with makes a lot of this Tawarruq, then you may have to give to Muslim charity same percentage out of the return given to you as a purification. There is no doubt that Islamic banks, even with Tawarruq, are still much better than other banks.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Tarik

**Sent:** Monday, April 22, 2019

**Subject:** Savings Plan

Salam Alakum Dr. Kahf

I had a question regarding my company savings plan. I work a petrochemical company in Canada and they have a savings program that is OPTIONAL. If an employee contributes 7% of their salary into the plan they contribute 4%. This is not a pension plan and you can withdraw the money anytime. The concern I have is I have to pick from a list of mutual funds none of which meet the standard of being sharia compliant. I choose a fund that has no bonds or fixed income. It has a mix of equities some sharia compliant some not. It's a small cap index fund so there is only 4% invested in financial services companies the rest in mining, healthcare, manufacturing, mining, etc. I know that it is not permissible to invest in non sharia compliant funds but if I want to participate and get the extra 4% contribution I have to pick from the list they give me. I spoke with my local imam and he told me not to participate even though I will lose the employer contribution. I spoke with another local imam for a second opinion and he said it could be possible to participate if I only keep my principle and the company's principle and donate all the gains to an Islamic charity without the intention of reward. He did however say that he is not qualified to give fatwas and finance isn't his area of expertise and I should seek out a scholar who is knowledgeable in these areas to be certain. I wanted to know if I can participate in the savings plan? And if so under

what conditions? Also I wanted to know what is the most common view among scholars of Islamic finance like yourself on something like this. Salam and thank you for your time.

Tarik

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Tarik

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The prohibition of Shari'ah is not intended to deprive Muslims from permissible fringe benefits in their jobs and other activities. I am of the opinion that you may participate in this saving plan and select the fund or fund (as you better make some diversification) that have the least Haram (avoiding gonds funds and funds that are heavy on finance, entertainment, etc.). you will need to estimate, on yearly basis, the amount (%) of profit (of course, in this case capital gain plus reinvested dividends) that relates to non permissible investment in each fund and donate the total to a trusted Muslim charity for distribution to poor and needy. This is called the purification principle which always applies when we find ourselves in such situations. This action of purifying your properties from any Haram will be rewarded InShaAllah as obedience to God and abiding by His terms not as a charity and not to be counted from required Zakah on this fund and other properties.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Ibrahim

**Sent:** Thursday, April 11, 2019

**Subject:** Locked in RRSP

Assalamu 3alakum

I have a bit of complicated situation and wanted to know more about what Zakah I have to pay. My situation is as such :

-I worked at a company for 11 years, and they had a defined Benefit pension plan. I did not pay any zakah on that because I had no choice in the matter nor did I have access to the money.

- I moved to another company, but was not able to transfer the first pension to the second ones -a large portion of the first pension was placed in the bank in what is called a "Locked-in RRSP". Unlike normal RRSP, I can't contribute to this nor withdraw money except in the case of proven extreme hardship, or I stop being a resident.

-that amount is large enough but I have no access to it till I retire 20-30 years from now.

My question is do I need to pay zakah every year on the money in the locked-in RRSP. It will be a somewhat large amount if I do so and will eat into my day to day money as I can't take it from the locked-in RRSP.

Secondly, I plan in about 4 years, once it's grown a bit (through investments) to use it to give myself a self directed mortgage to reduce or eliminate my conventional mortgage. Does that change anything zakah wise?

I have not been able to find an answer to this and your insight would be greatly appreciated.

Jazak Allah Khair

Ibrahim

**My Answer:**

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please explain in as much details as you know what do you mean by locked-in-RRSP, also answer the following:

1. You said most of it is locked, what not all of it?
2. what do you mean by large amount? How many multiple of your monthly take home check(s)?
3. can you change investment from one fund to another?
4. can you change Custodian from one bank to another?
5. RRSP also cannot be withdrawn without penalty and tax, what is the difference from locked in?
6. etc.

Dr. Monzer Kahf

**From:** Ibrahim

Al Salamu 3alikum

Thank you for getting back to me so quick, i will answer your questions below:

Please explain in as much details as you know what do you mean by locked-in-RRSP

Locked in RRSP is a restricted locked-in savings plan or a locked-in registered retirement savings plan, and can hold funds originating from a federally regulated pension plan. It is a Canadian investment account designed specifically to hold locked-in pension funds for former pension plan members. Funds held inside will normally only become available (or "unlocked") to holders upon retirement. A person can not just open a Locked in RRSP, it can only come from funds in a former government or company's defined contribution (DC) or defined benefit (DB) pension plan when you leave your employer. It is meant to be a government regulated vehicle to hold funds from a former pension plan until retirement.

More information here: [https://en.wikipedia.org/wiki/Locked-In\\_Retirement\\_Account](https://en.wikipedia.org/wiki/Locked-In_Retirement_Account)

1. You said most of it is locked, why not all of it?  
What i was referring to is that at the time i quite my Job, a portion of the total value of my pension was given to me in Cash minus taxes, that amount i have and is part of Zakah. The remaining part (over 50% of the original pension plan value) is now in the locked in account, entirely locked in.
2. what do you mean by large amount? How many multiple of your monthly take home check(s)? The total amount in the locked in RRSP account is about 19-20 times my monthly take home.
3. can you change investment from one fund to another?  
No, i can not, it must stay within the locked in account, i can invest it in different ways, but the principle and the gains all must stay in the locked in fund.
4. can you change Custodian from one bank to another?  
I am not 100% sure but i think i may be able to change the bank that holds the account, but it changes nothing about my accessibility of the fund, i would have to move it to the exact same type of Locked in account just in another bank. and there is some government forms and approvals to do so.
5. RRSP also cannot be withdrawn without penalty and tax, what is the difference from locked in?

The difference is a locking in RRSP can not be withdrawn period. No penalty or tax, you just can't withdraw from it at all, except in a few government mandated exceptions which are meant to be special circumstances. these situations are:

- Small balance unlocking below a specific threshold (which i don't meet)
- Withdrawals due to shortened life expectancy (physician certified)
- Withdrawals due to financial hardship (subject to specific conditions)
- Withdrawals due to spousal or child support (maintenance enforcement government orders)
- The person has ceased to be a resident of Canada for at least 2 calendar years
- One-time unlocking of 50% to a non locked-in RRSP after age 55

None of these apply to me. so i would have to wait till retirement age, over 60 to access the money (im 36)

more can be read here:

<http://www.osfi-bsif.gc.ca/eng/pp-rr/faq/Pages/ulfpp-lrsp.aspx>

<https://www.fSCO.gov.on.ca/en/pensions/lockedin/Pages/nonhardshipunlocking.aspx>

<https://www.moneysense.ca/save/investing/rrsp/how-to-get-money-out-of-liras/>

I think there are two points to consider. This money and fund was NOT by choice, my former employer (government agency) mandated that i have this pension and i could not opt out of it, and my only two options when i left the job was to keep the money in their pension fund till i retire, or move it to a Locked-in RRSP. both scenarios make the money unaccessible till i retire. Second point is that i simply can not assess the money even if i was willing to pay extra fees and taxes except if the governments allows me to as stated in the exceptions above.

Thank you so much for your help, jazak Allah kol khair.

Salamu 3alaikum

Ibrahim

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Sorry for the delay, I was pre-occupied by a few other important issues.

My opinion is: if the ways of investing this fund is forced on you in interest basis so that it does not bring any permissible income while it is blocked, Zakah will be due on it only on the day when you get it released, by any means whether before or after retirement. This Zakah then shall be at the rate of 2.5% for one time only as then after any money from shall be part of the money you have and included normally in the Zakatability.

However, if it is placed in mixed investment or you have the choice to invest it in funds of your choice, whether during the block or you have already chosen such fund when you were in that government agency or upon quitting it and starting the lock on the funds, all such cases, this fund becomes subject to Zakah on yearly basis as the locking is a government procedure aiming at protecting funds for your retirement. In this case, I suggest that you pay Zakah annually from your other sources (you mentioned that it annual Zakah is less than one month take home). But you can also postpone, without sin InShaAllah, its Zakah but you need to keep record of the Zakah due for every year and when you start receiving it, you pay all past years due Zakah for each payment you receive.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
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**From:** aymen  
**Sent:** Wednesday, April 10, 2019  
**Subject:** Option trading

Assalamu Alikum  
What is the appropriate islamic ruling for option trading? Is it all haram?

**My Answer:**

Bismillah al Rahman al Rahim  
Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Aymen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In option you own only a right to buy or sell a share or contract, etc. But you do not own any part of the company you own whose share you have an option or the contract of currency or commodity where the option may belong.

The OIC Fiqh Academy studies options and ruled: "option do not fit for buying, selling, owning or trading according to Shari'ah." This is they are not a property that can itself create any added value, it is a parasitic right that lives on the prices of shares, currencies and commodities.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Karim  
**Sent:** Monday, March 11, 2019  
**Subject:** CFD, trading in shares

Asalamoaleikom wa rahmatAllah wa barakato.I have a question about CFD trading.Especially CFD:s for shares(stocks).Is it allowed in Islam.I understand that CFDtrading when the underlying value is currencies or futures is not allowed.But is it allowed when the underlying value is a share? Kind regards  
your brother in islam Karim

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Contract for difference is a pure gambling and there is no way it may be done in a shari'ah compliant manner because there is no buy and sell while in Shari'ah to earn you have to buy and own.

Please refer to my detailed Fatawa on my website.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Syed

**Sent:** Friday, March 8, 2019

**Subject:** stock investment related

Assalaamu alaykum. I was on your website to read about stock investments. I would like to ask you, whether you are aware of something called Dow Jones Islamic Market Index. I read a document about that index, where they set the permissible debt limit to 33%, while you state that to be 30% if I'm not mistaken.

On the Dow Jones document, they mentioned that their quoted formula is one that applies to investors interested in companies offering shares on the international market over which Muslims don't own or control: do you mention a similar requirement? And, what precisely would be a non muslim owned or controlled company? If ten muslims buy the shares of a company owned by a non muslim, will these ten muslims now not become co-owners of the company and hence would we still call that company owned by non muslim? Or are we to look at the controlling stake, for in reality the real power of control rests with the controlling stake holder/holders: is that correct?

Thanking you in advance.

Regards

Syed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

AAOIFI standard mentions 30%. This is where I got it from. I am aware that DJIMI takes 33%, I am not worried about it as the difference is immaterial people said both. The issue of controlling is either a misunderstanding by you or mis expression by the document you looked at.

It is as follow: Muslims are always called on, when they establish companies, to avoid in them any Haram, i.e., zero Haram. Any Haram is just Haram. The AAOIFI standard on Sharikat states that when Muslim create companies they should avoid any Haram in them.

But there is nothing to do with control. When a Muslim investor buys a share in a company, she\he is supposed to apply the mentioned criteria of main line of business, financial screening and the purification principle. If Muslims control a company they are supposed to avoid in it any Haram, but if they did not,

an investor will apply same mentioned criteria regardless of control and regardless of whether owners\controllers are sinful or not.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Mubarak

**Sent:** Saturday, March 9, 2019

**Subject:** Bitcoin trading

Asalam Alaekum. My name is Mubarak from Nigeria. I have a question on an issue that has been bordering me. A man who is into bitcoin dealing just introduced me to a business where he ask me to invest with a certain amount of money e.g 10,000 Naira as minimum. Then after 3 days when he has used the money to run some bitcoin business like mining, exchanging and has made profits from it, he will return my initial money(investment) and also give me a share of the accumulated profit he has made. He has made more and will give me 250% profit. Is this kind of business dealing halal or haram. Can I continue with this kind of business because as he never made it compulsory to me to bring in new members before I can get paid. Whether or not I bring in a downline, it's not a problem and there it was not stated that there is a commission for that. I can invest in bitcoin and get paid in bitcoin back or can use cash and get paid in cash. Thank You

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mubarak

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In a few words, Bitcoin is not as asset as it is purely virtual and is not money as it is not considered money by any central bank. Any business in Bitcoin and other cryptocurrencies are accordingly non permissible. Besides, you should give me adequate time to answer bothering me is not a good thing to do.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** HAROON

**Sent:** Tuesday, February 26, 2019

**Subject:** CFD Trading

Hello, Mr. Monzer, I want to know about the "Contract for Difference trading". Basically I want to start business in this field. But I heard that this type of trading is not permissible according to Islamic rules and the word Haram is used for this trading. So I want to know that Is it true? CFD is available in Oil, Gold, Indices and forex. So if it is not permissible is there any other trading which is alternative to it. Like we can say options and futures etc. Kindly reply me with detail that how these tradings are not permissible and how we make them permissible? If there is no solution then kindly tell me about the PENNY STOCK trading which is just available in USA. Is this type of stock trade permissible according to Islamic laws. Regards.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Haroon

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

A fundamental principle of Islamic finance that is derived from numerous texts of the Qur'an and the Sunnah is "you may earn only if you own an asset that by its own nature may generate added value." Gambling is prohibited because it is only a transfer of wealth with no reason. If a gambler studies the moves of the game in very professional manner (many actually do) so that in most plays the gain, gambling remains non permissible. CFD is pure gambling, I discussed it several times. Please look at my previous Fatawa on it. There is no gambling that may become permissible because one does it professionally. In CFD you do not own a property that may generate added value.

Besides, in Shari'ah there are activities that have Islamic alternatives such as sex which can be done through marriage, these are matters related to human nature al Fitrah. There are also things that have no replacement because they are purely harmful such as intoxicants, there are no permissible intoxicants. Economically and morally harmful actions also have no Shari'ah compliant alternatives! Earning without owning cannot be acceptable in Shari'ah finance at all.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

**From:** HAROON

Penny stock trading is like you can buy and sell online and these stocks are also traded pre market and post market. So these stocks are for small cap companies and their value lies below 5 dollars and 1 dollar. There are several brokers who deal with these stocks like, TD Ameritrade, fidelity investments and Charles Schwab group etc. So tell me that is this work permissible in Islam or not?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Harun

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Buying these kind of shares off or on market is permissible, the idea is the speculative behaviour is not permissible. Investment means that a person is interested in and concerned about a company and being

in it. Speculation is when one aims only at price differences, especially quick one. Most of what is done in those markets whether big or small companies is speculation and wrongly called investment. This may be a quick way for enrichment but really not a good way of life or of earning. Please think of ideas that create new wealth instead of running after the stock market. It is a matter of mentality not of how many days I should keep a share/

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Noman

**Sent:** Friday, February 22, 2019

**Subject:** Investing in CFD with a Professional Trader

Assalamoalekum Shaikh,

I start by thanking you in advance for taking your precious time out to read through my email. I would really appreciate if you could shed some light on my specific position.

I am a Chartered Accountant by profession practising in the UK. About 6 months ago, a friend/client introduced me to this Muslim brother who is a Professional Trader specializing in the German Dax 30 Market. My friend had been investing with him for quite some time and I also gave a go at investing some money with him fixed for 12 months on a profit/loss sharing basis payable monthly. He made up a proper contract of the investment incorporating his IDs and a schedule of when the monthly profits will become due in the next 12 months. I don't have the option to pull out the money until contract period ends when I can ask him to either return the capital or reinvest with a fresh contract for x number of months. Before I invested, I asked him if all is Halal and that he doesn't have interest/haram involved at all in his trades to which he gave surety that he strictly doesn't get involved in any such practises.

Being in the accountancy profession, I have access to a lot of clients who are looking for investment opportunities etc. He requested me to introduce him more investment clients, he will explain to them the opportunity, if they decide to come on board he offered me a percentage on top as a commission. I said, let me start with myself for now and we take it from there Inshallah. Couple of months later, once I got to know him more and gained more confidence, I initially introduced to him some friends and family to invest. We proceeded on my conditions that the exchange of the capital/contract happens directly between the 2 parties and that I explained to each & everyone that they invest at their own risk and I take no responsibility of any losses, etc. He has offered me a higher fixed profit/loss percentage as the total available, the investors gets from within that and I get to keep the difference as my commission. Say e.g, the total available percentage is 30% of the profits made, I quote the investors 20% - 25% return. They meet him, ask questions, weigh out the risks & the offered returns and make up their own minds to move on or not. The exchange of contracts/capital is again done directly between the 2 parties and that I clarify it to them that they move at their own decision and that I will not be responsible for any losses. I myself have invested with him at my own risk and they do so at their own. I also advise them that they will get their full return as per the agreement and he directly sorts me out a commission on top. I also tell them that if they recommend someone, they will also get a commission directly from him

in addition to the investor which comes out of my remainder commission. So e.g, the investor gets quoted 20% profit percentage, 5% goes to the referrer directly as a referral commission and I get the remainder out of the total 30%. The amounts move each month as per the trading profits being made. I have spoken, dealt, travelled with him in great detail and asked him to show his trading history to be absolutely assured that the profits are genuinely being made and that it is not a scam etc. I have since invested further with him myself and recommended quite a few clients in the past 6 months for whom I get the leftover percentage as commission. Some of the existing clients also referred people and they also get a commission from the available percentage pot for their referrals.

All was going well so far until last week when one of my cousin (existing investor) messaged me that he approached someone to invest and the chap in return advised that the technical name for what the trader does is 'CFD -

Contracts for difference' which he may specialize only in the German Dax 30 market however its very much doubtful Islamically due to the presense of elements of interest & gambling. It came as a complete shock to me so I researched on it myself to know exactly whats happening and whats involved before approaching the trader who was abroad during the last week or so. From my google search, I summarised 3 main issues with CFD:

1. Interest. With most typical trading platforms/brokers, interest gets involved in the name of Swaps or rollover if/when the trade is not closed and continues to the next day. Some companies are offering Islamic CFD accounts (Etoro, Ava Trade, FXhalal, etc) which they call swap free accounts where they don't charge any interest no matter how long the trade is opened for and interest-free leverage. e.g <https://www.etoro.com/customer-service/islamic-account/>
2. Gambling. There is a great danger that the person is getting involved in excessive/blind speculation whilst doing his trading and is one of the possible issues with CFD.
3. The CFD trade happens on the platform provided the broker and is essentially a contract between the trader and the broker. There is no ownership of shares involved and profits/loss are done only on the back of the market values going up or down. I am not quite sure that if the CFD is still permissible or impermissible if the interest/gambling aspects are taken out from it as marketed by the Islamic trading account providers.

I met with the trader last night upon his return to discuss my findings and what his take. He says that yes in the CFD trading market, people get involved with both interest and gambling, however, he strictly trades with 0 interest policy, the contracts are opened and closed the same day strictly and that no rollover/swap is involved at all 100%. There are big possibilities of other players getting involved with interest rollovers etc but he very strictly doesn't do

no rollover trading at all. Secondly, he mentions that there are people who to a large extent are simply involved with gambling on their trades betting large amounts on the CFD Trade market. He however, does it based on his in-depth knowledge of the market, careful planning, market news, professional research and planning and trades with only 2%-5% of his portfolio and only trades in his Market of expertise, the German Dax 30. The same reasons shares values go up and down are the same reasons for the movements on the CFD stocks and that he doesn't blind speculate/gamble but indeed trade professionally. Now, I have also seen his trading history of over nearly 3 weeks with multiple trades happening daily and not a single one of them was in a loss. I honestly believe without doubt that he trades professionally & with careful consideration of all factors rather than gambling during his trade. He also mentioned that he has researched it deeply and shown his trade practise to qualified local muftis as well and they have even invested with him as a client. I understand that their involvement doesn't

necessarily make it halal or haram, it's just that he mentioned it so I mention it to you. He assured me that I need not worry as he strictly keeps himself far distanced from anything to do with interest or gambling.

I would be very very thankful to you if you could kindly shed some light on our scenario as above please and advise me what to do accordingly. As I was unsure, I have stopped all further investments/referrals completely until things get cleared up however, the existing contracts continue to run as before. People are getting their monthly due payments as normal along with commissions for referrals. My own commissions I have had them held over since last week and is getting piled up slowly. The existing contracts are due to expire in the next 5 months to around 12 months.

Please shed light on the following for us as investors in general and me being both referrer & investor:

- Given the non-interest/non-gambling position that he mentions that he strictly holds, are we ok to continue with him and invest further or reinvest at the end of our contracts and receive our returns/referrals as halal income?
- If above scenario is not advisable, given that we each are locked into contracts, are we ok to continue just till our contracts expire and if the returns & referrals on the existing contracts are going to be halal for us?
- If above 2 scenarios are not halal, assuming that he will not return our capital before contracts end, can I just personally let go of all my returns and referrals since day 1 to the last day the contracts end and pass all on to charity whilst letting the other investors continue without knowledge till their contracts ends and all our capital gets paid back?
- Any other advice that you could give me individually and/or to the other investors. Please also mention if this income of ours falls in a grey area or completely in the impermissible area and if impermissible, is it because it is Riba specifically by any chance or or due to some other impermissibility in the Shariah?

I really apologize for making it a long email and would really really appreciate if you could help me in this mess that I have caused myself to get into. May Allah reward you immensely and forgives me for my great shortcomings. Ameen!

Seeking your prayers and advice!

Regards

Noman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Noman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

A fundamental principle of Islamic finance that is derived from numerous texts of the Qur'an and the Sunnah is "you may earn only if you own an asset that by its own nature may generate added value." Gambling is prohibited because it is only a transfer of wealth with no reason. If a gambler studies the moves of the game in very professional manner (many actually do) so that in most plays the gain, gambling remains non permissible. CFD is pure gambling, I discussed it several times. Please look at my previous Fatawa on it. There is no gambling that may become permissible because one does it professionally. In CFD you do not own a property that may generate added value.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@kahf.com](mailto:monzer@kahf.com); [www.kahf.net](http://www.kahf.net); [www.kahf.com/blog](http://www.kahf.com/blog)

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# FATAWA STOCKS, INVESTMENTS, FUNDS, OPTIONS, ETC. 2018

**From:** Wael

**Sent:** Thursday, December 20, 2018

**Subject:** A question on RRP

Assalamu alaykum wa rahmatu Allah wa barakatuh

May you kindly help replying the below question respected Dr. Monzer:

"assalam alaikum. I hope you're all well. I have a question: If a person works in a building services/construction company where the company states that it's COMPULSORY to participate in their registered pension plan (RRP) which gives contributions based on fund investments, what should a person do especially that it is unknown that the funds are shari'ah compliant or not?

The participation is compulsory, but honestly being away from shubuhaat is best, alhamdulillah, so if it is confirmed that it's not 'shari'ah complaint', should a person try their best to stay out of it and maybe have a special conversation with the company's HR?

I hope you could help me with this question?

Jazaakum Allah khair."

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Wael

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please inform the questioner the following:

Accepting this kind of job is permissible and contributing to this RRP is permissible. Its objective is good and the contribution of employer is an added benefit. It is of course worthwhile to talk to HR of the company to advise them to invest in shares of good companies that do not deal much in interest and other non-permissible activities. But should that fail does not mean that you should abstain from it and give up these benefits, it rather implies giving to charity the 5 that you estimate coming from non-permissible investments while you still gain at least the employer's contribution.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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**From:** Kashif

**Sent:** Monday, November 12, 2018

**Subject:** Day trading and margin trading

Brother Monzer,

Assalamu o Alaykum

I am a handicap Quadriplegic person living in Canada in city of Markham. I had a friend who was doing online day trading and margin trading and he was making good amount of money in one day about 500 to 1000 US dollars by using a plate form name ninja trader 7.

I was saving money from 8 years 20000 US dollars, so I also start doing margin trading and day trading. First few weeks I make 8000 dollars but then I start losing continually until now I have no money left in my trading account.

My family and relatives told me that I should not do this trading because of high risk in it. Before starting this trading I call many Muftis here in Canada but no one said it is haram.

That's why I start this trading work.

Now I have knowledge how to make money by using this software but here

Mulana Ahmad kutty gave you email address to ask you that "how it is haram according to Islamic reasons.

Is there any hadith which mention that it is not allowed to do?

Now I don't know what to do because I want earn not too much money but reasonable amount with halal way. I am in wheelchair bound quadriplegic, from 19 years. I don't have any other skills so I can make money from home.

I have to ask for money every month from my family members to pay my bills and expenditures of living. I don't like to ask for money every month that's why I was trying to find some business so I can make some money but Halal business not Haram.

I was thinking who can have more knowledge than Mufties that's why I start this work.

Please brother guide me the halal way so I can make money from home. I am waiting your reply. Please reply me as soon as you can.

Jazak Allah

Kashif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Kashif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

As a matter of fact, I believe that day trading is not permissible in our religion on the ground that it does not add value to the economy; it is a pure speculation on prices of shares and commodities. Besides, you especially must look for more stable and less risky income. I suggest that you may need to consult a local social advisor for developing some kind of skill that suits your special situation like teaching, supervising writing children stories, etc. don't think that the only way to live is to speculate in the market, this is in reality a form of gambling and that is losing in this life and in the afterlife.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

**From:** kashif

Jazak Allah brother,

I am satisfied now; I lose all my savings but I don't want to lose my Akhirah. InShaAllah, Allah will give me some idea to earn halal money.

kashif

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**From:** Syed

**Sent:** Tuesday, October 2, 2018

**Subject:** stock investment

Assalamu alaykum

I was reading about stock investments on your website. I had a few of question regarding some issues related to it:

1) I am not an expert on the concept of short selling, but from my reading it appears short selling is impermissible. My question is, since short selling is not permissible, in case the person I am buying from is actually short selling the share, will that make my buying and possible subsequent profit from selling that share impermissible? Is there a way to avoid buying from short sellers?

The market has short sale but does not have short buy. In other words, you cannot know the person on the other side at all and for the buyer, it is always a buy with taking delivery of the share and paying their price. The payment may be either immediate or with a margin or even on full credit sometimes. For the buyer it is always a buy with delivery. Besides, in short sale the seller owns the borrowed shares, therefore for the buyer it is a buy from owner as the buyer has nothing to do with the part of the transaction that is between the seller and his/her broker.

On same issue, but on a side, there is a short sale called naked short in which there is no borrowing and no interest paid by seller. In this case delivery is delayed and payment is done at contract's time. This is also permissible for both sides unless there are other conditions that may make it non-permissible

2) Although I am seeing conflicting reports on it, some people say that derivatives trading can cause an increase in the underlying stock price. If that be true, will profiting from the underlying stock be permissible, when the factor behind its rise is impermissible in its nature?

You have nothing to do with" where does the rise in price come from", it is not of your business. Your help with these questions would be appreciated.

Regards and thanks

Syed

India

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh Please see my answers below the questions in red:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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**From:** Hatif

**Sent:** Thursday, August 30, 2018

**Subject:** Trading ETFs and Currency-Hedged ETFs

Assalaamu Alaikum Dr Monzer,

I am new to trading and I wanted to know if it is halal to trade ETFs (such as Technology or Healthcare or Real estate) after verifying what are the constituents of those ETFs. (Example XIT.TO - iShares Info Tech ETF)

Secondly, I wanted to know if it is Halal to trade Currency Hedged ETFs? Example XHC - iShares Global Healthcare Index ETF (CAD-Hedged) which is hedged from IXJ - iShares Global Healthcare ETF.

Jazak Allahu Khair,

Hatif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hatif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Same rules of individual shares apply to EFTs, for currency-hedged Etf, I need more detailed description.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

**From:** Hatif

Assalaamu Alaikum Dr Monzer,

Thank you for a quick response. I actually don't know much about the 'currency - hedged ETFs'. So far my understanding is that a currency hedged ETFs makes use of weakening and strengthening currencies of their constituent stocks to give a better return as compared to their respective NON-HEDGED ETF. So they somehow keep their holdings in currency which is strong or getting stronger I think. I will do more research Insha'Allah and get back to you.

Secondly, I read on the compilation of answers on your website that day-trading is not permissible (please correct me if I am wrong). If day trading is not permissible, then how long of a time is it permissible to hold on to a stock? A few months like 6 months? A year? Or longer. The reason I am asking for it is that with the fast changing markets, many businesses which might be doing very well now but in a year or two might be completely bankrupt because of some new disruptive technology or business. OR any business which we have invested in might become haram by involving into prohibited activities. So it might be wise to divest from such stocks as soon as we learn about any of the two cases.

JazakAllahu kheir,

Hatif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hatif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For the first point buying a stock in a market of a strong currency and avoiding weak currencies is an investment strategy that is permissible. What deserve attention is whether there are any commitments of future prices of currencies, this is the issue of hedging as according to Shari'ah currencies can only be traded with immediate delivery and full settlement of both.

For the second point, what is prohibited is speculation. It is an attitude of traders that is expressed in a profiteering spirit running after price changes and movement only and normally it is short term. There is no time limit of definition of speculation because what matter is the attitude. In day trading the attitude of speculation becomes apparent and exposed because day traders do not bother with the company as they make their movement on price change only.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
Dr. Monzer Kahf  
Professor, Islamic Finance & Economics  
[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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**From:** Nawaz

**Sent:** Wednesday, September 5, 2018

**Subject:** share market related

Assalaamu alaykum. I was on your site, where I found some information regarding stock buying and selling. I wish to ask you a few question related to it. Hope you shall be kind enough to answer them for me. Thanking you in advance.

Kindly notice that investment in shares (except preferred shares that prevent the shareholder from voting) is a partial ownership of a common stock company, it is considered in Shari'ah on the basis of Sharikat al Inan in which all partners own variant %s of capital and contribute also variently to the management

1) I see different debt acceptability rates on the internet. some say 33 %, others 25, and some as high as 49. the ones saying 49 probably gave that figure based on the principle that majority is considered when deeming wealth halal or haram. Your site, on the other hand, says 30 %. Can you tell me what is the fiqhi reason behind accepting 30 and not a single point above that?

Here there are two points: 1) for Halal owning of a share contemporary scholars have different views about the % of debt (meaning of course interest bearing debts) 25, 30, 33. I select the 30 for the American market because it comes from a large group view which is the Shari'ah Board of AAOIFI as it appears in the Standard of AAOIFI on stock trading. There is no Shari'ah base for either. The basic point is how much we tolerate of the Haram which is supposed to be zero but this creates difficulty for several market. In a study one of my student made about Qatar we found that in Qatar Stock Exchange you can use zero tolerance without causing any difficulty to Muslim investors. 2) the permissibility of sell/buy at a market price different than the face value: this is where the concept of majority applies (for some it is 51/49). This apply to all halal component of shares when they are sold or purchased.

(While the hanafi scholars I know, have clearly stated, a person investing in someone else's business is not liable for the loans the other takes for funding the business.)

This issue is irrelevant to common shares because it applies to Mudarabah, where you have no right to vote as voting is participation in management. But Preferred shares as known in the market are declared non permissible by the OIC Fiqh Academy.

2) You wrote on your site, while investing is fine, speculation is not. But it seems to me, some amount of speculation is inevitable. Consider this, a person seeing stock price of a big company going down owing to some scandal or bad news, buys the stock anticipating its growth back to the higher numbers once the crisis is over, spread over months or years. Will such anticipation/ speculation render the investment impermissible?

Being a living being has an element of speculation. A decision to get married has an element of speculation, also the shop keeper on the corner of street when he buys tomato, potato or onion is also speculation because he does not know in advance the sale price or the occurrence of sale itself. This is not what we mean by speculation. We mean by it an internal position (which sometimes is revealed by

the nature of transaction but not always) in which the buyer of a thing only looks at quick profiteering through quick price movement. It cannot be defined by a number of days or month, it is an inside approach and position. Some obvious expressions of it are day trading, contracts for the difference, some forms of bidding on currencies, and the like. But buying shares because a person believes in the future of this company is investment not speculation. So investment is not impermissible unless you say that for the shop keeper buying tomato, potato and onion is speculative...

3) At times the derivative trades, i.e., trade in futures and options, drives up the price of the underlying stock. Since derivative trade is not allowed, will the profit from the stock price increase that occurred due to increased derivative buying, be permissible?

Go for the fundamentals of a stock not for its derivatives and an owner of a share is not responsible for what derivatives speculators do or cause...

Regards

Nawaz

India.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nawaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below questions in red:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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**From:** Farhad

**Sent:** Saturday, August 25, 2018

**Subject:** Re: Options

Assalamualikum wrb

Hope all is well iA.

I had a question regarding options, I remember you mentioned once that owning shares in a particular company, that a person can purchase a put option as a hedge to protect from downside.

Example:

Ticker - EA

Price - 130

Buy 100 shares = 13000 (holding for 3 months)

Buy 1 put = 760ish for 3-month protection (I doubled checked and attached a copy of the option table to this email. So it will cost me around \$760 to buy 1 put option that will protect my 100 long shares to the downside for 3 months like a hedge I suppose.)

But my actual question is, is it okay to replace buying the actual shares with a high delta call option with no intention to ever exercise it. Rather using the high delta as a means of stock replacement while at same time requiring less capital for investment. (In options, if you purchase a call or a put, each strike price has a specific delta. if the delta is .50, that means for every \$1 the stock moves up or down, this option will move up or down only \$.50 cents. So if I purchase the 105 strike call on the attached option table (I highlighted on the attached pic), the 105 strike has a delta of .90 or higher. Which means if stock moves up or down \$1 this will move the same direction \$.90 cents. So in essence I basically own 100 shares of EA by purchasing this call option. The current price of EA is almost \$129, and the cost of the 105 strike call option is middle of 24.70 to 26.75, so we can call it 25.70 for 1 option or 100 shares. So if EA price in two months goes up by \$6 to \$135, this option will now be worth  $25.70 + (.90 * \$6) = \$31.1$ , I can sell at this point and make a profit of  $(31.1 - 25.70) = \$5.40$  or \$540. If I had bought the shares directly it would cost me 13,000 and my profit after it goes up \$6 would be \$600. \$60 difference. So in essence buying a call option with a "high delta" is like buying the shares directly because the change in price is almost identical. But big difference is in the option route only required me to put forward only 2,570 as opposed to 13,000.

Example:

Ticker - EA

Price - 130

Buy 1 (105 strike 90% delta) call = 2570 for 3 months holding time (delta 90% will mimic basically stock price) Buy 1 put = 500ish for 3-month protection

Please let me know if this is okay under intention to never exercise the call but rather use it as a stock replacement requiring less capital.

Looking forward to your answer.

Farhad

**From:** Farhad

But my actual question is, is it okay to replace buying the actual shares with a high delta call option with no intention to ever exercise it. Rather using the high delta as a means of stock replacement while at same time requiring less capital for investment.

Example:

Ticker - EA

Price - 130

Buy 1 (105 strike 90% delta) call = 2400 for 3 months holding time (delta 90% will mimic basically stock price)

Buy 1 put = 500ish for 3-month protection

Please let me know if this is okay under intention to never exercise the call but rather use it as a stock replacement requiring less capital.

Looking forward to your answer.

Farhad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Farhad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Buying an option to protect a property you own may be reusable but when you buy a high delta option you do not buy a property! What productive property you own? An option is not a property itself and it produces nothing. Owning a share in a company means you own a productive property (here again using it as a speculative tool only is not permissible in my opinion). Do you want to protect the “nothing” by an option? I don’t believe that this can be permissible!

Wa Allahu A’lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Bassel

**Sent:** Monday, July 2, 2018

**Subject:** 403 b

Dear Dr. Kahf,

I’ll be working in a hospital where the offered 403 b retirement plan with 50% match up to 4% (Voya financial).

Is it halal to participate in such plan? Thank you

Bassel

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala

Aalihi wa Sahbihi Ajma'in Dear Br. Bassel Assalamu Alaykum wa Rahmatu Allahi wa

Barakatuh Such plans are permissible to contribute to and participate in. what you need to be careful about is to select funds of the least Haram components (e.g., banking and financial sector, entertainment sector, weapon sector, food sector because it is mostly inseparable from alcohol and pork, etc.) and then estimate the contribution of all Haram in your selected funds to the net return you get from them and give that much to Muslim charity for distribution to the poor and needy because such Haram components should not remain within your Halal properties.

Wa Allahu A’lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

**From:** Bassel

Wa Alikum Assalamu WaRahmato Allah Wabarakto

Jazak Allah Khair for the information you have provided me.

I have few more questions

1- What are kind of investments I can choose which has less “shubha”? Technology?

Yes, technology is one, energy may also be, so is health and may be utilities

2- How to estimate contribution of all Haram? Is it something like 10-15%?

Exact estimation for each company is based on analyzing its balance sheet and other closing accounts, it needs professionals. Educated approximation can be done by a quick look at the balance sheet and adding a few points for precaution. For mutual funds by looking at the % of assets in undesired sectors and adding a few points for other companies because all companies in America have interest and other prohibitions.

3- Voya agent told me there is no interest and basically it is investment. Does investment mean possibility of gaining and losing? If no possibility of losing is it still permissible?

The answer calls for details. Rental income is almost fixed and no losing normally. Financial agents usually mean by investment anything in funds and any placement outside bank deposits. The Shari'ah criterion is to be income from real property that is Shari'ah permissible such as shares in permissible companies or rents of cars, real estate or any other long life assets. Fixation or not is not an issue, neither is the degree of risk of loss.

Thank you again for your time and sharing your knowledge

Wasalam

Bassel

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Bassel

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions in red

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

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**From:** Imaam .....

**Sent:** Sunday, July 1, 2018

**Subject:** Fwd.: Stocks

Dear Prof. Monzer, As-Salamu `alaikum.

I hope you had a nice Eidul-Adha vacation. If you are around in California, we would love to see you again in Edmonton this Summer or let's say plan another visits around Christmas time.

Below is a question about investing in stocks. I hope you have time to answer it for our community member as soon as your time allows.

Much appreciated.

Imam Amin

----- Forwarded message -----

From: Mohamed

Date: 29 June 2018 at 10:43

Subject: Stocks

To: Imaam .....

Salam shaykh,

Is it okay to invest in a stock called: Raven quest biomed Inc. (RQB)? They are a mother company to other companies who make medical marijuana.

Thank you,  
Mohamed.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If this company produces these substances for medical use only, its shares are permissible but if its products go to the market for pleasure or use by consumers without medical prescriptions in states and provinces that legalize their use, it is not permissible to invest in its stocks because from Shari'ah point of view these products remain non permissible, they are worse than tobacco which is Haram to invest in.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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# FATAWA SHARES, STOCKS, FUTURES, BONDS, OPTIONS 2017

**From:** Asif

**Sent:** Wednesday, December 20, 2017

**Subject:** Q: How to structure an Islamic Investment

**Question:**

As salaamu alaykum,

I came across your contact information while searching on Islamic financing. I would like to better understand how to structure an investment into a private business that is Islamically sound.

Is it as simple as determining a percentage return from the net profits? How about the return of principal? Can one continue to receive benefits in perpetuity? Maybe there is an example contract that can be leveraged?

If your schedule permits, can you can help clarify these questions or point me in the right direction?

Asif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The idea is simple: you can take either of three routes:

1. You can be a partner (sleeping or active in management) with clear two contractual definitions: a) % distribution of profit, and b) definite date of withdrawal of principal. i.e., dissolving this partnership.

2. You may buy some inputs/goods for this private business and sell them to it on credit. This gives you definite amount of profit (the price differential) and definite point of payment at one future date or on instalments.

3. You can buy an asset such as a machine and rent it to the business, you can also make this contract coupled with another condition that the business undertakes to buy a part of the machine periodically and the rent then applies to the part you still own. This gives a definite exit.

Finally, you can find some template contracts on the internet but you need to be sure that you are consistent with the laws of the land you are in.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
Professor Dr. Monzer Kahf  
Islamic Finance & Economics

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**From:** Asif

**Subject:** Re: How to structure an Islamic Investment

**Question:**

Walaykum as salaam wa rahmatu Allahi wa barakatahu,  
Jazak Allah Khairan for this thoughtful response. I appreciate your summary of the main investment vehicles. I will also look for sample template contracts that are acceptable in the US.

As a followup, I wanted to ask if you could look at the following conditions in light of vehicle #1 (partnership, sleeping or active in management). I am assuming it is permissible to add stipulations to the contract, but they may or may agree with the spirit/law of islamic contracts. Can you look at the following and determine whether the stipulation is permissible or not? (a Yes or No would suffice, of course if you want to add any color in regards to why it is a No I would appreciate that as well for my own edification)

1) example 2 year minimum investment of X USD at 25% return. Y (50% of X) immediately accessible and the remaining Z (50% of X) contingent upon meeting the sales forecast of the first two quarters of year 2018.

**Answer: the contingency meeting is permissible, i.e., you pay put an amount into partnership and make the other amount contingent on performing certain objective. But the 25% return is not permissible, it is Haram as any definite income in partnership becomes interest.**

2) Can the return on the investment be calculated prior to salary expenses?

**Answer: Yes by mutual consensual agreement.**

3) Initial investment period of 2 years with the option to renew for up to an additional 2 years at the original determined rate.

**Answer: any predetermination of rate of return in partnership is Forbidden, it becomes interest.**

**Renewal condition is permissible.**

4) Investment return to be distributed quarterly

**Answer: Permissible as long as it is not predetermined.**

5) If/when principal is requested to be returned, after completion of the minimum period, principal to be returned within a 1 year period. (according to your note above, this one would appear to be a fundamental requirement of the contract)

**Answer: in any partnership there must be date of ending unless consensually renewed. The only exception is the common stock company.**

6) the investment should be convertible into equity stake (does not have to be immediate, but maybe after the 2 year period)

Answer: in partnership investment is equity, it cannot be converted into a loan.  
7) entitlement of continuous share of the profits in perpetuity (negotiated %) - i am assuming this is like a royalty

Answer: as as you are partner you earn your share of profit, if there is any. If you dissolve the partnership and get your share of liquidation, you are out, as simple as that.

8) management agrees that there will not be any deviations to the operating costs without the approval of the investor

Answer: if you are part of the management, any decision is consensual or in accordance with agreed by-laws. If you are a sleeping partner this condition is controversial.

9) all arrangements should be documented and authenticated (notary or similar)

Answer: permissible, rather preferable if possible.

10) need to address the scenario if the business suffers a major loss or is impacted by adverse conditions - what happens?

Answer: Losses are always by % of capital contribution, any contradicting condition is void and null and discarded. Reason: losses are a decline in the amount of your property, they cannot be charged to any other, the managing partner has been your choice and whatever she/he does reflects on you. The only exception is: gross negligence and mis-behaviour. In such cases principal becomes guaranteed but no unrealized expected profit.

11) need to address the scenario of disagreements of divestiture from the business (ex. what if a partner wants out)?

Answer: partnership is a contract that is breakable by one will (this is under all laws) this one will becomes subject to compensation of any material damage caused to the other partners and this may take all contributed capital but it is not limited to it, it may be more and it is court determined.

12) any other issues or considerations that need to be discussed that may impact the investment structure?

Answer: It seems to me that you need to be sure about terms you use. Investment is a vague word that carries several meanings.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see above:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Asif

**Sent:** Tuesday, January 30, 2018

**Subject:** Re: How to structure an Islamic Investment

**Question:**

As salaamu alaykum,

I wanted to follow up and see if you had any feedback regarding investment opportunities (the ones listed below) or others that align to the Islamic approach.

Thanks!

Asif

As salaamu alaykum Dr. Kahf,

My apologies for the delay in response.

I value and appreciate you taking the time to address these questions. I just wanted to clarify, that the % referenced (ex. 25% in the scenario) above was meant to represent the % distribution of profit and not a fixed value that would be expected yearly regardless of the condition of the business (up or down).

Just wanted to clarify that as I noted your comment: **But the 25% return is not permissible, it is Haram as any definite income in partnership becomes interest.**

I noticed in your resume that you have experience with the equity market. This may offer the most opportunity for investments but I am curious if you have come across other investment options (foreign or national) in your travels.

Aside from private businesses, I have come across the following options:

- AMAGX/AMANX (and other Amana offerings like the sukuk like AMAPX)
- ADJEX
- WISEX

3<sup>rd</sup> party wealth management firm manage that charge between 1 and 2% of your account holdings.

- Saturna (also the holders of AMAGX/AMANX)
- Azzad Management
- Shariah Portfolio
- Morgan Stanley

Physical assets (gold, silver, etc.) – there is a limited set of options that I have come across:

- PHYS (gold)
- PSLV (silver)
- SPPP (platinum and palladium)/ PPLT/ PALL
- physical coins and bullion

REIT

- Ameen Housing

These are not futures based. From what I understand, each trust fund is backed by the physical asset which is stored in a Canadian vault. You can read more about each on <http://sprottphysicalbullion.com/>

I would to hear your thoughts on the above or other options that you may be aware of that I did not mention

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

These and their likes are investment that say they are Shari'ah compliant. Please check with them and select the funds that you like. Remember that I am not an investment advisor. I may be able to point out the Shari'ah aspect in issue that you may ask about only.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Alexei

**Sent:** Wednesday, December 20, 2017

**Subject:** Question for Prof. Monzer Kahf

**Question:**

As-salaamu 'alaykum,

Insha'Allah, I am planning to open a Charles Schwab individual brokerage account to buy a halal mutual fund (Amana Income Fund). As I was filling out the online application, however, I found out that I have to manually check a box entitled "Cash Features Program" (see attached PDF). I called Charles Schwab and they said that this involves interest - the interest that will be added to any money my brokerage account, if I recall correctly.

The full disclosure may be found here, if you need to read it:

[https://www.schwab.com/public/schwab/nn/agreements/cash\\_features\\_disclosure\\_statement.html](https://www.schwab.com/public/schwab/nn/agreements/cash_features_disclosure_statement.html)

Unfortunately, they said that whether I open the account at home or at one of their branch offices, I STILL would have to check that box.

However, they said that they could disable this feature so my brokerage account would be interest-free and that they would confirm this change via email. They also said that any income from the Amana Fund (dividends) would first be temporarily deposited to the \*brokerage\* account and then be "paid as accrued" to my designated \*bank\* account, hence avoiding interest. They said that they could show me how to choose this option.

I'm not sure what to do next, so I still have NOT opened the brokerage account.

My question to you is whether it is Islamically permissible for me to CHECK that box to open the brokerage account, knowing that it is haram to give, take, or witness riba/interest (as in physically "checking" that box and all that it implies). Keep in mind that my basic intention is to avoid interest at all costs, as I absolutely hate and am

disgusted by interest for the sake of Allah, but I ALSO want to earn halal dividend income, insha'Allah.

Many thanks,

Alexei Rivera

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Alexei

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a government requirement to protect consumers because finance companies like Schwab receive huge amounts of cash. The law forces them to pay interest to these depositors.

It is permissible to sign this contract. provided you always try to keep zero cash balance. This means send money and immediately make order to buy and also when you sell withdraw money as soon as it is credited to your account. Also, any interest credit to your account, give it to Muslim charity for distribution to poor and needy.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor

Islamic Finance & Economics

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**From:** Sadaf

**Sent:** Friday, December 08, 2017

**Subject:** Trading

**Question:**

Assalamuailaikum,

My name is Iman and I am really interested in trading and after researching on the internet I came across a Muslim brother who offers a binary option signals from who one of my friend got signals from and he seemed to be very good as he had all of his signals right. As I asked my friend he claimed that the signals are not haram due to them being calculated which contradicts the article which i found (<https://islamqa.org/hanafi/askimam/83516>) which claims them not being allowed. The signal provider uses iqoption.

Also, is there any other website on the internet which allows you to trade in a halal way?

Thank you very much for your time,

May Allah Bless You

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Iman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Binary options are pure gambling. It is no doubt Haram and harmful to the economy as it uses resources in vain. They are not trading in any meaning and any sense. This is so to the extent that even Israel, an occupying authority as it and a false state issued a LAW last October (2017) to ban all binary options. Simply they are betting on a price, then you win or lose. No trading, period

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Lena

**Sent:** Monday, November 20, 2017

**Subject:** RE: Question About Permissibility of Stocks and RSUs

**Question:**

Salam Dr Kahf,

I had another question about the stocks.

I am trying to find out if Oracle stock is part of the Dow Jones Islamic Market Index currently. If I determine that it is part of that index, do I need to check regularly in the future (say, every quarter or so) to see if it is *still* in that index? Or is it sufficient to check once at the beginning?

Best

Lena

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Lena

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For the question of whether one need to check periodically on the continuity of a company being within the basket of tolerated companies to buy and own its share, my answer is yes. But from a practical point of view once a company is in that basket, unless a drastic change in its business model happens, it is very likely that it will not be out of the basket for any extended period. If it goes out because of say a new big loan, it will soon be back once a part of it is paid.

For the question of checking the numbers of the company, I have no time for that, it detracts me on a side, I waited to see if I can assign that as a homework to one of my students, but couldn't because it is time of their term papers and final exams.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
Professor Dr. Monzer Kahf  
Islamic Finance & Economics

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**From:** Lena

**Subject:** RE: Question About Permissibility of Stocks and RSUs

**Question:**

Salam Dr Kahf,

I had another question:

So after some searching, I was able to find out that Oracle stock is **not** Shariah-compliant, at this time.

So the situation is: Oracle offered me 2000 shares that vest over 4 years **as part of my compensation**. I had not accepted the shares when I started but a year had passed and 500 of those shares have vested (so a quarter of the total number of shares). The remaining shares would only become mine if I remain employed at Oracle at the time they vest.

Given that Oracle stock is **not** Shariah-compliant, should I have accepted ownership of the shares and sold them immediately, and then kept the money? Is that permissible? Is the money earned from selling that stock considered my right?

Note that I didn't buy those shares with my own money, they were offered to me at no charge *as part of my compensation package when I was first employed by Oracle*. They don't all vest right away, but rather, 500 of them vest each year (for 4 years). If I leave at any point, I only own those that have vested up until that point (not the unvested ones).

Kazak Allah Khair!

Best,

Lena

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Lena

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Since the Shari'ah non-compliance is caused by the management actions of taking interest-based loans and/or investing in Haram areas not because of the main line of business (which is permissible in case of Oracle), I would suggest that because these shares are part of your employment compensation given to you at time of employment you have a right to their value when they were given to you. Now that it is determined that the shares are not permissible to own and your ownership on them is not complete (not vested yet), your right to that part of compensation is complete. This to me means that you have a right to the value of the share on the day they were given to you, any increase of the price after that should be given to charity.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Best Regards  
Professor Dr. Monzer Kahf  
Islamic Finance & Economics

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**From:** Lena

**Subject:** RE: Question About Permissibility of Stocks and RSUs

**Question:**

Assalamu Alaikom wa Rahmatu Allahi wa Barakatuh Dr Kahf,

I had some follow ups about this situation:

So my plan is the following:

I will inshAllah accept my company's RSU gift of 2000 shares (offered to me free of charge, as part of my compensation package). Only 500 of those shares have already vested, so once they are distributed to my account, I will own them. The remaining 1500 shares will only vest in the coming 3 years, but I will not be at the company when they vest, so I technically won't own them (Oracle will be designating them for me, but I won't own them because I won't be there when they vest).

In order to determine the difference in price that I need to give to charity between the value of the shares on the day they are given to me and the day I sell them, I will consider the day the shares distribute to my brokerage account to be "the day they were given to me" and research the value of the stocks on that day. Is that correct?

**Yes this is correct**

Also, once I receive the stocks, do I need to sell them right away? Or is it fine if I wait a few days and then sell (until I understand the process of selling and everything)?

**I think a few days should not matter, period needed to understand the process and follow it.**

I just want to make sure that I am following the correct steps here and correctly following the religious rulings on this, so please let me know.

Note that we had determined that the Oracle stock was Shariah non-compliant.

**You are sure about this determination, aren't you?**

Thank you so much for all the help, JAK!

Best,

Lena

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Lena

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see above:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards  
Professor Dr. Monzer Kahf  
Islamic Finance & Economics

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**From:** Hossam  
**Sent:** Thursday, November 16, 2017  
**Subject:** Re: Question About Permissibility of Stocks and RSUs  
**Question:**

Salamu aliukum

I am CC'ing Dr Monzer Kahf who can give a fatwa o your question.

Also Please check his fatwas here

<http://monzer.kahf.com/>

From my limited knowledge, oracle is a technology company where it would be permissible to invest. Stock market investment is generally acceptable if the company generally stays away from haram things. I say generally because no company will be 100% free from interest for example.

Allah knows best.

*"I hope you are doing well.*

*I have a question regarding stocks and RSUs. I have received Restricted Stock Units (RSUs) as part of my compensation for my job at Oracle and I'm deciding whether I should accept them or not. I want to know whether these RSUs would be permissible/Shariah compliant/halal for me to accept and own. (They are 2000 shares in total, that vest over 4 years).*

*What are the general guidelines for deciding whether certain stocks are Shariah compliant/permissible?*

*Also, for my specific situation (i.e. the RSUs offer I received from Oracle), do you know if Oracle stock is Shariah compliant/permissible?*

*I would appreciate any help!*

*Thanks for your time and advice.*

JAK,

*Lena Abdalla"*

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Lina

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The criteria for owning, investing and trading share are in brief as follows: for companies whose main line of business is permissible (such as Oracle): interest earning and other Haram earning (such as value of sale of liquor in airlines) should not exceed 5% of total revenues before deducting expenses, assets used in Haram activities such as deposits in interest earning accounts should not exceed 33% of the market capitalization (average 12 month market value of shares in the market) and the company should not be dependent on interest-based loans for more than 33% of its market capitalization If you

can get this info apply it. I don't have access to it. these are the criteria applied in creating the Dow Jones Islamic market index for the USA market. you may try to find that from the last annual financial report of the company which is usually published on its website as it is public info.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Dr. Mohsen

**Sent:** Monday, September 04, 2017

**Subject:** Prize Bonds

**Question:**

As-Salamu alaykym dear Prof. Dr. Monzer,

I wish you and your family had a nice Eid al-Adha.

I am wondering if you have time to answer the attached three questions.

Kind regards,

Dr. Mohsen

Zeinab from Pakistan

Is prize bond's money is halal or haram?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Zainab

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Prize bond is not permissible as the prize is in fact Riba. the bond is a pure debt on the government and any increment in debt is the prohibited Riba as mentioned in the Qur'an.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

Dear Br. Dr. Mohsen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please receive my answers above.

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Ozair

**Sent:** Wednesday, July 26, 2017

**Subject:** Your Workshops in Rahman Masjid, Edmonton

**Question:**

[As-Salaamu Alaikum Dr. Kahf,](#)

I hope you are well.

We met last weekend at Rahman masjid.

If you remember, I introduced me and my father as someone who lived in your 171 Howard Street property in New Brunswick, NJ in the 90s.

[I had registered for the workshops but I could not attend as my parents were visiting me and I had to take them to places.](#)

[I would like your advice.](#)

I am investigating investing in these two funds:

1. UBS Global Iman Fund

<https://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=75940>

2. Investors Real Property Fund

[https://secure.globeadvisor.com/gi/db/gaf.fund\\_pro?fundname=Investors+Real+Property-A](https://secure.globeadvisor.com/gi/db/gaf.fund_pro?fundname=Investors+Real+Property-A)

I have the following questions:

1. A small part of the second fund is held in government bonds the income of which is haram. How can I purify my investment from it?

You may need to check also on the stock because if they are stocks of real estate companies, there is a high likelihood they may not pass the financial Shari'ah criteria of their income, leveraging and use of asset. Also the cash and other which is another small % may be interest generating.

The purification calculation in a simple way is the % of use of funds. So assuming that all stocks are permissible and do not need any purification, take  $1-77=23\%$  of its distributed income and capital gain as the purification %.

This fund does not seem a good investment anyway even financially!

[2. How would I calculate zakaat on these two investments?](#)

2.5% of the declared price on the day when your Zakah is due multiplied by number of units that you own

[3. What percentage of my investment should I invest in precious metals?](#)

I do not suggest investment in precious metals, why do you want that? When you buy them you need to take actual delivery and pay storage fees.

[4. Are there other halal investment options in Canada, I can look into to diversify my portfolio?](#)

You may like to check with the Islamic Housing Cooperative (which is in Ontario), it has been doing well in the past and it is authorized to take RRSP and RESP.

Also check with the Royal Bank, I heard that it offered a shari'ah compliant fund. You may like to consult with advisors like Riad Assaf of Edmonton and Khalid Sultan of London, Ontario (I heard the latter Manages Shari'ah compliant portfolios). But also do not take my words because I am not an expert, check for yourself and investigate.

[JAK](#)

**[My Answer:](#)**

[Bismillah al Rahman al Rahim](#)

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

Dear Br. Ozair

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is nice to hear from you, certainly I remember you,

Please see above for my answers:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Ozair

**Subject:** Re: Your Workshops in Rahman Masjid, Edmonton

**Question:**

As-Salaamu Alaikum,

JAK for the answers

[I would like to know that if I get no risk RESPs based on fixed interest, how can I purify it as my children will only get the money once they are 18?](#)

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ozair

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If you have a choice to benefit from the government contribution into the RESP without investing in interest-based investments, it is then prohibited to invest in interest-based accounts regardless of the purification issue. The purification applies only to when you are under necessity to place fund on interest, it is not a choice.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Ozair

**Subject:** Re: Your Workshops in Rahman Masjid, Edmonton

**Question:**

Do you think investing in the following for RRSP / RESP makes good economic sense in terms of portfolio diversification and profitability ?

1. 55% equity from Shariah compliant Global Iman Fund.
2. 35% Ansar Financial and Development Corporation halal interest free RRSP equity based on buying and selling rural land in Alberta near Calgary and Edmonton. <http://www.ansarfinancial.com/>
3. 10% precious metals (gold, silver and platinum) BMG Sharia compliant mutual fund <http://bmgfunds.com/>  
<http://bmgbullion.com/compliance/social-compliance/>

JAK

**My answer:**

Dear Br. Ozair,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am not a financial advisor, so I do not provide any investment advices.

Yet, I think you should be very careful about the level of risk you may be exposed to when you select the company you invest with. In this regards I think the housing cooperatives may be have less risk than real estate companies. Please make your homework in a deeper and more concrete way. There are three or four major Islamic housing cooperatives in Canada check their financials and licensing for RRSP and RESP.

Finally for me, I do not consider precious metals as an investment option.

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** RIAD

**Sent:** Monday, July 24, 2017

**Subject:** Shariah Compliant Investing

**Question:**

Assalamu Alaikum Dr. Kahf,

Thank you for coming to Edmonton and sharing your wisdom with us, from speculative trading, to commodities and currency trading, as well as Islamic Lending.

I wanted to share with you my feedback as I work in the finance industry. I have been working in the financial sector since 1999 and currently I'm a Vice President & Portfolio Manager with TD. I am constantly improving my knowledge of the deen and i constantly listen to scholars like Mufti Menk and others when i'm on the road. It is very difficult to find a successful Investment Professional here in Canada that is also improving his/her level of iman. As far as i know, out of the 700 Advisors at TD, I'm the only one. And the most successful one for sure. Alhamdulillah.

I make more money than i ever imagined, but i am very charitable and i don't do this for the money. I have gone through my fair share of tests and life threatening illnesses to know what my purpose on earth is. I believe there is a huge need for someone like me whom our community can trust, and someone who will be transparent and honest, and to protect my clients in an industry, as you clearly described, is rife with conflicts of interest and unislamic acitivities.

But where i think your presentation erred was when you threw the whole investment industry under the bus, including people like myself and clients of mine, some in the audience, felt as if it was haram to invest their money in a Shariah Compliant portfolio. Perhaps that was not the message that was intended, but me being an expert in this field, it was extremely difficult for me to find any positive talking points in your presentation regarding investing in stocks, so i don't blame the audience for leaving that evening thinking investing in stocks is a major sin. Which of course it is not. You mentioned that investing in stocks is a waste of time and produces no value to society, and we're better off investing in things like farms that produce goods. But then you said investing in IPOs is good because that creates new companies, when both you and I know that one of the worst strategies is in investing in IPOs since they tend to plummet after they go public. And perhaps because of the fact that their financials are manipulated and made to look better during the marketing campaign so that they can extract the highest possible price when they go public.

Then you made the comment that investing in the secondary market is very bad and a waste of time. But how can you promote the IPO market which cannot exist without the secondary market? I compare this to saying it is haram to lend money and charge interest but it is ok to borrow money and pay interest, because the latter is less bad? Or don't go to hajj because there are thieves there that will steal your money. I know you may think i'm going extreme with my analogies here, but your message Friday night at MAC left me utterly stunned. I was shocked. And this is coming from an investment professional who called most major crashes and has seen it all. To be honest with you, it really saddened me because your message did a lot of harm. It is very clear that you hate investment professionals and love real estate professionals, as if the real estate industry doesn't have it's own fair share of manipulators and those taking advantage of a naïve and uneducated community.

Dr. Kahf, you have a good educational background, but the way you delivered your message was unfortunately not good. Our community has had it's fair share of investing in real estate projects run by Muslim brothers that went sour and they never got their money back. And they are desperate for guidance and someone they can trust.

Alhamdulillah, we have a good community with professionals like myself as well as some brothers in the real estate side where i believe we are providing a good service, but it is very important for scholars like you to realize that in your audiences, there are Muslim professionals with a lot of wealth that want to benefit the community and by describing what they are doing is haram, such as investing in the stock market, does not help the community.

Bashing investment professionals such as myself is not the way the Prophet Muhammad SAW would have encouraged us to do dawa.

Again, maybe this was not your intention, but it definitely came across as that. I know very well the corruption and manipulation that exists in the markets. I am the #2 Advisor in our Edmonton office and it's strictly due to the fact that i operate with integrity and trust and i inform my clients of the dangers, scandals, and manipulation that exists in the markets. And i have one client who i know was very anti muslim and now wants to

learn more about Islam because of how i respect his money and protect him from the ills of the markets.

You mentioned how bad the secondary market is and how we should avoid it and invest in companies that produce things. Well, how about those wonderful dividend paying companies that grow their businesses like Sherwin Williams, Honeywell, etc, ...

Please help me understand why a company goes from being acceptable as an IPO and then haram (or disliked) in the secondary market? You lumped in all secondarily traded stocks with the ones that are useless. If Sherwin Williams went public today, does that mean it's useless tomorrow? And if not, why didn't you clarify that in your presentation? And to the topic of halal loans. You indicated that you approved 2 loans that were done for 2 mosques in Canada and one of them was at TD Bank. As far as i know, for a loan to be 100% halal, the Bank Act has to change to make it happen. As far as i know, the Bank Act has not been changed in Canada.

I received a few text messages from clients in the audience asking me why i hadn't told them that TD has a halal loan offering. The fact that these loans were done out East does not mean we cant implement them here.

There is a lot of mistrust around people who say they got a halal loan from a conventional bank, because we have seen many situations where the documents involved changing words and the loan was not truly halal.

If in fact you had created and approved a halal loan at TD for a masjid, can you please provide me with that Masjid's name so i can get them to share it with us here?

As you had indicated, it is Fard Ain for those of us in a position to help, to help. I would imagine you and the masjid involved would love to help our brothers and sisters here. The consensus is that if we do not get a copy of this loan agreement, then it is another loan that was made to look halal and is not truly halal. Please help us dispel this myth and connect us with those masjid that did their loans at TD and RBC. We can start with the one at TD.

So please help me clarify this issue as it can do more harm than good for the community from a trust level. We are not lazy here. There is a huge lack of trust. You gave hope to the community that you have reviewed and approved with your eyes own 2 halal loans at conventional banks. Please share them with us, and put us in touch with those 2 masjid. There should be no reason not to share this. I cant over emphasize this enough Jazak Allahu Khairan for trying to educate and protect our community from the pitfalls of capitalism, but please note that there are those amongst us, like myself, who are also in positions of trust doing good things for the community, getting good returns for our clients/muslims . You cant compare investing in a long term dividend growth strategy in equities to gambling. You are not in a position to negate a whole industry of Islamic finance who is supported by hundreds of highly educated scholars in Islamic finance, even if you dislike some people in the business.

You cannot have a successful Islamic bank here that offers halal loans without an offsetting and successful investment arm. I wish you and i could have met before the presentation because you need to know your target audience and what their needs are. And professionals like myself would be proud to have someone like you present to us, and you should seek out those that are knowledgeable in the business, and not just rely

on those in our community who want to make a name for themselves in finance and have little relevant experience in it, let alone any success in it.

May Allah SWT forgive us for our short comings and guide us to the right path and to do good for all of us.

Salam.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Riad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please let me start with your last Dua "May Allah SWT forgive us for our short comings and guide us to the right path and to do good for all of us." Then I am glad that you wrote to me and delighted to read your long email and message.

I also commend you for the success in your business and continued pursuit of learning about Islam, whether while driving or by taking all other opportunities including attending such lectures and talks like the seminars we had in Edmonton. I also here like to remind you that managing portfolios must also abide by the Shari'ah rules in avoiding bonds and shares that are not permissible in Shari'ah whether you buy for a Muslim or non-Muslim because brokerage for a non-permissible share is also non-permissible.

You raised two issues: stocks and secondary market, and house financing. Here is my answer to them.

1) Investment means adding to the productive capacity in the economy, it does not mean simply making profit. definitely the secondary market does not add to the productive capacity of the economy and only primary market does. I am sure you do not dispute that because secondary market means replacing one owner by another, as simple as that. This is not investment and not improvement of the economy. I also argued that this function, while it does not increase the productive capacity, is necessary because there are good reasons that some people like to quit certain companies and some other like to step in their place. But that does not need 24/7 market, it needs a few hours every week only. This is said by all the economic and financial wisdom in the whole world. The 24/7 added more harm than only responding to those needs and good reasons.

Investment means creating new companies and expanding the existing ones. This adds to the productive capacity of the society and this is only done by IPOs. It is a fact, as you said, that manipulation by brokers, auditors and accountants, inflates the initial prices of most IPOs, this is morally wrong and deceiving but it does not make IPOs not to mean creating or expanding companies.

Buying shares (of course that are screened according to the Shari'ah standards that I mentioned in the lecture both of main line of business and financial percentage of non-permissible income and use of assets) from former owners in the secondary market is permissible and a good shelter for savings of people who do not have accessibility to investment in its real sense especially when it is done through honest and wise brokers like you. This definitely makes your function a very useful and rather necessary function

in the Muslim community and in the society at large. In this regards, I elaborated on the detailed criteria of Shari'ah permissible shares and never said that buying shares of already existing companies is Haram, (I feel sorry if you understood that I said that) but I said please do not call it investment or trade. I also mentioned that speculation in the stock market is definitely not permissible and gave examples of speculation behavior by the day trading and example of speculative contracts by trading indexes and CFD. I also said the options are not permissible (as you very well know, options are a main tool of speculation).

But we must also realize that buying shares in the secondary market is not any real investment. Real investment is when you create new companies in all sectors on the economy (by the way I never said in real estate alone, I rather said in farms and industries). A company that is permissible as IPOs when it is established remains a company that is permissible to buy its shares if it remains fulfilling the conditions of Shari'ah permissibility. I never said otherwise and I am sorry if you understood that. I rather said that there are people who have savings and cannot have accessibility to real investment, they can use their savings in buying such shares provided they do not go speculators.

2) For the house financing (by the way there is nothing called Islamic loans because a loan in Shari'ah cannot bring any return to the lender except a reward from Allah). I do not agree with you at all that providing Islamic finance buy conventional banks required changing the Banking Act. But such a change helps certainly and I did not discuss this matter in my lecture. I definitely said and believe that it is possible for TD and similar banks to give Islamic finance for housing and they actually did for two cases that I know not for Masjid but for Islamic schools in the East (it is your problem not mine if they do not do the same in the West of Canada, but I believe this is only because you failed to convince them and show them the opportunity of making good profit). I did say that it was MAC that made these contracts. Of course a contract means different wording of the basic relationship which takes the contract from being a loan to being a sale on credit. I am sure you very well know that Shari'ah does not prohibit financing for profit but it prohibits financing on the basis of loan for interest. I cannot give you a copy of these contracts because of confidentiality, it is your job to find them and to obtain their copies. I also mentioned that Assiniboine Credit Union in Manitoba gives Islamic finance (BTW without any change in the law of credit unions) and any of you can get a copy of that through a friend in Winnipeg. I definitely put the blame on you not me because I am only a consultant who is bound by the confidentiality principles. I also said that I am willing to offer you similar advice if you do your homework free of any charge (like you I also serve my Muslim community with no charge).

Finally, be assured that I understand the huge amount of mistrust and the bad effect of the trust-failing persons who claimed giving Islamic finance and betrayed their clients.. It requires honest people like you to come forward and take the torch, and if you don't do it it will never be done. But do not feel satisfied that you buy permissible shares to your clients. I commend you for stating long term dividend growth strategy in equities near the end of your email, because this is important is keeping you away from speculation and I never equated this to gambling but also please do not call it

investment! Why don't you go further to establishing new businesses and companies in different sectors of the economy, that is even better. I definitely compare day trading (even when based on fundamentals) to gambling, so are other speculative activities that makes most (is it any less than 90-95%?) of the billions daily transactions in the secondary markets and in derivatives.

Let us do our best to help the community and I extend my full arm to you and your colleagues to shoulder our duties together.

Excuse me for copying Dr. Amin because I wants him to beware of my reply and where I stand.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Baraa

**Sent:** Tuesday, July 11, 2017

**Subject:** FW: Donations to ICOI in the form of stocks

**Question:**

In an effort to ensure that all of our masjid's transactions are halaal, and having previously asked our last religious director Shaykh Jamaal about this same topic, I asked him again to confirm, and he forwarded my question to another local scholar who has some expertise on these matters. That scholar's response must have been on my ICOI email account (as I can't find it on my personal email account) and I no longer have it, nor the shaykh's name.

But the gist of that other shaykh's message - as I recall - was to specify a number of criteria - the same criteria used by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions : <http://aaoifi.com/?lang=en> ) that can be found on the internet for an individual evaluating permissibility of trading a particular stock, such as:

- avoidance of impermissible industries as dominant source of income;
- total income from riba plus other non-shariah compliant activities divided by total revenue being less than 5%,
- conventional debt divided by market capitalization being less than a certain amount;
- total cash divided by market capitalization being less than a certain amount; and

and some other criteria that can be derived by the company's publicly available financial documents. I don't have all those criteria on hand.

At the time, I was hoping to find a fatwa / rukhsah / dispensation that allows for mosques and charities to accept and then sell securities that would be otherwise impermissible for an individual to own (obvious examples being bonds, alcohol, or pornography media companies etc). The presumption is that such a dispensation is present and practiced, because large organizations such as Islamic Relief accept all stock donations and refuse none, but I thought it prudent to seek an actual fatwa rather than

simply saying "since Islamic Relief is okay with it so it must be okay," though that would certainly be easier. Perhaps your committee is able to provide that fatwa.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Son Baraa

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I think if a mosque or any Muslim natural or legal entity receives a gift, the principle is that it may accept it provided it is not harmful either by itself or to the reputation of the institution. Of course we expect that we talk about a gift that has value. Shares of companies have values unless the entire activities of the company is not permissible on the ground of being harmful.

The criteria of accepting a gift are different from those of trading in share and other securities. Here are the details:

1. If the gift is an interest-bearing bond: the original value of it needs not be Haram, hence the recipient must accept it and immediately cash it in order to avoid earning any interest.
2. If the gift is a share of a bank (main line of business is not permissible) or an insurance company (main line of business is highly controversial but most profit making activities are not permissible): it must be sold also immediately, original capital of it is not determinately Haram.
3. If the gift is a share of a casino (main line of business is not permissible but the activities are also in the vice category): share should be refused or destroyed.
4. If the gift is a share of companies on which the AAOIFI criteria apply: share should be accepted and the recipient Muslim person or organization may hold the share and benefit from its income and capital gain, or sell it at any time.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Bahia

**Sent:** Friday, July 07, 2017

**Subject:** Is mutual funds investment halal?

Hello,

This is Bahia from Canada. I was wondering if mutual funds investment (low risk) is halal in Islam. I was told by one of my colleagues that can answer my question. Any guidance is greatly appreciated.

Thanks,

Regards

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Bahia

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In mutual funds the manager invest in a selected set of shares and bonds. Therefore whether a fund is permissible or not depends on what are the components of the funds. Funds that invest in bonds are very often called fixed income funds are not permissible because bonds only earn interest which is prohibited in the Qur'an (2:275). Additionally not all shares are permissible to invest in. For instance shares of banks and insurance companies are not permissible because of the main line of their business is not permissible in Shari'ah. Similarly, shares of entertainment business, liquor companies (these are usually called sin shares), military industry, etc. are also not permissible because of the main line of business of such companies.

All fund in the US and Canada invest in a variety mix of shares and bonds except the very few that are declared as Shari'ah compliant.

Accordingly when we invest in funds we need to observe the following guidelines:

1. If there are funds that declare commitment to the principles of Shari'ah, make your investment in those funds;
2. If there are no Shari'ah funds, then selects funds in which most of their investments is not in (bonds, sin shares, military industry and financial sector);
3. In other words, select funds that are focused on technology, health, science, oil, and the like;
4. Even with the best selection that you may make, there is a need to assess (to the best of your educated guess) the part of income (which to the investor consists of dividends plus capital gain) that arises from non-permissible investment of your selected fund and give this part to Muslim charity for distribution to the poor and needy because Haram income spoils all your wealth and you should keep you own wealth clean of it. this is necessary because all funds in the US and Canada, including those that are specialized in health or technology of their likes, have mixed investments.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Farhad

**Sent:** Saturday, July 01, 2017

**Subject:** Stock question

**Question:**

Assalamulaikum wrb

My friend and I been doing some research to find an index that is compliant with all requirements need to invest We found a few like s&5 500 compliant or Amana or Iman

fund, but none of these can we actually find the list of companies. As we prefer to have a list of investable companies as apposed to investing in a fund or etf. Do u know how we can get a list, any info would be appreciated.

Farhad

**Answer:**

Dear Br. Farhad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

One way is to subscribe to DJ Islamic index and its components

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

**From:** Farhad

**Sent:** Thursday, October 12, 2017

**Subject:** Re: Stock question

**Question:**

assalamualaikum wrb

In regards to subscribing to the Dow Jones Islamic index so we can get access to components and companies that are investable, how do we go about doing this. I have looked everywhere to see if I can find the holdings under this index or to subscribe, I cannot figure it out. Please let me know how I can find the holdings under this index.

Farhad

My Answer:

Bismillah al Rahman al Rahim

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

Dear Br. Farhad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I think it is available at fees to funds managers, you should contact Dow Jones company for that.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Sabeeh

**Sent:** Thursday, June 15, 2017

**Subject:** Pension fund

**Question:**

Salam sheikh. I recently cashed out my pension plan, to which me and my employer contributed; this contribution was invested by the pension firm into various investments (including haram ones like bonds and others involving Riba and Gharar). Unfortunately,

they tell me there's no way to tell what % was invested in which types of investments. This is problematic because they have given me a portion of that return, in addition to what me and my employer contributed. What is the ruling in this case of uncertainty? I can donate that entire portion of return as tainted wealth, unless there is another alternative. If you would like to discuss, please call me at +14162707899 at your convenience.

Jazak Allah khair.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Sabeeh

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You should be able to make an educated guess of the % of Haram at least by applying the % of investment in the different shares/bonds from the report they usually send you. I am sure that the % is less than 100% because some of the shares at least partially permissible.

Check the regular report they send you about their investment, it usually has the % in different sectors/shares.

you failed to get any such guess, giving away the full amount of return (keeping the principal of both contributions) and making your intention that the remaining is a Sadaqah in these last glorious days of Ramadan is not a bad idea.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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From: osama

Sent: Tuesday, February 14, 2017

Subject: ETF

**Question:**

ASA,

I hope you and your family are doing well. I just had a quick question and your opinion if buying an ETF that tracks the volatility index is ok or not for a market hedge?

Thanks

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Osama Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I need more info since some tracking ETFs buy in reality shares in same proportion of the index they track and some others do not buy the shares but only buying units of the

index they track. Please send me more details about the portfolio of the ETF you intend to buy its units.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Sahar

**From:** Furqan

**Sent:** Tuesday, May 16, 2017

**Subject: Purification of income from investment in stocks**

Dear Dr. Monzer,

Assalam-o-Alaykum,

Hope this finds you well. For investment purposes, I screen the stocks I invest in according to DJIA screening methodology. However, these screened stocks might still be generating interest based income from their accounts in banks. I understand that we need to purify our capital gains/dividends from investing in such securities.

Can you please tell me the formula with which I can calculate my purification amount?

Many thanks for your help.

Jazaka Allah Khair,

Furqan

**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. Faruq

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There is no specific formula for calculating purification that I know. There is the idea that purification must include the effect of interest leveraging as well as use of assets on both income (dividends) and capital gains. Some of this is definitely based on best educated guess because of intermingling of different factors in affecting capital gain. Even income assessment is not easy because of the differences between distributed dividends and net income of a company.

What you need to do is to look into the companies, one by one, calculate the % of not-permissible income and add your educated guess for the effect of retained income and leveraging on capital gain, add them together and derive your purification %. Be always on the safe side because whatever you give to charity is either Sadaqah or purification.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Furqan

**Sent:** Friday, May 19, 2017

**Subject:** Re: Purification of income from investment in stocks

Many thanks for the detailed answer. I have found this document online (please see attached) which shows a method of calculating purification income. Please have a look and suggest which of the method seems most suitable to you to calculate purification.

Best,

Furqan

**My Answer:**

I do not agree with the 3 because they neglect capital gain effected by both retained profit and leveraging. The third method seems the worst and the first the best for estimating what you are cashed (dividend). Both other ways did not notice that in regards to cash received dividend is what matters. But I have no time to go in details in this matter now.

Best Regards

Dr. Monzer Kahf

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**From:** Furqan

**Sent:** Tuesday, May 16, 2017

**Subject:** Purification of income from investment in stocks

Dear Dr. Monzer,

Assalam-o-Alaykum,

Hope this finds you well. For investment purposes, I screen the stocks I invest in according to DJIA screening methodology. However, these screened stocks might still be generating interest based income from their accounts in banks. I understand that we need to purify our capital gains/dividends from investing in such securities.

Can you please tell me the formula with which I can calculate my purification amount?

Many thanks for your help.

Jazaka Allah Khair,

Furqan

**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. Faruq

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There is no specific formula for calculating purification that I know. There is the idea that purification must include the effect of interest leveraging as well as use of assets on both income (dividends) and capital gains. Some of this is definitely based on best educated guess because of intermingling of different factors in affecting capital gain. Even income assessment is not easy because of the differences between distributed dividends and net income of a company.

What you need to do is to look into the companies, one by one, calculate the % of not-permissible income and add your educated guess for the effect of retained income and leveraging on capital gain, add them together and derive your purification %. Be always on the safe side because whatever you give to charity is either Sadaqah or purification.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Imam Samy

**Sent:** Sunday, May 14, 2017

**Subject: Mutual funds or stocks for RESP**

Dear Dr Monzer, Assalam Alaykum wa Rahmatu Allah wa barakatu I hope this message finds you in the best of health and Iman.

I will highly appreciate it if you can help us answer this financial question below.

Thanks.

Imam Samy

Here is the question:

Boris

I am part of the First Unitarian Congregation of Ottawa Syrian Refugee Steering committee. We are helping to welcome to Canada 7 families, directly and indirectly. We have been providing our families that have arrived with sufficient funds to live for the first year, and have been encouraging them to save the Canada Child Benefits and other government rebates as a financial cushion for year two when we do not provide any funding (but still will provide help and friendship). Our first family is finished its first year, and father has a job so we encouraged them to put some of those funds into an RESP to help their 5 children hopefully to go to post-secondary education. An issue is how those funds can be used. We are aware that Muslims do not want to be involved with anything that pays interest (or requires interest to be paid) so are looking for some advice as to what would be acceptable.

If they invested in Mutual funds, for example, or stocks - where they are essentially buying into a company - and would get dividends because the company was doing well and the stock price increased because the company was doing well, be acceptable?

In other words, what would be "halal" as opposed to "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. Samy

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

First I appreciate the concern of this brother, who is apparently non-Muslim, about the observance of religious matters of Syrian immigrants. I think this kind of people should be glorified as they set examples of humanly care and respect of fellow persons.

For the question of investing in the RESP by Muslim families, I understand that the RESP authorized agencies offer a variety of funds from which one can select. Hence, Muslim, and all morally committed families may choose funds that have the least of weapons, tobacco, liquor, porno, interest and other sin stocks, whatever remains, and there is still remnants of bad income in such selected funds, should be subject to the purification principle. This principle dictates that one should make best educated guess or estimation of the percentage of non-permissible income and give that much to trusted charitable organization for distribution to the poor and needy. This is done in order to keep one's savings/investment pure and clean.

BTW, the Islamic Housing Cooperative of Canada, whose main office is in Mississauga is an authorized agency to accept and invest RESP to the best of my knowledge and it usually gives decent return compared with the market as it is specialized in house financing with no interest. It could be another choice for RESP investment.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**Sent:** Thursday, March 02, 2017

**Subject: Stock options**

AA Dr Monzer,

My question is, investing In stock options halal or haram?

Option : a contract between a buyer and seller that give the purchase of the option the right , but not the obligation to buy or sell a particular stock at a specific price on or before a specific date.

Call option give u the right to buy the stock

Put option give u the right to sell the stock

Sahar

**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. Sahar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Options, for shares, commodities or currencies are not permissible because they are not real assets. They are contracts created to speculate on those assets that they are associated with. The OIC Fiqh Academy ruled that according to Shari'ah they are cannot be purchased, owned, sold or traded.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Best Regards  
Dr. Monzer Kahf

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**From:** osama

**Sent:** Tuesday, February 14, 2017

**Subject:** buying Volatility index ETF

I hope you and your family are doing well. I just had a quick question and your opinion if buying an ETF that tracks the volatility index is ok or not for a market hedge?

Thanks

**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. Osama

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I need more info since some tracking ETFs buy in reality shares in same proportion of the index they track and some others do not buy the shares but only buying units of the index they track. Please send me more details about the portfolio of the ETF you intend to buy its units.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** osama

Thanks for for quick response. Here is more detail:

How Does VXX Work?

VXX and its sister fund VXZ were the first Exchange Traded Notes (ETNs) available for volatility trading in the USA. To have a good understanding of what VXX is ( full name: Barclays Bank PLC iPath S&P 500 VIX Short-Term Futures ETN

<<http://www.ipathetn.com/us/product/vxx/>> ) you need to know how it trades, how its value is established, what it tracks, and how Barclays makes money running it.

How does VXX trade?

o For the most part VXX trades like a stock. It can be bought, sold, or sold short anytime the market is open, including pre-market and after-market time periods. With an average daily volume of 75 million shares its liquidity is excellent and the bid/ask spreads are a penny.

o It has a very active set of options available, with five weeks' worth of Weekly's <<http://www.cboe.com/micro/weeklys/availableweeklys.aspx>> and close to the money strikes every 0.5 points.

o Like a stock, VXX's shares can be split or reverse split— 4:1 reverse-splits are the norm and can occur once VXX closes below \$25. For more on VXX reverse splits see this post <<http://sixfigureinvesting.com/2013/08/next-vxx-reverse-split/>> .

- VXX can be traded in most IRAs / Roth IRAs, although your broker will likely require you to electronically sign a waiver that documents the various risks with this security. Shorting of any security is not allowed
- <<http://sixfigureinvesting.com/2012/11/top-15-questions-about-trading-in-an-ira/>> in an IRA.

How is VXX's value established?

o Unlike stocks, owning VXX does not give you a share of a corporation. There are no sales, no quarterly reports, no profit/loss, no PE ratio, and no prospect of ever getting dividends. Forget about doing fundamental style analysis on VXX.

- The value of VXX is set by the market, but it's closely tied to the current value of an index (S&P VIX Short-Term Futurestm
- <<http://us.spindices.com/indices/strategy/sp-500-vix-short-term-index-mcap>> ) that manages a hypothetical portfolio of the two nearest to expiration VIX futures contracts. Every day the index specifies a new mix of VIX futures in that portfolio. For more information on how the index itself works see this post <<http://sixfigureinvesting.com/2013/03/when-a-hurricane-messes-with-a-volatility-index/>> or the VXX prospectus
- <<http://www.ipathetncom/US/16/en/contentStore.app?id=5598742>> .

o The index is maintained by the S&P Dow Jones Indices and the theoretical value of VXX if it were perfectly tracking the index is published every 15 seconds as the “intraday indicative” (IV <<http://sixfigureinvesting.com/2012/01/trading-etfs-without-getting-fleeced/>> ) value. Yahoo Finance publishes this quote using the ^VXX-IV ticker.

o Wholesalers called “Authorized Participants” (APs) will at times intervene in the market if the trading value of VXX diverges too much from the IV value. If VXX is trading enough below the index they start buying large blocks of VXX—which tends to drive the price up, and if it's trading above they will short VXX. The APs have an agreement with Barclays that allows them to do these restorative maneuvers at a profit, so they are highly motivated to keep VXX's tracking in good shape.

What does VXX track?

- Ideally VXX would track the CBOE's VIX®
- <<http://www.cboe.com/micro/VIX/vixintro.aspx>> index—the market's de facto volatility indicator. However since there are no investments available that directly track the VIX Barclays chose to track the next best choice: VIX futures.
- o Unfortunately using VIX futures introduces a host of problems. The worst is horrific value decay over time. Most days both sets of VIX futures that VXX tracks drift lower relative to the VIX—dragging down VXX's value at the average rate of

4% per month (30% per year). This drag is called roll or contango loss <<http://sixfigureinvesting.com/2013/02/contango-losses-roll-yield/>> .

- o Another problem is that the combination of VIX futures that VXX tracks does not follow the VIX index particularly well. On average VXX moves only 55% as much as the VIX index.

- o Most people invest in VXX as a contrarian investment, expecting it to go up when the equities market goes down. It does a respectable job with the VXX averaging percentage moves -2.94 times the S&P 500, but 16% of the time VXX has moved in the same direction as the S&P 500. The distribution is shown below:

VXX% moves / SPX% moves <<http://sixfigureinvesting.com/wp-content/uploads/2013/04/VXX-SPX-histo.jpg>>

VXX% moves / SPX% moves (SPX daily moves of less than +/-0.1% are excluded)

- o With lethargic tracking to the VIX, erratic tracking with the S&P 500 and heavy price erosion over time, owning VXX is usually a poor investment. Unless your timing is especially good you will lose money. For a backtest of VXX starting in 2004, see this post <<http://sixfigureinvesting.com/2013/11/backtest-on-vxx/>> .

How does Barclays make money on VXX?

- o Barclays collects a daily investor fee on VXX's assets—on an annualized basis it adds up to 0.89% per year. With current assets at \$1.15 billion this fee totals around \$10 million per year. That's certainly enough to cover Barclays' VXX costs and be profitable. But even if it was all profit it would be a tiny 01% percent of Barclays' overall net income—which was \$10.5 billion in 2012.

- o From a public relations standpoint VXX is a disaster. It's frequently vilified by industry analysts and resides on multiple Worst ETF Ever <<http://www.indexuniverse.com/sections/features/11613-the-five-worst-etf-investments-ever.html?start=1>> lists. You'd think Barclays would terminate a headache like this or let it fade away, but they haven't done that even though 3 reverse splits—which suggests that Barclays is making more than \$10 million a year with the fund.

- o Unlike an Exchange Trade Fund (ETF), VXX's Exchange Traded Note structure does not require Barclays to specify what they are doing with the cash it receives for creating shares. The note is carried as senior debt on Barclays' balance sheet but they don't pay out any interest on this debt. Instead they promise to redeem shares that the APs return to them based on the value of VXX's index—an index that's headed for zero <<http://investorplace.com/2010/09/vix-etn-vxx-losing-value/>> .

- o If Barclays wanted to fully hedge their liabilities they could hold VIX futures in the amounts specified by the index, but they almost certainly don't because there are cheaper ways (e.g., swaps) to accomplish that hedge. In fact it seems likely Barclays might assume some risk and not fully hedge their VXX position. According to ETF.com's ETF Fund Flows tool <<http://www.indexuniverse.com/data/etf-fund-flows-tool.html>> , VXX's net inflows have been \$5.99 billion since inception in 2009—and it currently holds \$1.15 billion. So \$4.8 billion dollars has been lost by investors and an equivalent amount by Barclays if they were hedged at 100%. If

they were hedged at say 90% they would have cleared a cool \$480 million over the last 4 years in addition to their investor fees. Barclay's affection for VXX might be understandable after all.

**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. Osama

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I have no doubt that this kind of use of one's funds is not permissible in Shari'ah. there is nothing that one owns. It is only mimicking an index.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Dr. Dawood

**Sent:** Tuesday, February 07, 2017

**Subject:** Binary Options

Dear Dr. Monzer,

Assalam Alaykum,

An old colleague has sent me the following e-mail regarding trading assets using binary options. He is wondering if trading of binary options as explained in his e-mail are permissible (halal). I would appreciate, if you could help with his questions.

Best Regards

Dawood

-----Forwarded Message Starts-----

Assalamu Alaykum Dr Dawood,

Thank you so much for getting back to me so quickly!

I really appreciate your time. At the moment I am still trying to learn the basics of sharia compliant finance so I do not feel confident enough to answer questions on the topic.

A colleague brought the following website to my attention:

<https://www.suisseoption.com/islamic-account/>

<<https://www.suisseoption.com/islamic-account/>>

The institution claims to offer a halal binary option account which puzzled me for a number of reasons. My understanding of binary options is that they are essentially a way of betting on movements in the price of the underlying asset using a simple yes/no proposition. For example, if the underlying asset is a stock, I could bet in the morning that the stock price would rise by 10 o clock and, if I was correct, I would be entitled to a payout equal to a pre-agreed percentage of my initial investment in addition to receiving my principle back.

Due to the typically short time intervals, I can see how Riba is not an issue although I still thought that Maysir (gambling) and Gharar (unnecessary uncertainty) would still be

issues. There does not appear to be any other use for these instruments rather than to gamble and in fact binary options are actual regulated by the Gambling Commission rather than the Financial Conduct Authority in the UK.

The final issue that I thought might be problematic, if my understanding is correct, is that binary options do not give the holder the right to buy or sell the underlying asset. This means that the options are purchased purely for speculative reasons as the holder has no intention of ultimately owning the asset.

I have included a number of references below that seem to show how these instruments are favored by fraudsters trying to entice individuals that would not normally be interested in investing. The small funds needed for an initial "investment" and the simple yes/no strategy seems to appeal to a number of victims who are the defrauded of their money.

Thank you again for your time. I am currently working in anti-money laundering although InShaAllah I will be able to forge a career in Islamic finance in the future. InShaAllah we would have a chance to work together then. If there is ever anything I can do for you, or if you ever have family visiting Ireland, please do not hesitate to contact me.

Jazaka Allah Khair and chat soon InShaAllah,

Mark

**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. Dawood

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Options on commodities, shares and currencies are determined non-permissible for sale, buy, hold or trade by the OIC Fiqh Academy. The binary options are a lot more worse than the options that are refused by the OIC FA.

Binary options are pure gambling tools and of course non-permissible in our Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2016**

**From:** Farhad

**Sent:** Wednesday, November 23, 2016

**Subject:** Investing in shares

Assalamu Alaykum

I was referred to you by my friend and your son Baraa.

I was hoping you can answer a question I have about investing.

I'd like to know if using this strategy is allowed for me to invest money in the market.

My strategy would be to find a good sound company in a permissible sector that has good growth. I would invest at a good time in the stock with the intention to sell when I have a 10% profit or to sell at a 4% loss. Whichever takes place first and not selling other wise, is this permissible and considered okay?

Appreciate your time and effort

Farhad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Farhad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I believe that setting a strategy for managing the downside is not a thing that Shari'ah dislikes. I don't go for the speculative spirit of going in and out. Why not keep only the out strategy and invest for longer run?

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Khalid

**Sent:** Monday, November 21, 2016

**Subject: Certificates with fixed returns**

Dear Dr. Monzer,

My name is Khalid, and I am an engineer from Egypt. While I was looking over the internet for an Islamic economy expert, I came across your webpage and a PDF Link to some of your fatwaa replies dated back to 2002.

Well, I do believe you have heard about the massive devaluation in the Egyptian pound after it was floated recently against the USD which was more than 50% devaluation. Once the devaluation happened, most of the non-Islamic banks advertised fixed certificates of deposits for customers with a yearly return (profit) of 20% which was attractive to just approach the excessive rate of inflation.

Riba is one of the major sins in Islam and I would like to definitely avoid it as every true Muslim shall do. On the other hands, Al Azhar Fatwaa for Muslims to deal with banks is different from Riba Al Jahiliya encouraged most of my family and friends to go with these certificates to try to coup with inflation.

I am currently dealing with Abu Dhabi Islamic Bank for over a year now which after the devaluation did open Sukok investment for 14.5% to 15% profit range which is lower than non-Islamic 20% profit.

My question to you, based on the above is it halal to go to the non-Islamic banks for the 20% profit to coup with the inflation in the country or it will be Riba and I should stay with Abu Dhabi Islamic Bank? Thanks in advance...

Best Regards,  
Khalid

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khalid

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If the government of Egypt changed the way it deals with the currency, the Qur'an is still with no change... This does not make Riba permissible. In fact whatever interest you get on these (20%) will be lower than any expected devaluation of the currency. It is not even economical to put your money in such certificates. Put them in good stocks or in real goods such as buying wheat or date and store it in a public refrigerator. Or trade any other commodity such as computers and cell phones. These 20% certificates are Riba-based and prohibited inspite of the wrong statements made otherwise by some persons with "Amamah" who are in fact ignorant and give political Fatwa only. The OIC with its more than 200 Shari'ah and economic experts said clearly since 1985 that such certificates are prohibited.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Imam ..... Mosque

**Sent:** Thursday, November 17, 2016

**Subject: RESP for kids, its interest and its investment**

Dear Professor Monzer,

*As-Salamu Alaykum Wa Rahmatullah.*

I hope you are doing great and may Allah reward you for all what you do for His sake, amen.

Below is a question from one member of our community. I hope you have time to reply to it soon. Baraka Allah feekum dear Prof. Awaiting your reply soon.

Imam Dr. ....

Canada

----- Forwarded message -----

**From:** Yasser

SALAM ALAYKUM W RAHMATU ALLAH W BARAKATUH

Hope you are doing well inshallah

I have a question regarding the Registered Education Saving Plan (RESP) for the Kids education...

The bank is having some sort of investments with the RESP plan; it's more like investing in shares but grouped and managed by some people to make it lower risk

I have no idea about shares and how to do that but they ask me to contribute and I said I have to ask because I can't take interest or something has been invested in alcohol or pork, they recommended me this socially responsive fund (and I don't know what does this means :))

<http://fundinfo.rbcgam.com/mutual-funds/rbc-funds/fund-pages/rbf303.fs>

Can you please check this out and let me know if this is a good thing so I can proceed or not?!

We can discuss this further inshallah when I meet you...

JAZAKA ALLAH KHAIRAN shaikhna ...

Yasser

**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. Imam Dr. ....

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I tried the website given but could not reach any detailed information about the shares invested in by the socially responsible funds offered by this company.

I know that socially responsible funds do not invest in weapons, sin companies (alcohol, porno, tobacco). This is the good aspect, but they invest in banks and insurance which are problematic from Shari'ah point of view.

I suggest that the questioner. Br. Ali, should check with Brother Khaled ..... from ....., Ont. He works in Islamic solution for RESP and similar saving plans. He may know this fund or others much more than I do.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

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**From:** Stasya

**Sent:** Friday, October 21, 2016

**Subject: Questions about Islamic Wealth Management**

Dear Monzer Kahf,

I am writing Master thesis about Implementation of Islamic Wealth Management in Europe and it would be a pleasure to get your expert opinion for few questions:

1. What are the main advantages of Islamic Wealth Management comparing with traditional wealth management?

It is to be always real, i.e., related to the real market, no virtual assets, no virtual transactions and no placement of assets in usages that do not create value in the real sense (this means no purchase or sale of debts).

2. How relevant today, in your opinion, is the problem of the development of Islamic Wealth Management in the world? And why?

With the excessive financialization and repetitive crises, it is very relevant because it is more immune to these traps.

3. What are the main obstacles for active implementation of Islamic Wealth Management?

The common desire for a quick buck and shortage of support from laws and regulations which are fundamentally designed to support interest and virtual transactions.

4. What factors of the legal regulation are the main obstacles to the development of Islamic Wealth Management?

You may know the Grisham law "bad currency drives good currency out of the market". Bad laws that permit bad practices drive good practices out of the market. the presence of virtual financial assets itself drives good practices out of the market, when you allow gains by bribing an officer why should people spend hard work to make profit? this is the effect of corruption. It is what poisons the finance market.

5. What measures do you think is need to be taken for the active development of Islamic Wealth Management in the world?

Removing the fake competitors; virtual assets/contracts and debt trading.

Thank you in advance,

Stacey

**My Answer:**

Dear Stasya

Please find my answers below the questions:

Kindest Regards,

Prof. Dr. Monzer Kahf

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**From:** Mohamed

**Sent:** Monday, October 10, 2016

**Subject: Advice about binary option**

Salamu Alaykum Dr Kahf,

My name is Dr Mohamed Abdelhady, a physician who lives in Melbourne Australia. You ve been referred to me by Sheikh Rafat Najm, a renowned Islamic scholar in New Zealand.

I've been exploring options for stock/ forex trading and binary option came to my attention. It appeals to me because it is short term and needs less experience as compared to the regular trading.

I would appreciate your valuable opinion with regards to being halal or not. As I've been reading contradicting views. Looking forward to hearing from you.

Kind regards,

Mohamed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Investment means providing a product, a trade or a service to the society. It aims at increasing the size of goods and services available to human beings.

Speculations is clicking on a keyboard with results in one loses what another one gains. This does not add food on the table...

Accordingly the OIC (organization of Islamic Cooperation) Islamic Fiqh Academy after studying some of the speculative tools in the market ruled that: option, although they are financial rights, are not permissible to buy, own, sell and trade. Indexes are even worst from this point of view because they are not financial rights to begin with so are warrants and several other contracts that unfortunately exist in most Western markets.

Also speculation of currencies as done in the forex trading is not permissible as the Prophet, pbuh, mentioned that sale of currencies must be accompanies with full (physical) delivery of both currencies at time of contract exactly.

Please stay away from speculation and all speculation tools.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Furqan

**Sent:** Monday, October 03, 2016

**Subject: Debt to Equity ratio in Screening stocks**

Dear Dr. Kahf,

Hope you are doing well. I would like to get some advice from you. Following is my question.

I am trying to understand the Shari'ah screening process for equities. One of the screening criteria is as follows:

- 1- "Total interest-bearing debt divided by market capitalization of shareholders equity>30%"

Just for me to understand, I am calculating this from the yahoo finance website for 'Dollar General (DG)'.

So, from yahoo finance, I go to balance sheet and I add short term debt and long term debt (1379, 000 + 2969175,000=2970554000 which is 2.97 Billion). The market cap for this stock is 19.72 Billion. So, I divide 2.97/19.72=0.15 which is less than 30%. Hence, this stock is OK from this screening criterion. Am I looking at this correctly? Kindly, help.

Thanks again for your time and help.

Best,

Furqan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Furqan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Yes according to those who say market value. In my opinion it is total assets that matters because total assets are financed by interest loans in case of leveraging or interest-bearing debts are part of the total assets not part of market capitalization.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Wael

**Sent:** Friday, September 16, 2016

**Subject: Investing RRSP and pensions in Full time school**

As-Salamu Alaykum wa Rahmatu Allah wa barakatuh

Dearest Dr. Monzer, hopefully this message reaches you while you're in the best of your health and iman, and so are all your family members.

Dear Doctor, brothers in Horizon Academy Institution, a non-for-profit organization located in Calgary, Alberta, Canada, which does focus on education and leadership, have a plan to start a full-time Islamic school. To fund the school's construction and other costs, they have an idea to encourage community members to invest their money on this project. They are looking for your eminence's opinion (fatwa) regarding the way they suggest for funding this project. Below (and the file is attached too) is the description they sent me to forward to your eminence:

**"Horizon Academy (Full Time Elementary School)**

**Background**

Horizon Academy Institute is a non-profit organization that has been in existence for the last 10 years as a registered charity in Alberta. Our school is accredited by Alberta Education as private school teaching heritage Arabic Course to high school students. We have been successfully providing a weekend school for about 400 children in subjects such as Arabic, Islamic social studies and Leadership. In addition, we also provide adult leadership training on an ongoing basis to the community. Our board members are a diverse and committed group of community members who volunteer their time and effort to offer highest quality of education to our youth.

**Project Basics**

As part of our long term growth strategy, we have identified a need for a Full time Leadership based Elementary School which teaches excellent academics and imparts Arabic and Islamic Studies education. In order to make this goal a reality, we want this project to be investment focused rather than donations based. Following is the structure that we are proposing and would need to get Islamic Shari'ah Financing Approval:

1. Horizon Academy has identified a piece of land zoned for school for construction of an elementary school. The total cost of land and school is approximately \$10.5m (\$4.5 for land, \$6m for building a school)

2. A new company will be formed that is tasked with raising capital from investors. A minimum of 150 investors will ensure that this company is registered for taking RRSP, RESP and TFSA investments (These are Canadian retirement saving funds whereby investors can offset tax obligation for investing in long term funds). All costs related to formation of this company will be paid by Horizon Academy.
3. Horizon Academy will enter into an agreement with this new company whereby Horizon will purchase the land and building from the company at a predetermined fixed price (\$14.25m). This fixed price will be paid over 12 years in unequal installments. (Below table shows the above amount split over years).
4. Horizon Academy will be able to meet the above payments by charging tuition fees from students. Additionally, private schools are also eligible for operational costs funding from Alberta government.
5. The new company will be formed only for this investment purpose and as such when the payments above have been made, then this company will be closed down.

We require, from your eminence, opinion on the above mentioned transaction and if it meets the requirements from a Shariah perspective. Looking forward to hearing from you very soon and please do not hesitate to contact us for any further information."

Jazakum Allah Khayran

*Dr. Wael*

----- Forwarded message -----

**From:** Sohaib

Assalam Alaykum Dr Wael

Pray you are well. As discussed during your trip to Calgary, I am attaching a one page document which highlights our school project investment opportunity. Please share it with Dr Monzer Kahf and I would be grateful if you could CC me on the email so we can answer any questions promptly.

As you are aware, we want his opinion if the investment proposal meets Islamic shariah principles.

Jazaka Allah Khair for your efforts and let me know if you need further information.

Sohaib

**My answer:**

Dear Brothers Dr. Wael and Mr. Sohaib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a rather great IDEA, if we can implement it right. Of course the devil is in the details...

Let me put forward the following points to make matters clear:

- It is permissible to buy a building on the plans, before it is constructed,
- It is also permissible to rent the same for a fixed or variable rental amount over a definite period,
- Securing a buyer before one actually builds is permissible as long as there are adequate assurances that the building is going to be constructed. And of course sale is intended to be for profit, i.e., above cost of construction and land,

- Sale on a deferred price or on installments at a higher than the cash-payment price is permissible, the rule is “time definitely has a share of the price إن للزمن نصيباً من الثمن”
- Fairness of pricing is a Shari’ah requirement. This means that setting a price outside the market limits is not acceptable. The implication of this in the context of our markets in the USA and Canada is the following: when the installment price is set (i.e., the contract contains financing) the difference between the cash price and the deferred one should be comparable to the prevailing interest rate in the market, this is important to avoid any Ghabn (over pricing) or being unjust to the seller.

Tapping on retirement funds and their like is a great idea. These funds are long term by definition. But because of their nature and the government strict regulations on them we must be extra careful in providing strong guarantees of the cost and profit in using these funds. Using them to build schools in Alberta (in contrast to Toronto) where the government assures subsidies to private schools is very good especially if you can put a lien (mortgage on this government subsidy as a guarantee for payment to the retirement funds),

You must notice that the company that accepts retirement fund must be a permanent company not to be dissolved after completing one project. This is necessary to maintain these funds and continue investing them and responding to their disbursement when the time comes. Why dissolving it after one project? I think this company must be run very professionally to the benefit of these long term funds and funds should be diversified and used only in projects of assured profit and protected capital such as through the proposed kind of sale (provided pricing is fair) which is Murabahah or Ijarah that ends with ownership.

Finally, please take me as one of the 150 investors in this company (established and run by professionals) if US citizens are permissible to be in it.

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Haroon

**Sent:** Friday, September 16, 2016

**Subject:** Trading stocks on margin

Thank you for your kind answer. I also have one another question which is: that trading on margin in stocks is halal or haram? And can you please tell me halal markets of the world. It is because I am good at reading markets and can make profits from them.

Thank you

Haroon

**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. Haroon

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Buying a stock on full or partial credit if there is no interest to be paid is permissible. On the other hand short-selling a stock is not permissible even if there is no interest involved.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Haroon

**Sent:** Sunday, September 18, 2016

**Subject:** Re: margin in stocks

Thank you for your kind answer, but one other question came to my mind which is that why margin trading in forex is haram while it's is halal in stocks? Thank you

Haroon

**My Answer:**

Because the Prophet, pbuh, imposed additional condition on trading currencies by saying what means, hand to hand; all price must be paid at time of receiving the other currency. Besides, forex itself is not permissible.

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Furqan

**Sent:** Friday, September 09, 2016

**Subject:** ETF's in Islam

Dear Dr. Monzer,

Salam,

Hope you are doing well. I have a question regarding ETF's. Are they allowed in Islam? How about if we trade technology or pharmaceutical based ETF's?

Many thanks for your time and help. Best,

Furqan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Furqan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

ETF is like any other mutual fund, the fact that it is traded on the board does not make a difference from Shari'ah point of view.

The permissibility of a specific mutual fund depends on the shares which compose its content. If the shares are permissible, it is permissible.

In mutual funds we look at the share individually and take the majority percentage for the total fund in such a way that permissible funds should have very low % on non-permissibility. But always we must apply the principle of purification because the cleanest funds normally still have some elements of non-permissibility.

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

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**From:** Furqan

Many thanks for your answer. Could you tell me how can we perform purification on mutual funds/ ETF?

Furqan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Furqan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You need to estimate the % of Haram income (e.g., interest, sale of liquor as in airlines, weapons companies like Bowing, banks, insurance companies, and the like) out of each share in the fund, of course for banks and other companies of Haram main line of business you take the whole company. Then subtract that from the total fund. This applies to dividends as well as to capital gain. And you donate to charity same %.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

**From:** Furqan

Thanks again. I appreciate your help. Another question I have is that is about day trading. Some people argue that the shares are settled in a day these days (meaning you own the stock as soon as you buy it and you dont have to wait for settlement for t+2 days. Do you know if that's true and whats your opinion on that? Also, do you know the settlement time for NASDAQ, S&P 500 (I.e. can we trade stocks on a daily basis? Best,  
Furqan

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**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Furqan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My opinion is that day trading in stocks and in commodities and currencies is purely speculative. I consider it not permissible.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Furqan

Thanks again for your answer. So a 3-4 day holding of stocks is fine in your opinion?

Furqan

**My Answer:**

It is still the spirit of speculation. Speculation is an attitude that is not acceptable in my understanding of Shari'ah'

Prof. Dr. Monzer Kahf

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**From:** Furqan

I understand. How much time do you think is advisable to hold on to a stock before we sell it?

My answer:

It is the spirit not the time. If you are a speculator you hit buttons, if you are an investor you look at many other factors

Prof. Dr. Monzer Kahf

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**From:** Furqan

Thanks again. I see that you teach at Hamad bin Khalifa University. I am also based in Qatar. Do you teach any courses/seminars on investing? I would love to attend.

Best,

Furqan

**My answer:**

No, I teach Islamic finance contracts and Islamic insurance and the like

Prof. Dr. Monzer Kahf

-----  
**From:** Furqan

ok.

Thanks again for all your help and guidance. I have another question. Many of the Islamic mutual funds around list all the Shariah conditions that are in practice, but many of the companies that they invest in have debt to asset ratio greater than 33%. Would 'purifying' them be enough to satisfy the Shariah criteria?

Also, if I want to invest in these companies with greater than 33% debt to asset ratio, how do I purify my earnings? Best,

Furqan

**My Answer:**

Dear Br. Furqan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The marked is a statement that needs evidence.

The rule is those companies are not permissible to invest in.

Also purification is by calculating the % of Haram earning (out of dividends and capital gain) and giving it to charity. For capital gain apply same % as in assets

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Ali

**Sent:** Sunday, August 21, 2016

**Subject: Selling share at a loss**

Assalamu Alaykum Brother Monzer

I pray that you are well.

I have a question in relation to stocks and shares. I purchased shares in an investment bank (European Islamic investment bank - EIIB) which was Shari'ah compliant and had a Shari'ah supervisory board, but last year it acquired another business and changed its name to Rasmala plc. On the website it says they deal in Shari'ah and conventional investments and they don't have a Shari'ah supervisory board.

I purchased shares worth £17,000 (about \$21,000) and now it is worth £10,000. I made the investment for the long term with the belief that I was investing in a Shari'ah-compliant company but suddenly they have changed course and become non-Shari'ah-complaint. I feel betrayed by them and made it known to them.

The question is: is it obligatory on me to sell the shares at a huge loss or can I wait till the share price rises and sell to recover what I paid for it? I ask this only because I believed I was investing in a shariah compliant company and now they have changed course without any notification. There are a lot of other people complaining regarding this on internet forums.

Your advice is greatly appreciated.

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a serious problem. In fact it is a complete betrayal of shareholders to change the direction of the bank in such a way. it is unfortunate to hear that. I do not think that Shari'ah would like you to lose by any sudden sale as a result of such change. In funds when close to that happen (a company loses its status as permissible say by taking excessive loans) manager phase out the exit smoothly. I think if there is hope in any reasonable tile, say a year to recover this loss, you may stay course until recovering but if such hope becomes dim there will be no sense of staying on.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Ashfaq

**Sent:** Sunday, August 07, 2016

Dear Brother Monzer Kahf,

Assalamu Alaykum wa Rahmatullah wa Barakatuh.

I pray to Allah (swt) for your health, happiness and vigor in Islamic spirits. Aameen.  
Jazaka Allah Khair for your below response. I may come back to you in the future to seek your guidance on some specific Sukuks. For stocks, you prescribed some criteria that are expressed in terms of % of assets. Just a clarification, do the assets include only tangible assets or intangible (e.g. goodwill, deferred costs etc.) as well? Wassalam

Ashfaq

**My Answer:**

The denominator is always taken as the market capitalization of the company which includes intangible assets.

Prof. Dr. Monzer Kahf

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**From:** Ashfaq

Brother Dr. Monzer

Just forgot to add one point under **“Sukuk”** – please also prescribe the broad criteria for screening of Sukuks in terms of determining their compliance with Shariah tenants.

Jazaka Allah Khair

Ashfaq

**From:** Ashfaq

**Sent:** August-03-16

**Subject: Shari’ah Investment Related Questions**

Assalam O’ Alaykum Brother Dr. Monzer Kahf

I attended your lecture yesterday at Kitchener Masjid that was quite informative/enlightening – Jazak Allah Khair.

I did ask few questions but some of them couldn’t be properly addressed/discussed and few ones couldn’t be raised due to shortage of time / provide other brothers the opportunity to ask their questions. As advised by you, I am summarizing below few points where I need your guidance / support:

**Sukuk – Shari’ah Compliance**

I did raise question on the Shari’ah compliance of various Sukuk being offered in the Middle East. You also echoed my concern that all of the Sukuk don’t meet the Shari’ah criteria and to form an opinion one needs to go into the details. Additionally if an individual has not the required skills he should consult the experts to advise on the Shari’ah compliance aspect and you indicated to suggest the names of few experts.

**Would you please provide me few names of such experts who could advise on this subject.**

I do not know of any person who studied all the issued Sukuk and has that assessment available in his mind or computer. This is a job of asset management persons not academicians. You really need to check with asset managers who are investing in the Middle East. The criteria are simple to ask about: what assets do Sukuk represent and are they purchased from the obligor (who is lease-buying it). This applies to most Sukuk. For other characteristics you may check with me or Dr. Mabid aljarhi (both are academicians)

**Lump Sum Pension Payments**

I also raised another question on the discounting element of the Lump Sum Pension payments to which you sought some more details that couldn't be shared yesterday due to want of time. I now provide some details here:

I was employed with a MNC that has an unfunded & non-contributory Pension Plan (PP). At retirement, the employee has 3 choices (a) to opt for monthly payments, (b) get Lump Sum cash that is discounted at prevalent treasury bills discount rate to compute the Present Value and (c) combination of both. If someone opts for Lump Sum upfront encashment and the present value is calculated using a certain discount rate **so my question was by agreeing to discounting mechanism, is one indirectly committing to an interest (Riba) that is prohibited in Islam?** I did opt for the lump sum option and one of the principal reasons for this decision was to eliminate the uncertainty risk of future monthly payments since the PP is unfunded and could be terminated at the discretion of the employer or as result of its bankruptcy in the future.

The three options are permissible. The use of interest in the second and third is merely for calculating the amount of gift (it is in fact a grant because it is not contributory and not funded). No problem in using interest for such calculation. I can tell I will give you a gift calculated on interest or on the amount say a gambler wins.

#### **Investment in Stocks**

You advised that investment in stocks of those companies is OK whose primary business involves Halal/ permissible activities and if some small portion of their earnings belong to non-permissible activities that portion should be estimated and paid out to charity. That aspect is clear but my question is on the finance sourcing of such companies as most of the companies resort to leverage and use interest based external debt to fund their activities. Since they engage in Interest (Riba) in some form, **what is your perspective on this angle i.e. where primary activities/source of earnings is Halal but they partially engage in interest based borrowing?**

The whole matter here rests on the principle of tolerance. We tolerate such companies out or removing the hard inconvenience from Muslims. The criteria include: leverage of no more than 30% of assets, income no more than 5% and assets used in Haram including interest is no more than 30% , three of them after the test of main line of business. This is what is adopted by AAOIFI.

#### **List of Dow Jones Islamic Companies**

Yesterday, you also did mention that there are around 600 companies listed at Dow Jones that have been classified as Shariah Compliant and such list is available on the net. I did an intensive search today on google but I couldn't get the list of such companies – at best I could get was the Index or few funds and some sites claimed to have such list in a link but once you open the link you get an error message (Not Found). I believe you may know any particular site that does have such list so **would appreciate if you could send me such link i.e. list of Shariah Compliant Companies** (assuming the site is active as well).

Companies may change position from time to time according to the three tests above. DJ sells this info and usually financial and investment advisers buy this info and use them in profit making. This is their business...

#### **Franchises that serve some Non Permissible Items**

This question was raised by some other brother. Take the example of Tim Hortons – its primary business is coffee (which I believe is OK from Permissibility standpoint) but it also deals with some items that has pork or non zabiha meat products which represent a small portion of their business. As far as I understand from yesterday's discussion, **such kind of franchise business is not permissible. Is my understanding correct?**

Non Zabiha is not part of this because it is controversial. For some schools of Fiqh, it is permissible. If you own the franchise you should exclude any prohibited item and many Muslims who contract such business do that and franchise companies know that. If you are the manager of a franchise shop, not owner also you should not accept to sell any such items, if you are simply an employee in such a place, you still do not sell it (even as a cashier) and you should always leave this action to another non-Muslim employee but your salary for the work you provide is permissible (this does not apply to a general manager because a M. is responsible for all operations in a shop).

#### **Use of Interest Income**

In the past I did place some funds in interest bearing deposits that I have been advised to pay out being non-permissible. I have been advised it can't be given to Masjids but to the needy people. I need some clarity here as to **what are the permissible uses of this interest income?**

The fact is: such interest money is not yours, yet it is much better to maximise the benefit from it for recipients (poor and needy, preferably Muslims) there are several trust worthy charities in Canada including Islamic Relief International, even the local Masjid with info that this is not to spend on the Masjid construction, but in fact it is OK to use for cleaning material and bathroom tissue.

#### **Where to Place Surplus Funds that are Shari'ah Compliant**

Here is my last question for the time being. I am retired person and has some savings that I want to invest in Shari'ah Compliant avenues that could generate a reasonable income to (a) cover the Zakat and (b) some kitchen expenses. **I need your advice on the viable options here.**

This is the job of investment advisors like Br. Khaled Sultan in London, ON, not mine. One thing I know is the Islamic Housing Cooperative (headed by Bervez Nasim); it's been there for about 35 years and proved making some reasonable return and providing good service.

In the end, I would like to apologise on the number of questions; however, you being a subject matter expert, I seek your guidance brother, In case you want some details or you are too busy to respond in writing, you may call me at these #; landline: +1 905 821 8135, cell #; +1 416 708 0856. Alternatively, please advise me your best available time so that I can call you at the # that you gave yesterday (714 406 6971)

**Jazak Allah Khair.**

Ashfaq Ahmad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ashfaq

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh  
Please see my answers below your questions  
Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**From:** Aamir

**Sent:** Wednesday, August 03, 2016

**Subject:** Kitchener Masjid follow-up

Dr. Monzer,

Thank you for your talk in Kitchener Masjid last night. I've had questions for the past 10+ months that I've been wanting to get answered that were all resolved last night.

I had one follow-up question for you.

Since we can't invest in bonds, could you suggest 2-3 fixed-income investments that are viable for Canadian Muslims (other than investing in housing coops)? I would ideally like to invest in sukuks but as far as I know they are not sold in the Canadian market.

Thank you very much,

Aamir

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. AAmir

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

To the best of my knowledge there is no Shari'ah compliant fixed income fund available in Canada, check with Br. ...., his department may have accessibility to fixed income Sukuk. Remember the return on Sukuk highly follows return of bonds, I.e., now it is very low. It seems that IHC in Canada gives much higher return now.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Bernerdine

**Sent:** Wednesday, August 03, 2016

**Subject:** RE: Islamic Finance questions

Assalamu Alaykum Dr. Monzer,

Thank you kindly for your seminar on Sunday at Masjid Toronto. It definitely opened up my eyes and my mind to the knowledge you shared with us.

I have a couple of questions:

1. I work for the CIBC bank and they have this program called Employee Share Purchase Plan. For every dollar you put into the plan, they add \$0.50 up to a maximum

of course and invest it. What would you advise me to do with my investments into this plan?

If this is for buying the shares of the bank, it is definitely not permissible to buy any share of this bank because its main line of business is not permissible.

2. Is it permissible to have a conventional mortgage for an office premises that my husband uses to run his business?

The Fatwa in this regard is restricted to buying a residence for the family not for investment, this also means that no relaxation of the prohibition of interest for any business or investment.

3. Are we allowed to contribute to Registered Education Savings Plans whereby you contribute to education savings and the Government of Canada also contributes some money dependent on how much you contribute? This is used for children's fees when they go to college and university.

It is permissible to participate in this plan. You should select, within it funds that have the least of interest and Haram shares (where the main line of business is not permissible like banks) and you still should apply the principle of purification as we discussed it.

4. You mentioned that you helped draft up a finance agreement for TD Bank for a school financing project. Is that like a mortgage agreement?

Yes it is a mortgage modified to be Shari'ah compliant.

I was the girl from a Catholic family that reverted to Islam and I am trying my best to promote Islamic Finance and Banking in CIBC. We spoke briefly and what I gather from the seminar it is quite simple to offer Islamic mortgages to the Muslim population. You said you would be willing to come speak and guide the executives on how to go about offering Islamic mortgages. Kindly let me know the best way to communicate with you and as you do not live in Canada, what your schedule is like for the next few months? I am sure we would need to give you advance notice to come meet with us or could this be done via Live Meeting and conference calls?

May Allah bless and reward you for this effort. I am professor in Hamad University in Qatar. This requires me to be in Qatar for all the school year. My home is in Southern California, and I am now there until the end of my summer vacation on Aug. 14.

I shall be more than happy to help. I think if the bank is willing let us start by communicating by emails, may be during the Semester break in Dec or Jan we can arrange for a trip to meet in Toronto.

Jazaka Allah for your help. May Allah bless you and your family for all your hard work in educating us on Islamic Finance and helping guide us do all that is permissible and ordained by Allah s.w.t. Salaam...

Bernerdine

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Bernerdine

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions:

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Zeeshan

**Sent:** Friday, July 15, 2016

**Subject: Equity based Mutual Funds**

Assalam o Alaykum Sheikh,

I would very much appreciate your guidance on investing in mutual funds. I have invested my retirement funds into Mix of 100% equity based funds in industries that look halal such as pharma, tech etc. I am assuming I have avoided interest/usury this way. Pls let me know if you agree.

In addition, if you think it is not a permissible strategy, please shed light on how sharia based Mutual funds avoid that.

I just feel I have better variety and more options when I invest in equity based Mutual funds.

Would really appreciate your expert opinion. Jazaka Allah Khairan

Zeeshan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. ZEESHAN

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Equity in general is permissible especially when you compare it with bonds funds which are pure interest.

But also equity in America has several reservation: you know the rules: 1) main line of business should be permissible, this means excluding shares of banks, insurance, real estate most food and food retailers, entertainment, etc. and 2) the financial criteria that companies of permissible main line of business should not be heavily dependent on interest or investing in it. The latter is set at a) no more than 5% income from Haram, no more than 30% assets locked in Haram, and no more than 30% leverage.

Additionally, you have to apply the purification principle: every penny from Haram is Haram and if it is mixed with others then that much should be given to charity. This is because Haram, no matter how small, does not become ok even when it is a minority..

In equity mutual funds the above is difficult

SO: a) select such equity funds that have least of the Haram shares, b) estimate the % of haram in dividends and capital gain and give it to charity.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Sent:** Wednesday, May 25, 2016

**Subject: Investment in shares**

As-Salamu Alaykum wa Rahmatu Allah wa barakatuh

Dear Dr. Monzer, please help replying this brother.

Jazakumu Allah Khayran

**Imam Dr. ....**

----- Forwarded message -----

From: **Kasim**

Dear imam .....

Assalamu Alaykum Warahmatullah

I hope you are well

Below is an email from the bank. I have locked in investment.

They gave me two options

As you know we are to avoid any interest related investment.

Is it possible to please check these two categories and advice me which one is the best option Islamically.

Jazaka Allahu Khairan.

Kasim

Thanks for let me know your decision!

I also want to take this opportunity to review your current RRSP investment, you have holding our managed balanced fund for nearly 1 year but the performance is not very well, you are currently **loss \$1,000**, I still want to invite you to the branch, I can review with you our current best product for you, we have lower risk fund, we also have marked-lined GIC, please review the attachment and let me know if you want to switch your current holding to a better product.

1. Market-Linked GIC, that's 100% safety investment, if you lock your money for 3 year or 5 years, you will get up to 3% or 4.5% annual return.

2. Income fund, this fund have not lose money since 2008 financial crisis, the average return between 2009-2015 is 4.6% annually, it's a good time to buy

If you want, we can have a meeting to talk about the RRSP investment options.

I'm looking forward to hear back from you.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. ....

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please inform the questioner that the first option of locking the money for 3 to 5 years is apparently interest-based which is Haram.

The second option seems to be OK with the following purifying condition: since all funds run in Canada and the USA invest in different kinds of shares without applying the Shari'ah criteria for share selection which exclude companies whose main line of business not permissible and companies which are over-ridden by interest transactions

(and very often they also invest part of the funds in interest bearing bonds) we have always to apply the principle of purification. This principle means that we need to make calculation (educated guess whenever it is not possible) of the non-permissible part of their income and give that away to charity. This is usually done by looking at the detailed investments of the fund, in what shares and securities and estimating a % of Haram content in them. This % should be given every year to Muslim charity. You may give it from same fund when you liquidate which requires keeping track of that year after year or from other resources on yearly basis so that you keep your money in this investment pure when you take them at retirement.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Dr. ....

**From:** Marwan

**Sent:** Saturday, May 14, 2016

**Subject:** RESP/RSP/Mortgage

السلام عليكم اخ فادر

I want you opinion on weather is is halal or haram for the following:

1. To invest money in a " registered education savings plan "for my sons education fund?

It is not Haram to invest in registered education saving plan. It is like other investment you should select funds that have no bonds, interest securities or Haram companies. Even with that you still need to estimate each year the amount of return that comes from Haram and give it away to charity. This is called the purification principle. Same applies to question No. 2

2. To invest in a 401 I think is equivalent of our Canadian RRSP" registered retirement savings plan."

3. Mortgage

Mortgage is interest-based. It is Haram unless in case of necessity.

Thank you,

Marwan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Marwan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Umaima

**Sent:** Wednesday, March 30, 2016

**Subject:** Query- shares

Respected Dr. Monzer,

Assalam Alaykum and Good morning. This is your student Umaima from QFIS. I have a little query on which I require your clarification. Some authors/scholars have said that shares are based on the principle of mudarabah while others claim that these are based on the concept of musharakah. I would like to have your stand on it. Many thanks and sorry for any inconvenience.

Best regards,

Umaima

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Umaima

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Voting shares cannot be other than Sharikah al 'Aqd, this is Musharakah. Non-voting shares are Mudarabah (preferred shares are normally non-voting shares). But non-voting shares that are given any financial privileges are not permissible in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Umaima

**Sent:** Wednesday, March 30, 2016

**Subject:** RE: Query- shares

Respected Dr. Monzer,

The following link provides information on 2 classes of common stock and involve the element of voting rights:

<http://www.investopedia.com/ask/answers/05/070405.asp>

Bacha & Mirakhor (2013, p. 219) in their book "Islamic Capital markets: A comparative Approach" identify that equity investment through stock ownership is essentially a *Mudarabah-type* arrangement, given the features and entitlements from its ownership. According to the authors, the stock ownership entitlements include, right to receive dividends; right to new shares, bonus etc.; right to attend and participate in AGMs/EGMs and; right to vote on or grant proxy to vote on important issues.

**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. Umaima

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Two things I collect from your email and Investopedia (although it is not a dependable scientific source):

1. There are no shares of no voting rights, but there are classes of size of voting rights, some have one vote some may have up to 10 votes or more.
2. Mirakhor and his co-author are completely incorrect in thinking that common shares are Mudarabah. You know that the difference between Mudarabah and Musharakah in participation in management only. If a shareholder participates in Management he is a partner not Rabb al Mal in Mudarabah. The point that many investors do not go the General Assembly meetings is irrelevant as long as they have the right.

Comment: I think the issue of voting classes should be discussed from Fiqh point of view: while it is understood that in Mudarabah Rabb al Mal does not vote and issuing non-voting shares is permissible being a contractual matter, lower voting rights for equal money-contributors is an issue that may contain a form of injustice by treating the equal unequally. Can equal contributors have different voting rights? This is different from either zero or one. And I have no opinion on it yet.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Asad

**Sent:** Thursday, March 10, 2016

**Subject:** About margin account with a conventional stock broker

Respected Dr. Monzer Kahf,

Assalamu Alaykum!

I have a question with regards to margin account. Say, I have a margin account with a conventional stock broker, but never incur any interest in the trading. I buy the Shari'ah compliant stock using the cash. When I sell the stock, the settlement period is 3 days, but the broker makes the cash available, immediately after selling, to buy another stock without any interest charge. Is this practice of maintaining the margin account permissible under Shari'ah or Islamic law?

Thanks for sharing your valuable knowledge. Wassalam,

Asad

**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. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

What you describe: having facility to use money of sold share immediately is permissible as long as it is given with no interest.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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**From:** Asad

Respected Dr. Monzer Kahf,  
Assalamu Alaykum!

I have some concern with regards to speculation:

Does the practice of applying the fundamental and the technical analysis (charts, earning, and news etc.) to buy the Shari'ah compliant stock and then to sell it within a week or longer, or even on the same day come under speculation? Is any part or form of this kind of trading disliked or prohibited in 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. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In my opinion buying, with help of technical and fundamental analysis for the purpose of quick sale is speculation. In other words I do not approve of trading shares for the sole purpose of watching prices and then clicking orders. Buying share should be for investing in particular company or industry. then one may decide to sell for any reason that sometimes may happen to be short (e.g., if you felt you made a mistake in buying you may sell very quickly).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Asad

Respected Prof. Dr. Monzer Kahf,  
Assalamu Alaykum!

Jazaka Allah Khair for your prompt response. It has been very beneficial. I would truly appreciate if you could address these points as well.

1) Would looking at fundamental and technical analysis (chart etc.) would be fine if one is examining the suitability of the investment rather than "quick sale"?

**Yes, of course, when one takes an action one is supposed to use all and any obtainable info about it, analyze it carefully and then make a decision.**

2) How long should be the investment horizon (or duration) so as to not come under speculation? For example, what if one intends to hold a stock for a week or longer, would it come under speculation?

**There is definitely no time-frame, it is the attitude of either chasing prices or investing and being a partner in this company to earn from it.**

3) Do you suggest any master degree program in Islamic Finance that I can pursue online from Canada? I have an undergraduate degree in Electronic and Communication Engineering.

**No. I don't think there is a non-commercial MSc in finance on line.**

May Allah (SWT) immensely reward you for educating me on this subject. Wassalam, Asad

**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. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From: Asad**

Respected Prof. Dr. Monzer Kahf,

Assalamu Alaykum!

I truly appreciate your response on the subject of speculation. This aspect confuses me a bit. I would describe a scenario. For example, I run a shop or store. My goal is to sell all the items at a higher price than their respective buy prices. I buy an item for my store at a cheaper price from point A, "speculating" that I would be able to sell it at a higher price to another person. Later, as per the plan, I sell it quickly within a moment to another person. Is this trading acceptable? If yes, why can this not apply to stock trading?

Jazaka Allah Khair for patiently replying to my queries. InShaAllah, this would be my last query on the subject. Wassalam,

Asad

**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. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I wonder why did you miss the HUGE difference between them!

In selling an item to people who use it you are providing service, this is the name of the game in trade. In clicking on your computer for prices of shares you are only speculating neither trading (providing a service) nor investing. That is the difference between a share and apple or dog food!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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**From:** Esam, OnIslam.net  
**Sent:** Thursday, January 21, 2016

**Question: Stock market**

Salam Ustazna,

Can I buy shares in the Canadian or USA market if the company's activity is halal like oil and gas tech companies and is there any regulation?

**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

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

As a principle, YES, this is permissible. Please be aware of the following few points:

1. All companies that have a Halal main line of business may have subsidiaries that may not be as Halal. For instance, almost all car producers have finance subsidiaries that are based on interest. We need to be aware of that.
2. All companies in US and Canadian markets deal with Riba (interest) one way or the other. Same also applies on companies in the Muslim majority countries except for those that commit themselves to the Islamic conducts of business.
3. This is why some scholars suggest setting some criteria to minimize the evil is such investments (companies of which main line of business should not have more than 5% income from Haram, should not have more than 30% of its assets investment on interest basis and should not have more than 30% dependence on interest loans in its liabilities).
4. Speculation on shares or commodities or currencies is Haram, some behaviors are speculative by definition such as day trading. But in general one should invest for the long run, weeks, months and years not days.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2015**

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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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: 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: 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: 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

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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: 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: 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: 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: 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: 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: 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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# FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2014

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: 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 الاجابة على التساؤل التالي:

هل يمكن الحديث عن تاجر محافظ مالية في اقتصاد اسلامي همه الوحيد الاستفادة من فروق الأسعار (أسهم أو صكوك) مع توفر شروط البيع المعروفة كالحيازة والايجاب والقبول علما أن الدفع قد يكون نقدا أو مؤجلا كما هو متاح في المعاملات التجارية السلعية؟ أعتقد أن الاجابة على هذا السؤال تحدد موقفنا من المجازفة التي لا يزال يكتنفها الكثير من الغموض لدى (speculation)

.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: 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: 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: 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: 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.cnbc.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 if 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 on 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 a 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 haven 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: 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 its 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: 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: 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: 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 be 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: 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: 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

-----  
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: 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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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2013

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: 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

Sent: Friday, October 18, 2013

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 an 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's possession regardless of its subjectivity and immateriality. For example: a right or a privilege to do, act or own something.

That is not an 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 play, 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 word 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 prices 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 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 wiliness 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 owns? 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 derive its authority by the US government and almost accepted in every country on planet earth. It is actually the only currency we can by 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 if 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 broker (behind them there is a million person 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: 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: 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: 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/ndvdl/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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Walaikumassalaam 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: 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: 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  $\$115 * 100,000$  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  $\$105 * 100,000$  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 *
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: Attia

Sent: Wednesday, August 01, 2012

Location: United States

**Question: Buying Shares and Bonds**

Alsalamo Alaykum

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

Thank you

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asif

Sent: Sunday, July 29, 2012

**Question: Strategies of Stock Trading**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Jazakallah Khair!

Asif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. ASIF

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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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 in 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: Syed

Sent: Friday, February 15, 2013

Location: India

**Question: Day trading**

Assalamu Alaykum,

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

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

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

Allah Hafiz

Regards,

Syed

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Aymen

Sent: Thursday, February 07, 2013

**Question: RRSP investment**

Dear Dr Monzer,

Assalamu Alaykum wa Rahmatu Allah wa Barakatuh,

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

The issue with this is that the money has to be invested and I cannot just contribute money and ask them not to invest it. Also, none of the investment options they provide is Shari'ah compliant. I have fellow Muslims working with me and we have been debating this as some of us decided to go for it and select the least rewarding investment option for a return of less than 1% and decided that every year they would purify their money but taking that money out and giving it away. But some of us are

looking for your advice on this matter. Is it permissible to sign up for this package and purify the money from the non halal yearly return by giving that money away regularly or should we completely abstain from it?

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

Assalamu Alaykum,

Aymen

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Aymen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2012

From: Tawfik

Sent: Monday, December 24, 2012

**Question:**

Dear Sir

Al-Salam Alaykum

I am contemplating an opportunity to structure a fund whereby we purchase shares from Canadian charities at a considerable discount and sell them in the market after a lock up period.

There is an option to short sell the shares to minimize the risk rather than waiting till the end of the lock up period.

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

Tawfik

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Tawfik

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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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: Awadz

Sent: Saturday, November 24, 2012

**Question: Stock Trading Understanding & Philosophy**

Assalamu Alaykum wa Rahmatullah wa Barakatuh

Dear Dr. Monzer,

I have a conflict understanding stock market.

My question:

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

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

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

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

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

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

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

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

Example:

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

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

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

To find a blessing Job and Wealth. Thank You.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Awadz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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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

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 Sr. Shafiqa

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: Ali

Sent: Thursday, November 01, 2012

**Question: Pension Scheme**

AssalamuAlaikum

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

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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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: Karim  
Sent: Wednesday, October 03, 2012

**Question: Shares of RIM**

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

Karim

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

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

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Karim,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

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

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

What I suggest is: when a Muslim invest in any company whose main line of business is permissible he should definitely look into its financial numbers and if he does not find

that it has substantial activities in Haram areas and nothing is suspicious, he should then estimate a generous level of purification if he decides to invest in the Western markets.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Yasir

Sent: Friday, September 14, 2012

**Question: Stocks of companies that have haram in their subsidiaries**

Asalaam Alaykum,

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

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

But, suppose I find out a company that sells products, such as beverages that contain no intoxicants and so the drinks themselves are halal. However, suppose this company has investments in many other haram things like gambling, and movies and they derive a large part of their income from the haram activities. So because of their investments, we could say that investing in this company is no longer permitted.

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

Furthermore, would I have to stop drinking these drinks?

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

Lastly, when buying things we use in our daily lives, e.g. soap, toothpaste, and food from grocery stores etc. ... do we need to worry at all about the companies behind these products? Or, should we just leave such matter alone and assume they are halal?

Jazaka-Allah

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Yasir

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

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

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From: Khaled  
Sent: Monday, July 30, 2012

**Question: Investment in stocks and shares**

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

I'm currently using the methodology adopted by the Dow Jones Islamic Market Indexes when deciding whether an equity investment is Shari'ah compliant or not. As you are probably aware, the methodology excludes specific industries (e.g. alcohol, conventional financial services, tobacco, etc.) and adopts financial ratio screens for cash, account receivables and debt.

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

Juzitum Khair

**My Answer:**

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

Dear Br. KHALED

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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From: Mumtaz  
Sent: Sunday, July 22, 2012

**Question: Buying Oversold Stocks to sell at higher prices**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

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

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

One example is Rovi Corporation (ROVI)... the company reported preliminary results and updated its full-year outlook and the stock dropped more than 40% on Wednesday July 18th. Had someone bought the stock at that extremely oversold position for about \$10 and sold it on Friday July 20th around \$12.50, would the 25% gains be permissible in Islam?

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

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

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

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

Jazaka Allah

Asif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mumtaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't see any prohibition in trading shares whose companies fulfill the criteria of permissibility to own. Of course the objective of trading is making profit, meaning buying at low price and selling at high price. The problem I see is in speculation. Especially after the crisis I came to a complete conviction that speculation is prohibited in our religion. This means that buy and sell must be accompanied always by holding for

some time and/or providing a service meanwhile. That is the spirit of trade and that is the distinction between trade and speculation. This applies to shares as well as it applies to other commodities and assets. This also means that I believe in the prohibition of contracts, attitudes and strategies that are designed for pure speculation such as trading indexes and day trading. Buying at low, holding for some time then selling is not prohibited in my opinion.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2011

From: Abdal Rahman

Sent: Saturday, December 31, 2011

**Question: shares of companies whose compliance status changes**

Salam Alaykum

I have a question about investing in stock

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

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

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

In the meantime the stock prices is going down.

So I'm losing money.

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

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

Jazaka Allah Khair

Abdal Rahman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: A brother

Sent: Wednesday, December 07, 2011

Location: Hamburg, Germany

**Question: CFD-Trading**

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

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

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

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

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

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

I hope you will answer my question.

Thank you in advance.

Salam w Alaykum

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

In Islam and also among all rational persons you can earn if you own an asset and your asset value increases for any reason that is morally acceptable. In CFD you present to own only. It is not a sale of an asset but a contract between two persons one pretend to

be on sell side the other on the buy side. If the price goes up that who pretended to be a buyer wins and the pretend seller loses. And vice versa. It is a pure gamble because there is no real asset owned by either one.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohammed

Sent: Tuesday, November 22, 2011

Location: Johannesburg, South Africa

**Question: Shari'ah criteria in stock trading**

Assalamualaykum

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

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

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

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

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

Your assistance in these matters is greatly appreciated.

May Allah reward you for your effort?

Wassalam

Regards

Mohammed

**My Answer:**

Please explain the terms JSE and ALSI

MK

Bismillah al Rahman al Rahim

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

Dear Br. Mohammed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below questions in red

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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

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

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

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

**It doesn't matter what experts tell you. If you ask me, I believe any trade of currencies is Haram unless those who need to buy or sell it for their own use and payment and those money exchangers, national and international, who buy from the first group and sell to**

them. All internet so called trading (but it is only speculation and should not be called trading) is Haram for the two reasons mentioned earlier. This is my opinion.

Kindly comment.

May Allah reward you for your time.

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

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

Sorry for the bother. May Allah reward you.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohammed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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

MK

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From: Zeeshan

Sent: Monday, September 12, 2011

Location: Canada

**Question: Options Trading**

Assalamu o Alaykum Sheikh

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

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

1) It is considered highly speculative and anything having element of gambling/Gharar is prohibited in Islam. Some of my friends who are very devout Muslims however do not agree with this and they are drawing a good income from options trading every month.

2) There is no real asset behind its trading and that is the reason it is considered illegal in Islam. (I however do not know that verse/Ahadith disallow such trading)

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

JazakAllah Khair for your time and effort.

Zeeshan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Zeeshan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Option trading is not permissible in Shari'ah. The reason No. 2 which you mentioned is very serious. It is not a matter of a Verse or a Hadith. You will never find a verse or Hadith that tells about every kind of trick and untrue thing people fabricate. It is the principle which is established in Shari'ah: you are entitled to an earning if you own an asset which can generate an increment. If you do not own an asset and if the asset you own does not generate an increment (by its nature) and if it can generate an increment but it happens that it created a negative increment of course in these three cases you cannot claim any earning.

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

Besides them there are people who own options (a right created from nowhere to buy a share) if the price of the share increases, what does the owner of the option own so that he may claim an increase of his property. He does not own any part of IBM. He is simply parasitic who owns a right which is created by our fantasies for the purpose of allowing

people to speculate more. There is no property which may create increment that is owned by the option owner. It is all fabricated.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamed

From: Abdal Rahman

Sent: Saturday, July 30, 2011

Location: USA

**Question: 403b scheme investment**

Salam Alaykum wa Rahmatu Allah wa Barakatuh

Dear Dr Monzer Kahf

My name is Abdalrahman

I work in USA

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

Jazaka Allah Khair

Abdal Rahman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Salam Alaykum wa Rahmatu Allah wa Barakatuh.

Thank four answering my question, I need to clarify my intent and make sure I understand you.

Given my high income, I can't put the same amount of money in tax deferred account (comparing 5000 in IRA vs 16000 in 403B). I also can't invest in Roth account.

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

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

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

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

Abdal Rahman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Alhyari

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I 'm opening an IRA account

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

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

Abdal Rahman

**My Answer:**

Dear Br. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

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From: Jamal

Sent: Saturday, July 16, 2011

**Question: Investment in Bonds**

Dear Dr. Kahf-

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

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

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

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

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

Thank you.

Jamal

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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Dear Dr. Kahf-

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

Wasalaam,  
Jamal

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Karim

Sent: Wednesday, July 13, 2011

**Question: Trading S&P index**

Dear Dr. Kahf,

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

Also, does Dow Jones have something similar?

I look forward to your response.

Thanks,

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

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Karim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

We can create as many as we like of indexed funds (this is not like creating shares. The latter is limited to the amount of real properties put in the company), would we consider trading units (shares) of an indexed fund Haram for this reason (i.e., they become in reality fake as they represent the same quantum of properties). It is a serious question that requires deep thinking. Alternatively should we only allow redemption of shares of indexed funds in contrast to trading them on the board?

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Dear Dr. Kahf,

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

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

$(\text{Price of stock A} + \text{Price per stock B} + \dots) / \# \text{ companies the fund actually invest in}$

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

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

I look forward to your thoughts...

Karim

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Dear Br. Karim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You came close.

What you wrote provoked a new thought: listing mutual funds on the board and trading their units in the exchange (in contrast to redemption which is sale of shares and giving their actual amount of money) may create a serious problem of fakeness regardless of whether the fund is indexed or not. The reason is trading these units become detached from the assets themselves and their price may take a totally different direction depending on speculative factors in the market. This may lead us to argue whether the ETF (exchange traded funds) are permissible.

Lastly, for the claimed Shari'ah' trading of indexes, if the broker says index it means what it says, otherwise it says indexed fund and this is a registered company like any other mutual fund.

Best Regards,

Wassalam

Monzer Kahf

Prof. Dr. Monzer Kahf

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

From: Azam

Sent: Wednesday, June 29, 2011

**Question: Share allotment to brewery or tobacco company**

Prof. Dr. Monzer Kahf

Assalamu Alaykum Sheikh,

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

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

In a hypothetical scenario, let's say a company owned by few Muslims is planning to raise money through an IPO (Initial Public Offer). In such case, once the IPO has been officially announced, many types of investors would subscribe for it, such as individual investors, institutional investors, high net worth individuals, etc. In the above scenario, if an institutional investor, which is a distilleries or tobacco company subscribe for this IPO of the Muslim owned company, can they (the Muslim company) allot shares for that distilleries or Tobacco Company? What is the Shari'ah point of view in this regard? Keeping in mind that, they cannot discriminate the same class of shareholders/subscribers in their allotment of shares.

Looking forward for your early explanation Insha Allah.

Jazakallahu Khairan

Best Regards,

K H Azam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Kashif

Sent: Tuesday, May 31, 2011

Location: Windsor, Canada

**Question: COMMODITY TRADING**

Br Please advise.

Is this business Halal according to Islamic Shari'ah?

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

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

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

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

Above was a simple example.

Regards

Kashif

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Kashif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

---

From: Mazher

Sent: Friday, April 22, 2011

Location: India

**Question: Trading Silver and Futures**

Dear Sir,

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

Please guide me as per Shari'ah.

Thanks,

Mazheruddin

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mazher

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A’lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Nafiz

Sent: Thu, 17 Mar 2011

**Question: Contract for the Difference, CFD and shares**

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Dear brother,

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

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

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

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

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

Thanks

NAfiz

May Allah bless you.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----

From: Nafiz

Dear Brother

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

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

Thanks

Nafiz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Buying for investment shares of companies whose main line of business is permissible, such as IBM, but it make interest and other prohibited transactions may be permissible if these transactions do not make high percentage of its activities. The Auditing and Accounting Organization of Islamic Financial Institutions suggested 3 criteria in this regards: 1) income from prohibited activities is no more than 5% of its total activities revenues (not net profit); 2) no more than 30% of its assets relates to prohibited activities such as interest earning debts; and 3) not more than 30% interest-based leverage (debts on the company). These criteria of course apply to individuals for whom

either it is inconvenient or too much limiting to invest in as it is the case in some markets like New York or European markets.

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Nafiz

**Question: Work in A upper Market Which Sells Alcohol**

Bismillah rahmanir Rahim

Assalamualikum wa Rahmatullah wa Barakatuh

Dear brother

Thanks for your answer.

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

Just last few bit I want to know.

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

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

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

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

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

Yes, this is investment as opposed to speculation.

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

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

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

Go to the internet

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

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

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

Thanks

Nafiz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nafiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Ebrahim

Sent: Thursday, March 10, 2011

Location: South Africa

**Question: Legitimacy of investment in shares**

Salaams Dr Kahf

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

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

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

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

Questions:

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

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

it myself. Meaning: if leverage is done by the company, I cannot buy the share on interest leveraging, but I can buy it on Murabahah leveraging. Same, if the company deals with little Haram and I need to deal with its stock because it is within the list that allows me to have leveled game ground that does not mean I may do the same little Haram myself.

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

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

Regarding the underlying core business

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

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

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

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

Regarding Islamic estates:

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

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

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

Kind regards and Peace be with you

Ebrahim

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ebrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers in red below your questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Muzammil

Sent: Saturday, February 12, 2011

Location: Egypt

**Question: Commodity Trading**

Assalamu Alaykum,

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

Regards,

Muzammil

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Muzammil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2010**

From: Anouar

Sent: Saturday, November 27, 2010

Location: Vancouver, Canada

**Question: trading shares**

Dear Dr. Monzer,

Assalamu Alaykum wa ra7mato Allah,

My name is Anouar and I am living in Canada. I recently started discovering some investing opportunities for stock purchase as a short term investor. I wanted to have some advice on some of the points that are still ambiguous to me. I would like to thank you in advance for your time and effort and Jazaka Allah Khairan.

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

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

#### BUSINESS ACTIVITY SCREENING

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

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

#### FINANCIAL RATIOS SCREENING

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

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

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

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

I have few questions regarding some of the formulas used:

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

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

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

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

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

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

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

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

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

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

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

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

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

And, Jazaka Allah Khairan Again,

Wassalam,

Anouar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Anouar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below your questions.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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

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

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

And, Jazaka Allah Khairan Again.

Anouar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Anouar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A’lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Yacine (Hacene)

Sent: Thursday, October 28, 2010

**Question: investing in mutual funds of gold and silver**

Assalamu Alaykum,

Sheikh Monzer,

May Allah bless your efforts and reward with Jannah.

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

Jazakum Allahu Khairan,

Hacene

Al Salam Alaykum Sheikh,

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

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

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

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

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

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**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Yacine

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

I don't give advises on investment opportunities.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Christopher

Sent: Tuesday, October 19, 2010

**Question: Sukuk default**

Doctor,

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

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

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

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

Either way, thank you!

Christopher

**My Answer:**

Chris,

The Sukuk represent actual real equity that is handed to the company. Therefore in case of bankruptcy these properties must be handed over to the Sukuk owners, being their owners and in this sense no other creditors of the institutions can have any claim of these specific assets. These asset may have lost value, this is a loss of the Sukuk holders, or they may have gained value, the gain only can be claimed by the institution because of the binding option to buy that it has from the Sukuk holders. This means: while Sukuk holders are not creditors to the institution, they are not equity sharers in it either. They are equity owners of the assets that are mentioned in the Sukuk documents/prospectus. If you have any further questions, I am presently in Qatar and you can reach me at 974 4454 6567 on Sunday (this is a first day of the week here) between 8 and 1 local time (we are 7 hours east of N Y.

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Doctor,

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

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

Thanks.

Christopher

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Christopher,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Rifai

Sent: Wednesday, September 29, 2010

**Question: Investing in stock market**

Salam Dr Kahf,

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

Barkallahfeeq

Jazakallah

Rifai

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rifai

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Carim

Sent: Friday, August 20, 2010

**Question: Creating an SPV**

Dear Dr. Monzer Kahf,

Assalamualaikum & Ramadan Mubarak

I hope that all is well Insha'Allah.

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

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

Jazakallah for the assistance. Please reply at your convenience.

Salaams,

Carim

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Carim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please note the following two points:

1. Creating an SPV does not make the Haram permissible.

2. Levels of Shari'ah compliance are for trading shares not participation in equities. When you create a participation in equity any Haram action, small or big, is not permissible.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

---

From: Siddick

Sent: Wednesday, July 14, 2010

Location: Mauritius

**Question: tradability of some investment products**

As-salaamualaikum

Dear Professor,

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

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

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

Hope you'll revert as soon as possible

Regards,

Siddick

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Siddick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Generally, I tend to argue that investment in Shares for short term in the way fund managers usually do is not compatible with the Shari'ah principles. If you buy a share for

intending to stay with the company for a long period it is normally permissible if the company's activities are permissible.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
Dear Professor,

Wa Alaykum Salaam

Thank you very much.

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

Regards,

Siddick

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Siddick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----  
From: Abul Basher

Sent: Friday, June 18, 2010

Location: Dhaka, Bangladesh

**Question: Trading stocks**

Dear Dr. Monzer Kahf,

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

Abul Basher

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abul Basher

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Taheseen

Sent: Sunday, May 30, 2010

**Question: Investment in commodities**

JazaakAllah Khairan for your reply.

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

I will InShaAllah implement what you advised.

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

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

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

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

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

Suppose he made delivery of the contract but the government committee does not accept it and rather drags him for five years with a lot of legal expenses and finally paid less than the amount that was due, i.e., if the final analysis there is a loss, from where he would guarantee your principal? Is it fair, if you are partner that he loses and you are guaranteed? Partners go in together, lose in proportion to their capital and distribute the gain as they agreed in the contract (in order to allow for a share to management).

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

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

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

May Allah bless you & your family.

Regards,

Sr. Taheseen

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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As salaam Alaykum,

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

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

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

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

Is such an earning Halal?

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

I have for a reasonable period of time given my Zakah every year, sometimes well in advance to the needy, on the basis of my anticipated income (I was in a salaried job

then). Unfortunately I never made records of what I earned & what I gave. Either as Zakah or as Sadaqah.

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

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

Kindly guide me.

JazaakAllah

Dr. Taheseen

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Please see below for answers

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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As salaam Alaykum Wa Rahmatullah wa barakaatahu,

Dear Brother Monzer,

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

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

He had the following to say to me:

He is a franchisee of a company, which invests in commodities in several lakhs /crore of rupees.

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

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

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

When I asked my relative, to ask the company to give me the returns, in a way, that reflects the fall & rise of the profit /loss, he said he will look in to it, but it will be almost not possible for them to do it for me alone, as they are handling thousands of investors and it is convenient for them to give out returns on some standard basis ,to all investors....(something to that effect.... )

While I am still waiting for him to get back to me on this request, I would like to know your view on this.

Waiting in anticipation,

Thanking You,

Dr. Taheseen

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Taheseen

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Khaled

Sent: Sunday, April 25, 2010

Location: Australia

**Question: Investing in company that owns crematoria**

بسم الله للرحمن للرحيم  
الحمد لله رب العالمين ، والصلاة والسلام على سيدنا محمد وآله  
لسالمة عليكم ورحمة الله وبركاته

Dear Dr. Monzer Kahf,

I have an inquiry about the compliancy in investing in a company that owns and operates funeral homes, cemeteries and crematoria.

The company code is IVC in ASX-200 (Australian Securities Exchange)

جزاك الله خير وأحسن إليك  
بلوئكم  
الطالب/ب/ خالد

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khaled

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Funeral companies in the western culture have several practices that violate human dignity including cremation and sometimes some weird ways of funeral and burial. I wouldn't suggest investing in their shares.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdal Rahman

Sent: Friday, April 16, 2010

**Question: Retirement accounts**

Salam Alaykum

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

I need advice

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

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

What Shari'ah complaint company would you trust?

Abdal Rahman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Abdal Rahman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdullah

Sent: Sunday, March 21, 2010

**Question: Margins in stock trading**

Salam Dr. Kahf

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

Thank you

Abdullah

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdullah

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ibrahim

Sent: Sunday, February 07, 2010

**Question: Stock trading**

Assalamu Alaykum

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

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

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

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

Shari'ah compliant?

Please advise, Jazakum Allah Khair

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Sukuk issues**

From: Majid

Sent: Tuesday, February 02, 2010

Location: Iran

**Question: SPV and Sukuk Issuance**

Assalamu Alaykum

How are you

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

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

Thank you,

Majid

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Majid

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is nice to hear from you.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

---

From: Samad

Sent: Saturday, January 30, 2010

Location: Riyadh, Saudi Arabia

**Question: Islamic Equity Derivatives**

Assalamualaikum Dr. Kahf

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

Samad

Dear Sir

**My Answer:**

Dear Mr. Samad

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

Kindest Regards,

Prof. Dr. Monzer Kahf

Assalamualaikum

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

Regards

Samad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Samad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2009**

From: Murtada

Sent: Thursday, November 26, 2009

**Question: ETF Exchange Traded Funds**

Salam Dr. Kahf

I am contemplating launching an informative website about ETFs [Exchange Traded Funds]. Revenue from the website would be from email lists and advertising, eventually. Note though that the writers on the website are not Muslim, and the target audience is everyone, therefore some/many of the funds that people would be educated about may not be applicable to Muslims. Some of the writers would suggest ETFs to purchase as well - I.e. stock picking.

Are there any Shari'ah issues with the concept?

Murtada

**My Answer:**

Dear Br. Murtada

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My Answer:

Bismillah al Rahman al Rahim

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

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Short sale of shares**

From: Dr. Jeff,

Sent: Saturday, November 07, 2009

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

**Question: AR boon and leverage in stocks**

ASA Br. Dr. Monzer,

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

and receives a very small percentage of income from the sale of cigarettes or wine. What about the S&P 500 as a whole? If one buys a mutual fund that invests in the S&P 500 and the S&P 500 taken as a whole passes all current Shari'ah screens, is it Shari'ah-compliant to own this mutual fund?

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

Best Regards,

Jeff, PhD

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Dr. Jeff,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thanks for the email,

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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From: Ali  
Sent: Monday, October 19, 2009

**Question: Call options**

Alaykum Salam Dear Professor,  
What is your recommendations from a Shari'ah perspective on Equity Call options in general? I understand some banks use Arbun as the underlying contract. Please advise.  
Regards,  
Ali

**My Answer:**

Dear Students  
Assalamu Alaykum Wa Rahmatullah Wa Barakatuh  
Please receive Session 7 outline  
Sincerely,  
Wassalam,  
Dr. Monzer Kahf

Dear Br. Ali  
Assalamu Alaykum Wa Rahmatullah Wa Barakatuh  
The OIC Fiqh academy has ruled that all options cannot be a source of profit. Banks and other person must not seek gains by trading options. Call or put, an option cannot be a source of profit creating because it is not an asset that creates increment. The OIC resolution is even more inclusive it resolves that buying, holding, selling and trading options are not permissible.  
On the other hand using call or put options for hedging an existing asset or liability may be discussed but it takes some research in this area.  
On the other hand, Arbun is a payment for goods that are in possession of seller and cannot have a set date of delivery otherwise it becomes a Kali' for Kali' that is specifically not accepted by the OIC Fiqh Academy and the matter is well established in the literature.  
Sincerely,  
Wassalam,  
Dr. Monzer Kahf

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From: Omar  
Sent: Saturday, September 26, 2009

**Question: Options and day trading**

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

1. On one of the Q&A sessions on your website, I noted that you had mentioned day-trading is not haram, although it is derived on speculation. However, during the session at the masjid you indicated it was haram. Along the same lines, how long would a position need to be held for it to not be considered day trading? Please advise.
2. On one of the Q&A sessions on your website, I noted that you had mentioned options are haram. However, during the session you mentioned that it might be ok to use options in order to hedge your positions. I am not sure if that is what you intended on saying. Please clarify if I had misheard. Along the same lines, is selling covered calls considered haram? How about buying puts?
3. On one of the Q&A sessions on your website, I noted that you had mentioned that being short is not haram, although you are not generating any value by doing such a thing. I just wanted to confirm this statement with you regarding short positions.
4. What is the ruling on ETFs? I know some track certain indices, others are tied to the value of a commodity and others are simply a bucket of stocks put together (i.e. technology ETF). Are these considered a halal investment?

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

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

Omar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Speculation is expressed either by contracts or by behavior. There are certain contracts that are speculative by nature such as options and futures. There are also certain behaviors that are speculative such as day trading of shares, currencies and commodities and hedge funds.
2. Please also realize the difference between a Shari'ah ruling and a Fatwa. A Shari'ah ruling is directly derived from the texts and axioms of Shari'ah. A fatwa is applying this to certain circumstances. As times goes Fatwa may change because of changing circumstances. It is incorrect to apply a given Fatwa outside its circumstances.
3. I know I used to say that day trading is permissible on the ground that it is permissible to buy at any time and sell at any time too. But when I looked at it in the organized markets (stocks, commodities and currencies) and when I noticed its effects especially in this current crisis, I realized that this is pure speculative and should be ruled out.
4. For options the matter is similar. The OIC Fiqh Academy rules that options cannot be an object of trade because they cannot create increase in wealth (they are pure financial rights). This is perfectly correct. But later I notice another use of options in these existing markets that is the use for hedging an existing position (either asset or liability).

This kind of use of option does not intend to create a profit (i.e., increase wealth) from options but rather it intend to protect existing wealth and the difference is big! I wish the regulators of organized markets can limit issuance and trade of options to such real users and it can be done. This would have saved us from the existing crisis!

5. Being short itself is not Haram but short as practiced in organized markets is not permissible because it is a speculative contract. We have a short contract known in Shari'ah and it is permissible. It is called Salam Contract. It is defined as contract for future delivery of well-defined commodity against full payment at the time of contract. This is a real contract not a speculative one it aims at actually taking delivery in the future.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Asalaamualaikum wa Rahmatullah brother Monzer

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

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

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

Walaikum asalaam

Omar

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for your kind email.

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam  
Prof. Dr. Monzer Kahf

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From: Rauf  
Sent: Saturday, September 26, 2009

**Question: ETFs/Fund Management**

Assalaamu Alaykum Dr. Kahf:

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

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

Jazaka Allah Khayr.

FiAmanAllah

Rauf

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Assalaamu Alaykum Dr. Kahf,  
Eid Mubarak!

What are your recommendations for a Muslim living in the west to invest their capital? I know you had mentioned to me earlier that trading stocks, commodities, and currencies with an intention to profit from differences in value whether in the short-term or the long-term is not permissible.

Jazaka Allah Khayr.

FiAmanAllahRauf

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Speculation in shares and commodities as a behavior is prohibited, this includes day trading. Additionally there are contracts that are by their nature speculative such trading indices, CFD and the like. This is my opinion and I STAND FOR IT. But I have never said that establishing equity investment funds or ETFs is prohibited and my opinion does not rule out investment in shares, it rules out speculation and speculative contracts. But of course buying for the purpose of investing in a company and with expectation that it is growing, etc. is not ruled out. This means that all these Islamic indexes are very useful. As for commodities, the OIC Fiqh Academy rules out options (also for shares) and futures on the basis of being speculative too especially if you understand the spirit of the ruling and its underlying discussion and argument.

In regard to currencies, the matter goes beyond that. Currency sale and buy is permitted exceptionally to facilitate the needs of those who need to transfer from one currency to another. Internet and all speculative transactions on currencies do not correspond with

this need, this is why they are ruled out. Besides trading currencies on internet platforms (all of them) violates other requirement in currency sale (e.g., the whole concept of “pairs” contract is not Shari’ah compliant). This is not a methodology of increasing wealth!

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

Wa Allahu A’lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Walaykum As salaam Dr. Kahf,

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

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

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

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

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

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

Gold and silver are same as currencies because the Saying mentioned it. Jewelers buy, add services and sell. They are entitled to sell at higher than purchase prices although the market may turn against them sometime like any other trader. Sitting on the internet to buy and sell. In the Middle East small gold bullions are used as jewelry, the same applied. Of course there are people who do many things that are in violation of Shari’ah, especially among jewelers! This is perhaps why we find jewelers/goldsmiths classified as a bad profession in Fiqh!

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

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

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

Jazaka Allah Khayr for your comments Sh. Monzer.

FiAmanAllah

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ali

Sent: Saturday, September 19, 2009

Location:

**Question: purification of investment in shares**

Assalamualaikum

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

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

Ali

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ali,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Khalid

Sent: Monday, August 17, 2009

**Question: Stocks question**

Salaams Br. Monzer Kahf,

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

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

Salaams,

Khalid

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Khalid

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Commodity trading: Futures and spot**

From: Pengiran

Sent: Wednesday, August 12, 2009

**Question: trading Commodity on leverage in Islamic perspective**

Salam,

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

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

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

Regards,

Pengiran

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Pengiran

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Saquib

Sent: Thursday, May 14, 2009

Location: Andhra Pradesh, India

**Question: Pension plans**

Dear Dr. Kahf

ASAK

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

Thanks & Regards

Saquib

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Dear Dr. Kahf

ASAK

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

A pension plan in which the govt.

\* Itself pays after retirement, or

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

Is permissible.

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

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

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

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

Thanks & Regards

Saquib

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Saquib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

On another ground, please find my answers in red.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Rauf

Sent: Thursday, March 19, 2009

**Question: Options and futures**

Assalaamu Alaykum Sh. Monzer:

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

Jazaka Allah Khayr.

Rauf

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Abdulkarim

Sent: Saturday, March 14, 2009

**Question: CFDs**

Dear Mr. Dr. Monzer Kahf

Assalamu Alaykum

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

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

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

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

I am a student and study finance at Liechtenstein University

Kind regards, Wa Alaykum salam

Mr. Abdulkerim

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Abdulkerim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ibrahim

Sent: Wednesday, March 04, 2009

**Question: Borrowing money to trade stocks**

Assalamalaikum Dr. Kahf

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

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

Jazakallah

Ibrahim

Assalamalaikum:

Just wondering haven't received your response.

Jazakallah

**My Answer:**

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Best Regards,

Wassalam

Monzer Kahf

Bismillah al Rahman al Rahim

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

Dear Br. Ibrahim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Suhail

Sent: Monday, March 02, 2009

Location: RAK, UAE

**Question: Investment in funds**

As-Salam Alaykum wa Rahmatullah wa Barakatuh

Respected Sheikh

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

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

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

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

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

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

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

I look forward for the valuable reply.

With best regards,

Suhail

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Suhail

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Omair

Sent: Thursday, February 26, 2009

**Question: Employee Stock Purchase Plan (ESPP)**

Bismillah,

Assalamualaykum wa Rahmatu Allah

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

1. My company allows voluntary contribution (1% -15%) of paycheck to be contributed towards ESPP.
2. There are two enrollment periods usually "April-May" and "Oct-Nov" to enroll in next available ESPP contributions
3. First ESPP contribution period starts from Jan 1st to June 30th and second period starts from July 1st to Dec 31st

4. For example I enroll in "April-May" open enrollment period to agree to contribute 10% of my income from each pay check withheld for ESPP starting from July 1st till Dec 31st.

5. 10 % of my income will be withheld by my company from each pay check from until ESPP period is over i.e. July 1st till Dec 31st. Money will be collected for six months in a stock account keeping that money inaccessible for me (Certain companies allow access). Let's say collected amount for those six months is \$3000

6. On Jan 1st following the contributions from six months, my company buys my company stocks on the lowest of the two prices so for instance on July 1st my company stock price was \$12 per stock (closed price) and on Dec 31st the stock price was \$10 per stock at close of the market.

7. The company will pick the lowest price on above two dates which is \$10 and give 15% additional discount making my purchase price \$8.50 and buy \$3000 dollar worth stocks and depositing 350 company stocks in my Stock funds brokerage account (such as etrade etc.).

8. The value of those 350 + stocks will fluctuate according to the market until I sell them at a certain price.

9. Keep in mind that enrollment is voluntary but once I enroll in the ESPP I can't change contribution percentage or stop until that six-month period is over. I can stop or change in the next enrollment period which is either April-May or Oct-Nov but not the current one.

10. Some companies also allow employees to choose if they don't want to buy stocks on a discounted price with all the collected money but their deadline is usually two weeks before ESPP ends. For instance, I am contributing 10% every paycheck from July 1st to Dec 31st. The company is supposing to buy lowest price stock on July 1st or Dec 31<sup>st</sup> but on Dec 18 I change my mind and keep the collected amount withheld every month without purchasing any stocks with them. That cash is available if I choose not to proceed but once Dec 18th passed I can't make any changes.

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

Should you have any other questions in order to clarify the above, feel free to email me.

Jazakum Allahu Khayran for your help.

Wasalaamualaykum wa Rahmatu Allah

Omais

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Omair

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't see any Gharar in it, I rather see a Wakalah matter and a concession from the company to give you even a discount below the lowest price of the share. It is a fringe benefit added to your salary. When you accept this plan, you are not buying at an

unknown price (an element of Gharar) rather you are giving a n agency to another person to buy for you at the best of these prices, add to it the company is even giving you an added 15% discount. In my opinion this plan is permissible to offer and to accept.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Sent: Monday, January 26, 2009

**Question: UK Government N&S Premium Bonds**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

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

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

Visitor Question:

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

Jazakum Allahu Khairan for your constant help

Yours,

Ahamd

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmed,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2008**

From: Edgard

Sent: Wednesday, November 26, 2008

**Question: question on day trading**

Assalamu Alaykum Dr. Kahf,

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

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

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

Jazakum Allah Kheir

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Edgard,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Edgard

Waalaikumassalamy Dr. Kahf,

Jazaka Allah Kheir for your answer.

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

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

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

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

Edgard

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Edgar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Fatwa is an opinion of a human being, based on the best knowledge of its giver, it binds no body. It is up to any one of us to select whom to ask and what opinion to accept in one's own application and behavior. There are points that have unanimous or at least majority convergence, and of course there are matters otherwise. This is why the Prophet. pbuh, made it the "Ijtihad" of the person when he suggest that one must check

with one's own heart no matter how many and what one gets from Fatwa givers. He further made it such that: "The sin is what linger in the chest and you fear it's been seen by other people"

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

I know that speculation is a thing that is not really consistent with the objectives of Shari'ah and I also know that it is sometimes difficult to put a line between speculation and trade or grabbing opportunities. I also know that in all Shari'ah scholars meetings we always look at speculation negatively. But there are contracts, and functions that are apparently speculative one of them is day trading in stocks, commodities and currencies.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Edgard

Assalamu Alaykum Dr. Kahf

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

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

**My answer:**

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

On the other hand, every merchant buys things to sell them at a higher price, anything wrong in that? Some people thought so and considered that merchant do not

contribute any added value and they are only parasitic! That is not the Shari'ah position. Merchants do provide value-creating service by making the items reach their users. Of course merchant's behavior can be non-monopolistic and it is very often so. Merchants provide services and they are compensated for their services by the difference between prices of purchase and prices of sale.

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

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

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

**My answer:**

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

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

**My answer:**

Why should this pressure be source of value when there is no change in the production and productive capacity of the company? It is known that company's performance is very different from stock performance, don't you realize it? Suppose a company retains profits and expands projects, that is a genuine source of capital gain that reflect real change not simply speculation.

Do you see a value added in the behavior of funds pouring into a liquid market (stocks, derivatives, currencies and commodities)? And what if the market restricts sale to be only after 60 days of buying? And we do not allow short, margin and financing would life be in fact better and these investors' funds will then divert into a productive market, expanding the production capacity.

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

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

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

**My answer:**

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

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

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Sent: Tuesday, October 21, 2008

**Visitor Question: Is 401k investment halal?**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Following is a financial question:

Question:

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

deal with loans etc. So would that apply with my 401k or other Islamic Mutual funds?  
May Allah reward you!

Jazakum Allahu Khairan for your constant help

Yours, Sami.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I'm usually set off by persons who do not give their first name because I don't like to speak in vacuum! I give you my name and expect you to be honest in giving a first name. The principles of investment that apply on personal accounts and personal ventures are the same in Shari'ah as apply on investment through committees and other forms of delegation of authority to fund managers and the like.

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

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

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

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

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From: Ahmad  
Sent: Wednesday, October 08, 2008

**Question: Stocks and day trading**

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

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

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

Thank you.....Al Salam Alaykum

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ahmad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: mohamed  
Sent: Thursday, July 24, 2008

**Question: shares trading**

Salaam

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

Let's look into this in detail. First of all, stock market is not about investment. It is about stock trading. Just like any other commodities like rice, wheat, etc. Companies stocks are traded here.

Is it allowed to trade stocks? If so how is it different from currency? If so how is it different from interest? You cannot say you will get back the money when u r lending

for interest. In today's scenario, u may not get back at all. That is also a risk. So is it acceptable to give for interest when u may or may not get back the debt amount in today's scenario?

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

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

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

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

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

I am not saying investments cannot be made at all. You can always invest at real value. What it's worth and not gambles with 3% or 5% or 15% above. The reason is because people are willing to gamble at higher percentages, slowly and slowly money from actual economy gets into stock market thereby affecting the real economy. The rich who can invest keep on getting richer while the poor who is working in real economy is getting poorer. (Although not everybody gains in stocks. Some gain and some lose).

Also after being an investor you don't have any say in the company... It is all done by the board. They lie and cook the balance sheet and do all sorts of things to have the share price increase.

Who gets the benefit when companies go bankrupt? What about corporate bond holders' role? How do they fit in this scenario? Do we know all this? What about corporates that have huge debts and assets those are outside its balance sheet? How are they valued in stock prices? Do we know all those?

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

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

Regards

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

1. Riba, in finance, is a conditioned increment in a debt whether when it is initiated by a loan or when you change its maturity forward (rescheduling) or backward (discounting). This definition is derived from the Qur'an [2:275] that prohibits Riba while permits Sale. This is exactly interest as known in today's world. There is no distinction between high rate and low rate as verse 2:279 prohibits anything above principal. The reason of prohibition is because it is Zulm (oppression or a positive act of injustice). If you look closely you will notice that a debt does not create increment in reality. This means that any presumed increment is not real and it must therefore come from the property of other persons (take a close look at Verse 30:39 and think of its meaning. Hence, interest is not prohibited because of speculation or because it is taken from the poor because of risk or lack of it.
2. A price in the market is determined by both supply and demand not only by supply alone.
3. A share (stock) represents a part of a company. Owning a share means owning a part of a company with all the right of the rights and obligations involved in such ownership. When you own a share you become a part of the ownership and management of the company and the board of directors acts on your collective behalf along with other owners. If one neglects one's right to vote the BOD still acts on one's behalf because it continues to be the representative of owners of shares.
4. An owner is absolutely authorized over the owned property. One can do whatever one pleases with one's property. If this property is permissible to own, according to Shari'ah, it is also permissible to sell and trade even if it is only a common indivisible share of a quantum. This means that as long as share represent parts of permissible companies, they are permissible to trade. Prices of shares shall be affected by supply and demand not only by the balance sheet or book valuation of the company; it is the market valuation that matters. Demand is of course affected by many factors part of the quantity of property available in the hands of people that are used for this trade.
5. Unless a government disallows, by law, quick sale after a purchase, you cannot prevent quick trading of share that creates speculative trading. We have examples of

quick sale after purchase, even with making high profit in the market of the Prophet, pbuh. To claim prohibition is very difficult.

6. We hate speculation in shares and any other properties commodities, services. Speculative trading may create quick profit but in most of the cases it is zero sum practice in which the profit comes only from the loss of another person. I agree with you that most of transactions in the financial market are speculative and bad but they are very difficult to prohibit them in the actual market. Besides, when you buy in the secondary market you may be really an investor and your action is to own a part of a company and be a part of its activities. Buying from an old shareholder also liberates the funds of the latter for new investment (or of course another speculative trade). But the action of the other person is in that person's hands not in yours.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Options, derivatives, CFD and Betting on Shares**

From: Samy, Islam on line

Sent: Monday, June 30, 2008

**Question: Betting on Shares**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

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

Jazakum Allahu Khairan for your constant help

Yours, Sami Ahamd.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Syed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

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

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From: Jesal  
Sent: Monday, July 21, 2008

**Question: Query on Bonds**

Dear Sir,

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

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

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

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Jesal,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Hijaz  
Sent: Friday, June 06, 2008

**Question: Investment in Insurance Company**

Assalamu Alaykum,

I'm under graduate, B.Sc. Accountancy, from Sri Lanka. In my country an insurance company has just announced its IPO (Initial Public Offering). I want to know is it acceptable in Shari'ah to invest in an conservative insurance company's IPO as well as

usual share investment. Please provide me solution for questions in the light of Shari'ah. Thank you.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Hijaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Rauf

Sent: Wednesday, April 30, 2008

**Question: Investing in indices**

Assalamu Alaykum Dr. Kahf:

InShaAllah all is well!

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

Jazaka Allahu Khayran for your advice.

AssalaamuAlaikum

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rauf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ahmed

From: Asad

Sent: Tuesday, April 29, 2008

**Question: Margin trading and credit card use**

Assalamu Alaykum,

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

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

Wassalam, Asad

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asad

Assalamu Alaykum,

Dear Scholar,

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

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

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

Happy Eid (in advance).

Jazaka Allahu Khair. Wassalam,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Asad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asad

Assalamu Alaykum,

Dear Prof. Dr. Monzer Kahf,

I highly appreciate your prompt response.

Having a global Islamic financial system would require time, money and effort in that direction. Today's financial system, based on interest, is crumbling, but there is no alternative system in place at such scale that would replace it. A gradual change (such

changes usually take time) may help towards establishing a profit-creating system intended for the welfare of everyone—a truly global Islamic financial system catering to the need of everyone.

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

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

Jazaka Allahu Khair.

Wassalam, Asad

**My Answer:**

Dear Br. Asad,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Day trading, indices and speculation**

From: Sharjeel

Sent: Tuesday, April 15, 2008

**Question: day stocks trading**

Assalamu Alaykum Wa Rahmatu Allah

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

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

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

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

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

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

Waiting for your reply, Wassalam.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Sharjeel

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Faatima

Sent: Monday, April 14, 2008

**Question: Having stocks in companies that deal with Haram**

Assalamu Alaykum-wa-Rahmatullah-wa-Barakatuh

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

May the almighty reward your efforts.

Wasalaam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Faatima

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

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

Wa Allahu A'lam

Wa Al Hamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Mutual funds and retirement schemes**

From: IRFAN

Sent: Thursday, March 20, 2008

**Question: TATA Mutual Fund**

Dear Sir,

Assalamu Alaykum,

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

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

Thanks

**My Answer:**

Dear Br. Irfan

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

Best Regards,

Wassalam

Monzer Kahf

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From: IRFAN

**Question:**

Dear Sir,

Assalamu Alaykum,

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

[www.tatamutualfund.com/product/tata-growing-economies-infrastructure-fund.asp](http://www.tatamutualfund.com/product/tata-growing-economies-infrastructure-fund.asp)

JAZZAQ ALLAH,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

As a small investor, the Fatwa states that if the company you are buying its shares has a permissible MAIN LINE OF BUSINESS, and does some non-permissible activities within certain tolerable limits (some Scholars take it as 5% of its activities, you quoted some others saying 20%) then it is permissible to invest in its shares provided you estimate the percentage of total gains that comes from Haram and give it away to Muslim charity.

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

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

HARAM IN THIS FUND. To do so you need info about each stock the fund management invests in!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Samy, Islam on line

Sent: Wednesday, March 19, 2008

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

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

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

Yours,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Hamidah

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

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamed

Sent: Tuesday, March 18, 2008

**Question: Visa IPO**

Slam Dr Monzer,

I ask Allah that this email finds you and your family in the best state of health and Iman. Tomorrow Visa is turning IPO is it Halal for me to trade their stocks?

Slam

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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

From: Latif

Sent: Wednesday, March 12, 2008

**Question: buying visa IPOs**

Salaam,

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

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. LATIF

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Assistance activities of the stock market**

From: Rinsad

Sent: Monday, March 10, 2008

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

Dear Respected Scholar

I am a Computer Engineering graduate and a Senior Software Engineer by profession. I am working for a company which is developing Software which could be used to analyze the Stock Market prices and do trading in the real-time. We are basically supplying our applications for the Middle East, stock brokers. Our system allows price evaluation and

equity trading only (I.e. the customer should have a Buying Power). Our system also emphasizes 'Max Floor' price and 'Min Floor' price on stocks. I am involved in implementing our system basically, in the Saudi Market. In Saudi, most of the brokers are Banks. The customers should have an account with a bank for trading on stocks. The banks are basically conventional banks but they also provide an Islamic Banking channel. So, the customer can have an account in any of the channel.

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

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

1. Speculation
2. Manipulation

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

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

I am expecting your reply, Regards.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Rinsad,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ezatullah

Sent: Tuesday, February 26, 2008

**Question: shares in airport**

Salam Alaykum Sheikh

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

Jazaka Allahu Khairan

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Ezatullah

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Sent: Monday, February 11, 2008

**Question: Bonds in Islam**

Dear Br. Monzer Kahf:

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

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

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

[http://en.wikipedia.org/wiki/Revenue\\_bond](http://en.wikipedia.org/wiki/Revenue_bond)

<[http://en.wikipedia.org/wiki/Revenue\\_bond](http://en.wikipedia.org/wiki/Revenue_bond)>

The fact that revenue bonds are 1) backed by an asset and a specific stream of income; 2) meant for the public good (and not for private gain), and 3) do not provide certainty (the repayment stream which could be seen as interest, but could just as well be seen as a smoothed out profit stream is certain... but the principal is not certain! And of course, there is a risk of default.). This rationale here may not be perfect, but it is an honest attempt to meet the requirements. And as we both agree, no financial instrument- stocks included- is 100% Islamically correct since we simply do not live in an Islamic economic system, and likely never will in our life time. The markets are far too intertwined for even a place like Malaysia or UAE to exist on its own. The reason we hold stocks is NOT because we think they are 100% Islamically okay, but because we MUST hold them to have any semblance of a normal financial life. It is too impractical to shun them entirely, so we do our best to make the best choice Islamically from what is available to us. We can hold revenue bonds for the same reason- in fact; you may even consider revenue bonds to be more Islamic, because the money is used for public purposes.

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

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

Wasalaam,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Jamal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Bonds are interest-based, they are non-permissible to issue, own, buy or sell according to our Shari'ah. Stocks are shares in companies. Muslims are not permitted to produce or sell anything that is not permissible in Shari'ah; they are also not permitted to make any transactions that are forbidden by our Islamic laws such as interest-based transactions or sale of products before taking actual possession of. Of course what one cannot do must also not be done by one's agent. The management of a company is the agent of its owners. This means that you cannot be a part of a company in which the management does anything that is not permissible according to Shari'ah. This in fact

rules out any stock that is listed on the exchanges in America and Europe, etc. Because this position, true and correct as it is, creates a huge difficulty for small Muslim savors/investors, this ruling has to be relaxed as our religion always calls for removal of hardship. The relaxation should be as much as needed to remove this hardship from Muslim savors/investors. Some scholars studies this and came with a set of screening criteria for stocks in the US market: 1) the main line of business should be permissible (ruling out military industry, banks, insurance companies, Hollywood industry, Las Vegas industries, etc.); 2) interest and other prohibited income should not exceed 5% of net income of the company; 3) assets that are suspected of bringing interest must not exceed 22% and dependence on loans must not exceed 33% too; 4) each period, the investor must calculate or estimate educationally the percentage of both dividends and capital gains that is cause by Haram transactions and give that amount to Muslim charities in order to preserve one's money Halal and pure.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Treasury Bonds and other debt securities**

From: Mev

Sent: Thursday, January 10, 2008

**Question: Treasury Bonds Purchased by Parents at Birth**

Assalamu Alaykum Dr. Kahf,

My husband's father purchased treasury bonds in my husband's name when my husband was a baby as gifts to be cashed when he was an adult. Now in his 20s, my husband has school loans we are paying back so it was decided that my father-in-law would cash the bonds and send them directly to the loan provider to help lessen the school loan debt. Our question is whether we are obligated to "purify" the interest portion of these bonds by donating that amount to a charity? We are unsure of the answer since it was not my husband's choice to purchase these bonds, however obviously we are benefiting from them.

Thank you; we look forward to your response.

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Sr. Mev

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If these bonds are in your husband's name it is he who should cash them, he is the only person who can cash them and if anybody else (his father) cashes them it would be on his behalf. Accordingly, the person who should purify his properties from interest is your husband. The amount that is received as a gift, from your husband's point of view is the market value on the day he became authorized over these bonds. This day may be when he became 18 years old or when they were handed over to the owner if the day of

handover is after the day of completing 18. Therefore, the amount of purification that should be given to Muslim charity is the difference between the cashed value and the value on the day your husband became authorized over the bonds. Purification for the period before the presumed gift date is the responsibility of the father and it is in the amount that is equal to the difference between the gift amount and the original cost of the bonds as paid by the father many years ago. If the bonds were never given to your husband, though in his name and were always under the full authority of his father, the purification become the responsibility of the father and its amount is the difference between the original amount he paid for these bonds many years ago and the cashed value.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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

From: Augustine

Sent: Tuesday, January 08, 2008

**Question: Shares of Pharmaceuticals**

Assalamu Alaykum Dr Monzer

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

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

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

Salam Alaykum, brother Augustine

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Augustine

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The scheme as described is permissible to take. The matter of holding the shares, when you have a choice depends on the percentage of Shari'ah-Haram transaction to total

transaction. This may be measured by earned interest to total net revenues, total interest-based liability to total figure of balance sheet or total interest earning assets to total market capitalization value of the company. Amount of loans to turnover seems to be not high as mentioned in your email. You may like to check other measures too. If the ratios you find are high (there is no real definition in Shari'ah of what is high, it is a matter of tolerance, and depends on circumstances) you may then like to sell these shares as soon as you can otherwise you may keep them. One easy way may be by looking at the companies under Islamic FTSE index, is this company in this index or not? Under all circumstances, that is whether you sell quickly or keep, you need to apply the purification principle by giving to charity a ration of dividends and capital gain that you estimate as coming from Haram transactions.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2007

**Subject: trading stocks and real estate agents**

From: Nabil through Islam on line

Sent: Monday, November 12, 2007

**Question**

What do you think about Canadian and US stock market if I avoid all Haram business can I buy mining, soft-ware, medical company(stock).

Please I want to know also whether working as real estate agent in Montreal it s Halal or Haram?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Nabil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Helping people sell and buy real estates anywhere in the world is permissible and its commission is also Halal. Of course commissions must be known, contractual, open and transparent to the person you serve and take commission from. Kick-backs that are given behind the person you serve, such as what some take from finance providers, are not

permissible.

For trading stocks, here is an answer I just gave to another person:

1. Trading shares is not Haram, its income and also loss are not Haram either.

2. Besides, ZAKAH IS ON THE TOTAL MARKET VALUE ON THE DAY WHEN YOU ZAKAH IS DUE OF ALL STOCKS YOU HAVE PLUS ANY CASH AND DEBTS ON OTHERS.
3. It is not only on the gains you make.
4. Further, trading stocks may give you a profit but rarely gives the Ummah or humanity any considerable benefits because it is only speculative in most of cases.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: trading in shares**

From: Anis through Islam on line

Sent: Monday, November 12, 2007

**Question**

Salams dear Dr. Monzer

Kindly enlight me whether doing business share trading is hial or haram? Can zakat be paid from the income earned from the stock trading?

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Anis

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Trading shares is not Haram and its income and also loss are not Haram either. Besides, ZAKAH IS ON THE TOTAL MARKET VALUE ON THE DAY WHEN YOU ZAKAH IS DUE OF ALL STOCKS YOU HAVE PLUS ANY CASH AND DEBTS ON OTHERS.

It is not only on the gains you make. Further, trading stocks may give you a profit but rarely gives the Ummah or humanity any considerable benefits because it is only speculative in most of cases.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: question on Sukuk**

From: Aazam

Sent: Thursday, November 01, 2007

**Question**

Dear Prof. Kahf, السلام عليكم

I am Aazam from Iran. At the first thank you for the workshop in Tehran.

I have a question on sukuk.

If buyer of the asset differ from the lessee (in lease contract not lease-back) ,Can lessee select the SPV for issuing sukuk? Thanks

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Aazam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The SPV is not a part of the Shari'ah issues in Sukuk. It can be selected by lessee or any other entity like a financial intermediary depending on what function is assigned to the SPV. In the example you mentioned, yes the lessee can select the SPV so that it issues the Sukuk and be the agent of lessee to accept the lease contract from the Trustee (that represent Sukuk holders who own the asset), and to receive the asset and pay the rentals periodically to the Trustee.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Investment in stock market**

From: Drita

Sent: Wednesday, October 31, 2007

**Question**

Selamu alaikum we rahmetullah we berekatuhu

May Allah reward you about your articles, I have read some of them, they are very useful, I am trying to translate in our language one of them (Budget Deficits and Public Borrowing Instruments in an Islamic Economic System) its very interesting where I want my people to know the Islamic approach about this field of economy.

Professor I've got your email from <http://www.kahf.net> and I am very happy that I have a chance to ask you about that I am concerned

I would like to ask you two questions from which I want to have a direct question, and it would be good for me if you illustrate them with examples.

Is trading on the stock exchange Haram? Is it really gambling as some people say? and What is in fact The Dow Jones Islamic Market Indexes, where is the difference comparing with Dow Jones Market Indexes?

I want to have clear Islamic concept about them.

Thank you very much

respectfully

Dirta

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Dirta

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Before I can give you a permission of translation I need to know who you are, where are you and in what language you want to translate my paper into?

For the questions you had here is my answers:

1) investment in the stock market is not Haram because it is permissible to buy and sell parts of companies (shares represent equal parts of companies). Excessive speculative trading may raise a flag because its aim is only profiteering not really creating value. But the distinction between speculation and real trading is difficult to detect externally. Hence, it remains a matter of intention in the heart of the person and we can't claim that the action of buy and the action of sale is Haram.

2) The Islamic market indexes, D J and others are indices of shares that pass certain screening test. The idea: is we know that all companies that are listed in stock markets in major Exchanges undertake certain Haram activities. This immediately implies that a Muslim cannot invest in any such company because owning a stock makes you a real partner (with a vote in the General Assembly) in all the actions/transactions of the company that are always undertaken on the basis of delegation of authority from the general assembly to the management. This position creates hardship for all Muslims.

The rule in Shari'ah that hardship, whenever it relates to a large number of persons, call for relaxation of prohibition as much as necessary to remove such a hardship. Accordingly, each of these indices has its own Shari'ah scholars that develop certain criteria to determine how much tolerance there should be to avoid the hardship. The following is a general description of the bases of these criteria:

- 1) avoid a company whose main line of business is not permitted such as liquor breweries and conventional banks.
- 2) avoid companies that have a high percentage of its total net income coming from forbidden activities such as sale of liquor on airplanes, earning from interest, etc. this percentages ranges between 5% and 25 % from one index to another in accordance to what is perceived to be needed to remove the hardship.
- 3) avoid companies that have high percentage of assets that are suspicious to be interest-based in normal Western practices, these assets are total of receivables and cash.
- 4) avoid companies that depend on borrowing (leveraging) to a high level.

And finally after investing apply the purification principle: give to charity, preferably Muslim charity the amount of net profit (dividends and capital gain) that you estimate it is caused by Haram activities.

There is a variation of the percentages adopted by different indices' Shari'ah boards on the percentages in applying these criteria as personal assessment of tolerance differ and the structure of markets varies.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Drita

**Question**

Professor, Selamu alaikum we rahmetullah we berekatuhu

Professor, I live in one country where the majority is non Muslims, from one place from West Europe.

I would like to ask about trading on the stock exchange haram? Respectfully

Dirta

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Drita

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am glad to know you and your ethnic background.

PERMISSION IS GRANTED TO TRANSLATE THE ARTICLE and I am always there available for any further help. I also love sometime to visit your country that I hear is very beautiful and meet you and your colleagues.

FOR INVESTMENT IN STOCK, PLEASE READ AGAIN MY ANSWER, I NEVER SAID IT IS HARAM TO INVEST IN THE LOCAL STOCK MARKET IN YOUR COUNTRY. I SAID IT IS PERMISSIBLE. Yet we have to select companies that have the least Haram transactions like for instance avoid conventional banks' shares. Also after investment we have to estimate the percentage of profit that arises from Haram activities of the company (e.g., companies borrow in interest and earn interest) and give it away to Muslim charity.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Stocks and Shares**

From: sherif

Sent: Wednesday, October 24, 2007

**Question**

Dear MR Monzer

I have read all your FATWAs about stocks either in your site or islam online. But i did not find an answer for the following question: Can we short stocks and buy it same day? by this i do not pay any interest to the broker and he is only facilitate lending the stocks of other investor to me (Can the stock itself be borrowed?) Thanks and best regards

Sherief from Kuwait

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Sherif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My opinion is that a stock can be borrowed for a short period, so if it is for the day, yes it can be borrowed. There are others who argue that stocks cannot be borrowed because the content of a company and its market valuation are continuously variable so that

what you return is different from what you borrowed. There are also others who allow borrowing with no limit on the ground that stock are equal shares in a company. This last one has no foundation in Shari'ah in my opinion because the Shari'ah always looks at what does a security represent, the security itself is just a piece of paper or an entry on computer.

Accordingly, my answer to your question is that it is permissible to short a stock with no interest and with settling it by a buy in the same day, or within a few days.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: ADVICE investment in stocks and preferred shares**

From: Imtiaz

Sent: Thursday, October 18, 2007

**Question**

Assalaamu Alaikum, I pray that all is well with you and yours.

Could you give the Islamic position of investing in a company that has both preferred and ordinary shares. May Allah bless you. Wassalaamu alaikum

Imtiaz

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Imtiaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is good to hear from you in such a long time. Investment in common shares does not depend on whether the company issues or not preferred shares. It depends on the main line of activities of the company and how much of its transactions violate the Shari'ah rules, issuing preferred shares is one of these violations but it may not be a major contributor to its income especially if the actual profit distribution to every share happens to be more than the guaranteed percentage for the preferred shares so that this guarantee clause is not invoked. You need to know more about the company's business to determine whether it is permissible to invest in its common shares.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Question on stock trading**

From: Osman

Sent: Monday, September 17, 2007

**Question**

Dear Dr Monzer, Al Sallam Allaikum Wa Rahmat Allah Wa Barkatu.

I hope that you will excuse me emailing you out of the blue like this but I am hoping that you can help me with a few questions that I have not been able to find a conclusive answer to on Islamic websites. From my research on the internet, I came across your name on Islam Online and thought that you might be able to help me since you seem to have a lot of knowledge in the area of financial matters.

I live in the west and I am a partner in a business with a non-muslim that is in the financial trading industry. We sell courses that teach people how to analyze financial charts to make buying/selling decisions. The industry term is ""Technical Analysis"" and it is something that is used in Muslim countries as well as western countries to analyze financial markets.

Technical Analysis is fairly well known so I have not included a thorough description of it but please let me know if you are not aware of it and I will try to provide a balanced summary.

Although the methods that we teach can be used to analyze any chart in general in addition to any stock whether sharia-compliant or non-sharia compliant, the focus of our business is currently on people that are involved in short term trading i.e. day trading although the course teaches people to work with any time frame.

The business has 3 products:

1. A technical analysis course that teaches investors how to analyze financial charts of any market whether sharia-compliant or non-sharia compliant.
2. A service that advises people of potential trading opportunities in the index futures market. We don't give specific buy or sell recommendations but we give market analysis using the methods we teach e.g. we tell people that there might be a change in market conditions in the afternoon around 3.00 PM which could make for a trading opportunity, but we don't tell them to buy/sell.
3. We have online training sessions where we show people how to apply the methods on the markets. The primary market is a day trading futures market and my partner who is responsible for trading, does sometimes day trade with his own money.

My questions are:

1. Since the focus of our business is on teaching people how to use the methods for day trading (since this is the main market in the west), am I doing something haram and if so, how can I change things so that I can have peace of mind that I am not doing anything wrong? Should I for example concentrate on teaching the methods to a general audience and its then up to them to use it on other markets and sharia-compliant or non-sharia compliant stocks or am I OK selling the course to people that are interested in day trading as long as I am not day trading myself? Should I only take profit from the services that would be OK with Islam.

I have invested my own money in this business and it is what I would like to do in the long term but how can I make sure that I go about this the right way? Do I only take profits from selling courses that don't teach people to day trade i.e. do I create a course that can teach people to analyze charts in general and then leave it up to people to use it at their discretion?

The biggest problem is that the target market in the west is mainly non-muslims so in order for the business to continue to exist, the business needs to target people that day trade (from a marketing point of view).

2. Is it permissible to make buying/selling decisions on stocks strictly based on technical analysis if the stocks are sharia-compliant? Example, an Islamic stock research company recommends a number of stocks that are sharia-compliant, can I analyze the relevant charts and make buying/selling decisions based on then price movement on the charts? Technical analysis is not about guessing what the market is going to do but it is about carrying out thorough research before making informed decisions.

Also, would it be OK to only hold on to the stock for a few days or a few weeks? I understand that investing in stocks is permissible because it is looked upon as an (long term?) investment and I am not clear on whether short term trading of a few days or weeks is also prohibited because it might not be considered ""investment"" and is just buying with the intention to sell once the prices increase or the price of the stock appreciates in value. I am not clear since I think that everyone buys in the hope of selling at a higher price.

I should be grateful for your help and please accept my apologies for the long question. This issue has been really bothering me because I am worried that I might be doing something inappropriate. I have been as honest as I can in my description of my business and I hope that you will be able to give me advice.

Jazak Allah Khair

Osman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Osman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I think the issue you are raising is important and we need to address it intelligently: first day trading and second technical analysis

Is day trading permissible?

1. Trading stocks (that are permissible to own from Shari'ah point of view) is permissible because they represent shares in the ownership of companies. This is established in the classical Fiqh and it is affirmed by an OIC Fiqh Academy resolution in the year 1412H. This generality does not really distinguish between short term and long term. In other word, the fact is that there is no difference, at this general level of permissibility, between day trading and other trading of stocks. We have incidences of day trading in tangible goods at the time of the Prophet, pbuh and there is no evidence to rule otherwise in regard to stocks.
2. But there is in fact a difference between stocks and other tangible goods, that is: stocks are in fact not wanted for their own utility, they are essentially wanted because they represent a productive system that is a company that creates new value (goods and services). Does this change anything in the permissibility? from one angle, it should not make a change because suppose the whole company is represented by

one share, can it be day-traded? I don't see any evidence to prohibit this kind of trades, with intention or without intention.

3. Yet is day trading a transaction that creates value or merely speculates (the role of technical analysis is to allow us to use scientific method for speculation) on quick price changes? It seems that it is really difficult to argue that there is a real value created in day trading. Suppose we take a machine (it is wanted only for what does it produce, remember a share is only a veil and we look at what it represent, hence, a machine may be a good approximation) and action it for sale, then the buyer return it for auction again and the next buyer does the same and this is repeated a hundred or a thousand time, does all that add anything to its productivity?
4. in other words, I mean to reach a conclusion that: while it is difficult to claim any prohibition of day trading, we look at it with disfavor, it is profiteering from almost pure speculation. And we call on governments to narrow its availability to a large extent. It is a thing that is not Haram but may be very much disliked.

The Technical analysis?

1. It is a tool that can be used for any kind of trade. It can't be argued that it is not permissible to found decisions of buy and sell on a given technical analysis.
2. Like any other tool, if its only use is for a prohibited action, it is prohibited too. But most tools have permissible use and some people may abuse them or use them for wrong objectives. This does not change the permissibility of the tool.
3. Besides, since day trading is not Haram, teaching its strategies and researching its techniques are also not Haram. They may also be disliked if the only use of a course is disliked but if it is applicable to multi-uses it is not Haram or disliked although some persons may use it for a bad action.

tried to make it clear and may have failed! These are thoughts on the issues, please come back with any comment or clarification

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Osman

### **Question**

Dear Professor Monzer, Jazak Allah Khair Wa Rabana Ya3tik Al'siha Wa Al'afia.

Thank you for your time in answering my questions, it is greatly appreciated. I would like to excuse you with 1 last question related to the nature of my involvement in the business.

The nature of our marketing involves a lot of cross promotions or joint ventures, that typically fall under 2 scenarios:

1. Scenario 1: We locate another company or individual that has a database of people interested in trading whether that be futures, socks or forex and we offer the database owner a commission if they would promote the course to their database.

The promotions focus on the area of interest to the database e.g. if the database is made up of people interested in futures trading, we say that the methods can be used

for futures trading in our sales letters. The emphasis on the effectiveness of the methods in futures markets for example, is not general in nature but is very much specific and we do it with the aim of matching the benefits of the methods to their futures trading requirements.

We also promote the newsletter, which acts as a learning tool as well as an additional source of revenue, to people interested in futures trading (which I believe is not permitted to Muslims along with options).

2. Scenario 2: Since we approach other people to promote our course, we also get approached by others in order to promote their products. The primary products in the trading industry are either educational in nature as in courses teaching people trading in different markets or products being promoted by financial institutions as in brokers trying to get people to open trading accounts with them.

We get a commission in return for any sales we help to generate.

**My question is:**

Under my capacity as the partner in charge of marketing in the business, is it prohibited for me to specifically market the methods to people trading in futures, non-sharia compliant stocks, options and forex? 99.99% percent of our target market in the west are non-muslims!

If you were in my shoes, what would you do to run this business with a clear conscience? I am trying to strike a balance between running a business that I depend on to make a living while making sure that the business does not compromise any Islamic rules.

Jazak Allah Khair and I can't find the words to describe how grateful I am for your time. I have looked so hard for so long for answers to my questions since I have really been worried by them and you are the first person that has so far taken up the time to help me.

Thank you once again for your time and help and Insha'alla Rabana Ya'barik Feek Wa Ya'Jallak Min Ahal Al'Jana. Sallam,

Osman

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Osman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It seems to me that there is no difference between Muslims and non-Muslims when it comes to helping in a prohibited transaction. If the transaction is prohibited for us Muslims (example future forex) it is also prohibited to give a product, like training, to those who practice it even if they were not Muslims. Its non-prohibition for them under the Islamic law is not based on a relative concept of morality but rather on respect of individual freedom and a principle that is special to 'Shari'ah of declining from imposing our values on those who do not believe in our faith. In other word, future forex is as bad for non-Muslims as it is bad for Muslims (so is liquor or tobacco), but out of respect of their freedom and their religion we do not impose our values on them.

The implication of the preceding argument is that helping them in matters that are specific to doing any thing that is forbidden in our religion is not permissible also as if it were helping a Muslim committing this same sin.

On the other hand training and programs that can be used for say either spot forex or future forex are not Haram because then we are talking about a common tool that leaves it to the user to choose its application. Also offering your mailing list to other organizations is permissible with the consent of addressees, unless it is used to promote a thing that is specifically prohibited in Shari'ah or a thing that can only be used for a prohibited function or transaction. here again if what is promoted has multiple uses, mixed Haram and Halal, its promotion is not prohibited.

If I were in your shoes, I would shift to Islamic banking and finance plain and pure!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Shares and Investment**

From: Yusuf through Islam on line

Sent: Wednesday, August 15, 2007

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh, May Allah swt reward you for your efforts regarding this website. My question is about shares and investment. I work for a healthcare company and we have a company share scheme. Every month we are able to purchase up to £125 worth of shares and in addition to this the company gives us an additional £125 worth of shares as an Employee benefit. The shares are held in trust for a minimum of 3 years after which it is transferred in our name and we are able to sell them at the current market price. If we hold the shares for an additional 2 years we are able to sell them free of tax. During this period we also receive dividends. Is this kind of investment halaal? Thank you for taking the time and reading my question,

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Yusuf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This kind of scheme is permissible to give for a Muslim company and permissible to take for a Muslim employee. For you as an employee, the company's matching amount is a gift or bonus from employer, it is permissible, the amount you invest is also permissible and holding it for 3 or 5 years for certain benefits is also permissible as long as it is contractual.

One point you need to consider, important as it is, it is the purification principle. You did not tell me what kind of company your's is. Let us say it is health insurance, then there may be a good amount of its net revenue coming from interest and other prohibited

sources, this percentage you need to estimate, out of its dividends and capital gain and give it away to a Muslim charity. even if your company is a hospital such revenues are a possibility. YOU NEED TO CLEAN YOUR OWN MONEY FROM THE EVIL OF HARAM by estimating to the best of your educated guess and ability, the percentage of this Haram and give it to Muslim charities.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: question on investment in stocks**

From: Salahuddin

Sent: Saturday, July 07, 2007

**Question**

لَسْ أَلَمْ عَالِيكُمْ

Is it haram to invest in businesses such as Airline companies because they offer pork in their flight meals? Also, I prefer not to gain any interest on my money in the bank, but someone told me that it is better to put it in any interest gaining fund and give the proceeds to the poor. Is this true? Thank you.

Salaheddin

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Salaheddin

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Investing in stocks makes you a partner in the company and responsible for the action of the management, legally and financially. Therefore, the principle that is established in the OIC Fiqh Academy resolution is that ""In principle it is not permissible for a Muslim to invest in stocks of a company that undertake any forbidden activity, contract or transaction. But because the application of this principle creates a lot of hardship on individual Muslim investors like you and me, a group of Shari'ah specialist argue that this hardship must be removed and a set of applicable criteria must be put in place so that Muslim investors can invest with an added condition that they must always purify their own investment by giving to Muslim charities the amount they estimate as resulting from non-permissible activities of the management of the company they invest in. The mentioned set of criteria aims at selecting the lesser of an evil by investing in companies that have the least of Haram. This requires exclusion of certain sectors such as conventional banking and insurance, entertainment, port and liquor industry, weapon industry. In addition the selection within the remaining companies is based on the percentage of the non-permissible activities they make relative to their total transactions such as the percentage if interest income, assets used in interest-bearing securities, degree of dependence of interest-based borrowing and the like. You must look at these criteria in details and apply them to the companies you want to invest in.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**Subject: Purchasing and Selling Stocks Online**

From: Muhammad through Islam on line

Sent: Thursday, June 14, 2007

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
Dear Scholar! Is it permissible to purchase and sell stocks online? And what is the opinion about scholars investing in Amana Mutual Funds, is it halal? Thankyou. Jazakallah Khair!

**My Answer:**

Bismillah al Rahman al Rahim

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

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1) Trading stocks on line or through brokers are similar from the point of view of their permissibility or non-permissibility. The matter is to select stocks that are permissible to buy and own. Here is a brief of an answer I gave a few days ago to a similar question:

The principle is: it is of course prohibited to do any amount of Haram, small or big. When you buy a stock you in fact become a partner with a voting right in the company and the management acts on your behalf and in your name, of course collectively. But since the application of this principle in the Western markets practically prevents any investment in any stock, we have to revert to a degree of tolerance that removes the hardship. This is a matter of discussion and of course personal understanding, perception and judgment of individual investors and scholars. in other words, the relaxation of the rule is not determined by any Shari'ah standard but only guided by the principle that you loosen the knot to the needed extent that removes hardship and therefore by the perceived degree of tolerance. Here I feel that the following guidelines are relevant:

1. Avoid companies whose main line of business is not permissible, although they may have some permissible activities such as conventional banks and insurance companies, liquor , etc
2. Avoid companies that indulge heavily in non permissible activities such as companies that heavily speculate on future prices like the defunct Enron. or companies that have high percentages of non-permissible income or assets used in non-permissible investments or depend heavily on interest-based borrowing.
3. When investing in other companies, estimate, to the best of your ability, the percentage of capital gain and dividends that are generated by Haram activities and donate the same to Muslim charities because this money is Haram for you.

2) I cannot give an opinion on any individual company, Amana or others, unless it asks me to inspect its activities and evaluate them from Shari'ah point of view. Hence, you need to see for yourself, as an investor, whether it really applies the above mentioned guidelines and make your own judgment accordingly.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Conditions in Trading stocks, options and futures**

From: Faisal

Sent: Tuesday, May 15, 2007

**Question**

Respected Dr. Monzer,

I hope this email finds you in the best of health and security. please help me finding the answer of this question.

I found the following answer given by you on [www.islamonline.net](http://www.islamonline.net) <<http://www.islamonline.net/>> dated 30/12/2003. the complete url address of the page is [http://www.islamonline.net/servlet/Satellite?cid=1119503543720&pagename=IslamOnline-English-Ask\\_Scholar%2FFatwaE%2FFatwaEAskTheScholar](http://www.islamonline.net/servlet/Satellite?cid=1119503543720&pagename=IslamOnline-English-Ask_Scholar%2FFatwaE%2FFatwaEAskTheScholar) by reading this page I have concluded following things:

(1) Future and option trading is not permitted in Islam

This is my opinion and this is the content of the OIC Fiqh Academy resolution of 1992.

(2) Spot trading of currencies ( also called forex trading) is allowed even on margin and both forms of trade i.e. buying and short selling if you buy and sell on same day or within 3 days as described by you even physical exchange of commodity was never meant. Kindly guide me whether the conclusion drawn by me are right.

This is not accurate: spot trading of currency is permissible if credit and debit of the full amount of exchanged currencies is done at the time of the contract. This debit and credit replaces physical delivery of both of them. Forex may be spot or future. When it is spot with the said condition it is then also permissible.

If the normal practice and market organizer's conditions require three days for effecting the debit and credit in the books then only in this case 3 days delay in debit and credit is tolerable. This means that 3 days transactions are considered Riba if the system works on debit/credit immediately or within same day.

Settling a transaction within the day is permissible although it creates room for excessive speculation that is not desired in Shari'ah and therefore avoiding or reducing it would be better

(3) i have also concluded that options are haram as really delivery of commodity is never meant to occur but if there is some sort of option that are deliverable in the true spirit but the buyer and seller as a practice (with mutual consent) do not exercise their option and settle the affair with net gain or loss arising because of price change.....will it make option Halal.....?

Making profit can only be by owning a real asset that has either physical intrinsic utility or intrinsic productivity (debts not included). Options are not this kind of asset. Therefore options cannot be bought for the purpose of creating profit although they are financial rights. This is the essence of the OIC Fiqh Academy resolution in this regard and I go by it. This consensual mutual settlement is exactly what exists in the market and it does not legalize options as an "asset" that may create profit according to Shari'ah.

Jazak Allah

Faisal

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Faisal

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Please see my answers below each point of your query.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading on margins and Options**

From: Faisal

Sent: Tuesday, May 15, 2007

**Question**

Respected Dr. Monzer.

I am really grateful for the answer provided to me. Can you please clarify the following transaction:

I buy one Euro with the help on dollar when the transaction rate is  $1.50 \$ = 1 \$$ . to make this transaction i pay 10 % of the money ( that is 0.15\$) right now and remaining will be paid say after 48 hours. Now after 36 hours rate move in my favour say at  $1.75 \$ = 1$  Euro, so I sell the same Euro at this rate and hence make a profit of 0.25\$ and simultaneously settle off my liability of remaining 0.90\$. Is this transaction halal

Regards Jazak Allah

Faisal

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Faisal

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Margin trading is not permissible because the condition is: debit of Dollar and credit of Euro at the time of transaction. In margin trading you are debited for only 10% (in your example) and also the other guy is debited for 10% (there must be no Shari'ah

justification for this margin taken from the seller, as it is not a part of the price, she is the receiver of the price. I understand why it is needed and done, the escrow idea, but if it is taken to guarantee the seriousness of transaction the same applies to buyer too, and this is the fact. This means no payment is done at all at a time that could have been done [this possibility is proven by debiting the margin, then you can debit the full amount!]). Other words, each of these two transactions (buying and selling even when we take them independently) includes Riba (the three day delay is considered Riba).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Faisal

Sent: Tuesday, May 15, 2007 7:09 AM

**Question**

Respected Dr. Monzer.

I am really grateful for the answer provided to me. Can you please clarify the following transaction:

I buy one Euro with the help on dollar when the transaction rate is  $1.50 \$ = 1 \$$ . to make this transaction i pay 10 % of the money ( that is 0.15\$) right now and remaining will be paid say after 48 hours. Now after 36 hours rate move in my favour say at  $1.75 \$ = 1$  Euro, so I sell the same Euro at this rate and hence make a profit of 0.25\$ and simultaneously settle off my liability of remaining 0.90\$. Is this transaction halal

Regards Jazak Allah

Faisal

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Investment through Mutual Funds

**Subject: Query on mutual funds**

From: Rhahir

Sent: Monday, April 30, 2007

**Question**

Dearest Dr. As-salamu alaykum

I want to know whether the "Mutual funds" and "Life Insurance policies" in India are forbidden in Islam or not. Thanks in advance,

**'y Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Thahir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

We have discussed this issue of insurance many times. In India it is more necessary for Muslims and Mosques than in other other areas because of the communal riots. We've always argued that insurance, of all kinds, is permissible provided we avoid interest in the contract and that only one kind of life insurance (the whole life) is based on interest.

Other insurances including life, cars, accidents, hazards and shipping all not based on interest.

For Mutual funds, there is no difference again between India and other countries. It depends on the permissibility of buying and owning the stocks in which the mutual fund invests. If these stocks are permissible, the fund is then permissible. If the stocks are tolerable with purification, the fund is also tolerable with purification and if the stocks are not permissible, the fund is also not permissible.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: What Is Haram and Halal Investment**

From: Sr. V. through Islam on line

Sent: Sunday, March 25, 2007

**Question**

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

Thank you so much for the help you provide on this website. I am a new canadian convert to Islam. I want to invest a large amount of money from my savings. I already hold stocks and bonds from before I converted to Islam. These investments are from diverse grouped investment funds chosen by my financial councellar (because I do not know much about finance) and they regroup investments in many different companies and governments. I am not sure whether they constitute Haram investments. Before investing this additionnal large amount of money in these funds, I would like to know what is Haram and Halal investment, and how can I make sure that my investments are Halal, how can I find this information. I do not know much about finance unfortunately and being the only Muslim in my family and not knowing much Canadian Muslims makes it very difficult for me to find information. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. V

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

To go into the details investment really takes a lot of time,effort and patience on your part. Let me give you certain clues and I suggest that you should attend some of the training courses that are offered on this issue.

The basic principles are the following:

1. Interest is prohibited in Islam, please refer to the Qur'an Verses 2:275-279 and several other verses too. This means that all government and corporate bonds are not permissible.

2. It is also not permissible to be a partner in a company whose main line of business is not permitted in the Islamic religion. This includes stocks of banks, insurance companies, entertainment industry, military weapon industries, liquor breweries, tobacco companies and the like

3. In principle, It is also prohibited to be a partner in a company whose management make interest contracts or any other production or contracts that is not permitted in Islam because the management acts on behalf of shareholders, to their benefit and in their name. But since the application of this condition exclude most companies and leaves very small room for reasonable investment by people like you and me, the rule of Shari'ah is that whenever it is harsh or very difficult to abide by a prohibition and such a hardship applies to a large number of people, the prohibition is relaxed to the extend that make normal living activities reasonable done with no difficulty. This degree of tolerance is of course relative and the close we are to the ideal situation the better we would be.

I suggest to you to consult the internet and search for ""Islamic finance"" and make some reading or go to my website and select some readings from it and acquaint your self with the principles of Islamic finance.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Day trading in Shares**

From: Nasir through Islam on line

Sent: Monday, March 12, 2007

**Question**

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

I have started day trading in stock markets.. Is it Haraam to trade in share. For example i buy some shares and sell when the price goes up.. Please advise me... I feel that a lot of factors are considered such as volume of shares, graphs resistance and supports etc... There is effort gone in day trading... so will you please let me know whether the income is Halal or Haram. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nasir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Day trading is mere speculation with due respect to all graphs and studies in the area. You profit from the loss of others, plain and pure! There is no increase in value. Yet I can't claim that it is Haram but definitely it is not a useful or value creating business/transactions.

On the other hand buying a stock, even with the intention to hold it for seconds, makes a partner in the company and there are conditions to become a partner in a company because as a partner you become a part of the actions and contracts undertaken by the management. Please consult the Islam on line Fatwa bank for criteria of stock that can be purchased by a Muslim.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: 401K saving and stock investment schemes**

From: Jan

Sent: Thursday, March 08, 2007

**Question**

Salaam Borthor,

I am 28 years old and i want to start putting money in 401k and IRA. But i dont know what Islam's porhabits like Interest when its comes to putting money in 401k and IRA. I went to a advisor and he needs interest definition and also is it ok to buy stock? I have email alot of Ismic scholars but havet recieved answer yet. please help. Khudahafiz.

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Sorry, Brother, I hit sent by mistake instead of save.

Please notice that both 401K and IRA are voluntary saving schemes. They benefit you by postponing taxes to a time when your income is most likely smaller and meanwhile you can invest all these savings and get return on them. Of course for these privileges, the government imposes certain limitations and const\rains on your accessibility to using these savings for consumption purposes and also to methodologies of investment that are available for you regarding these savings. This introduction is necessary to understand the Shari'ah position on these kinds of savings.

Here I summarize the Shari'ah points:

1. Shari'ah encourages you to save, invest and become rich of course without violating the Islamic tenets.
2. These schemes of 401K, IRA Keogh and the like are useful and have useful privileges that need not be sacrificed.
3. Money you save in 401K is yours the moment you save it (once deducted from your pays) and money contributed by employer has usually a certain period to become vested, so that money that is not vested yet, although you make the choice of investing it, is not yours until this period passes.

4. You are usually given a choice between different stocks and stock funds. Here you are required to make an educated choice based on two sets of elements: Shari'ah elements and profitability elements. Check with investment advisors of the second set of elements. The Shari'ah elements are as follows:
  1. The principle is to invest only in Halal stocks such as stocks of Islamic banks and Islamic insurance companies and any other companies that do not deal with any Haram product say like liquor or contract say like interest.
  2. Of course, none of these companies are available in the USA. The second best is to relax the condition and invest in companies that have the least evil and at the same time apply the purification principle by giving away to Muslim charity out of the increase in value and dividends an amount that you estimate coming from Haram products/contracts.
  3. A group of scholars suggested certain criteria to apply on selection of Stock that are permissible to invest in: a) the main line of business must be permissible, then avoid stocks of banks, breweries, insurance companies, casinos, etc.; b) income from Haram, especially interest, must not exceed 10% of net income of the company, c) assets suspected of having more likelihood to generate interest must not exceed 1/3 of total assets, d) the company must not depend on interest based loans for more than 1/3 of its funds available to it.
  4. Of course applying these criteria will be difficult for Funds that you can choose from in 401K and IRA but you can avoid bonds funds, and funds that are heavy in the finance, entertainment, food and the like sectors. That still leaves a lot like health, social funds, technology, environmental sector, energy, etc.
  5. Look at the reports of the funds offered and choose those that are profitable while having least Haram and give of the return a generous amount such as 30% for charity, this number must cover any Haram activities that may exist still in the good selection of funds.
  6. The Zakah issue: These savings are subject to Zakah as part of your assets that are subject to Zakah. Zakah is the third pillar of this religion and must be paid every year if one has the Nisab (# US\$ 1000). Hence, if the total of these savings (minus unvested funds) plus other items like saving and checking accounts, gold and silver, cash, debts on others, etc, becomes 1000 Dollars you Zakah year begins and after 354 days you are required to distribute the due Zakah. Delaying its distribution is sinful except for the assets that you cannot liquidate without a loss. Hence, you have the choice of either pay Zakah on 401k and IRA from your other resources or delay the payment on these savings until you start withdraw, but remember then you have to pay the amounts of Zakah due for all past years.

Please come back again if my answer was not complete.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading Stocks**

From: Muaad

Sent: Monday, February 19, 2007

**Question**

Salamu Alaikum Dr. Kahf,

Jazak Allahu Khairan for answering my previous question regarding "Dealing with Interest". You mentioned that I would find the income from interest a company receives through their Revenue or Profit/Loss Statement. Forgive me I am still not sure where to find this. I have reviewed the Income Statement and do not see anything that clearly indicates interest as an income. If there is a technical financial term for this, I would truly appreciate if you could point me in the right direction.

Secondly, and more importantly: I have read most of your fataawa regarding trading the financial markets (equity, options, futures, forex, etc.), and you have mentioned that in the equity market, as long as the company meets the criteria you have stated ( i.e. Industry, Debt/Equity, Income from Interest, etc.) then it is permissible to trade, and I have also read others asking you about day trading with cash accounts, and your response has been in the positive. However, although equities are not considered futures contracts, what is one to make of the settlement dates (usually 3 business days - T+3) that take place after entering and exiting a position?

For example, if I purchased stock ABC today, although it would be credited to my account immediately, my broker would take up to 3 business days to ""deliver"" the shares from the seller I purchased from. So, if I decide to sell my shares sooner than that, is this permissible? If the stock drops in value and I need to protect my capital, or the stock rises in value and I am ready to take my profit in a shorter period than 3 business days, is this permissible? Or do I have to wait for the stock settlement date regardless of my open profits or losses before taking action? The same process takes place with the capital after selling a position - it can take up to 3 business days to settle in the account, in which you can use it to make another purchase. For me, I am using much less capital to trade than my total current account value is worth, but this may change in the future.

Again, Jazak Allahu Khairan for your time. Salam,

Muaad

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muaad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

A lot of information gets lost when closing accounts are consolidated. Every company that is listed on the Exchange has consolidated accounts but to see the ingredients of these accounts you have to dig more. It is your responsibility or you will have to depend on those who studied these components such as the Dow Jones Islamic market index. I don't have this info and I can't give help you in this regard. On the other question, day

trading requires that you get hold of the stocks you purchase in your account before you can sell them. This you have to arrange with your broker. Brother be assured that you are not the only one who makes day trading and the brokers have arrangements for these matters.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading on the Stock Exchange**

From: M. through Islam on line

Sent: Tuesday, February 13, 2007

**Question**

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Is it haram to trade on the stock exchange (aka the share market)?

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. M.

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is permissible to trade stocks provided with two conditions: 1) one must trade only permissible stocks. there are certain criteria about permissibility that include the permissibility of main line of business and that the company is not loaded with no permissible transactions/contracts, and 2) that the trading (of stock) contract is permissible. For instance the AAOIFI (Auditing and Accounting Organization of Islamic Financial Institutions) resolved that buying stock on future delivery or on a loan from broker are not permissible.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Applying the purification when Trading Stocks**

From: Muaad

Sent: Tuesday, January 23, 2007

**Question**

Salamu Alaikum Dr. Kahf,

I am currently trading stocks for a living and have read your fatawa regarding trading the markets. I have a few key important questions regarding the three agreed upon key points you mentioned in your fatwa.

First, as far as the Debt/Equity ratio is less than 1/3 or 33.3%... this is calculated by taking the total Short-term and Long-term debt over the Shareholder's equity, correct?

Secondly, you mentioned how one must calculate the interest recieved by company as an income. I am not certain where to find this number. I have looked through the balance sheets and key stats of the company. Please direct me in the right place.

Lastly, which is the point I am most concerned about, you mentioned how one must purify his money of this interest by giving that percentage of his profits as charity (preferably not to an islamic center, etc.) How exactly does this work? I trade actively, closing anywhere from 3 - 7 trades a week. Do I need to take that exact amount after each profitable trade and set it aside in my account, then take all of that together and give it to charity? Or can I take this total at the end of each month or at the end of each year and then dispose of it? Of course my concern is that if I do it on a monthly or annual basis is that I am using my total profits (which indoubtably includes the haram portion) to make more money in the short-term before disposing of the haram portion.

Forgive me I am not yet as well versed in the various financial and Shariah concepts as I aspire to be. Jazak Allahu Khairan for your time,

Muaad

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.Muaad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You are correct on the calculation of first ratio.

Interest earned will be found in the revenue and expenses (or profit and loss) statement, of course you don't find it in the balance sheet.

The principle of purification is giving what you don't own to Muslim charity preferably not for construction or administration of a Mosque. There must be no inconvenience to you when you make this calculation and disposition. Some Islamic funds make it every quarter, but if it is easy for you to make every month, that is definitely better, don't be preoccupied by minute differences in days and pennies, these are normally covered by generosity in rounding up your estimation.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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# FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2006

**Subject: investments and mutual funds. Etc.**

From: zarine

Sent: Thursday, December 21, 2006

## **Question**

Dear brother Monzer, Assalaam Alaikum wa rahmatullahi wa barakaatahu,  
Considering all my options, I have disposed off the flat. I got no profit as I had to sell at less rates, but there was no net loss either.

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

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

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

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

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

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

## **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Zarine

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I am not aware of any Islamic mutual fund that guarantees the principal and there are nowadays Islamic banks and finance companies in most parts of the world that provide financing to persons and companies in accordance with Shari'ah. check with Islamic banks in Saudi and in other countries. If you want to buy in Canada you may like to

check with the Islamic Housing Cooperative in Mississauga near Toronto. Otherwise I go buy the Fatwa of the International conference on Fiqh that was held in America in 1999 and its resolution is: for families that do not have Islamic financing and they need housing that they can get conventional mortgage. It seems that this does not apply to your buying in Canada at this point of time.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading in Stocks**

From: Siraj through Islam on line

Sent: Sunday, November 19, 2006

**Question**

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

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

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Siraj

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

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

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**Subject: Investment in Mutual funds**

From: taheseen  
Sent: Thursday, November 02, 2006

**Question**

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

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Tahseen,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh  
Managing banks and giving interest-based loans are Haram and owning shares in a firm whose main line of business is Haram is not permissible because it means the owner (along with other partners/shareholders) is making the Haram activities through delegation of authority to the executive managers. When we invest in Mutual funds we have to select funds that have the least of Haram shares and then we need to purify our earnings: estimate the percentage of Haram in these funds and give away to Muslim charity the amount of gains (capital gains + dividends) that comes out of the Haram percentage. In case of a loss, no purification applies.  
Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

---

**Subject: Investment of Awqaf funds in stocks**

From: Zeinoul  
Sent: Monday, October 30, 2006

**Question**

AA, Awqaf SA would really appreciate some guidance on this issue:  
The general norm in the investment of waqf funds is that the corpus ie the capital remains intact. Example: A person donates R100000 as waqf. The institution, say Awqaf SA, invests that money into a property equity fund or Real Estate Investment Trust (REIT). Reasons: (a) Low risk (b) rental income & (c) long term capital growth (d)

underlying assets = real estate. The waqf institution will be entitled to spend the rental income from the REIT on any of its projects in terms of the wishes of the donor.

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

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

Wassalaam

Zeinoul

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Zeinoul,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

My advice is the following:

1. Prepare a form of Waqf for cash you receive to be invested as Waqf and put in it the following (so that they become part of the conditions of the Waqif/founder):

\* the Nazir (management) is required to maintain the principal of Waqf not declining by continuously and every fiscal year setting aside certain percentage of the total net (after expenses if any) profits (that consist of capital gains plus dividends) as reserves to make up for any decline in future prices.

\* The management is also required to set aside a percentage of the net total profits to increase the principal of the Waqf not to exceed 50% (in order to give good money for distribution to objectives). This continuous increment to the corpus of the Waqf helps make it grow and provide more future income and also helps keep it not declining in terms of real value of the money.

\* Funds mentioned in both previous two items are to be invested with the principal of the Waqf and be treated as part of it with the exceptions that the reserves may be changed by the management as prudently needed.

2. If the Waqif/founder does not make such provisions, neither of them can be imposed on the Waqif even if the corpus of the Waqf may erode with time because erosion of Waqf is possible and may happen to any Waqf even real estates (a cultivable land may become arid as a result of desertification, salination, human neglect over generations, changes of metropolices, etc.). The real wish of the Waqif must be respected and not overruled except when it violates the Shari'ah itself and if the Waqif's wish is to distribute 100% of total income to the objectives, then that what should be distributed because it becomes their earned right! Nazir can't decide on behalf of Waqif or beneficiaries.

3. For Awqaf that already exist and did not have the proposed stipulations, we interpret the will of the Waqif as essentially to create a permanent Waqf unless there is a clear indication otherwise. This means that we have to make provisions for reserves of maintaining the real value of the cash Waqf not declining without making it increase. This can be done by making reserves for price fluctuation and for inflation but we can't impose any corpus growth increments and if reserves become sufficient all other income, both capital gains and dividends become the right of the beneficiaries.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investing Money in Bond**

From: Rahmat through Islam on line

Sent: Sunday, October 15, 2006

**Question**

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

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

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Rahmat

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying and Selling Shares**

From: Imtiyaz through Islam online

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

**Question**

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

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

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Imtiyaz

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Permissible Investments in Islam**

**Subject: An Employee Stock Option**

From: Younès through Islam on line

Sent: Tuesday, September 05, 2006

**Question**

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

I have been searching a lot for the right place to ask my question. I hope you can help me. First of all, I would like to say that I converted to Islam recently and my question is related to the job I held as a non-Muslim. However, I received on my bank account the money from my employee stock option as a Muslim. Explanation: The company I worked for is ..... Inc.. This company is a world leader in consulting on strategy and finance for other companies. The range of clients being consulted is very large including Halal and Haram companies. However, I worked as a back office clerk and had no direct relation to clients. The Company automatically offers an employee stock option to every employee with the aim of relating the employee to the companies'

results. The Company places this money in a fund which is managed by another company, the HSBC group. As an employee you could choose which type of stock you wanted according to risk and performance criteria of the different stocks or as I did, you could not do anything and there would be a default choice (the least risky). Examples of names of the stocks: EONIA, JP MORGAN EMU, EURO STOXX 326, MSCI World ex EMU. When I left the firm, the value of my stock option was on my consent transferred to my bank account 6 months later, June 2006. By then I had converted to Islam. Thus as a Muslim my question is whether I should look at this money as Halal? I am confused about whether the fact of being Muslim and non Muslim is relevant and also whether there is something I have not understood or missed out on. My question is whether I can consider this money as purely Halal or could there be some aspect that God Almighty ALLAH (swt) might dislike or are these just thoughts of mine own coming from an intense dislike towards Haram activities? I'm completely aware that this money did not come out of my own acting or wish, and that I am not responsible for the acts of the company, however, I would like to be sure that this money is Halal before using it. May ALLAH (swt) reward you for your effort. Brother Younès  
Jazakum Allahu Khairan for your constant help

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Younès

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Let us look at this issue in an analytical:

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

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

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From: Ahsan through Islam on line  
Sent: Tuesday, August 15, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
My question is about the types of investments which are permissible in Islam. More specifically, I would like to know this in the light of investments available in India. Here are lots of investment options available, however, I believe all involve interest (Riba) and thus are Haram. My brother mentions that purchasing equity shares is permissible. Can you elaborate more on this? Also since I am a working individual I also pay income tax. A number of tax saving schemes are available here. Is it permissible to save tax by opting for these schemes. Are there any halaal tax saving schemes available in India? I would really appreciate a detailed answer bcos Muslims have a lot of wealth locked up in banks in India which gain interest which is of no use to them as it is Haram. Also there are no banks here which practice Islamic banking... Jazakallah khair for your time and response. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Ahsan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

away to Muslim charity, it must not be allowed to stay mingled with your proper money because it is in fact not yours and it is Haram for you.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Question regarding use of savings bonds**

From: Amir

Sent: Sunday, August 06, 2006

**Question**

Dr. Kahf: As-salaam alaikum and thank you in advance for taking the time to read my email;

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

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

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

Thank you again for your time,

Amir

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Amir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

What you said is just the right course of action. Use all the amount of the bond to reduce your loan and try to pay off the balance as soon as possible so that you minimize the amount of interest you are paying on this outstanding loan. At the same time know the amount of interest that accrued on the bonds and give it away to charity, after paying off all the debt. As if you have borrowed from the amount of interest that should

be given away to charity. That is definitely better because it achieves the objective of the prohibition of interest, that also implies minimizing it when it exists.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying Stocks in Companies Dealing with Conventional Banks**

From: Sherief through Islam on line

Sent: Thursday, August 03, 2006

**Question**

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

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

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Sherief

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: investment in Sukuk**

From: Suhaib

Sent: Monday, July 17, 2006

**Question**

هل الدرهم من الدرهم

لست ادم عليكم ورحمة الله وبركاته

تحياتي لخدمة لك يا فتور من ذر

ان اصيب

تعني انك قد فعلت بما يمكن الاقتصا د اسالمي جزاك الله عننا غيرا لقرألك عن صرفكوك الاجارة والاعيان  
المؤجرة، واني ارجو منك يا فتور ان المكن ان تبين لي للصل ولله طمشر علة الستهتم ارفي صرفكوك الاجارة والاعيان  
المؤجرة، واني ارجو منك ان تبين لي للصل ولله طمشر علة الستهتم ارفي صرفكوك الاجارة والاعيان

لست ادم عليكم ورحمة الله وبركاته

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Suhaib

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

**Subject: Halal Investment Questons!**

From: Babar

Sent: Wednesday, July 12, 2006

**Question**

Assalam-o-Alykum Dr.Monzer,

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

Babar

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Babar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: rules of investment in Stock Markets and Their Applications**

From: Abdallah through Islam on line

Sent: Monday, July 03, 2006

**Question**

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

I have some questions about the fatwa mentioned by respected Dr. Monzer Kahf concerning Stock Markets and Their Applications In one of his answers he mentions a fatwa, and a decision added by the ECFR (European Council for Fatwa & Research) that allows trading in stocks (supported only by a minority of scholars - and only for minority of Muslims in the west) and follows by some conditions: In one of the conditions he cites: 3. The unlawful assets should not exceed 10 percent of the total assets, provided that one should get rid of the interests and unlawful earning, whatever their proportion may be, through disposing of them for charitable purposes and that the circulation, in the case of increase in kind assets and benefits, should be confined to debts and cash. My question: suppose I own a stock which has 5% unlawful activity or earnings of its total assets. To calculate the unlawful part in this investment, what should I take as a reference: do I have to calculate the unlawful percentage of the assets (taking total assets as reference) or should I calculate the unlawful percentage of the total income/benefit of the company... or the

unlawful percentage of the total turnover/sales or...?? What should I take as a reference here, as I only possess a share of the company? After the percentage is defined, How should the active cleaning process apply on the example when selling the stock? Should I give 5% to charity of the total of the capital of the stocks I sold, or only 5% of the increase (benefit) I gained on selling this stock? What if I sell the share containing 5% unlawful part with loss, at a lower price then initially bought? Selling without any gain, should I then also clean the capital even if it results is less capital that I initially invested? It would be nice and appreciated if this question can be clarified, as I have tried to find an answer in the bank of questions, and tried to submit this question directly, but without success. My best Regards, Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdallah,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Share Market and Shari`ah**

From: Ali through Islam on line

Sent: Tuesday, May 30, 2006

**Question**

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

Is it permissible in trading share market according to shariah?

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ali

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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

From: Arafat through Islam on line

Sent: Thursday, April 13, 2006

**Question**

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

I have two questions- 1. According to majority of scholars, a person cannot buy shares in a company, whose main business though is Halal but it also deals in some un-Islamic things like Riba. But some scholars say that it is allowed to buy shares of that company if some conditions are met, like, the company's earnings from the interest are not more than 5% of the net earnings of the company, its debts should be less than 1/3 of its assets and so on. Now my question is how the scholars calculated these percentages? Scholars differ in these percentages and perhaps differ in the conditions too. Is there any quotes from QURAN or HADEETH to support these conditions? Please state them if there are any. 2. If I buy shares in these companies with the intention of selling them before getting any dividend, so then also I have to consider those conditions set by the scholars or can I buy shares of any company, irrespective of its interest earnings and debt-assets ratio (as long as the main business of the company is Halal)? Remember that I am only considering the shares as goods purchased from the market and selling them for profit, and not taking dividend.

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Arafat

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Share trading Business in Saudi Arabia**

From: Mohammad through Islam online

Sent: Thursday, March 16, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
Nowadays share business in Saudi is on boom. Every Saudi investing their money in this and it came to know me this is Halal so could you please guide me in this matter as I am also interested in this it is also learnt that this is permissible because beside the profit there is loss in this. I shall be grateful to you if you kindly shed on this matter.  
Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa

Ashabihi Ajma'in

Dear Br. Mohammad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: consultation stocks investment**

From: Abukar

Sent: Friday, February 03, 2006

**Question**

Dear Brother Dr.Monzer Kahf.

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

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

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

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

My knowledge about investments or religion is very limited therefore my questions are: Is it right to save money for future?. First it right to invest first on the stock market. Secondly trust a financial advisor who does know nothing about Islam and belief her words.

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

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

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

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

Abukar

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa

Ashabihi Ajma'in

Dear Br. Abukar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Putting Money in Stock Investments**

From: Salih through Islam on line

Sent: Thursday, February 02, 2006

**Question**

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

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

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Salih  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh  
If you are sure the money you earned is Haram, give to Muslim charity the amount you earned minus the loss in the stock value. You don't need to compensate for this loss.  
Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2005

**Subject: Why Trading in Options is Haram?**

From: Haris through Islam on Line  
Sent: Sunday, September 04, 2005

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
I am very confused as to why trading in options is Haram. I have asked many people with each giving me a different reason, of which, quite frankly, none is very convincing. On ignorant but reasoned analysis, the only scenario which I see as being wrong is the stipulation of the option or future with no covering margin as this would entail "trading on air" or the right to buy/sell something which is not there. Indeed, though, rights to buy things which do exist have very specific value, so why is it Haram to trade contracts of which the base value is present? Could you please give me evidence from the Qur'an and Sunnah. What about working at a bank in the role of a Quant Analyst involved in derivatives pricing, or trader involved in all sorts of financial instruments? If they are both Haram, then what about as a temporary training type of scenario? What may be

deemed as temporary training? Also what about Risk Management types of positions? Finally, is it haraam in general to work at a non-Islamic Bank? Jazakumullahu khayran. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Haris,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You ask too many questions that makes your email loose focus. I will answer only one of them, the options, and you may search in the Fatwa bank on IOL or in the Fatwa section on my website for answers of the others and you may ask again if you like.

Options are created contracts for the purpose of trading them only. They are not commodities, rights, or services that exist in real world so that people buy and sell them. Covered or not with an existing goods (the object of the option) they are not related to any specific object that the issuer has and will remain an owner of during the period of the option. They are not real contracts. They are fabricated for trading purpose only.

This is why the OIC Fiqh Academy called them: financial rights that are not recognized for trading in Shari'ah.

On the other hand, options in the general meaning are known and recognized in Shari'ah, for instance you may buy a quantity of corn with an option to increase the order by up to 20% at the same price. Notice that this option is tight to a specific contract.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Further elaboration needed on future market in these situations**

From: Azizah

Sent: Wednesday, August 24, 2005

**Question**

**It is known that shari'a forbids commodity future trading for various reasons. I would like to pose several questions and the shari'a stance based on the following scenarios.**

1. It is agreed that only about 3% of the transactions ended up in actual delivery, yet the speculative manner of the rest 97% determines the final price when the contract expires(delivery date) which in most cases are much higher or lower than it should be according to the players objectives. We use these prices determined in various exchanges around the world in our trade and make policies on them
2. Price discovery process in these exchanges in most cases do not follow economic fundamentals( the market determine the price) in which economic principles are often pinned on pure market conditions . In reality pure market conditions (supply

and demand for price mechanism) is almost a myth as speculations/ manipulations are prevalent.

3. Artificially price determination in these exchanges is detrimental to many countries e.g.:
  - a. Depressed Coffee prices – A coffee grower in Africa gets less money than a cup of coffee a famous cappuccino famous franchise outlet makes in New York.
  - b. High oil prices - countries are rob 0.5 – 1% of their GDP by an artificial increase in \$5-\$10 in oil prices.
  - c. Foreign exchange – South East Asia 1997 financial turmoil.

My questions ...

- a. why should we accept whatever price determined by the market/exchanges hopelessly without any effort to counter the effects (higher oil prices for instance) when it is transparently being manipulated and what course of option do we have? We always acted only after prices are made and why not we act when the price is still in the making?
- b. Are the planners /economist etc allowed for instance say to buy oil in the future market, say December 2005 delivery month now in August say at \$68 or should they buy December oil on the month of December when indicators, vast research and trading knowledge all points to an almost certain higher prices for example?
- c. Couldn't we use our knowledge in trading /research/ technical analysis and enter the market in order to protect our economic interest (since we accept delivery when the time comes) and not to make profit and speculate like the other 97% of the other market players do?
- d. Is quest in future market knowledge such as research/refining technical analysis / trading techniques permissible? Does it constitute to Fardu kifayah? Is there any way that such knowledge can be used?
- e. Are production quota arrangements from a cartel a form of hoarding, since it affects the pricing mechanism and it does not provide a pure market conditions?
- f. Where can I access info on the OIC rulings relating to Commodity Futures Market which often being referred to?

Can I write to you further upon receiving your answers as the subject is Utmost important to me as a research trader?

#### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Azizah,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I decline of answering your question because I have no time for this lengthy discussion while many of its points are not really matters of economic or Shari'ah subjects. They are mostly in the area of strategic politics of economic actions and reactions. I also agree with you on most of the stipulations you made.

It is not specifically a Fard Kifayah to discuss these issues, not more than any other issue, and we have thousands of them, so why this one?!

I will be glad to review any intellectual research-based paper you may write on these issues, they make a reasonable midterm paper for a graduate students, I wouldn't say a thesis or dissertation because the answers are known in advance....

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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Subject: Investing Money by the Company 401k plan

From: Khaled through Islam on Line

Sent: Thursday, August 18, 2005

Question

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

Would you please answer the following question for me? I used to work in the US for a private company. I used to contribute part of my salary toward my 401k retirement plan and the company used to match 50% of what I contributed and add it to my 401k account. I only can invest the money in funds available by the company 401k plan. Therefore, I have all the money invested in some of the available stock based funds. These funds are made of hundreds of companies. Withdrawing the money before retirement will subject me to the maximum tax withholding plus to a 10% penalty. I want to know if it is allowed in Islam for me to keep the money invested as is

Jazakum Allahu Khairan for your constant help

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.Khaled,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Keeping as is without knowing what is it invested in can't be answered but I'll give you the rule and you apply it to your fund.

It is permissible to participate in 401K and benefit from the matching contribution of the employer. When you contribute you need to select funds that have the least of Haram, you should avoid bonds funds because they are interest-based. Then you need to estimate the percentage of non-permissible shares in each of the funds you selected and come up with a percentage of your total investment say it is 30%. You should add to this another percentage estimated (on the shares of companies that are permissible) non-permissible activities of companies whose shares are permissible, suppose you come up with 8%. When you withdraw any funds, with or without tax and penalty, you need to calculate the gains you have on the account (your principal is the total of your contributions and the employer's matching funds and every thing else is a gain) and giveaway to Muslim charity the percentage of Haram out of the gains. This is for the purpose of keeping your own money Halal and clear of Riba and other Haram.

You should also remember that funds in 401k are subject to Zakah every year for all the years they stay in. Due Zakah should be calculated every year and you can pay it from other resources you may have. Alternatively you may delay payment of all accumulated due Zakah until withdrawal and pay it out of each withdrawal (which may in fact make a high percentage).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Buying and Selling Shares of insurance companies

From: El-through Islam on Line

Sent: Sunday, August 07, 2005

Name: Mustafa

Country of Origin: Australia

Question

Dear scholars as-salmu alikum. My question is whether it is permissible in Islam to buy and sell share on the stock exchange? And is day trading (buying and selling stocks within the same day) allowed as a method of making money?

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mustafa,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Buying and shares means that you are becoming a partner in the company whether you attend shareholders' meetings and vote in them or not. Therefore the rules of partnership and ownership apply. A Muslim must not be a partner in company that undertakes prohibited activities such as producing/distributing prohibited substances/services like liquor, pork or pornography or enters in prohibited contracts/transactions such as Interest, gambling, sale of what the company does not own etc.

This means that when a Muslim trade shares she/he should be selective to choose only shares of companies that do not have prohibited things as their main line of business, this includes banks, insurance companies and of course casinos, conventional film production/distribution, pork , liquor, etc. The principle should also cover any company that makes even a few non-permissible transactions such as taking interest-based loans from banks or depositing funds in interest accounts.

But recognizing that this restriction places a lot of difficulties and inconvenience to individual Muslim investors, especially those with small amounts of savings, and applying the rule that inconvenience must be removed when it applies to a large number of Muslims what is called in Shari'ah "Hajah 'Ammah" that is below the level of necessity, a group of respected scholars argues for establishing certain criteria whereby

investment (trading) in shares of companies whose main line of business is permissible but they have relatively little transactions that violate the Islamic laws should be permissible under the present days circumstances in the markets today.

These criteria aim at guaranteeing that such prohibited transactions are little: They include: 1) Interest income must not exceed 5% of net income of the company, 2) asset that produce interest (bank deposits plus receivables) must not be excessive, liability from loans must not be high, etc. Once these criteria are satisfied by the balance sheet of a company it is permissible to trade its shares. You need to do your homework on the internet, visiting websites that provide detailed info about these criteria and shares such as the Dow Jones Islamic market indices and the IFS before one start trading a given stock.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying and Selling Shares**

From: Mustafa through Islam on Line

Sent: Sunday, August 07, 2005

**Question**

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

My question is whether it is permissible in Islam to buy and sell share on the stock exchange? And is day trading (buying and selling stocks within the same day) allowed as a method of making money?

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mustafa,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Buying and shares means that you are becoming a partner in the company whether you attend shareholders' meetings and vote in them or not. Therefore the rules of partnership and ownership apply. A Muslim must not be a partner in company that undertakes prohibited activities such as producing/distributing prohibited substances/services like liquor, pork or pornography or enters in prohibited contracts/transactions such as Interest, gambling, sale of what the company does not own etc.

This means that when a Muslim trade shares she/he should be selective to choose only shares of companies that do not have prohibited things as their main line of business, this includes banks, insurance companies and of course casinos, conventional film production/distribution, pork , liquor, etc. The principle should also cover any company

that makes even a few non-permissible transactions such as taking interest-based loans from banks or depositing funds in interest accounts.

But recognizing that this restriction places a lot of difficulties and inconvenience to individual Muslim investors, especially those with small amounts of savings, and applying the rule that inconvenience must be removed when it applies to a large number of Muslims what is called in Shari'ah ""Hajah 'Ammah"" that is below the level of necessity, a group of respected scholars argues for establishing certain criteria whereby investment (trading) in shares of companies whose main line of business is permissible but they have relatively little transactions that violate the Islamic laws should be permissible under the present days circumstances in the markets today.

These criteria aim at guaranteeing that such prohibited transactions are little: They include: 1) Interest income must not exceed 5% of net income of the company, 2) asset that produce interest (bank deposits plus receivables) must not be excessive, liability from loans must not be high, etc. Once these criteria are satisfied by the balance sheet of a company it is permissible to trade its shares. You need to do your homework on the internet, visiting websites that provide detailed info about these criteria and shares such as the Dow Jones Islamic market indices and the IFS before one start trading a given stock.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Forward Contract**

From: yunus

Sent: Thursday, August 04, 2005 11:52 PM

**Question**

Assalamu Alaikum Dr.Kahf,

I have a question regarding the permissibility of entering into forward contracts.

We are primarily manufacturers and exporters of T-Shirts from India (right from knitting of the fabric to stitching).

All our orders lag between 2-3 months and are based on forward contracts, with prices determined now and settled at a future date on shipment of the consignment.

My first question is whether this is permissible Islamically, since I understand that there is a hadith which says that 'dont sell that you don't have'. Further, is it alright to fix the price to be settled at a future date now?

One last question - is forward booking of the foreign currency based on expected spot rates on the date of honouring the contract, permissible?

Does this constitute a kind of speculation/gambling?

Jazak Allah Khair for your time. I appreciate your commendable knoweldge in the field of Islamic finance. Expecting your reply at the earliest. Masalaam

Yunus

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Yunus,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

While the Hadith you quoted is of an acceptable level of authenticity and is considered one of the basic rules in Fiqh of transactions, it applied to specific thing that have their uniqueness such as a piece of land, a specific building, a specific car or specific items you have in inventory. It does not apply on sale on description especially for manufactured items. For manufactured items the contract that applies is called Istisna'. In this contract it is permissible to sell forward provided the price is determined (this answers the second part of question one), the description of the items and their quantity is described fully in such a manner that leaves no room for dispute, the date of delivery is set and the date of payment is also set. These two date can be any future date and they DON'T NEED TO COINCIDE.

For currencies, forward contracts are not permissible. The Prophet, pbuh, sets two conditions for currency transactions: the full quantity of each traded currency must be paid at once and the payment of both must be done at the time of the exchange contract. Of course, you can build in the price a provision for currency fluctuation.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Shares of insurance companies

From: Jeff

Sent: Monday, July 25, 2005

Question

Dear Br.Monzer:

Assalamu Aleikum wa Rahmatullahi wa Barakatuhu.

Should we consider insurance to be a prohibited activity? If so, what types of insurance? It's not so simple as providing Ribaloans. I'm referring to the service itself, removed from the fact that insurance companies usually invest collected premiums in Riba-based securities.

Jeff

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I belong to the group that argues for the permissibility of all kinds of insurance, commercial and cooperative, buying t and selling it provided the contract is not interest-

based and the substance of insurance is permissible. The late Shaikh Mustafa al Zarqa (died in 1999) who as the most renowned and recognized Shari'ah scholar of his time used to give the example of the second condition: insuring thighs of a belly dancer because belly dancing is not a permissible profession. I usually give the example of insuring a shipment of liquor. The condition of interest-based excludes regular life insurance in contrast with term life and variable equity life; the latter forms of life insurance are essentially permissible.

Offering insurance is permissible except for whole regular life and insuring what is Haram. Also buying the same is permissible.

Of course insurance companies do not make such a distinction and they invest, as you mentioned, in interest-based securities. There is no doubt about excluding their shares from the list of permissible shares on the ground of main line of business. Companies that specialize in non-life insurances can be considered permissible from the point of view of main line of business but they get a low rating on involvement with interest.

We should remember that this is a minority opinion. The majority's that is also adopted by the OIC Fiqh Academy is that all insurance offered on commercial basis, in contrast with cooperative offered on membership donation basis, is Haram on the ground of Gharar. According to the majority "commercial" insurance itself is not permissible.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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Subject: 401k investment question

From: Mohamed

Sent: Thursday, July 21, 2005

Question

Assalamo alykom

Jazakom ALLAHO Khayrna for answering all of our questions.

I am participating in the 401K of the company I work for. The company manages the money and invests it in different funds.

Sometimes It is hard to find out where they are inversting the money.Weither in Halal or Haram places.

We have 10 options to choose from. Only one option is known to us which is the company stock, which most people consider ok.

1: should I find out where the money is being invested and act accordingly.ie if the money is invested in Haram places like banks., I should disonnect from participating?

2: should I just invest my money in the company stock which is the most volatle but it is clear to me where the money is going?

3: should I just stop participating in the 401k?

JAK

Mohammed

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Mohammed,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Companies usually give options of several funds for 401K investment. These funds are known and they are required by law to issue at least half yearly reports. You need to do your homework in studying these reports ('Umar bin al Khattab said once: he who does not know our Fiqh must not stand [to sell and buy] in our market). When you look at these reports you will notice that they tell you what kind of stocks they invest in and in what percentage. Info is given in sectors and in major stocks. You need to select the funds with the least of non-permissible stocks and sectors. For instance both entertainment and financial sectors should be reduced to a minimum. Next step is to estimate among stocks and sectors in the funds you select the percentage on non-permissibility which can be taken as non permissible sectors plus certain percentage of permissible sectors because even permissible companies (e.g., IBM or Microsoft) do make interest-based transactions that are non-permissible. This total percentage out of gross return over the principal (i.e., the total of your contribution and the matching contribution of the employer) that you estimate to the best of your knowledge must be considered for distribution to Muslim charities of your choice.

You need not avoid the 401K completely because it has benefits to you both in terms of being a retirement fund and in terms of the matching contribution of the employer. You don't have to restrict your investment to the company's stock or withdraw from the 401K because of certain involvement in Haram transactions by the management of funds you contribute to. Even if you select the stock of your company, you still need to estimate a percentage of non-permissible transaction and give it away to Muslim charities.

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

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**Subject: Query on short selling of shares**

From: Fazal

Sent: Sunday, July 03, 2005

**Question**

Dear Dr.Monzer, Assalamu alaikum wa rahmathullahi wa barakathuhu

Can you please clarify on the following:

I sell the shares first at a higher price and purchase them at a lower rate later during the day. I have to close the trade the same day. If I don't purchase them , the shares are auctioned three days later at the prevailing price and the difference between the purchase price and selling price is charged to my account. Is this allowed.

In this type of trade I don't think I have to borrow the shares in order to sell them first.

Awaiting your reply,  
FAZAL

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Fazal,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

If there is no interest-based borrowing of shares and the short sale is done in the same day, or within three days, of the buy, there seems to me that there is nothing prohibited in this kind of shares trading whether you pay in full when you buy/sell or on margin.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**-Subject: Trading stocks, insurance and boycott of American Products**

From: Ismail through through Islam on Line

Sent: Thursday, June 16, 2005

**Question**

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

1)I am a Muslim man living in the West temporarily. I have experience in investing in stocks and would like to make money for my future. Is it Halal or Haram to buy common stocks of companies that sell Halal products but they put their money in banks with riba? All companies in the West do that. if Halal, can I perform hajj later on? Is it true that there is fatwa banning buying US stocks, if so, does that apply to me? what should I do? please answer me in precise if it is Halal or Haram 2)I work at phone insurance company. They have 2 sections. One section is where they fix insured phones and other section they fix phones for a company. I used to work at section not having insurance but was transferred to other section. All I do is inspect phones for quality in their warehouse. Is the money I earn Haram or Halal? Shokran Jazeelan

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ismail,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. Owning and trading stocks of companies whose main line of business is permissible but they deal sometimes is non-permissible transactions such as Riba, is controversial. The principle is that once you buy you become an owner in the company and whatever is done by the management is actually done on your behalf and for your account as a partial owner in the company. This is very restrictive in application.

Therefore a few respected scholars argue that since this creates a hardship for many Muslims the rule that hardship must be removed is triggered to be applied. They add that permissibility of trading stocks of companies that do sometimes non-permissible transactions should be restricted to companies that do not have much of these transactions. In other words, as long as such transactions make only a small proportion of the company's business, it is permissible to own and trade its stocks. They suggest that interest earning should not exceed a few points of its net income, something between 5 and 8 %. They also add other criteria that include: assets that usually generate interest such as cash in banks and accounts receivables should not make more than one third of total assets and that the leverage of a company must not exceed one third of its capitalized value and that the company's main business must not be in the field of military industry that is mostly used for aggression against other nations and peoples. According to this group of Shari'ah scholars, stocks that fulfill these conditions are tradable from a Shari'ah point of view.

2. After the clear aggression of the American government and foreign policy against the Palestinian people, and against Afghanistan and Iraq, many very respected Muslim scholars called on all Muslims to boycott all American stocks, products and commodities. This is a very good idea and a peaceful reaction to the unjustified violent aggression of the current government of the United States. I believe that all Muslims all over the world should support this call and boycott American stocks and products until the current American administration ceases its aggression against other nations and people. This certainly not meant to hurt the interest and properties of individual Muslims and should be applied to that extend only.

3. Insurance itself is not agreeably prohibited. I stand on the side of the permissibility of conventional insurance provided the contract is not interest based (only some kinds of life insurance contracts are interest-based). In matters that have different opinions it is difficult to decree a prohibition on auxiliary and related things. Besides, your job is not in insurance you inspect and may repair telephone sets in a company. Your job is InShaAllah Halal and your income from it is also InShaAllah Halal too.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in Stocks in India**

From: IRFAN

Sent: Friday, June 03, 2005

**Question**

Respected Sir, Asssalam Alaikum, Tata Mid Cap Fund

Kindly check the enclosed below document and advise its permissible for Muslims to investment in such schemes. Thanking you for kind and sincere efforts for Muslims and Islam

Irfan

### **My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Irfan,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This is a traditional fund whereby the Islamic rules of investment are not observed. It has several violation of the Islamic financing rules including: it invests in debts and debts cannot be traded in other than the face value, It does not select stocks that are permitted according to Shari'ah and it invest in hedging and most hedging is not permitted.

You need to find an Islamic fund for your investments.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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### **Subject: Short Selling, Day Trading**

From: Samir

Sent: Saturday, May 21, 2005 8:07 AM

#### **Question**

Br. Monzer, Assalamu Alaikum,

I do not know if you are back from Jordan. I kept asking Ammar few months ago and he did not know then about your schedule.

In any case, I hope you are having the best of time giving from you time to convey your knowledge and experience to the youngster of the Middle East.

The reason of this e-mail, is I am seeking your feedback on "Short Selling" Day Trading.

I saw you answer of 2002 on [www.IslamOnline.net](http://www.IslamOnline.net) regarding your opinion that "Day Trading" is permissible as long as trading is in the lawful stocks and that interest is not involved.

I recently came across a renowned Non-Muslim expert of 25 years in Day Trading who has a good understanding of the process. He raised a point about "Short Selling", which I thought the process was selling what you do not own. In the US, if the acquired stock value is more than the covering account assets, the SEC calls it "Free Ride" and protects against it with their own regulations which include a 5-days cash paying for it or being barred from "Day Trading" for 90 days. He explained that Short Selling means the Broker/Dealer actually allocates certain Physical Stocks, that he owns in his inventory, and lend it to the Trader. This is guaranteed by the Trader's account adequate cash held by the Broker/Dealer to cover for the value of the stock. And, since with Day Trading the receipt and return of the stock is in the same day, there will be no interest to pay for what was borrowed. This looks like equal to "Interest-Free Loan" which means that the borrower is guaranteeing with a lien on his assets on what he borrowed with no interest. Now, my understanding the borrower can do anything with what he borrowed,

like selling it in the market and collect revenue. Again, this is like a Merchant who gets a delivery of merchandize from the seller before paying, but he has an asset credit or a guarantee with the seller that he has to pay for it in an agreed upon time. Then if the merchant has 30 days to pay for the merchandize, he may have totally or partially sold the merchandize in the market and when it is time to pay he will pay the seller from the revenue earned from the trade plus or minus his own guaranteed assets.

I just explained the process as I understood it and I am seeking your kind opinion on the subject.

Assalamu Alaikum,  
Samir

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Dr. Samir,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Thank you for enquiring. We all are fine and scheduled to arrive in the US on the 22nd of June InShaAllah. I Pray to Allah that all of you are also fine and in excellent health and going on with this Dunya.

For Stock Day trading, your explanation is fine and I think it adds a new thought to the issue. It seems to me that stock day trading may still be permissible, and this free ride remedy requirement is only procedural and consistent with our opinion on it that one should not have the chance to win/lose out of the blue but one has to have sufficient coverage in one's account to cover all one's day trading.

Anew thought may arise on the borrowing of the stock itself. This borrowing is done on interest basis although no interest on is allowed to generate because the transaction is actually reversed by the end of the day. Is it permissible for a Muslim to enter into an interest based contract for a few hours and withdraw from it before the day closes? This is not a case that is similar to credit cards because in credit cards contract we enter into a contract that give us the choice to delay and pay interest or pay within the grace period and do not pay any interest. This is permissible on the ground that the choice to go interest or not remains mine like when I am given a choice to drink liquor or milk and I accept it and obviously select the milk. In the Day trading the interest-based borrowing contract does not give a choice and yet I enter in it but I trick the lender by going out of it just before his accounting system starts charging the contractual interest! Would this be permissible? Thank you for provoking this thinking and we'll meet soon InShaAllah!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Samir

Sent: Sunday, May 22, 2005 8:44 AM

## Question

Br. Monzer,

Jazak Allah Kheiran on your quick and enlightening response. I am also glad you are coming back to the US in June. Are you still returning to Jordan or plan to spend more time in the US?

As a reflection to your response, the Broker/Dealer is fully aware of the process of no interest charge for the same day and as such there was no "Gherar" , cheating or tricking. My understanding during the market is open, the system check if there are shares of a stocks available for "Short Selling" and if there are not available in the pool, the "Short Selling" is voided and does not occur. That is there must be an actual physical basis for the "Short Selling" to make it real borrowing of the share of the stock then to be returned as agreed in the first place. This looks like part of the services that the "Broker/Dealer" offers to the account holder, and he is charging a commission for the service. Now, if the stock is not returned by the account holder at the end of the day, an additional charge of interest occurs, because it is a borrowing transaction according to the western system, until the stock is return back.

Now, it looks the issue has two branches:

1. Is the transaction permissible to borrow a stock, guaranteed by your assets in the account, then you go and sell it, then buy it back from the market and return it to the lender? Therefore, either:
  - a. Keep the profit if when you buy it back the price is less than what you sold it for when you borrowed it, or
  - b. Incur the loss if the price you bought it back is higher than the price you sold the borrowed stock.

Again this look to me like the Merchant selling the borrowed merchandize on interest-free credit based on his covered assets, sell the merchandize then make the payment as agreed upon in the first place at the time.

2. The other branch is what you said about tricking the system, which the way I see it the transaction is above board, clear and there was no back door cheating on the system. In fact "Day Trading" seems now taking priority over "Buy & Hold" and I see many participant Broker/Dealer such as Fidelity Investments, Schwab and CyberTrader (part of Schwab – but totally separate business) are involved and they call this group as "Active Traders" or "Professional Traders" – What I mean they are all fully aware of the no interest to be charged for the "Day Traders" and it is not a small volume transactions. They make more money on the high frequency of day trading commissions.

I also read, and do not know the exact details, from a document of Mahmoud Al-Jamal who quoted that Abdul Rahman Ibn Ouf went to the market with an axe (I assumed it was borrowed when he emigrated to Al Madina with no wealth) and made a small fortune upon returning at the end of the day. The document is herein attached and the quote is on page 28, in case you are interested to read it. If you know more details on Abdul Rahman Ibn Ouf axe transaction let me know. This looks like "Day Trading" of the old days.

Br. Monzer, can you categorically reflect on 1. and 2. above so I can be clear on this issue.

Jazak Allah Kheiran, Assalamu Alaikum,  
Samir

### **My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Dr. Samir,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1- Selling and buying on the same day has never been an issue of prohibition. And the examples are plenty in the Sayings of the Prophet, pbuh, not only the case of Abd al Rahman bin Awf. This is the reason I have repeatedly given my published Fatwa. Suppose we buy long and sell long in the same day, this is perfectly okay and there no objection on it. Day trading is not only sell short and buy long? It is both ways.

2- The new point that requires an added reflection is the borrowing contract. In the second paragraph of my previous letter I mentioned that a new thought is needed on the issue of entering in an interest-based contract. This is the crux of the new thought not tricking the system. I did not mean by tricking the system that it is done behind the back of the broker or it is under the table. I meant that here you are signing an interest based contract and after you implement it by actually borrowing the stocks you get out of it again by buying stocks and returning them to the lender before the lender starts charging the interest. The question is: is it permissible to sign such an interest-based contract for the purpose of making profit? This is why I compared it to the credit card. In credit cards you sign a choice contract not an only interest contract! This is what requires new thinking.

In principle, short sale is permissible. But short sale is normally defined as you sell a thing with future delivery. The sold thing must be clearly defined, for instance, corn of specific quantity and specific description. Does this description apply to stocks? In Stock dealings you do not buy a piece of paper but you buy a share in the company that consists of tangible and intangible assets. Suppose you buy on January 10 for delivery on April 10, are these assets the same? are you delivering the same descriptions that you sold? Certainly not because these assets, tangible and intangible change every day and perhaps within the same day! And this is why the Shari'ah standards of the Auditing and Accounting Organization of Islamic Financial Institutions (AAOIFI) consider short trading in stocks not permissible.

But short in stocks requires immediate delivery! In fact calling it short is not technically correct because you are selling and delivering what you sell immediately! This brings us to the borrowing issue. In borrowing, once more, you have to give back what you borrowed. The piece of paper of a stock is the same but this piece of paper is not what we buy and sell, in all laws and specifically in Shari'ah, do we return after 3 month the same that we borrowed as a share of tangible and intangible assets? And we know these assets change daily! This creates a serious issue for stock short trading!

In day short trading and borrowing, we certainly assume that these assets are still the same unless new info came about the company during the day. Hence, the problem of delivering something other than what you sold does not exist and also the problem of

returning things that are different from what you borrowed does not exist too. This means that day trading should be permissible provided we can solve the issue of signing an interest-based contract? Suppose a problem happened and lines got cut off between the day trader and the broker so that transaction could not be reversed on the same day. There will then be interest on the borrowing. I think we need to rethink this matter under this light. Can we agree with the broker that this borrowing is not interest-bearing? Especially that the broker is also the depository of my cash and other financial assets.

If we can make such that day trading in stocks is done with an interest-free lending the transaction should be perfectly permissible in my opinion.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: day trading**

From: Jeff

Sent: Thursday, May 19, 2005

**Question**

Dear Br. Monzer

Assalamu Aleikum. Please give me your opinions on the day-trading issue below.

Thanks.

Jeff

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From: Jeff

To: Nasma

Subject: day trading

Dear Nasma:

The issue of day-trading is different from the issue of trading stocks. The question applies equally to day-trading of oranges, barley, books, or automobiles. It could equally well be considered gambling to engage in rapid (day) trading of these items on an open market. You have to ask yourself the question "what value am I adding to the economy by doing this?" However, Allah says "Allah has allowed trade, and forbidden riba." And the intent of every trader is simply to make money. So it would seem to me that it is necessary for someone to prove to you that this is against Shari'ah, and not on you to prove that is it ok. But I will forward your question to our Shari'ah advisors for their response, as they would know far better than I. From another perspective, please be aware that in the US, day-trading has fallen out of favor because on average, people lose money doing it (except for the brokers who collect a commission on every trade). It is easy for people to convince themselves they are smart day traders when the market is moving upwards, then when it goes down, they realize they don't have an advantage over anyone else, and they decide they could make more money by spending their days doing something more productive.

Best Regards,  
Jeff

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From: Nasma

Dear Jeff,

Thank you so much for your response. I just have to confirm that I understood your answer correctly before I go ahead. If I were to engage in day trading using expert advise on what to buy and sell and how long to hold the shares, is this permissible? Some people argue that this is sort of gambling, but the expert advice I will be getting is from a person with 20 years experience and it would be based on skill, analyzing and studying the market and not just from speculation.

The whole idea of stock trading is to make money, so does it matter whether you buy and sell the stock the same day, or must there be a certain holding period for it to be permissible. If so, what is that holding period supposed to signify? Please verify. Thank you so much and I am sorry for any inconvenience caused. Kind regards,

Nasma

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Day trading is permissible provided other conditions regarding the object of the sale (here the stock) and the sale contracts (e.g., according to the AAOIFI standards it is not permissible to sell stocks short) are satisfied. Day trading is not gambling because it is not buying a chance. You buy real things and you may sell them at any time. There is nothing in the Shari'ah that requires an owner to hold one's property for a short or long time before one can sell it. We need to be careful though for the point of possession. My understanding of day trading is that I become an owner of the stock the moment I buy it and it is credited to my account on that moment and the money I pay for it is debited at the same time too. If debit and credit is not done at the time of the trade, it means I didn't get delivery of what I bought and this makes it not acceptable to sell before I get delivery. If debit and credit is done immediately after the buy I can certainly sell what I own.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: A query on stock trading and rating**

From: Islamic Economics Bulletin

Sent: Tuesday, May 17, 2005

**Question**

Respected Kahf Sir, Assalam Alaikum,

I have joined a Stock Broking as Financial Advisor. This firm is associated with the Bombay Stock Exchange (BSE) and the National Stock Exchange India.

This firm is at the forefront in India to create shariah compliance awareness among the Muslim investors for the last one decade. On the basis of the following parameters we have prepared a list of companies that could be considered acceptable from the shariah parameters. These parameters are as follows.

1. Nature of activity of the company (Quite obvious, the business of the company should not be haraam like alcohol, interest, gambling etc.)
2. Total borrowings of the company should not be over 33% of the market capitalization of the company.
3. Total interest earnings of the company should not be over 5% of its total income.
4. Total receivable of the company should not be over 45% of its total assets.

I am not quite sure about the acceptability of these parameters. Please guide us on this issue.

Secondly, we want to know whether any more concession could be granted to companies that are engaged in servicing business as some of the best performing companies in India could not qualify as their receivables remained high of the 45% limit. And most importantly we want to know what are the remaining shariah related issues that are yet to be finalized in this regard. Please enlighten us with your expert view on the issues mentioned above.

With regards and salaam,

Dr Shariq

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Shariq,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I have four comments on what you suggested:

The leverage percentage of 33%: is it really functional when we take on the market capitalization? it seems that it then becomes meaningless because lenders usually go by the balance sheet and the amount of leverage they give is a percentage of the balance sheet, why should we take on market capitalization? In spite of the opinion of the Fuqaha of the Islamic Market Dow Jones!

The receivables parentage: This is in fact not a criteria but a vehicle to a criteria. Not all receivables are interest bearings. Look at the receivable of Islamic banks, all of them will fail this test! what matters is whether these receivables are interest-bearing. In many companies, especially those that sell on lease/purchase, the amount of receivables is high but it is not interest-based nor normally interest-bearing!

The purifying methodology: We need to always add the purifying methodology and inform our clients about the percentage of purification they have to give away to Muslim charity.

The Opinionated judgment of the Fiqh Academy of India: Finally it is important to fulfill the requirements mentioned in the resolution of the local collective Fatwa giving body.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islamic Mutual Funds**

From: IRFAN

Sent: Friday, April 22, 2005

**Question**

Dr. Monzer Kahf , Assaalam Alai Kum,

I am an Indian Muslim working in Gulf. I want to know about the investment in mutual funds of some major companies (like tata, reliance etc).While refer to their brochures its mentioned there that 70% of cash investment they invest & 30% will be kept as liquid cash/debit. It is permissible for Muslims 1) to invest in such mutual funds 2)If answer is no for Question 1, can we utilize 70% of profit only & 30% to be given as interest .

3) If answer is no to Question 1 & 2 , where NRI Muslims can invest (as fixed deposits is totally unacceptable for Muslims), Normally most of NRI's are having such problems, if they will investment with their relatives/friends it will end in a nightmare resulting loss in money as well as friends/relatives, if we invest in properties there no guarantee while we are here who capture your property and then there will never ending story of courts/lawyers.

In the light of kindly advise me for safe and Islamic investment procedures and institution in India (if you knows)

Irfan

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Irfan,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Every country of the gulf has several funds that are permissible to non residents and are run according with the Islamic methodology. If you did not find them please check with the local management of Islamic banks where you are. With this I think it is not permissible to invest in funds that have high percentage of banking and other non permissible stocks. You also have the possibility of investing in your own country without relying on friends and relatives.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Fatwa on interest and investment**

**From: abdul shakoor**

Sent: Thursday, April 21, 2005

**Question**

assalamu alaikum wa rahmatullah!

I have invested in a company situated in Pakistan which deals in property, stock markets, import and export of goods in Pakistan and advertisement. The profit is distributed after three months ranging from 3% to 4.5% according to the total capital invested by the investor. I have been told by some local scholars that it is an unlawful investment. Their objection is not on nature of business but on distribution of profit. They state that it should not be in percentage. Kindly guide me regarding this. May Allah bless you.

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdul Shakoor,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

If your investment is in stocks or unit of a fund run by the company and if the business itself is permissible and company does not deal in interest or any other prohibited contracts/services/goods, the distribution of profit on percentage basis is permissible. Quarterly distribution is sometimes done as advances subject to settlement at the end of the year if the company holds yearly fiscal system, this is also permissible.

What is Haram is the return on a loan (where the principal is guaranteed) regardless of whether it is a fixed amount, a percentage or a variable amount/percentage.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: is it permissible to work in mutual fund as a broker**

From: usuf

Sent: Friday, April 15, 2005

**Question**

Dear sir

I would need your advice regarding working in a mutual fund selling and making commissions out of it in India where there is no Islamic mutual fund and the available investments are mostly debt based and the returns are pathetic; but if I approach people and make them understand the benefit of a equity fund and they make the best of returns and the portfolio of the fund is 100%equitywith all permissible companies (not liquor or Las Vegas type) 10%of the allocations could be banking. Is it permissible to sell these benefits of this fund to Muslims because they only have the government

saving instruments that are debt based and the returns are bad. And in any case they have to invest may be life insurance where the money is invested in bonds. My job of explaining them the benefits of the equity fund and making money as a financial planner is it permissible. MOST of these company may by default satisfy the Dow Jones Islamic index criteria by default but is cant explicit all times. Is my job permissible awaiting your reply regards yusuf allah hafiz

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Usuf,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes, working in a mutual fund of no more than 10 % banking and most other stocks are of permissible companies that satisfy the Islamic Dow Jones criteria is permissible provided you also inform Muslim customers of the purification procedure for their investment, taking the profit resulting from Haram stocks, including banks, out and giving it to Muslim charities. You should also try to minimize the share of banks in the fund if you can.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Employer's stock option plan**

From: essam

Sent: Thursday, April 14, 2005

**Question**

Assalamo alaikom, My question is about what is called ""stock purchase plan"" that companies in US offer to employees; here is how it works: - It is optional to participate in this plan. - Employee chooses 0-10% to be deducted from his salary for 6 months ""common plan period"". - After the six months, the company gives the employee stocks for his money at a discounted price. -The discounted price (for example) = 85% of the minimum of (price at beginning of 6 month or at the end) -so if in Jan (10)-June (30), company sells at=8.5. -or if in Jan (25)-June (10), company sells at=8.5. -The problem I see in this plan is: I don't know how much (stocks) I am getting for my money till the end of the period. Please let me know if it permissible by sharia or not. Jazakom Allah khair

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Essam,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This plan as describe is permissible to create and to participate in provided the stock itself is permissible to buy and own.

The purchase of stocks is done at the end of six month, so when you buy you know the price you are paying, and during the period you are financing the company with these deductions on interest free basis, this make the company like it! And also you are increasing its capital at the end of the six month too.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Working in stock brokerage**

From: Adel

Sent: Wednesday, April 13, 2005

**Question**

All salam 3alaykom wa rahmat allahy wabarakato

Currently I work in a brokerage firm in Egypt and I have some question that I hope you can help me with:

The company assignees me some of the investors where I have to buy, sell and give some information (when asked about) on some of the companies listed in the stock market which are considered Haram. However, I am learning a lot while working her. Now, can I stay working here until I find another Islamic brokerage firm (or even a different career after I get all the experience) or I become stronger in the company and get rid of those investors and have Islamic investors of my own? Or do I have to leave at once?

Thank you very much for your time and effort and I hope God will repay you for what you do and yaga3alk men al sale7en

And Dr. Monzer, if you know Islamic brokerage firms and fund (worldwide) can you please send them to me?

Another thing isn't the stock market an excellent solution for the Moslems to avoid ribaa?

What about the Islamic bank, are they Haram or hallal? And if there is any ones hallal, can you please send them to me?

Thank you again very much,

and sallamo 3alaykom wa rahmat allah wa barakato Adel Egypt

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Adel,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Giving info is not Haram even on non-permissible stocks.. Executing purchase orders on non-permissible stocks is certainly Haram. But please notice that I cannot decide for

you, it is your own conscience and the amount of purchase orders of non-permissible stocks as a percentage of your use of time! Add to it the question of whether this is the only way to gain experience in the stock market?

Yes, investment in venture capital is a good alternative to the interest-based lending/depositing.

Islamic banks are all permissible to establish, work with and in and trade their stocks.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Working in Corporate business**

From: Mohamed

Sent: Friday, March 25, 2005 2:46 PM

**Question**

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohamed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Please see y answers in red below each question.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

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**Dear Mr. Monzer Kahf: Bismi Allah al Rahman al Rahim**

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

I have received your email and I thank you very much for your time to advice Muslims.

Since the subject is quite urgent and you don't forecast any trip soon to Canada, please find included my questions and I am very grateful to receive your answers when it is convenient for you.

Dear Sir,

First of all, I would like to thank you very much for your time to give your advice to the Muslim public in general and to the persons working in the finance arena in particular.

Many thanks to you too for giving me opportunity to give a service to a fellow Muslim.

As I explained in my last email, I need your advice regarding specific topics in finance and whether they are Halal or Haram. I have been working in capital markets for the last 13 years. More specifically, since 1993, I have been involved in the three following fields: Brokerage, asset management and corporate finance.

Brokerage:

I worked as a sales analyst in a brokerage house. I analyzed companies listed in the stock market, made my recommendations (Buy, Sell, Hold, ...) and talked to clients to convince them to invest their money in specific stocks. I am aware that there are Shari'ah guidelines to invest in the stock market (debt/equity, receivables, interest income). However, unless one work for an Islamic investment bank, he cannot apply such rules. Basically, when we did our recommendations as a sales analyst, we took into account fundamental analysis without any reliance on religious aspects. For instance, the banking sector is a major component of stock markets both in terms of liquidity and capitalization. Therefore, it is usual that we recommend to buy a specific bank if its earnings outlook is good. Unfortunately, one cannot specialize in Halal sectors because stock markets are often small and therefore you need to cover Halal sectors and Haram sectors as well.

Sir, my question is the following: Is the job of a sales analyst as described above Halal or Haram.

You know this is a mixed matter. There is no doubt that analyzing info about companies, even those whose main line of business is Haram, is permissible because there are much more uses of your product than buying a Haram-to-trade stock. But there are also actions involved in this work that can't be said permissible such as giving plain advices to buy a stock whose company's is not permitted in Islam. This means that some of the actions involved in this job are permissible while others are not.

You can't give a total judgment but certainly one may look at the majority, if the majority of the work, in terms of time used, is in giving wrong (from Shari'ah point of view) advices and the like, the job can't be said permissible. But if one works in a department of market analysis and reports are given to another department that deals with advising customers and executing their orders, working in the analysis department is not Haram.

Asset Management:

As you know, Sir, the asset management industry includes two main different fields equity and fixed income. On the equity side, the issue is the same as the one presented above since an equity asset manager markets and manages equity funds that invest in the stock market. Clearly, this investment includes both Halal and Haram stocks.

A fixed income asset manager buys treasury bonds, bills, corporate bonds, ...As you know, Sir, the only difference between buying directly a fixed income paper (treasury bill, bond, ...) and buying a unit of fixed income mutual fund is that there is no principal risk for the first while there is a risk of losing part of the principal in the latter in case interest rates increase. In fact, some people claim that investing in fixed income mutual funds is not Haram because there is a risk component.

My question is whether doing equity or fixed income portfolio management is Halal or Haram, noting that such management entails both marketing such products and hence encouraging people to buy such products and doing management.

Please apply the same majority rule for the total permissibility. Of course managing fixed income assets is a non-permissible action while telling people that one bond gives more or less income than another bond is not Haram. Giving buy advices, executing buy

orders and administering holdings of bonds and non-permissible stocks are not permitted according to Shari'ah.

Corporate Finance:

As you knew, Sir, corporate finance mainly includes advising companies to raise either equity or debt financing. Unfortunately, in some markets, a person who works in a corporate finance department cannot choose to work only in equity financing and refuse debt financing. Also, when one works in debt financing, he acknowledges the transaction and convinces individuals and companies to lend the issuer the money. Is it Halal to work in such position?

Here again the same rule applies as explained above. Even equity financing may be not permitted if the main line of business of the company being financed is not permissible according to Shari'ah such as a conventional bank.

Sir, I asked your advice in these topics because I tried in the past to change from the finance sector and work in a purely Halal sector but unfortunately I didn't succeed.

It is very unfortunate that you live under this kind of trauma. What I suggest is to try to move to a company where you work on research only without having to give advices or execute orders. In the meanwhile make more prayers, Du'a, Istighfar, charity as much as you can along with a serious search for a better job.

My other request, Sir, is –for professional reasons- not to post name/questions/answers on the web site and Jazakoumou Allahu Khayran.

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## **Ordinary Shares & Preferential Shares**

**Subject: Ordinary Shares & Preferential Shares**

From: Tawfiq

Sent: Wednesday, February 23, 2005

### **Question**

As Salaam Alaykum Ya sheikh,

Please I have a need to invest in stocks but a major question remain unclear to me.

Br Kamar (mail below) has attempted to answer this question by posting one of your fatwas which I really find enlightening but does not cover a key aspect of the question.

This key aspect is in regards of the relationship between ordinary shares and preference shares in same company. Details as follows

...If two people invest same amount of money (e.g \$1000 each) in same company but in different type of shares on same day (One going for preferential and the other for ordinary) they carry different risks and have different prospects depending on the performance of the company despite their having contributed same amount of money to the company. Is this inline with the profit and loss sharing system in Islam? Is this relationship Islamically sound?

Jazakallahu khairan for your response. May Allahu continue to guide and help you. Amin

Wa Salaam Alaykum,

Tawfiq

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Tawfiq,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh  
preferred shares are not permissible to issue, own or trade. The OIC Islamic Fiqh Academy resolved on this issue because these shares are not treated equally with other share in financial matters. Preferred shares are usually guaranteed certain percentage of profit and/or priority at time of liquidation.  
Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Option Trading... Comment on a Fatwa**

From: Sayed through Islam on Line

Sent: Sunday, February 13, 2005

Question

**As-salamu `alaikum fadilat Dr.**

What is the ruling regarding option trading and the nature of its contracts from an Islamic perspective?

**My Answer:**

The European Council for Fatwa and Research, states the following:

The Nature of the Contract

Option contract means "substitution for commitment to sell something well defined, or buying it at a specific price during a certain period of time or at a certain time, either directly or through an agency that guarantees the rights of both parties."

Its ruling in terms of Shari`ah

Option contracts, as they are dealt with nowadays in the international stock markets, are innovated contracts that do not belong to any category of the known contracts of the Shari`ah.

Since the contract does not involve a fund, a benefit, or a financial right that can be substituted for, the contract is impermissible in terms of the Shari`ah; and as such contracts are initially impermissible, they are impermissible to circulate.

Sayed

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Sayed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The Fatwa of the ECFR is only a copy of the resolution of the OIC Fiqh Academy of 1412H. It is a simple translation. It is certainly correct and it is based on full knowledge of options as they are defined and traded in the international stocks and commodity

markets today. The justification that is given in the resolution, because it is brief, is not so clear to persons who trade these options. The fact is: these options are created (artificially fabricated) for the purpose of trading only. There is nothing in the real world that they represent although they can be exercised and people make profits and losses out of their trading; they are market-created and formalized by the market authorities but they are not real. That is why the resolution called them ""financial rights that is not amenable to be exchanged according to Shari'ah.""

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Salam trading commodities**

From: Moosa

Sent: Tuesday, February 08, 2005

**Question**

Assalamalaiku: Dr. Kahf

I would like to know why is it not permissible to trade in the commodities market (futures trading), and also currency trading (forex). I see it as buying goods at a given price, and hopefully selling it in the future for a profit. Is it not same at the retail level where you buy a product and then just sell it at profit. Jazakullah

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Moosa,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The Prophet, pbuh, prohibits trading currencies except with immediate delivery. In a correct statement, He mentioned that trading gold for silver must be ""Yadan bi Yad,"" meaning give and take in the same sitting of the contract. Applying this principle on trading in the Exchanges or on the Internet means only when the full amount of both currencies is debited/credited to the accounts of a trader the transaction is permissible. Trading futures is essentially speculative. It is not meant to obtain the commodity and then sell it, it is rater meant to speculate on prices and pocket the price differentials only. This artificiality in it is what made the OIC Fiqh Academy resolves that it is not allowed in Shari'ah. On the other hand buying with future delivery is permissible and the Shari'ah call this contract Salam but requires for it certain conditions (to make it serious) hat includes full payment of the price at the time of the contract, i.e., no margin transaction.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Moosa

Sent: Wednesday, February 09, 2005 7:04 PM

**Question**

Assalamalaikum Dr. Kahf

Jazakullah for your reply. However, I still don't understand what you mean by "On the other hand buying with future delivery is permissible and the Shari'ah call this contract Salam but requires for it certain conditions (to make it serious) hat includes full payment of the price at the time of the contract, i.e., no margin transaction." Can you please explain. Jazakullah

Moosa

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Moosa,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Salam is a sale contract that has forward delivery and cash payment. It applies mainly in agriculture where farmers need money for seeds and fertilizers. The main conditions of this contract are: full payment of price must be at the time of the contract; the two things that are exchanged must not be from among the items (in the same category) for them Riba al Fadl Apply (these are six items in two categories: category one gold and silver, i.e., currencies in our time, and the second category is wheat, barley, date and salt); the date and place must be specified; the sold item must be adequately and objectively specified for kind and quality and must not be determined to be from the farm of the exchangers, etc.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Employee Stock Purchase Plan at Work**

From: Cayenne through Islam on Line

Sent: Monday, January 31, 2005

**Question**

I am in a Employee Stock Purchase Plan at work. This plan is given by the company where they give a prt of the stocks on monthly basis to the staff. I have a fairly good amount in those stocks. I decided Insha'Allah to sell a big part of these stocks and payoff a loan that I have and I pay interest on it. Our company's profits were announced and we are going to split our stock which means my stocks might double and of course the amount invested as well. If I close the stocks now and not wait for the split, I might end up loosing around \$6000. I am confused because I decided to close that loan to avoid

interest payments and in the same time I will loose more money if I do it now. Please advise me. Shall I close not now or wait another 2 months? Baraka Allah Fikom Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Cayenne,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This is a matter that we can't advice you on. We certainly can tell you that the interest-bearing loan you owe should have not existed in the first place; it is long overdue for repayment from Shari'ah point of view. It is certainly forbidden to take such a loan and to let it continue, if you have taken it on necessity ground, if you have means to rid yourself of its curse. The rule is: One who has interest loans, even as a result of necessity, should close on them as soon as possible without delay.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2004

**Subject: Holding Stocks in an Interest Based Bank**

From: Islam on line

Sent: Monday, December 20, 2004

**Question**

from Palestine

assalam alykum, my husband inherited stocks in the Arab bank limited few years ago. We would like to know if it is Haram to hold stocks in a bank of interest dealing wa jazakum Allah khair.

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Sr. Hanadi,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The answer is yes, It is Haram to buy, own and hold stocks in interest-based banks such as the bank you mentioned. Your husband is required to sell these stocks as soon as he can and take, if he can determine, only the price on the day the stocks became his and

give away any difference to Muslim charity. Owning stocks in an interest bank is equivalent to participating in the forbidden activities of the bank. Certainly an heir is not responsible for whatever the deceased have done or owned.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: investment in annuities**

From: housam

Sent: Thursday, December 02, 2004

**Question**

dear dr. kahf: alsalam alekum

I would appreciate it if you can give me the sharia opinion regarding these types of annuities:

1- It is called "immediate life annuity with survivor and certain period": it is contract between the individual (annuitant) and an insurance company. The annuitant agrees to pay the insurance company a single payment and the insurance company agrees to pay the annuitant a monthly income/salary (calculated on the bases of the amount paid and the annuitant age and life expectancy) starting within one month of the contract and last for the rest of the annuitant life. if the primary annuitant dies then the payment are continued to the rest of the life of the secondary annuitant(spouse). there is also a certain period of 20 years ,during which if both annuitants died before the end of these 20 years then the payment are continued to a specified beneficiary up to the end of these 20 years. once the contract signed and became in effect you can not get your money back also there is no repayment of principle or any lump sum payment in case of death or reaching a certain age or after x numbers of years. it is basically just an insurance of a stable income as long as you live or your spouse lives.

2- The other type is similar to number 1 except that the contract is between the individual and a charitable organization, and the payment the annuitant gives initially is considered a charitable gift. So on top of the monthly income, the annuitant get tax deduction advantage for the charitable gift on a yearly basis.

3- The third type is called "equity indexed annuity"

Equity-indexed annuities guarantee customers a minimum interest rate (often about 3 percent) while offering the potential of higher rates by tying your return to an index like the Standard and Poor's 500.

While it's a lot like investing directly in the stock market, customers don't get the full boost of a rising market. With equity-indexed annuities, the money put down by purchasers isn't invested directly in the stock market. Instead, customers are offered a percentage of how much the index gains over a period of time (not including dividends, which accounted for about 30 percent of the total return of the S&P 500 for the last 20 years), and a guaranteed minimum return if the stock market declines. Thank you much housam

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Housam

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I am sure that by now you can make a good judgment on any such instruments. You notice that in all of them interest is the core of the deal. they are all interest based and consequently prohibited.

There is an insurance policy, offered by most of the companies, that invests your asset in the stock market, a choice of funds, and this may be permissible if you choose funds that have the least interest involved companies and apply the cleaning principle. by estimating the percentage related to interest if the final outcome of the policy and give it to charity (making a charity a beneficiary of such percentage.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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### **Subject: Zakah on RRSP and Stocks**

From: Javed

Sent: Saturday, November 22, 2004

#### **Question from Canada:**

Dear Mr. Khaf, Assalam Aalaikum,

1. How do we pay Zakaat on the RRSPs (Registered Retirement Savings Plans)?

A certain amount is deducted from my salary at source and contributed to my RRSP funds ( mutual funds) . My company contributes a certain percentage to this fund as well. Based on my contributions I get a certain break in my Tax contributions and at times also get a refund.

If I want to take some money out of the RRSPs before the maturity or before the retirement I can only withdraw money from my portion only ( I will have access to company's portion only if I leave the company) and I will have to pay as much as 20% tax on the money that I want to withdraw.

The questions are:

a) Do I pay zakaat on the total RRSP ( my contributions + company's contribution) fund current market value?

b) Do I pay zakaat on my contributions only? Will it be on Invested value or current market value?

c) Do I pay zakaat on my contributions only and also deduct 20% ( Tax payment ) from my contributions because that will be the money I will have in hand after paying off the tax. This looks like a more logical option to me since I am paying zakaat on the money I have access to and also after deducting the tax.

e.g. If I withdraw \$10,000 and pay 20% tax. Then I will receive \$8,000. So I pay Zakaat on \$8,000.

## 2. ZAKAAT ON STOCKS

My company offered stocks to its employees at certain rate below the market value. An amount was deducted for two years from my salary and then the stocks were transferred in my name. My question is do I pay the zakaat on the value of the stocks that I bought them for or the current market value when I calculate the zakaat to pay.

If I bought stocks at \$10.00 at that time I was in a position to pay zakaat on \$10.00 value stocks but as the value increased and touches the \$50.00 value I am not in a position to pay zakaat. The main intention was to buy the stocks and keep them and cash them in case I need them, nothing to do with the company ownership or profile.

To me the more logical approach is to pay the zakaat on the invested value and the annual dividend.

Now the only option I have is to sell the stocks if I have to pay zakaat at the current market value because I cannot save from other sources to pay my zakaat on these stocks. Regards,

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Javed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. RRSP and RREP are subject to Zakah because they are yours. The amount that is Zakatable is the market value of your deposits plus the market value of the vested part of the company's share (the part that is considered yours, as most companies set a period, like two years or 5 years for their contributions to become yours, i.e., if you leave the company you cannot carry that part with you to another company; the restriction on withdrawal before retirement does not disqualify it from being yours). penalty and tax in case of early withdrawal does not harm your ownership; these are permissible government procedures because you are exempted from taxes on deposits. What matters is that you really own this amount, you can invest it, through approved brokers, and very often you can borrow from it for certain purposes.

2. Zakah on this amount is due every lunar year at the rate of 2.5% along with other Zakatable items; the first lunar year begins on the day the total of your Zakatable items reach Nisab (# USD 1000). You simply add the RRSP and RREP to other items in calculation of Zakah. Zakah can be paid out of other resources you may have.

3. You can delay, after calculation, the actual payment of Zakah of the balance of RRSP and RREP until withdrawal, in this case you have to pay out of each withdrawal the amount of accumulated due Zakah on that amount only, which may become a large percentage at the time of retirement. this delay is not sinful because it is permissible to pay the due Zakah of each item out of the same item, you are not required, though permitted, to pay it out of other resources.

4. If you withdraw and pay tax and penalty on the amount, the net balance in your RRSP (in your example - 10000) is included in the calculation at the end of that year;

while the net amount you withdraw (in your example 8000) is added to your cash and depending on the use of it it may or may not be subject to Zakah at the end of that Zakah year.

For stocks, it is the market value that you own not the amount you paid, whether it is more or less; and Zakah is calculated on what you own at the due date. It is not on any past or future value. Apply this simple rule and you'll notice its logics! Here again you are not required to pay from other sources, you can pay the accumulated Zakah over years when you liquidate, and you can also pay it in kind by transferring 2.5% of the stocks you own to the recipient (poor or needy or charitable organization to be given to poor, needy, etc.)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in Treasury bills and GIC**

From: Islam on line

Sent: Saturday, November 20, 2004

**Question**

from Canada:

Assalam Alaikum! I am asking hoping that you could shed some light on the issue at hand and help me, guide me in my decision-taking process. There are many investment options offered on the Canadian market. Some are obviously haram, as they explicitly make mention of interest, but others are less. I am referring to stock market GIC's and treasury bills. Both are financial instruments that use different profit-yielding mechanisms. Treasury bonds are sold at discount and par payment is made at maturity. For example, the government of Canada sells one bill at 97.00\$ and pays back 100.00 three months from now. As for stock market GIC's, an example is given just below of a GIC offer : <<< With the Stock Market GIC if the market increases over the term of your investment, you earn interest up to a maximum return. Even if the market declines, your original investment is guaranteed and the full amount of your principal is returned at maturity. Right now, we offer two options for the HSBC Stock Market GIC: Canadian Index USA Index These GIC's are three-year, non-redeemable terms and the full amount of your principal and any interest you have earned, are payable at maturity. >>> I would appreciate if you could provide some islamic investment guidelines. I am asking for advices because there are no islamic banking institutions where I reside(unfortunately). There was hearsay that there might be in Toronto but that's far from where I live. HSBC does have an islamic banking subsidiary but it's only operating in the U.S. not in Canada. Thank you very much, Jazakumullah Khayran! Assalam Alaikum!

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohamed,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1) There are other investment opportunities in Canada that you should study and consider. Of course I don't give any investment advice. You know now all Canada is one market even the whole world that you can contact by internet. There is the Islamic Housing Cooperative that accepts investment including RRSP and RREP, and the Royal Bank had issued some investment securities that are approved by its Shari'ah Committee.

2) The Treasury Bonds carry interest. this is pure Riba as defined in Shari'ah, all treasury bonds are forbidden, of all countries and regardless of whether they pay the interest directly or they take lesser amount and pay back the face value as in the example you mentioned.

3) According to your description of the GIC, this GIC seems to be interest-based and consequently forbidden. to give you more definite opinion I need more info about it and detailed description with a numerical example.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: GIC, Treasury bills and other investments in Canada**

From: Islam on line

Sent: Saturday, November 20, 2004

Name of Questioner Mohamed country of Residence Canada

**Question**

Assalam Alaikum! I am asking hoping that you could shed some light on the issue at hand and help me, guide me in my decision-taking process. There are many investment options offered on the Canadian market. Some are obviously Haram, as they explicitly make mention of interest, but others are less. I am referring to stock market GIC's and treasury bills. Both are financial instruments that use different profit-yielding mechanisms. Treasury bills are sold at discount and par payment is made at maturity. For example, the government of Canada sells one bill at 97.00\$ and pays back 100.00 three months from now. As for stock market GIC's, an example is given just below of a GIC offer: With the Stock Market GIC if the market increases over the term of your investment, you earn interest up to a maximum return. Even if the market declines, your original investment is guaranteed and the full amount of your principal is returned at maturity. Right now, we offer two options for the HSBC Stock Market GIC: Canadian Index USA Index These GIC's are three-year, non-redeemable terms and the full amount of your principal and any interest you have earned, are payable at maturity. I would appreciate if you could provide some Islamic investment guidelines. I am asking for advices because there are no Islamic banking institutions where I reside (unfortunately). There was hearsay that there might in Toronto but that's far from where

I live. HSBC does have an Islamic banking subsidiary but it's only operating in the U.S. not in Canada. Thank you very much, Jazakumullah Khayran! Assalam Alaikum!  
Jazaka Allah kairan for your cooperation.

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohamed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1) There are other investment opportunities in Canada that you should study and consider. Of course I don't give any investment advice. You know now all Canada is one market even the whole world that you can contact by internet. There is the Islamic Housing Cooperative that accept investment including RRSP and RREP, and the Royal Bank had issued some investment securities that are approved by its Shari'ah Committee.

2) The Treasury Bonds carry interest. this is pure Riba as defined in Shari'ah, all treasury bonds are forbidden, of all countries and regardless of whether they pay the interest directly or they take lesser amount and pay back the face value as in the example you mentioned.

3) According to your description of the GIC, this GIC seems to be interest-based and consequently forbidden. to give you more definite opinion I need more info about it and detailed description with a numerical example.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in Haram and Purification**

From: Jeff

Sent: Tuesday, November 16, 2004

**Question**

Dear Br. Monzer:

ASAKWRWB. I am still thinking about this, sorry. I have a question that perhaps will help my understanding. Suppose I buy stock in a business that is 100% Haram (such as a beer company, say). I buy one share for \$10, and I sell it one year later for \$5. The company earns \$1 per share of profits during the year I owned it. I decide I want to purify. How much do I pay to charity? \$1? \$0.50? \$0? The price of the stock is theoretically equal to the market's perceived value of the company's future discounted free cash flows. In this case, all the perceived future cash flows are Haram.

Jeff

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Your example of a beer brewery is not inclusive. In this case, beer is not a property for a Muslim. it deserves only one thing if it become a property of a Muslim, that is: spill it over and destroy it all since it has no value whatsoever from the Shari'ah point of view (unlike when it is owned by a non-Muslim. if the share is of beer company it has to be given to charity, al of it, principal and profit. (it must be destroyed and you cannot even transform it into vinegar!)

But let us take another example, a conventional bank or even a pork industry (as there is some value of the hide and may be some other parts for non food uses). if you put \$10 in a stock of a bank and at the end of the year you get 5 for it, there seems to be nothing to purify, because you did not even recover your principal. a profit is defined in Shari'ah as a surplus after you recover the principal.

Suppose you gave an agent an amount of money and after a year you checked with her and found that she put it in a conventional bank's stocks but ended up with only two thirds of the money, do we ask about certain operations the bank did whether they were profitable or not? my principal is recovered; clear enough to say that I did not make any profit. In fact I lost one third of my original amount and that is what matters.

This is different from the case that has profit but not distributed as dividends.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: stock investing**

From: Jeff

Sent: Wednesday, November 03, 2004

**Question:**

Assalamu Aleikum wa Rahmatulahi wa Barakatuh. I want a clear explanation why it is ok under Shari'ah to invest in stocks, and under what conditions. Didn't the OIC Academy make a ruling around 1991 that it was ok? Could you please give me a 3-5 sentence description of the consensus opinion and your opinion on this? I would like to have a quote from you on the website on this subject. Thanks.

Jeff

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Sorry for the delay of this answer. basically it took me time to figure out the best approach as reference to the OIC Fiqh Academy resolution will not benefit us, it is

essentially negative as it translates as "the principle is the prohibition of participating in companies that deal at times in prohibited things such as Riba even though their main activities are permissible." [resolution No. 63/1/7 of May 1992].

Here is the wording I suggest:

Companies that produce permissible products such as computers, electricity or cars make certain transactions on the basis of Riba or other prohibited contracts or may have subsidiaries that provide Riba-based financing or deal with prohibited material. This kind of companies makes the great majority of listed companies. While it is obviously prohibited to buy and own stocks in companies that produce prohibited things such as breweries, interest-based banks or porno businesses, the prohibition of stocks of the first kind of companies would impose too much hardship on Muslim investors. Therefore, in application of the Shari'ah rule that hardship should always be removed, many Muslim scholars believe that buying and owning stocks of such companies must be permissible provided that their prohibited transactions are not much and the Muslim investor purifies her/his investment by donating to charitable causes a part of the income that is estimated to have resulted from such Haram transactions. The criteria of permissibility are as follows:

1. The main line of business must be Halal
2. Riba and other prohibited activities must not generate more than a small percentage of the company's income
3. Funds used in assets (liquidity in banks and account receivables) that may generate interest must not be high in relation to total assets
4. Leverage or dependence on borrowing must not be high
5. The company must have honest and transparent business or be not involved in cheating, Fraud, etc.
6. The Muslim investor must estimate the percentage of her/his profits that may have come from Riba transactions and donate it to general charitable causes so that her/his investment and profit remains pure.

If you think this is too long please feel free to abridge it

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Jeff

**Question**

Dear Br. Dr. Monzer:

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh. Thanks for this helpful wording. The other aspect of this that I wanted to try to clarify is that I understand there is near universal agreement that it is ok to buy stock in a limited liability company such as a modern corporation if it has no dealing with Haram activities, in other words, even though it is not strictly a partnership and is a modern invention, it is ok. The related OIC Fiqh Academy ruling I was referring to is from a reference to it in the fourth paragraph

of Mohamed Ali Elgari's paper "Purification of Islamic Equity Funds" from the Fourth Harvard University Forum on Islamic Finance (2000)" but all the reference note says is "Fiqh Academy Session of the year 1412 H" and he says it was 1991 CE not 1992 CE, but no information on the actual resolution number unfortunately. I was wondering if you have access to Elgari's paper and know what ruling he is talking about and what it says. He says the ruling was "a monumental and decisive ruling on 'what is a company share'." I will work up a quote from you using the material below and send it back to you for your approval or editing. Thanks.

Jeff

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is the same ruling of 1412h; I think he made a mistake in the 92 instead of 92. It is a long resolution. it mentions the acceptability of limited liability, of share issuance and of the share holding common sock companies as a derivative of the Inan Partnership.

It is true, classical Islamic Fiqh does not accept both limited liability and the unpersonalization of partnerships. But for about a century Muslim scholars have been discussing the common stock company and approving it. The OIC resolution kind of sealed the issue. I don't have the paper of Dr. al Gary on purification.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Calculating purification in stock investment**

From: Jeff

Sent: Tuesday, October 19, 2004

**Question:**

I would like to get your opinions on several issues regarding purification of Riba income. I have reviewed, for example, Sh. Elgari's paper from the Harvard Symposium from a few years ago (I think it was 2000 or 2001) and found some useful info there, but basically I concur with the third method of calculation he mentions. That is, the holder of a share of stock in a company is responsible for paying to charity his share of the company's Riba income that quarter, whether or not he received a dividend. So if he owns a thousand shares and the company has a billion shares outstanding and made ten million dollars in Riba income that quarter, he must pay  $\$10,000,000 \times (1000/1,000,000,000) = \$10$  to charity for that quarter. The fact that the company paid no dividend or a dividend of a higher or lower amount is irrelevant because the riba income will automatically be reflected as a capital gain in the stock price as valued by the marketplace. Even if the stock price went down and the company paid no dividend

during the quarter, he still must pay because the stock price would have gone down even more if the company hadn't received the riba income. So in my view it's a very simple matter: if you own part of a company that earns Riba income, you must purify your share. But please let me know your opinions on this.

Another aspect is how to include income from the trading of Riba securities. This is usually listed on financial statements as "net realized gain (loss) in marketable debt securities." My feeling is that if this is a gain, it should be counted as Ribawi income and be purified, and if it is a loss, it should not offset interest income. So if a company earns a million dollars in interest income and also loses a million dollars trading in bonds, it still has a million dollars in Riba income that must be purified. If it gains a million dollars trading bonds in addition to the million dollars in interest income, it has two million dollars in Ribawi income that must be purified. But let me know what your opinions are on this and if there have been any OIC rulings, Fatwas, etc. on it.

Another issue on purification of interest income: suppose a company makes a million dollars in interest income but also donates half a million dollars to good charitable causes in the same quarter. Some might argue that the company has already purified half of its Riba income and the investor need only purify the other half. The counter argument is that the company did not have the intention of Riba income purification when it donated to charity.

Lastly is the question of whether a shareholder must purify his share of Riba income after tax or before tax. Your views?

Note that this question of prohibited income of one type not offsetting that of another type for purification purposes is more general. For example, if I invest in a company that has a small business in gambling and alcohol sales, and let's say the company made \$50,000 profit in alcohol sales this quarter but lost the same amount in their gambling operations for a net prohibited income of zero, should I purify my share of the \$50,000 profit on alcohol sales, or am I not required to purify anything because the net prohibited income is zero?

Jeff

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1 - Calculation of Haram income for the purpose of purification: I agree with you on the calculation of the Haram income that is due for payment to charity in order to keep the principal and other earnings Pure and Halal: It must be calculated as the Haram income is declared. However, it seems that the way it is presented may give the wrong impression that it is due for payment at the end of each quarter. I think the date of its calculation needs not be the same as its due date for payment. PAYMENT IS ONLY REQUIRED UPON REALIZATION OF INCOME, this means after receiving dividends or selling the share. The point is that receipt by the agent (management) of this income does not trigger the obligation to pay it before receipt by the owner from her agent. If

the agent pays it with the permission of original, he would not be doing any wrong and its due date for payment is not even end of the quarter but the date of receiving the Haram income.

This purification amount is due for payment even if there were capital losses only if the hare holder knows the Haram income.

2 - Income from trading debt securities: It seems to me that we must not offset any losses on such forbidden transactions with interest income. Furthermore, to be more exact we MUST NOT OFFSET AN INCOME FROM A SINGLE TRADING-BONDS TRANSACTION WITH A LOSS FROM ANOTHER SUCH TRANSACTION because the fact is that each transaction is independent from the other. if we report only the net of all such transaction, the principle of transparency requires that we should mention it in the report, if e can know the gross income and gross losses of trading bonds both figure should be reported for the purpose of calculating the purification amount.

3 - Since charity payment by the management is done with prior authorization from the body of shareholders, I think it is permissible to consider such charity as part of the purification factor and a Muslim shareholder would be required to pay the difference only. Certainly not all non-profits are charities eligible for a Muslim's purification payments. Only charity that uses its funds to help poor and needy, churches, synagogues and missionary organizations are excluded because they promote worshipping other than God.

4 - Taxes on the Haram income are deductible from it for the purpose of calculating the purification factor because the net Haram earning is what goes to the shareholder. The net-of-taxes Haram income is the amount that should be given away to charity not the before tax amount. it is fair to deduct its share of taxes when we calculate the Haram income a Muslim shareholder has to pay to charity.

5 - I understand the way of reporting as giving 2 figures, one after tax and one after tax and charity; please correct me if I'm wrong. This way is correct but I may add that it would be better if we can include in the Haram income all gross income from trading bonds instead of net if this info is available.

6 - I agree with the note of generalizing the calculation of Haram income as you mentioned it. Income from a Haram transaction must not be offset by loses on any other Haram transaction.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**From: Jeff**

As Salamu Alaykum Wa Rahmatullahi Wa Barakatuh.

Thanks for your reply. I have the following comments.

1) I understand your point here, but I believe your last sentence is important, that we cannot offset Haram profits with any kind of losses, Haram or Halal. So if the company earns Haram profits in one quarter but loses a lot of money in its Halal businesses, it

may pay no dividends and its stock price may go down. If the owner sells her shares the next quarter, she may suffer a loss because the stock price is lower and she received no dividends. However, I would argue that she STILL needs to purify the past Haram profits out of the proceeds of selling the stock, even if instead of realizing income she actually realized a LOSS. To take an extreme (but not unreasonable) example, suppose an airline had 100 million shares outstanding and made \$1 million in interest on its deposits in 2004 and I bought 1000 shares of its stock on December 31, 2003 for \$10 per share. The company has great difficulty and goes bankrupt and its stock becomes worthless on December 31, 2004 (one year later). Even though I lost my entire investment, I would argue that I still must pay \$0.01 per share=\$10 to charity on January 1, 2005.

Answer:

I agree with you to the extent of the stock value itself. Hence, using your extreme example I think the shareholder is not required to pay anything because she is not required to pay from her own Halal money (from other sources) for it. Some of it came from Haram but all of it is gone! It is this Haram money (acquired by her de facto attorney, who is the management of the company that needs to be given away to charity to purify the rest of the money that is in the hand of this de facto attorney. But the whole thing is gone. There is nothing to purify and there is no Haram money. On the other hand if any thing is left to her from these stocks, she needs to purify them, I may even go for proportional purification, i.e., suppose she gets back only 4000 and the amount of purification of her original 10,000 investment was 10 Dollars she is required to give to charity only 4 Dollars because this is the amount that purifies her remaining investment. One may argue that the amount of interest income relates to the number of shares not to the amount of investment. While this is true, it is irrelevant to an investor. Investors in shares care about the value of their investment not about the number of shares they buy them. In other words, if the capitalization value of the company was one billion and the amount of earned interest is one million, the Haram ratio is 1/1000; the company lost 600 million of its value and the share of this amount out of the Haram is gone with it; it does not remain a burden on the remaining 400 million. Do you buy this argument? It seems to me sound!

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**From: Jeff**

2) I agree. It is very difficult to get gross income on trading of debt securities, so for now, we will make the disclosure you suggest in our reports. Later, we may be able to get that info.

**Answer:**

Fine

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**From: Jeff**

3) Donations to hospitals, cancer research, would be ok? Donations to religious or political organizations are pretty rare—I haven't seen them yet.

**Answer:**

How about donations to the Israeli aggression against Palestinians? Don't they exist?

**From: Jeff**

4) I understand your point here, but what if taxes in a specific quarter or year are greater than income? This is, for example, the case with Motorola last quarter, because they recorded an \$898 million non-cash tax charge to establish a deferred tax valuation allowance against the net deferred tax asset balances of Free scale Semiconductor, Inc., which they spun off as a separate company during the quarter (it used to be their in-house semiconductor operation). In other words, complicated accounting rules can cause taxes paid to go way up or down in a particular quarter or year, and sometimes to exceed total profits (though it is unlikely this could occur for an entire year). I see two potential solutions for this. One is that we could ignore non-cash tax charges and just deduct the cash taxes actually paid each quarter. The downside to this is that the cash taxes actually paid each quarter don't usually correspond to the profits earned in that quarter, but are a complicated function of recent past quarters and the present quarter, plus I'm not sure it would be correct to do this. The second potential solution is to use a company's average tax rate to calculate the taxes for each quarter and then make up the difference in the last quarter of each year so that the annual total is correct. I would probably prefer this solution but to disclose it in our reports. There may be an argument for haram income before taxes being the correct amount to purify, because when I personally give the money to charity, I get to DEDUCT it from my personal taxable income, both federal and state. I need to think about this some more.

**Answer:**

I go along with the second method you suggest because in it more indicative of the tax hat relates to the Haram earning. This should be with disclosure. Further, getting tax deduction on such payments does not affect our calculation nor disclosure because it is totally a different and unrelated matter. Here it is a matter of government concessions for giving to certain types of organizations and there is no Harm is taking this concession whenever one can. Don't you notice that when paying Zakah to Muslim charities we also take a similar concession and we do not consider it in the Zakah calculation?

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**From: Jeff]**

Sent: Wednesday, October 27, 2004

Dear Br. Monzer:

Asalamu Aleikum we Rahmatulahi we Barakatuh. Ok, I still need to think about your answer on the first point. So what you are saying is that although Haram profits cannot be offset by any kind of losses as long as they are all held by the agent, if on the other hand the profits and losses are passed through to the shareowner as reflected in a capital loss (the shares are worth less because the company has losses, although market conditions also play a big role), then the Haram profits may be offset by losses. Do I understand this properly?

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jeff,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Rather: then the shareholder will have to purify only the remaining value of her share not because Haram income is offset by losses but because she lost the principal itself (of the share in Haram income of the lost value). In other words, as far as the lost value of her investment is concerned, there is no principal that needs purification. She is not required to use other resources (the remaining value) to purify a lost principal!

On the third point about donations, it is possible what you say is true about Starbucks, because I believe the CEO may be strong supporter of Israel. Usually, donations to political groups are not tax deductible. I agree we should exclude donations to political groups. It seems to me that a donation to a group that funds work in Israel is only acceptable if it helps the poor within Israel and does not discriminate between Jews, Arabs, or anybody else on the basis of race or religion. If and when we get around to rating Starbucks, I'll look at this issue. It will be fun and interesting to start to challenge some people on these issues.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Short sale of stocks**

**Subject: Registered Education Saving Plan**

From: Islam on line

Sent: Monday, October 04, 2004

Name of Questioner Ahmed

Country of Residence Canada

**Question**

In Canada the government offers what's called RESP or Registered Education Saving Plan, where you can save money for your children education, for the money you save, you get a tax break plus the government contributes 20% of the money you save every month up to a defined max. Of course you will be getting return for saving this money over the years in the trust company.. What should I check with the trust company to make sure the return I'm getting is Halal? One of them is saying ""Guaranteed principal: By investing only in government guaranteed or fully insured investments, we are able to guarantee your principal for the life of the plan.""

Jazakum Allahu Khairan for your constant help

Yours,

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ahmed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Most kinds of return on such plans with conventional financial institutions are interest-based If you take such a plan (on interest) you have to give to Muslim charity all

accumulated interest over time and keep only your contributions and the government matching contributions.

However, to the best of my knowledge the Islamic Housing Cooperative of Canada (housed in Mississauga) is registered and qualified for this RESP and if you deposit with it, its return is lucrative and almost guaranteed because it only invest in helping Muslims get houses. You may also check with the Royal bank of Canada (or may be on Montréal, I am not sure about the name) because it announces the issuance of an investment plan that is Shari'ah compatible, see if it accepts this RESP.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Paying Debts by Trading in Stocks**

From: Islam on line

Sent: Tuesday, September 28, 2004

**Question: from Morocco**

Assalam'oulaykum: first, may Allah Bless you for your work. I am an illegal immigrant Muslim in the west with financial issues. I am more than 18,000 pounds in credit card debt. I didn't pay my credit cards for 8 months now because I didn't have any money. Interest was too high, 27%. I just started work and called credit cards to work a deal with them. They offered me big discount if I pay it now. I told them I don't have that much money. I started trading stocks on internet and made profits to pay them faster. I buy a stock when I find it cheap and sell it when it goes up, it could be the same day or the next week. I know that trading stocks in the west is HARAM, but i am intending on repenting as soon as I finish paying my debt. I am scared to go back home without paying the debt. Is it ok if I pay credit cards only the discounted amount they ask me or I must pay the full amount (in Shari'ah) anyway. Is paying my debt by trading profits Halal or Haram? What should i do? Also, is working at restaurant here (restaurants in the west sell alcohol) Halal in my situation, because I make more cash fast, only till I pay cards. Please guide me, answer in full. I don't like to disobey Allah. Allah Bless you?

Notes

As soon as possible, may Allah bless you.

Jazakum Allahu Khairan for your constant help

Yours,

Islamonline.net

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Hassan,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Four points are mentioned in your question.

- 1) Using credit card when you know that you cannot pay within the grace period is not permitted in Shari'ah because lack of payment within the grace period invokes the clause of interest in the credit card agreement and interest, at a high rate as you said, is charged to you.
- 2) Making a mutually agreed on settlement with credit cards company to reduce the balance or delete the accumulated interest is certainly permissible because it reduces the amount of Haram you got yourself indulged in. Then you should honor the agreement you make and pay on schedule in order to avoid any further interest.
- 3) Trading stocks is not Haram as a one shot. Some of it is Haram and some is permissible. There are two basic conditions for permissibility of stock trading. a) It is permissible to trade stocks that are permissible for Muslims to own. This exclude socks of banks, casinos and Western Film production companies, weapon producing companies, etc. and b) the contracts used for stock trading must also be permissible. For instance short contracts in stocks are not permissible because there is interest on lending the stock generated to the broker. Ordinary long contracts (that are actually most common) are permissible.
- 4) Working in a restaurant that serve alcohol is permissible provided you do not serve it or do any of the thing that are done normally by a bar tender (including stocking liquor n shelves, pouring in glasses, carrying it to customer, etc.)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in government indexed bonds**

From: housam

Sent: Monday, September 13, 2004

**Question:**

Dear brother Monzer:

From what I read from your fatwa ( included below), is it correct to assume that if the government introduces a product that you can put your money in and compensate you for the loss of the value of your money by indexing this product to the rate of inflation ( no more or less) is it then Halal. As this product is a government regulation available to everybody. so every citizen who have extra money can put his money in this product and the government who is responsible for the inflation will be compensating each of these citizens for the erosion of the value of their money by inflation. And who wishes not to participate then he bears the responsibility of the loss of the value of his money. And who does not have any extra money he has lost nothing. So it is fair to everybody.

I am just drawing similarities from your fatwa of 2002, reproduced below in Italic.

In other words, what is the current opinion about indexation is it still controversial, is there still some scholars argue for it permissibility?

Housam

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Housam

Do you notice that your conclusion in regard to my fatwa is like what happened to Ibn Abbas when he was asked whether God may forgive a killer and once he said no while he said yes in another occasion! The difference was the first questioner wanted to kill and was looking for a way out before hand the other have already committed a murder! My Fatwa deals with an increment imposed on debtors (all of them) as indexation because inflation took place. Your incorrect analogy was about contracting the government to give an increment over a loan I will give it!

They are not the same!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Indexation by government regulation**

From: dialogue@islam-online.net

Sent: August 14, 2002

Name of Questioner ZA country of Res. Pakistan

**Question**

The inflation rate in Pakistan is fast increasing. Keeping this in mind if we deposit some amount of money in our bank, after 5-10 years it will be of no value! The bank continues to add some profit to our money. So in this case will it be Sood (interest)?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. ZA

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If what is added to you account is in implementation of a government regulation to compensate for inflation for all debts, i.e. what is called indexation, this addition is not forbidden and you may take it. Otherwise it is Riba (interest) and it is Haram whether the rate of inflation is greater or smaller. The Reason is that indexation is controversial, and some scholars argue for its permissibility and in controversial matter we don't haste to prohibition. Interest is not controversial, it is forbidden. And it is scientifically incorrect to claim that interest is in compensation for inflation. Interest is the price of money whether there is inflation or not.

Wa Allahu A'lam

Wa Alhamdu li Allahi Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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From: Fazal

Sent: Saturday, August 14, 2004

**Question:**

Assalamu alaikum wa rahmathullahi wa barakathuhu

Dear Br.Monzer Kahf

Thank you for your prompt reply on my query on share trading

I would like to know whether short selling of shares is allowed.

I trade in shares through the National Stock Exchange in India.

I am permitted to sell the shares first (even though I dont own them)and then later buy them on the same day and the difference whether profit or loss is charged to my account. This technique works out on a fall in share prices throughout the day. I would like to know whether I can do such trading.

Wassalam

FAZAL

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Fazal

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

The principle is that while interest is prohibited, sale of standardized objects on description (without owning them) is permissible provided the price is paid at the time of contract (not on margin). The short sale of stocks usually contains borrowing the stocks from the broker against interest. This is why short stocks is prohibited. If the day short does not involve borrowing for Riba, it must then be permissible.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: day sale and buy of shares**

From: Fazal

Sent: Tuesday, August 10, 2004

Dear Dr.Monzer

**Question:**

Assalamu alaikum

This is in continuation of my earlier email.

I would like to get clarified one more doubt and I would like you to do so.

If I buy shares in the stock market through the broker, these shares come into my account only on the 2nd day after the purchase has been made. However I get a contract of purchase or sale made during the day from the stock broker at the end of

the day and my account gets debited to the value of shares purchased or sold on a daily basis. Even though the stock does not come into my account the same day I am permitted to sell the shares the same day or the next day. (The only difference is that the brokerage charges are more if the shares are sold the next day).

I would like to get clarified whether am I permitted do such trading

Wassalam

FAZAL

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala

Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Fazal

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

Shares are credited to your agent (the broker) on the same day, and it is his accounting that delays it. If the shares are in the possession of your agent, they are considered in yours too. You can sell them the same day.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: share trading and share inheritance**

From: Islam on line

Sent: Tuesday, August 10, 2004

**Question from Nigeria**

As salamu alaikum!!! I hope the scholars are fine and in the best of health, amin. I have two questions: One - what is the islamic rulings on buying and selling of shares - stock trading? Two - I have an uncle who is presently late, but whose estate was inherited by my father, since he has neither wife, nor children or any person to inherit his properties. Before his death, he had stocks, and it happens that after his death, and though i wasn't the one who inherited his stocks, my father always encouraged me to buy, anytime the stock companies sent in request for right issues, which in a normal circumstances, my late uncle supposed to have subscribed since he has stock with the company. But my father encouraged me so that i now bought a lot of shares, under my late uncle's name, but through the rights issue process, and almost all the share certificates of my late uncle have been converted to my name, because i happen to be the one lodging his returns. I now want to know the status, islamically, of the stocks i bought under the rights issue process, and the issue of dividend, since i am not the rightful heir of my uncle. how do i now claim my dividend, since the stocks are always considered to be the entitlements of one person, my uncle? May the almighty Allah reward you abundantly. wassalam

Jazakum Allahu Khairan for your constant help

**My Answer,**

Bismi Allahi al Rahmani al Rahim,  
Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad  
wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Abdallah

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

For the shares that are permissible to trade (buy, own and sell) please consult the Islam on line Fatwa bank, there are several Fatawa on this. In brief, stocks of companies that do not deal in Haram (Riba and otherwise are permissible, stocks of companies whose main line of business is Haram are forbidden and stocks of companies that deal a little in Haram may be permissible with the cleansing condition (giving to charity the return that pertains to the Haram activities).

The second question seems to be a legal no Shari'ah one. From Shari'ah point of view, Stocks that you bought from your money, in the name of your uncle, are yours not his; you have the right to collect their dividends; and you said they are converted to your name. If they are in your name you can collect their dividends and if they are inherited by your father, he can transfer them to your name!

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

---

**Subject: Health and life insurance and stock options**

From: Habib

Sent: Saturday, August 07, 2004

**Question**

Dear Br. Dr. Monzer,

Could I kindly ask you to help with your insights into the following 2 questions, may the Almighty reward you amply:

1- Medical and life insurance: I live and work in the UAE. My company has a group insurance policy with ..... for the employees and their family members whereby ALICO reimburses our medical expenses as well as give us a life & disability insurance. Is the medical refund we receive Halal and is this type of life insurance Halal?

2- Stock options: The company I work for is a global food firm. Whilst in the UAE its commercial activity is Halal, it is selling pork in other parts of the world as part of its portfolio of food items, further the company may earn interest on positive cash flow.

My contract with the company does not oblige it to give me stock options, however, as a mean of retaining employees and as an incentive the company does offer me stock options. As you are probably aware how this works, the stocks would appreciate over time and once they are vested the employee can sell them and benefit from the amount by which the stocks appreciated. The company actually terms it this way:

The employee can buy the stocks at a fixed price after a number of years, which technically means the employee buy these stocks the same day he sells them and the principle would go back to the company.

Obviously the company could have bought (or reserved these stocks) for the employee through a bank loan. My question is it Halal for me to accept the amount by which the stocks appreciate as a pure financial operation (a company reward) and to do about the fact that part of it is due to non Halal activity (ie., Selling pork or earning interest on deposits).

May the Almighty bless you.

Habib

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Habib

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

1 - Insurance is permissible when it is not based on interest. Health insurance and term life insurance are not interest-based. They are permissible and the refund you get from the insurance company for medical bill is permissible. There are people who argue that insurance (of all kinds) is not permissible on the ground that it is similar to gambling, it contains interest or it contains a level of uncertainty that is not tolerable. I think their argument is weak and based on misconceptions about what insurance is.

2 - Employee stock options are, under normal circumstances permissible (unlike stock options that are in the market under the category of derivatives. But if it is only a small portion (say around 10% of total transactions, total sale or total revenue, it is permissible to buy/sell its stocks provided that you estimate the percentage out of the gain you make out of this option that is attributable to the prohibited sale/transactions and give it away to Muslim charity.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: Are the Shares I Obtained Halal?**

From: Islam on line

Sent: Thursday, June 24, 2004

**Question: from Palestine**

I work in the IT department in a non Islamic bank in Australia. Twice a year, I get a performance based bonus the bonus is split into one third cash component, one third shares and one third options. The options and shares are locked for three years, during that period I receive dividends that are automatically reinvested in buying more shares. Are these shares and options halal to take? I also get the chance to participate in employee share save scheme where part of my salary is deducted to buy shares in the bank at a discounted rate and saving me the administrative costs All of these benefits are considered part of the package I am paid and is calculated as part of the remuneration I get. What should I do with them?

Jazakum Allahu Khairan for your constant help

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Rasha

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You know that buying shares and options to buy shares of conventional banks is not permitted in Shari'ah because it amount to becoming a partner in a company and giving its management an authorization to make interest-based contracts on your behalf and in your name. This becomes as if you were personally making such contracts. But I look at your question from a different angle.

1) I look at the bonus you are given as follows: a cash amount and an amount equal to the value of a package of shares and options that the employer decides and manages and it is paid to you after three years. This becomes real if you immediately sell each package on the day you become eligible to sell it. I do not see it non-permissible provided you sell it on that day. This is in order to mean that you do not intend to give any authority to the management to act on your behalf. At the same time you want to collect this part of your bonus when it is due to you according to the employer's regulations. I believe that you are entitled to the fringe benefits of your employment and you are also required not to deal in Riba. While I see that collecting this part of your bonus permissible we must realize that holding such package for any period of time means you are, by proxy, dealing in Riba.

2) Would the same apply on buying shares at discount? I don't see it that way because in buying you are initiating the action voluntarily on your own! suppose you want to get this benefit and decide to buy shares and sell them immediately to pocket the difference (assuming selling them immediately is permissible according to the regulations of the employer) would it be okay? I would say no because buying shares of an entity whose main function is Riba-based transactions is itself not permissible in Shari'ah. Notice here that we are working out a fine line between the Halal and the Haram, I suggest that you do not use this employment benefit.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

---

**Subject: Are the Shares I Obtained Halal?**

From: Islam on line

Sent: Thursday, June 24, 2004

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Jazakum Allahu Khairan for your constant help

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Rasha

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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2) Would the same apply on buying shares at discount? I don't see it that way because in buying you are initiating the action voluntarily on your own! suppose you want to get this benefit and decide to buy shares and sell them immediately to pocket the difference (assuming selling them immediately is permissible according to the regulations of the employer) would it be okay? I would say no because buying shares of an entity whose main function is Riba-based transactions is itself not permissible in Shari'ah. Notice here that we are working out a fine line between the Halal and the Haram, I suggest that you do not use this employment benefit.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading indices and Futures commodities and currencies**

From: Islam on line

Sent: Monday, June 14, 2004

**Question from Malaysia**

ass.w.w. i am a futures trader who trades agricultural products through a futures exchange. is it a halal or haram profession? i don't gamble since i make my decisions based on research and analysis of the products. what about trading indices such as dow jones, nikkei etc. is it halal or haram ? at last, what about trading currencies, is it halal or haram ? all through a futures exchange such as chicago board of trade, etc. i've been waiting for so long for this opportunity, please give me an expert answeres. may Allah rewards your kindness.

Jazakum Allahu Khairan for your constant help

Yours,

Islam on line

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Yan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Trading any goods / commodities that are permissible in Shari'ah is also permissible because trade creates value as it is well known.

Trading in commodity exchange and stocks markets is also based on the same principle. A stock is tradable because it represents a basket of assets. Therefore, according to Shari'ah this basket must be real and permissible. Hence, from our religion's point of view, stocks of companies whose main activity is not permissible are not tradable. an example is companies that produce weapons used by armies/individuals to kill innocent people or to occupy their land.

Additionally there must be real assets behind a stock to be traded. Indices are mere mental calculation of values of a bundle of stocks; but unlike stocks they do not represent real assets. Therefore, the OIC Fiqh Academy ruled in 1412H that indices are not ownable or tradable.

While spot currency trading is permissible, currencies futures involve interest and our beloved Prophet, pbuh, prohibited it. In a correct Hadith he mentioned that currencies must only be exchanged with the condition of immediate delivery of both currencies. This means that futures are not permitted and margins are not permitted too.

The alternative to commodity futures is the Salam sale that is well defined in Shari'ah; it requires that the price, all of it, must be paid at the time of the contract. Accordingly, the same Fiqh Academy also ruled that commodity futures are not permitted too because they are traded on margin and they are usually not intended for delivery/execution.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Indexation and the prohibition of Riba**

From: dialogue@islam-online.net

Sent: June 10, 2002

Name of Questioner Nabeil Gender Male Age 21-30

Education Post Graduate Date Submitted 5/22/2002 Email

country of Origin Yemen User Ref. No. XC45E9 country of Res. U K

**Question**

Assalamu Alaikum and May Allah reward you greatly for this blessed service. This question consists of two parts. Nearly 3 years ago I took out a student loan. The only interest on this loan is that corresponding to the rate of inflation (i.e. the natural increase/decrease in the value of currency). (i) Was this loan Halal/Haram? (ii) Should I repay this loan as soon as possible? Why I ask this 2nd question is because the Student Loan Company is lenient in how it wants repayments to be made. They take a small amount from your wages (if they are over £10,000 pa) every so often. One can of course repay all the amount of loan at any time. However, if you die or reach the age of 65 before your repayments have been completed then the loan is ""forgiven""!

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nabeil

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Interest is forbidden whether it is determined in the contract or later and regardless of inflation. However, there is a minority of Ulama, though this goes against the resolution of the Islamic Fiqh Academy of the OIC (Organization of Islamic Conference) in Jeddah, who argue that indexation is permissible. The link with inflation makes it indexation.

Accordingly my answer is that such a loan contract is prohibited, but there are people who say it is not, I wouldn't do it and wouldn't like you to do it. I argue that at many times most banks wish to have their interest linked to inflation because it happens that interest rates may go below inflation rates.

For the second question I suggest that you pay it as soon as you can because it is interest based and especially that you are not planning on dying soon, are you?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading derivatives**

From: Michael

Sent: Tuesday, June 08, 2004

**Question:**

Dear Monzer Kahf,

As salamu alaikum,

I am being not fully sure about some Shari'ah issues as follows:

- Trading of Arbun and Bay As Salam permissible or not?
- Arbun accepted by which schools and what is the majority opinion?

I would appreciate your comments on these points. For my own understanding what is the logic behind selling in ""bay as salam"" without ownership if we in the same time are defining a basic rule do not sell what you do not own?

Best regards wa salam,

Michael

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Michael

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

Sorry for coming back to you late. Your email caught me on travel and it was stuck in my laptop that I don't use at home.

Bay al Salam is unanimously permissible as it is supported by a clear Hadith. It is an exception to the rule according to the overwhelming majority. The exception is Ibn Taymiyyah. The difference is more semantic than any thing else because Ibn Taymiyyah argues that a text sets rules any thing that comes in texts must be rule setting , it can't be an exception! The others argue that we have general principles that are set in major texts, supported by logics and Religious rationale. ""You can't sell what does not exist"" and a text made an exception to make life easier for people. The matter has an implication in regard to Qias. Exceptions to the rules cannot be considered main premises for Qias i.e. you cannot extend their rulings by virtue of qias.

Bay' al 'Arbun is a hanbali thing, all others refuse it as inconsistent with the rules. It is a sale with a down payment that if the purchaser does not go ahead with the sale she loses the 'Arbun. Others argue that you cannot predetermine a penalty for not going ahead with a binding contract, the penalty must be measured by the actual amount of damage, nothing else. I personally go along with the majority.

A relevant question arises: are option similar to 'Arbun? And are they used for the same kind of objective?

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Investment in Bank Shares**

From: Islam on line

Sent: Saturday, June 05, 2004

Name of Questioner Muhammad

country of Residence Pakistan

**Question**

Whether Islam give permission for transaction of Bank shares even a shareholder is equally divided its loss and profit. Although banks deal their business on REBA by giving loans to peoples so called mark up on high percentage. I request you kindly guide me in accordance with Quran and Sunnah. Thank  
Jazakum Allahu Khairan for your constant help

**My Answer,**

Bismi Allahi al Rahmani al Rahim,  
Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,  
Dear Br. Muhammad

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

Conventional banks conduct their business on the basis of interest which is the most common form of Riba. They give loans to businesses and charge them interest; they also accept deposits on loan basis from people and pay them interest. These activities are prohibited according to Shari'ah. As the activities themselves are prohibited, it is also prohibited for a Muslim to own a bank, whether the owner manages it or appoint a manager and whether one owns the whole bank or a few shares of it because the manager acts on behalf of owners on the basis of agency.

On the other hand, Islamic banks accept deposits on the basis of Mudarabah which is a form of partnership with a sleeping partner. They also give financing to businesses on the basis of either Musharakah/Mudarabah, sale on cost plus or Ijarah. All these contracts are permissible in Shari'ah. buying, owning and trading their stocks are permissible because they make their businesses in accordance with Shari'ah.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying Certificate of Deposits (CD)**

From: A Questioner through Islam on Line

Sent: Tuesday, May 25, 2004

**Question**

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

Is buying Certificate of Deposits (CD) issued by the government allowed? My understanding is that the government uses this money for its projects and pays interest on this money. Will this pay like participating with the government in these projects and earn interest since the bank is not involved? Thanks you

Jazakum Allahu Khairan for your constant help

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br.

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

There is nothing in our religion that prohibit dealing with banks because banks are legal entities that may undertake permissible or non-permissible contracts.

What matter is the contract and its real components and nature. a loan contract with interest is prohibited. Interest is the most common form of Riba that is prohibited in the Qur'an and the Sunnah of our beloved Prophet, pbuh. It is the only sin that is threatened in the Qur'an with a war from God and His Messenger.

It does not matter whether the loan is given to/taken by the government or an individual. Any increment in a loan is interest and is prohibited. Additionally the use of the loan for a good purpose does not justify the prohibited interest. The government has a thousand and one other way to get funds for financing public projects in accordance with the Islamic rules and regulations; why should it have to select only a prohibited kind of contract?

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying and Selling various market indices**

From: Rayed

Sent: Monday, May 24, 2004

**Question**

Dr. Kahf, Asalamu Walikum Warahmatullahi Wabarakatu,

I would like to start off by thanking you again for your assistance in my earlier matters that I contacted you about. May Allah (a.z.j.) reward for your commitment and service to this ummah.

Akhy, I have another concern about the stock market that I would appreciate your comments on. I have come to realize that trading the market itself is quit profitable (i.e. trading the QQQ (nasdaq100), NYSE, S&P500) and other indexes, for example the semiconductor index, the tech index, and the pharmaceutical index. From what you know from the ulamah in this field, is day-trading the various markets (as a whole) and indexes halal.

To clarify - to trade the whole market the stocks are, for example the Nasdaq100 is a stock QQQ, S&P500 is SPY, NYSE is DIA and so on.

Inshallah we will remove any profit percentages of the haram companies that are contained in this markets, so as to purify our income.

The Nasdaq100 as you may know are a combination of the top 100 biotech firms, inshallah they should be all halal. The S&P500 and NYSE will have companies that we can't trade. So when we trade that particular market again as a whole, we will calculate what percentage that haram company has of the market (i.e. S&P500) and remove that from our profits at month end.

Your guidance in this matter would be appreciated.

JAZAKULLAH WAKHIRUN

Rayed

**My Answer,**

Bismi Allahi al Rahmani al Rahim,  
Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad  
wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Rayed

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

We need to go back to the principle. Why trading stock is permissible (I mean only these stocks that are permissible to own)? Stocks are only permissible because they are a representation of real things: the company including its physical assets and properties, and rights and claims it has pf others including abstract rights such as the company's name and location, any patents, etc.

Does and index give a right of ownership? An index is mere calculation abstract! it does not give you a right in the companies included under the index. It is not a thing that can be owned and traded. This is the resolution of the OIC Fiqh Academy taken unanimously in 1412H.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

---

**Subject: Trading stocks on margin**

From: Wael]

Sent: Thursday, May 20, 2004

**Question:**

ALsalm Alykom,

Thanks so much, because Riba is a serious sin that's why i was trying to go deep to get an answer, an i really appreciate you got the time to provide me with one.

i had a feeling already that it's not great idea , but i thought i would ask anyway.

But you answer make me think about something else, stocks, i assume that because stocks is not a medium of transfer, that it can be traded on margin, is that right? Let us assume that interest won't be paid as in intra day stuff.

i remember that i saw something to that effect on your web site, but i am double checking.

Thanks again

Wael

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Wael

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Yes, trading stocks (that are permitted to own) on margin is permissible, (stocks are not money and they do not have the same rulings as money), as long as the issue of margin does not invoke interest.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

**From: Wael]**

Alsalm alykom Dr Mozer,

I checked with the broker company on the phone about how they do their trading. Basically he told me that what i said before:

- 1- When a customer puts order they themselves lend the customer money to finish the transaction, the customer have only to come up with certain margin equity.
- 2- They are the market maker, the second part of the transaction they sell or buy the order from their inventory.
- 3- After finishing the transaction, they will go to the Inter-bank market and place the same order there. or replenish their inventory again.
- 4- Over night position is charged interest, intra day not.
- 5- The trade is spot trade not future.

Thank you

i hope i am not wasting you time, if i am accept my apology please

Salam

Wael

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Wael

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I will answer your three email together.

- 1- This is not that new of a transaction.
- 2- The broker is not telling you the truth; instead he is summarizing it to you. The broker DOES NOT LEND YOU MONEY,PERIOD, the sale is itself a margin sale. It is ""as if it lends you""
- 3- The prophet, pbuh, made a clear distinction between currencies and other commodities. Yes you can sell TV's for a deferred price or on installments, but you cannot sell currencies because A) the Prophet said it with a clear cut statement "Ha'a bi Ha'." and "Ydan bi Yad" in another version of the Hadith; and B) because currencies are meant in Shari'ah to be a medium of exchange not a direct commodity that is why when we trade them, and trading them is needed and as ancient as the existence of currencies themselves.

4- Currency trading requires delivery at the time of the contract, this delivery can be done by credit and debit in the accounts but if it is not done, the transaction is then Riba al Fadl as called in Shari'ah. Holding a position does not mean you got delivery, it means you got a contract, delivery must accompany it if the transaction is to be compatible with Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Speculating on stock Prices**

From: Islam on line

Sent: Wednesday, May 19, 2004

**Question**

Please explain what is the islamic meaning of 'Speculating on prices' and give examples. I understand that it is not permissible to speculate. I am intending to invest in stocks and shares using charts and looking at their patterns. Is this possible. You may also wish to look at the following website: <http://www.learntotradefutures.com/>. Please advise whether it is permissible to invest in this way.

Jazakum Allahu Khairan for your constant help

Yours,

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdullah

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

First, please note that future currencies are not permitted in Shari'ah as they contradict the correct Hadith that requires currencies to be traded with delivery of both objects of the contract at the time of the contract itself. Any time differential in delivery and any delay, even of both currencies is called Riba in Shari'ah. Additionally, the OIC Fiqh Academy studies commodities futures and resolved that it is not permissible to trade commodities futures because both price and delivery are set for a future date and they are mostly not meant to be implemented.

Speculation has no Shari'ah definition and it can't be claimed forbidden. all trade is in fact speculative as you buy a thing on the hope of being able to sell it at a higher price. There are prohibited practices such as bidding in order to raise the price on a person who wants the item while you don't, or selling a thing before you own it and actually possess it, etc.

buying stocks in the market on the hope that the price will go up is permissible as long as the stock you buy is permissible to own. For instance stocks of interest-based banks are not permissible to own, so are stocks of military industry that is used for aggression on other nations/people like killing innocent wedding attendees in Iraq! also prohibited

are stocks of companies that deal/produce prohibited items as a main line of business, even other companies may also be prohibited if their dealing in Haram is extensive although the main line of business may be permissible. etc.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

---

**Subject:** buying shares of HSBC

**From:** Islam in line

**Sent:** Tuesday, April 27, 2004

**Question from UK**

Asalamoalikum :- Could you please give me help for the following situation , I work for HSBC as an IT Technician and from your previous answers I believe this is allowed, but my problem is that I participate in a company share-save scheme in which I give £100 a month from my salary in to this scheme. after three years I can use the money saved up i. e, £3600 to buy shares in HSBC at a price set at the beginning of the scheme. Is it permissible for me to buy these shares and sell them immediately so make my self a profit and then use the money to pay off my mortgage which is also with HSBC Your opinion will be greatly appreciated

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Shenaz

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Buying shares of any conventional bank is not permissible in Shari'ah, even for the purpose of making a quick profit, because this act on your part makes you a partner in the ownership of the bank and as such a taker of Riba. I know that HSBC has an Islamic department but it is unfortunately not an independent entity that has its own share alone; in addition to being a very small portion of the whole bank. This does not mean that the Saving scheme itself is forbidden.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Mutual funds and interest loans for car and house**

**From:** feisal

**Sent:** Wednesday, April 21, 2004

**Question**

Assalamu alaikum Dr. Kahf. How are you? My name is Feisal. I would like to ask you a couple of questions if you wouldn't mind. I recently came back from Hajj and I find myself being extremely cautious regarding everything, especially the matters of financing. I always hear of many different fatwas concerning these situations.

In the case of Mutual Funds, many scholars have deemed them acceptable. There are many Muslims who invest in these funds as a tax shelter to avoid paying higher taxes to the federal government. My question for you, is it better to put the money in a straight RRSP fund that gives me a fixed interest rate, then I take the interest made and give it away to a charity?

Also, as I mentioned before, there are many fatwas regarding such things as car loans and mortgages. Is it permissible for a Muslim to lease or take a loan out on a new vehicle even though he or she has the money to pay for it? I have heard it is okay as long as it is a fixed interest rate over a fixed term agreed upon by both parties. I would really appreciate any wisdom you could offer me on these specific questions. JazakALLAH Kheir for your time and may ALLAH (SWT) reward your contributions.

Feisal

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Feisal

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I am not aware about the many Fatwa that you mentioned.

1- Mutual funds are treated the same way as stocks because what you buy in mutual funds is in fact units in a company that is managed by someone for given fees and its assets are the stocks it holds and trade. You cannot say that mutual funds are Halal or Haram without knowing the assets they hold. If the majority of these assets are Haram, holding units in the fund become Haram too. The OIC Fiqh Academy discussed the matter of stocks in one of its sessions and its resolution is as follows:

1- Stocks of companies that deal only in Halal products and Halal transactions are permissible, example: stocks of Islamic banks or any company that does not deal in interest and other prohibited products or contracts;

2- Stocks of companies whose main business is prohibited are prohibited even if the company makes some permissible activities, example: conventional banks inspite of the fact that many of them give charities and spend on community services that are certainly Halal. These stocks are Haram to buy, hold and sell because by holding them you become partner and the actions of the management is done in your name and on your behalf, as if you did them.

3- Stocks of companies whose main line of business is permissible, like computer or furniture production but they deal with certain prohibitions such as getting interest-based loans or depositing on funds on interest or having a small subsidiary that does that. The principle is that these companies are also Haram because a little or peripheral Haram is as forbidden as a lot of it.

Here a group of scholars dissents. They argue that at this time and under the world circumstance such a prohibition creates a great hardship for many Muslims who cannot invest their own savings directly. In application of the Shari'ah rules that hardship always calls for relaxation, there must be certain criteria to determine the degree of tolerance of such stocks (that obviously represent the great majority of stocks). They came up with certain standards that aim at containing the forbidden transactions within a restricted limit: income from interest and other prohibited matters must not exceed 5% of the total income of the company, its assets used in interest and other prohibited matters must not exceed one third of total assets, it must not depend on interest-based borrowing for more than one third of its total assets. Additionally a cleansing criteria must be applied whereby one must estimate the percentage of the Haram in the company one invests in its stocks, both dividends and capital gain and give away to Muslim charity the same percentage of the return one get at the end of the period. These criteria are easy to apply because companies are required to issue this info. Dow Jones Company used them and issued what is known as the D J Islamic market index. And some companies bought the right to use it and established Islamic market funds. Search for them on the internet.

To come back to the Mutual funds: Mutual funds that satisfy these criteria are permissible with the cleansing requirement. You need to do your homework if you want to invest in funds other than the Islamic funds.

2- I suppose the RRSP is the Canadian retirement funds, if it is not please correct me and explain: No it is not better to invest in interest and give it to charity while there are outlets that are Halal. Interest given to charity is not considered Sadaqah; it is only cleansing and it is InShaAllah rewarded as such; but if you invest in Halal and still give from it is certainly rewarded at much higher rate, up to 700 times and more. The Islamic Housing Cooperative of Canada is authorized as an RRSP outlet, and you can invest in it the RRSP and it is Halal!

3- I am sorry not to be aware of the MANY Fatawa that interest for car and others is ok! To the best I know interest is Riba and it is Haram in the Qur'an and Sunnah whether it is for a car, a house, or any other purchase. It is one of the worst sins a Muslim may ever do as it is the only sin that provokes a war from God and His Messenger (the Qur'an, 2:279). True, under necessity a relaxation is incurred but a necessity cannot be expanded to what is not necessary.

4- There is a strong argument for buying a house to reside in for Muslims living in the West for several consideration that include decency of the area, schooling, building equity, tax saving, etc, although these are not necessities in the strict sense but since they apply to most or all Muslims in the West they are treated like necessities under the rule that when a thing that is needed (but below necessity) applies to a large number of people it is then treat as if it is a necessity; it is called in Fiqh ""Hajah 'Ammah."" I don't think it applies to buying cars in America unless in very very special individual cases

5- I don't know of any Muslim who says it is permissible in Shari'ah to take a loan with FIXED or variable interest. In fact Riba is defined as any increment in a loan. It is certainly Haram and big Haram.

6- Leasing is permissible for cars and other things provided the lease agreement does not contain other violations of Shari'ah. And one must look for such other violations in lease contracts. It does not matter if the lease is done with a bank that deals with interest or with an Islamic company that does not deal with interest.

Please do not hesitate to contact me for any other question and give my Salam to Tariq, in the meanwhile try to make some homework on the internet, start with the word Islamic financing or look at my website especially the item Fatawa, it is [www.kahf.net](http://www.kahf.net)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in companies**

From: Tariq

Sent: Monday, March 15, 2004

**Question**

Salaam Alaikum Dr. Monzer Kahf:

Thank you in advance for your time and patience. My partner and I have an opportunity to buy approximately 20 % interest in a company. This company operates a office building. It has two tenants neither of which is operating anything 'HARAM'. When it first started about two years ago the company got a mortgage from a bank to build this office complex. It still has a mortgage today. We would like to buy part of this company. Can we?

Please respond at your earliest convenience. Please send your response using the e-mail that I used to send to you as well as:

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Tariq

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is a need for a three-point introduction:

1 - Going into a partnership with persons who don't mind making Riba-based transactions is discussed in the classical Fiqh. In brief, it is permissible provided you are able to block any interest-based decision, because when your partner acts for the partnership/company, she/he acts on your behalf and in the name of the company of which you are part, it becomes as if you gave her/him an authorization to make such interest-based transactions on your behalf.

2 - Buying shares for the purpose of reselling them when the price is right is considered permissible, by many scholars under necessity rules, in companies that deal in interest, provided its dealing is not much. ""Not much"" is defined as no more that 5% interest income out of total income and no more than 1/3 ratio of loans to equity. The difference between buying shares and partnerships and closed companies is that in the

former you have no leverage on the company in contrast to the latter and there is a large number of Muslims who have small savings and do not know any direct business to go in, buying shares for them becomes about the only outlet for investment. Here there is the condition of cleansing: one has to estimate the percentage of income and capital gain that results from interest transactions and give it away to Muslim charities.

3 - When you buy a real estate with an interest-loan on it, one may look at it as if you are buying for whatever down payment you give plus assuming the gross amount of installments (keeping a blind eye on the components of each installment). In other words, it has a slight difference when you compare it with getting an interest-based loan just outright. In your question, you are not buying the real estate but a percentage of the company that has a debt on it the gross amount of it is xxx .

Putting these elements together, I wouldn't say that buying this percentage is like contracting an interest-based loan. It becomes permissible if you can influence the company to avoid any interest-based transactions in the future (there is an Opinion in the OIC Fiqh Academy about buying a bank for the purpose of transforming it to Islamic but it added a limit that transformation must be done within a reasonable period of time, estimated not to exceed two years for the bank). If you are not able to prevent future interest-based transactions it becomes not permissible. This means that the existing mortgage, considered alone, may be tolerable on the ground of assuming a gross debt. Under all circumstances, the principle of cleansing applies: you need to calculate the percentage of net profit that resulted from interest earned (if any) and the loan balance and give it away to Muslim charities (not including building a mosque)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying and Selling Stocks on Margin**

From: Rayed

Sent: Friday, March 05, 2004

Dr. Kahf,

**Question:**

Asalamu walikum warahmatullahi wabarakatu,

Jazakullah wakhirun for your response, may Allah (azj) reward you for your assistance in this matter.

Allhamduillah, what I understand from the brokerage firm, is that there is no interest being charged on my account regardless if I am in a long or short position. Allhamduillah. But, Dr. Kahf my concern is the statement of (Sheikh Sâmî al-Suwaylim, member of the Islamic Advisory Board of al-Rajhi Bank) on dealing with margin accounts, when he says, "...the broker will not lend any amount unless he is authorized, with commission, to handle and dispose of the loan (i.e. margin). Such condition comes under the prohibition by the Prophet (peace be upon him) against lending and selling at the same time. The loan (i.e. margin) is contingent on being used through the broker with a

commission. This, therefore, is a loan with the anticipation of benefit, which is unlawful.”

Is margin then not allowed based on the above hadith of the Prophet (swa)? And the statement of this shiekh?

My apologizes Dr. Kahf for asking twice. It is just that daytrading is currently my means of livelihood for me and my family – and if there is any dought or if there is any haram in this, then I want to leave it for the safety of my religion.

Jazakullah wa khirun for your guidance and assistance in this matter,

Wasalamu walikum warahmatullahi wabarakatu

Abu raya

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Rayed

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

I don't agree on classifying this as a benefit in a loan. It is a facility like check payments or electronic payment if you open a checking account in a bank. All Islamic banks do that and this facility is given to every one, it is not specific to you because you opened that account. I do not agree with the interpretation of the Hadith in the statement given as it makes life unnecessarily difficult. That Hadith applied on giving a loan and making conditional in-kind interest in the form of benefits to the lender. The intention is different here, you open an account with a broker anyway (and you have to to make this kind of business) and you pay the commission per transaction anyway too, and this facility is simply a part of this package.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**From: Rayed**

Dear Br. Monzer

Asalamu walikum warahmatullahi wabarakatu,

I hope I can take a moment of your time and ask you a question - for which I have tried to search though your website and have found no answer.

I day trade stocks of halal computer companies listed on the Nasdaq (i.e. amzn, yhoo, ntes, rimm, tasr, sina, qcom, rmb, etc.) My day trading account with my broker allows me to have 4-times my capital placed into my account everyday, “margin”. For example if I have \$100,000 in capital, I will then have \$400,000 in trading power. The brokerage does NOT charge me INTEREST on the margin money because I do not hold any stocks overnight. So what is the benefit in giving me all that extra money? commissions, they make from my transactions – the more buying power I have the more shares I am going

to (buy – sell – sellshort – cover the short) the more money they make from commissions. Is this Halal? Is this a halal business transaction in Islam?

“...the broker will not lend any amount unless he is authorized, with commission, to handle and dispose of the loan. Such condition comes under the prohibition by the Prophet (peace be upon him) against lending and selling at the same time. The loan is contingent on being used through the broker with a commission. This, therefore, is a loan with the anticipation of benefit, which is unlawful.”(by Sheikh Sâmî al-Suwaylim, member of the Islamic Advisory Board of al-Rajhi Bank)

Any guidance you can provide in this matter would be much appreciated.

Jazakullah wakhirun, May Allah (swa) reward for your help

Aslamu Walikum

Abu Raya

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Rayed

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

If you know for sure that you will not pay any interest on the margin it is permissible to have it and use it. The condition of working with a broker is imposed by the Exchange management and you need it anyway.

For short sale of stocks, are you sure the broker does not charge any interest of lending the stocks? if there is no interest, it is then permissible.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment of Retirement Plans Funds**

From: eric

Sent: Sunday, February 22, 2004

**Question**

asalamu alaikum,

this is eric farouq sanchez. i was wondering if you can help me with my retirement plan.

i am currently working for the government, agency is customs and border protection.

i have the retirement called FERS and TSP. and right now i wanted to know if i was able to put 14% into my retirement and the government matches up to 5%. And there are certain kinds of funds you can go into. The one i wanted to go into was this one called the c fund, which is the one that is the least stable one you can say. So insha-ALLah brother or sister, if you can please send me information on where or if i am able to do what i would like to do. Thank you brother/sister. asalamu alaikum

eric

**My Answer,**

Bismi Allahi al Rahmani al Rahim,  
Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad  
wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Eric

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

It is permissible to contribute to retirement plans, individually and/or through employers' plans like 401K or FERS and TSP and to get the benefits of the matching funds and the saving for retirement.

IRA can be invested with mutual funds that are compatible with the Shari'ah such as the Dow Jones Islamic index fund (IMANX) but employers funds have only a few contracted funds and they do not offer other funds.

What you need to do is: 1) try to get the Islamic funds approved by the managing committee of your plan; 2) select, from available funds in the plan those that have the least transactions and holdings in bonds and non permitted stocks such as stocks of banks, insurance companies, entertainment buz., etc. and 3) when you liquidate, at retirement, you estimate the percentage of all the increments (dividends and capital gains) during all the period that resulted from non-permitted investments in these funds and give an equal percentage to Muslim charities of every amount you withdraw. This is needed to keep clean off the Haram your own Halal money.

Please brother, if I can be of any help to you at any time do not hesitate to contact me by email or otherwise as all my contact are listed on my website.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Housam

Sent: Friday, January 09, 2004

**Subject: stocks**

dear brother

I have read some of your answers regarding the permissibility of investing in stocks. you have quoted that a minority of scholars have approved dealing with stocks that deals with Halal business but involved in some Haram transaction according to a definite criteria. Was this opinion part of the OIC resolution about dealing in stocks or it did come later after the resolution or was it discussed during the session that led to the resolution.

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

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

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Husam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Tuesday, January 06, 2004

**Subject: Investing on Stocks**

Name of Questioner

Country of Res. India

Assalamu Alaikum. First of all please accept my heartfelt thanks for the excellent service your are providing. My question is regarding investing in stocks. Is it Halal ? Off late I decided to invest in stocks of companies, which do Halal business, e.g. automobiles, pharmacy, steel, IT companies etc. However before jumping in, I started studying about the stock market, about the companies listed, how it works etc, etc. This insight revealed to me that almost, all companies without exceptions give and take interest in their normal course of business. In fact if the companies have cleared their high-interest

debts, they are said to be good, and vice versa. So considering that their business involves give-and-take of interest, is it Halal for Muslims to invest in shares of such companies, and profit from it (either via dividends, or higher resale value, as the stock value appreciates). Please note that as such the core business is Halal. For e.g. I am not talking about investing in companies which produce alcohol for consumption. I know that would be outright Haram. I asked around three esteemed muftis here regarding its validity, and I got conflicting answers in all three cases. One of them said, its Halal, other said its Haram and the third esteemed hazrat said, there are MANY COMPLICATED conditions to comply under which we can invest. But since it is not possible for a common man like me to take care of all these conditions, hence he advised I should better avoid from investing. If the above is Haram, then I have one more related question to you. I am working as a software programmer for a global MNC IT services company (listed on NYSE). My direct job responsibilities are software programming (which is Halal). Now my company has business presence in many countries and our clients (directly or indirectly) include an entire gamut of businesses including banks, insurance companies, etc. etc. Now the moot point here being, since my company pays my salary via its earnings, which comes through all these businesses, which in turn again have interest-based dealings. Also I fathomed that my company itself would be earning interest on its bank-deposits which will show up in its bottom line and hence it will trickle somewhere in my variable pay component which is linked to my-and-company's performance. In such a case, is my service a Halal way of earning. If not, then there is almost no chance (99.99% of businesses today have interest touching them somewhere) for Muslims to be doing Halal service. If yes, then again I see a conflict in two verdicts, i.e. investing in stocks of Halal businesses v/s my service earnings. Also if my service is Halal, and I am given stock options - which forms part of my remuneration - or allowed to purchase stocks at a discount, will that be Halal? Please explain in detail. This particular query has opened up a Pandora's box - full of financial questions related to Halal/Haram rosy in my head, which I will ask one by one in my next queries. Also as I mentioned above, I got conflicting answers from muftis : So what is a Muslim supposed to do in such cases when the rulings are almost contradictory. Take the ruling of least resistance or lenient, (i.e. ruling which suits me) or, play it safe and take the one which is the strictest. Jazakallah Khair. Your brother in Islam.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

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

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

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

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

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

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

e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends) THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure. Dow Jones crated an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

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

Wa Allahu A'Iam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Tuesday, January 06, 2004

## **Subject: Investing in Companies Listed on Stock Exchange**

Name of Questioner MEHTAB

Country of Res. Pakistan

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

### **My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mehta

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Please find below the criteria as I wrote them in answering another question. Please note that capital gains are permissible if the stock is permissible:

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

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

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

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

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

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

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

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

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

INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure. Dow Jones crated an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Tuesday, January 06, 2004

**Subject: Shares in a Football Club**

Name of Questioner Salem

Country of Res. U K

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Salem

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

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

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

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

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

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

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

e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends) THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure. Dow Jones crated an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Wael

Sent: Thursday, January 01, 2004

**Subject: Questions regarding stocks**

Assalam Alaykum Dr. Monzer,

I sent you an email before thanking you on the great deal of knowledge you provided in your web site , especially with regard to the stock market dealings.

Now, after I read your Q&A s, I have a Q of my own that I couldn't find an answer for in your Fatwa page .

I hope you have time to answer me, if not please don't bother, I know you should be busy with your research etc.

The Questions is :

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

Usually in my experience , the interest income of a company is usually minimal, but I couldn't figure out how to deal with the debt in the company's Balance sheet.

Let's say the company has Debt/Equity ratio of 25% , and 0.5-1% in interest income, My thinking is that I bought the stock with the 25% debt and sold it really quickly with the 25% debt intact, so I used to remove 5% of the profit in case there's any, to compensate for any impure money I don't know about in the profit.

Is this correct?

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

1- US registered companies, which is the vast majority of companies listed their,  
2- Canadian/non US companies, but they do business in the US, sometime they have subsidiaries there, property etc.

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

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

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

2- when I excluded the us companies , I found it hard to find foreign companies traded in the US that is more closer to the Islamic eligibility criteria, so I had to chose a handful of companies that satisfy the rules but in most cases not as close as some of the American firms would have been. for instance if I screen for companies with 0 debt I have a better chance getting quite a number of them in the us than in the Candian/foriegn market, this way I can further screen those for the other rules.

3 - If a US or Canadian companies that deal with the US don't pay them taxes, and satisfy the Islamic rules, is that makes it permissible? .

you know some companies don't pay taxes because they are in the red,.

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

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

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

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

Wael

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Wael

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2003**

**Question:**

From: Hossam

Sent: Monday, December 15, 2003

**Subject: question on 401K**

Salamu Alaikum

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

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

thanks

Hossam Gabri, Boston, MA

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Hossam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

401K is a fringe benefit of employment and if employment is permissible it should be in principle permissible too. What remain are the investments you choose in the 401K. The rule is that Muslims are forbidden to be partners in any prohibited activity. The exception is that if the prohibited activity is incidental/trivial within a set of activities in which the majority is permissible it may be tolerated provided that one estimate the percentage of the return that arises from what is prohibited and give it away to Muslim charity. Under this exception the matter become the definition of triviality. Some scholars came with a set of criteria that seems to me reasonable. They are briefly: interest and other prohibited income should not exceed 10%, cash plus receivables should not exceed 45% of total assets, cash plus receivables plus deposits with banks should not exceed 33% of capitalization value, etc.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: housam

Sent: Wednesday, December 10, 2003

**Subject: savings bonds**

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

- 1- the money from these bonds is used for supporting the government operation including ,may be building roads bridges supplying all type of public services--- you have stated in some of what I read for you that participating in such activity is Halal
- 2- the return on these funds is paid from the government treasury department, mostly from taxes which the government gets in return for these services
- 3- the government only promises protection against inflation for the money in this type of funds
- 4- the rate of return is variable and determined every 6 months by indexing this return to the inflation index that is determined carefully on specific data.
- 5- so basically this rate might go down to 0%. When I started investing it these Bonds the rate was 7.5% and now it is 2.16% for the same bonds
- 6- so this investment helps stabilize the buying power for the money and at the same time helps the general public

**my other question**

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

thank you for your help, if you need more information please let me know. Assalamu alaykum wa Rahmatullahi wa Barakatuh

Housam

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Housam

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

2.5%. The net asset value of the stocks is also subject to 2.5% at the end of the year like any other tradable assets.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Hazem

Sent: Saturday, December 06, 2003

**Subject: Fatwa for FOREX Trading**

As-Salamu Alaikum,

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

- o I send to them an amount let's say 10,000 USD
- o They open an account for me and I start trading using this amount of money.
- o I trade by buying or selling a currency pair by selecting one of the pairs (For Example: EURUSD) and choose buy or sell (For Example: Buy) with an amount equivalent to the amount of unit I selected. (If I buy one unit then I am trading with an amount of 100,000 USD) then the order is placed and the trade is now open.
- o While the trade is open, the broker is blocking an amount of money equivalent to 1% of the money we are trading with (I.e. In case, I buy 1 unit, then I am trading with 100,000 USD then 1000 USD (used margin) of my account balance is blocked for this trade (I.E. I have 9000 USD (Usable Margin) in my account for this trade)
- o While the trade is open, the usable margin (9000 in our example) will be increased or decreased depending on the value of the pair in the market. (If I buy (open trade) EURUSD with 1.2000 and it becomes in the market 1.2100, then the usable margin will be increased by 1000 USD and so on)
- o While the trade is open, if the trade remains open beyond 3:00 PM New York time, rollover charges is deducted from my account.
- o I will close the open trade by doing a buy or sell (opposite to the initial action of the trade) sell if I buy/Ask and buy if I sell/bid initially. Depending on the difference between the two actions (Buy and Sell), I got my profit or loss.
- o As far as I know, no interest rates are applied to my account
- o Also, the broker takes no commission per trade

Now, here are our questions:

- 1- What is the Shari'ah position in this kind of trading?
- 2- If we sell/bid a pair first and then we buy, is it Halal if we got a profit? As we sell something we do not own yet and then we buy after the fair value gets lower?
- 3- We have an option to trade with only 0.1 unit which means the amount we trade with is equivalent to actual amount we have in our account (10,000 USD), so if trading with a whole one unit (i.e. 100,000 USD) is Haram because the amount we are trading is 10 times our actual account balance, is 0.1 unit trading is Halal?

4- Do you know (recommend) if there are any FOREX brokers who deal with Muslims according to Shari'ah?

5- Do you know any Islamic references or books about this topic?

Jazakum Allah Kol Khair

Your brother in Islam,

Hazem

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Hazem

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Tuesday, November 18, 2003

**Subject: Speculating in Stocks**

Name of Questioner fathia

Country of Res. Tunisia

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Fathia

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Monday, October 27, 2003

**Subject: The Threshold Between Zakah and non-Zakah**

Name of Questioner M

Is it allowed to invest in stock business?

Notes

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Buying a stock is buying a share (part) of a company that makes you a partner owner of the company. This means that once you buy a stock of a company you become partially responsible for the action/decision of the company's management although you intended to trade the stock with no participation in meeting of share holders keeping in mind that attendance of these management real meetings is your right.

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

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

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Wednesday, August 27, 2003

**Subject: Trading in Shares**

Name of Questioner Ghufraan

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ghufraan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I agree with you that there is excessive heat in the stock market. But you should realize that if a thing is permitted to own it must be permitted to sell and buy. You can't make the distinction you made on intention basis. How about day traders in the sheep markets that used to be held in every village at the time of the Prophet, pbuh? We have a report that a Companion was asked by the prophet to buy a sheep and he went to the market, made some day trading and came back to the Prophet, pbuh, with a sheep and the money back. The Prophet did not prevent him! In fact he prayed for him to become

very prosperous, but told him next time does not trade with other people's money without permission! The prophet accepted the sheep and the money also.

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Saturday, August 16, 2003

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

Name of Questioner Idris

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

1. It is agreed upon that investment in companies whose main line of business is forbidden such as interest-based banks, casinos etc. is not permissible (the Resolution of the OIC Fiqh Academy No. 63 (1/7) of 1412 (1992).
2. Also no dispute about investing in stocks of companies that limit their transaction to what is permissible in Shari'ah such as Islamic banks provided that the majority of their net worth is used in physical assets and abstract assets and only minority is in form in cash and/or debt. (the same resolution, the condition comes from another Resolution, No. 30 (5/4) of 1408 (1988).
3. In the same resolution it is stated that "in principle, it is forbidden to invest in companies whose main line of business is permissible but its management sometimes deal in forbidden transaction such as Riba (=interest).
4. the opinion in No. 3 above is challenged by a small minority on the ground that it is too restrictive to the extent that creates a lot of inconvenience/hardship for small investor like you and me. The view of this small minority is that we have to make certain criteria that allow Muslim individuals to invest in stock within limits that have similarities in Shari'ah.
5. This dissent gave room for the creation of several 'Islamic' mutual funds and 'Islamic' Dow Jones indexes. Of course, people may differ on these criteria because the argument of whether 5% or 10% Haram is tolerable is certainly non conclusive what is conclusive is 0% only. Some argue for one third , some for 15% and others for only 5%. Of course, the less Haram the better! And all agree that a 'cleaning' process by giving to Muslim charities, not as Sadaqah but as money you do not own and you either do not know its owner or it is not advisable to return it to its owner.
6. What applies to stocks also applies to any pool of stocks that is managing d by non Muslims (a Muslim mutual fund must not accept investing in any Haram stock such as casinos or conventional banks) such as the funds in your 401K. The same criteria apply in selecting what Mutual fund you go into because a unit in mutual fund in likes a stock in a company. Hence you may have to estimate not only the small percentage the management put in bonds and financial sector but also the percentage of the Haram in the companies they invest in their stocks when you determine the percentage of giving away for charity to preserve your own money "clean."
7. References on this subject you find in the papers on whose basis the resolution No 63 above was taken. these are published in volume seven of the journal of the Fiqh Academy, all in Arabic).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question**

From: Islam on Line

Sent: Tuesday, July 29, 2003

**Subject: Investment in the Stock Market**

Name of Questioner S-F

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. S-F

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

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

your own money clean of being tinted with Riba. This is not considered Sadaqah but you will be rewarded -God Willing- for preserving your money clean.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Monday, July 28, 2003

**Subject: Buying & Selling Shares**

Name of Questioner Bilal

Country of Res. Germany

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Bilal

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Sunday, July 27, 2003

**Subject: Paper-trading in the futures and options**

Name of Questioner Javed

Country of Res. U S

. For the past several months, I have been \*paper-trading in the futures (commodities) and options markets. I wanted to know if investments in futures and options are acceptable in Islam. I think it is acceptable simply because you are investing in a tangible asset such as corn, cattle, coffee, etc. As a Muslim, I certainly do not invest in pork products, or even look at their charts. Furthermore, I do not take the advice of others. I look at the charts and then make my own interpretation as to how to invest, i.e., whether I feel the commodity will increase or decrease over a certain period of time. Thank you and may ALLAH (swt) bless you. Sincerely, Javed W.

Notes

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Javed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

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

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**Question:**

From: Islam on Line

Sent: Saturday, July 19, 2003

**Subject: Options, Commodity And Currency Market**

Name of Questioner

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br./Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Islam on Line

Sent: Friday, June 20, 2003

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

Name of Questioner ali

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ali

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

These shares entered into the ownership of the heirs on the day your father died. It is not permissible to buy conventional banks' shares and to keep them. Maintaining them for all this long period was wrong on the part of the adult heirs and the guardians of the minors. You probably did not know may God forgive you and us all.

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

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

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

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

What you do for you deceased father is only to keep praying for him and his forgiveness and to make Sadaqah for him. The Prophet, pbuh, said : Whence a son of Adam dies his

deeds come to an end except with regard to three things: a righteous child who makes prayers for him, a permanent charity and a useful knowledge.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Question:**

From: Tawfik

Sent: Monday, April 21, 2003

**Subject: CFD**

Dear Sir

Al Salamu Alaikum

I hope you and you are family are doing well

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

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

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

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

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

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

I hope I made the things a bit clearer.

Is this contract considered as Halal? or Haram

I appreciate your reply

Best regards

Tawfik

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa  
Ashabihi Ajma'in

Dear Br. Tawfik

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

**Question:**

From: Tawfik

Dear Sir

Al Salamu alaykum

Thank you very much for answering my question

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

Thank you

Tawfik

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Tawfik

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

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

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: "Monzer Kahf"

To: Tawfik

Subject: RE: CFD

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

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**Question:**

From: Islam on Line

Sent: Monday, April 14, 2003 6:45 AM

To: Monzer Kahf

**Subject: Dealing with Banks and Buying Shares and Stocks**

Name of Questioner Mona

Country of Res. Canada

Al Salamu alaykum, I'd like to know if dealing with the bank is Haram. In Canada, dealing with banks is in all aspects of life. Having a retirement saving plan, taking a loan to pay for a car or to start a business. Paying a mortgage to buy a house, using credit card to buy every day's needs. All these dealings are associated with interest. If dealing in interest is Haram, what's the option? I can't just put the money I earn at home and worry that it'll be stolen. No one carries money in his/her pocket or keeps it at home. I asked the Imam in the mosque & he gave me a vague answer. Please I need to have a practical solution for this matter. I believe that bank system here is much better than in my home country in Egypt. If a man wants to get married & buy a house he has to work all his life to manage to do that. Some people can't even do it. While here anyone who wants to do the same thing can go & do it tomorrow. Bank system facilitates life here in so many ways. You can start a business of course if you satisfy certain criteria as having a good credit history among other things. Also I'd like to know if buying shares, bonds or stocks is Halal. Jazakoum Allah

**Notes**

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

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Sorry Sister, I forgot to answer the question about stocks.

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

Stocks of companies that do business within the permitted contracts and items are certainly permitted to buy, own and trade.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Saving for retirement in a 401K account**

From: Islam on line

Date: April 01, 2003

Name of Questioner Runghina

**Question**

Assalamu Alaikum Brother, My questions is concerning 401K retirement account, I wasn't sure until recently I heard that 401K or retirement account uses interest or Riba, I know that 401K fidelity uses dividends is that still not allowed according to Islam. Also is saving money in a saving account I know accumulates dividends or you have to put certain amount on your taxes every year if you have saved in a savings account. Now are Muslims allowed to save money in a savings account and also what kind of 401k account can one save money to or what is one's options for saving money for retirement. Can one use a savings account or is one supposed to cash money and save them at home. Please, give some helpful information. May Suban Allaha keep us successful in faith of being good Muslims. Thank you, Runghina

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Runghina

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Saving accounts in conventional banks generate interest, nothing else. And 401K funds are usually invested in mutual funds, such as Fidelity's. Mutual funds invest in stocks and bonds. Bonds are always interest based. Stocks may be of companies whose main business is permissible such as technology and oil stocks or forbidden in Shari'ah such as banks and financial sector's stocks. Also companies whose main business is permissible may highly depend on interest-based borrowing or interest income or may not, if they heavily depend on interest, one way or the other, they are also prohibited. The problem is that when you own a stock you are a partner in that company, even a sleeping one. And a partner is responsible for whatever decisions the management make.

To sum it all up: There is a great deal of interest in the American investment market, and obviously in the saving accounts. Interest is clearly, very strongly and absolutely prohibited in the Shari'ah (the Qur'an 2: 278-9). If you can avoid it would be doing better, if you cannot, as in the case of 401K, you have to be religiously aware and play smart in selecting the funds that have the least interest in them and each year give away to Islamic charitable organizations the amount you estimate is coming from interest

sources in these funds. I certainly do not advice to keep money under your carpet at home, and you do the same with the interest if you have to use a saving account.

By the way, there is a study supervised by a group of Shari'ah scholars that resulted in selecting about 600 stocks in the American market of companies that have least involvement with interest. On the basis of this study the Dow Jones company created the "Dow Jones Islamic market index" you can find this list on the internet under Dow Jones Company. And there are several mutual funds established on the basis of these stocks that you may try to invest in for your 401K and other investments.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Is venture capital permissible?**

From: Islam on line

Date: March 03, 2003

Name of Questioner mehdi

Cuntry Iran

**Question**

What is Islam idea about venture capital? Best Regards,

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. mehdi

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you mean by venture capital, using money to participate in/establish new companies and/or by stocks when they are first open to public, it is certainly permissible. If you have any other meaning or experience for this term "venture capital" please explain.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2002**

**Subject: Can we take the 401K plan although we have no choice of selecting its stocks component?**

From: Islam on line

Date: December 17, 2002

Name of Questioner Wael

**Question**

In the company I work for, I have the opportunity to have a retirement plan (401k) and for each dollar I put in this plan, the company matches with 50cents. The problem is most of the funds have a fixed interest. If I reject the offer, I will lose the company match. My question is: Can I use these types of funds and get rid of the interest which means just take the money I put and the company put.

Notes

Other funds exist but most of them are also Haram companies like wine companies, banks. The only Halal fund that exists is my company's stock which is going down dramatically. This means I may lose my job and the retirement money as well

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Wael

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You may take the 401K as it is provided you give away to Muslim charity any amount that accrues as interest or results from transactions in interest-based bonds or stocks. What applies to interest applies to other prohibitions too. In the meanwhile you still must select funds with the least possible forbidden content, without endangering your assets in the 401K. This opinion is based on your inability to select better venues for investing the 401k, but if you can find other venues such as borrowing the amount to purchase a house or a car you must take them.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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Subject: Are there any Shari'ah compatible bonds?

From: Islam on line

Date: November 10, 2002

Name of Questioner Muslim

Country Malaysia

**Question**

Assalamu Alaikum, Dear Muslim scholars, My country have instituted a system of bonds which follow the principles of the Shari'ah. I am however confused since I've heard that there is disagreement on the legality of bonds in Islam. Is it Halal as Islamic-regulated stocks and shares? Or is it Haram as Riba'? Thank you for your time and effort. Wassalam.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Let us focus on the content rather than the name. Names do not necessarily define the substance. Bonds as defined in the USA system, including treasury and corporate bonds are Riba-based loans. Such bonds are forbidden to issue by any Muslim government and forbidden to buy, own and use as investment vehicle by any Muslim. If some financial instruments are issued that are equity or assets-based (in contrast with loan basis) they are permitted even if they were to be called bonds. Interest is prohibited and interest is defined as a conditioned increment in a loan. It doesn't matter whether interest is determined at the beginning of the loan contract or any time later and it doesn't matter on what criteria such an increment is determined. If describe exactly the basis of these bonds issued in your country and how they operate I will give my opinion on it.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject:        Buying shares**

From: Islam on line

Date: November 10, 2002

Name of Questioner idris

**Question**

Can I buy the shares of a company that engages in business that is not Haram even if the company gets loans from non Islamic banks. Examples of such companies are construction and food companies. Then what of banks?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. idris

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is a resolution of the OIC Fiqh Academy adopted in its Seventh annual plenary meeting (9-14 May 1992) that reads: In principle, it is prohibited to buy stocks in companies that deal sometimes with prohibited matters such as Riba . . . . Some scholars argue that although this is the principle, there are hardships that affect a great number of Muslims in today's world. Since hardships always call for relaxation of the rule of prohibition, stocks of companies whose main business is permissible but they have little dealing in Riba and similar prohibited matters may be bought and owned by Muslims provided that we estimate the amount of gain (capital and dividends) that results from these prohibited transactions and give it away to Muslim charities. the definition of what is little is not a matter of easy agreement as you notice but a group of Muslim scholars attempted such definitions and put a few criteria to test stocks of such

companies. these criteria include the following: income from interest must not exceed 10% of gross income of the company, bank deposits and receivables must not exceed one third of total assets, leverage must not exceed 50% of the company's market value, the company must not be in the area of mass destruction and weaponry industry not in porno and other morally condemned entertainments, etc. you can find a listing of company's on whom these criteria apply on the internet in the website of the Dow Jones Islamic Market Index.

stocks of conventional banks are prohibited for Muslim to buy unless a Muslim buys a majority stock for the purpose of converting the bank into an Islamic bank.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject:        Accepting company's shares as its contribution to 401K**

From: Islam on line

Date: September 30, 2002

Name of Questioner RC

Country USA

**Question**

Dear respected Brother(s): Assalamu Alaikum. I work for an automotive company. As part of employee benefits for retirement, they offer 401(k) program. As part of 401K the company will give us some of their shares. For several years, I have been investing in my company and three other mutual funds that deal with technology companies. I noticed these mutual funds are recently keeping 0.4% of total money in bank to generate Riba and they also invest about 5% in companies that they deal with cigarettes manufactures and other Haram products. My questions are: 1. Is it Haram to accept the shares that my company gave me? 2. If I sold all investment and company shares that they gave me, they will worth less than my initial investment. Example, my initial investment \$10,000.00 and my company gave \$3000.00 worth of stocks currently, they will worth \$8000.00. Is \$8000.00 Halal or Haram money? 3. If my investment worth right now \$14,000.00, Does \$1000.00 consider Haram money or only 5.4% of the \$1000.00 is Haram? 4. What do you think about owning stocks from companies such as Toyota or GM or Ford? Jazaka Allahu Khairan for this noble work you are doing

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. RC

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- it is not Forbidden to accept stocks from the company you work at as long as its main line of business is permissible. If the company, with the main line being permissible, is loaded with prohibited transactions such as Riba, you need to sell the stock as soon as you get it or you are permitted to sell.

2, 3- if you made losses on the stock you get you balance out and do nothing. If you make profit you need to estimate the percentage of prohibited elements in the gain, it is very often more than the 5.4% you mentioned because all the companies whose stocks are in the mutual funds deal with interest and may be other prohibited transactions and goods to varying extents, and you need to take that into consideration. Very few technology funds have assets structure that requires less than 15% donation to Islamic Charity to keep the principal Halal. To my knowledge most technology mutual funds may require up to 25% if you add the activities of the companies whose stocks are held by the fund.

4- For specific companies, the easiest way is to check the list of the Dow Jones Islamic market index on its website, stocks that are on the list are usually OK because they are reviewed periodically by the Shari'ah committee of the index.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading Mutual Funds**

From: Islam on line

Date: September 30, 2002

Name of Questioner

**Question**

As-Salamu `Alaykum, I want to ask you can we buy or sell mutual funds in North America when you do not know these big companies get loans or dealing with other companies are interest based but their main stream business in Halal. Second can a Muslim work for an investment company to invest money in mutual funds. Thank you.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Working for investment companies that deal with mutual funds is easier and the answer is yes, because not all their transactions are forbidden, they have a mixture of Halal and Haram. The answer is yes, one can work in such companies.

Investment in mixed mutual funds is not permissible in principles. But we can apply here the same rules of individual companies, and see if the mutual fund, as a pool of fund, can pass. many specialized mutual companies may in fact pass the criteria for individual stocks and can be invested in. one must remember that one has to estimate the amount of the gain realized for the forbidden transactions, as a proportion of the total gain, and give it away for Muslim charity to keep one's own asset within the Halal limit.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Trading options**

From: Islam on line  
Date: August 20, 2002  
Name of Questioner Zaki Country India

**Question**

Is buying options in Currency trading is Halal???? For your information in buying options you have to invest money and you will buy options for a period of 2 months and they set a target to reach for example.101.If you cross this target you will gain the profit if not you loose the whole amount. So my question is loosing whole amount in such business is permissible in Islam???? Pls. reply me to my e-mail address. Jazakum-ullah-khair. ZAKI

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Zaki  
Assalamu Alaykum wa Rahmatullahi wa Barakatuh.  
Options on currencies, mechadises and stocks are ruled on by the OIC Fiqh Academy: all kind of option trading are not permissible because options are not a financial rights that can be subject to trading on their own in Shari'ah.  
Wa Allahu A'lam  
Wa Alhamdu li Allahi Rabbi al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Saving certificates**

From: Islam on line  
Date: June 19, 2002  
Name of Questioner zohaib Country Pakistan

**Question**

I would like to know about saving certificates. The profit we gain monthly through these certificates are HALAL or HARAM.

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. syed zohaib hussain  
Assalamu Alaykum wa Rahmatullahi wa Barakatuh.  
I can't give you an answer unless you give detail description of your saving certificates. What they are?, who issues them?, what kind of contractis behind them?, what is the

money used for? How are they invested? What is the gain that is distributed and what are its sources?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in a mutual fund for children college education**

From: Yusuf

Date: May 24, 2002

**Question**

Assalamu Alaikum Brother,

My name is Yusuf and I saw you when you visited us at the ISB Masjid in Cambridge, Massachusetts. I am sorry I can't remember your name.

Brother I have a question regarding making investment for college for your kids. Here in Massachusetts we have UFUND (Investing for College) which fidelity investment handles and it is a really a good way to invest for your kids for college tuition. I am really interesting to do this but I am not sure it is permissible in ISLAM.

Can you please give me a quick fatwa about this issue. Jazaakallah khayran, Thank you.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Yusuf

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Investment in any Mutual fund must follow the same rules of investment in stocks. There are stocks that a Muslim must not invest in such as stocks of conventional banks and insurance companies and Israeli companies and companies that produce weapons used for aggression in the world and casinos, liquor, tobacco, etc. A few Ulama made an effort to develop certain criteria for other companies whose main line of business is permissible but they undertake sometimes certain prohibited transactions such as dealing with interest. These criteria are found on the internet under Dow Jones Company, in Islamic Market Dow Jones Index. Please see them there and apply these criteria on the stocks that are in the Mutual fund you are asking about, because each fund has its own structure of stocks they deal with.

Besides, there is also a need to estimate the percentage of income that is generated from these Shari'ah-disapproved transactions and donate a similar percentage from the income of your investment in the fund to Muslim charity because that much is not permitted to be mingled with your own Halal money.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in Mutual funds**

From: Islam on line

Date: May 05, 2002

Name of Questioner	Farooq	Gender	Male	Age	31-45
Education	Post Graduate	Date Submitted	4/17/2002	Email	
country of Origin	Pakistan	User Ref. No.	8BQYBK	country of Res.	Pakistan

**Question**

First of all I would like to tell you that I currently live in Canada. My question is regarding mutual funds. Here almost all of the mutual funds have some portion (from 1 - 15%) of their portfolio invested in cash or bonds, even though they might be focused at high tech industry or petroleum sector. For eg royal bank of Canada's Royal energy fund has portfolio distribution like this 79.8% Canadian equities, 10.8% US equities, 9.4% cash. So this 9.4% could be invested in bonds (which gives out interest). In this situation although the primary focus of this fund is not interest based companies but a portion of its profit (9.4%) comes from interest based investment. So in this situation it is allowed for a Muslim to invest in such kind of mutual fund. Thanks for your time in advance Salam

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Farooq

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Investment in mutual funds is like investment in individual stocks from the point of view of the criteria of permissibility of owning and trading. The principle is that a Muslim must not own any stock in a company whose management, because it acts on the basis of authorization from shareholders, may do any forbidden action for the company. BUT since this poses considerable hardship on many Muslim savers, who have small amounts of money to invest, a few Ulama argues that such hardships call for relaxation. They suggest certain criteria, essentially: main activity must be permissible (i.e., conventional banks, weapon industry in the Western countries and environmental damaging industries are ruled out), interest and other prohibited income must not make more than 10%, of net income of the company, use of assets in interest based activities must not exceed 33%, leverage, i.e., dependence on loans must not exceed 50% of total net worth, and that one must always estimate the percentage of gains that arises from those prohibited minor activities and give an equivalent amount to Muslim charities and Islamic general causes such as helping occupation resistance in occupied Muslim land. The same criterion applies to mutual funds. the percentage of cash you mentioned is within acceptable limits, but you must add to it the percentage of non permitted activities of the companies that make the 90.6% of the assets of the funds, if the total does not exceed one third, you are OK provided you designate and actually give away an equal amount to Muslim charity and general Islamic causes because this minor gain is not lawful to you from Shari'ah point of view.

Wa Allahu A'lam

Wassalam

Sincerely,  
Dr. Monzer Kahf

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**Subject: Buying shares**

From: Islam on line

Date: May 05, 2002

Name of Questioner Lubna

Country UK

**Question**

Assalamu Alaykum. What is the Islamic ruling on buying and selling of shares?

Notes

REQUEST AN URGENT REPLY MAY ALLAH SUBHANA WA TA ALA REWARD YOU THE BEST.  
WASSALAMU ALAYKUM

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Lubna

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Investment in stocks: The principle is that a Muslim must not own any stock in a company whose management may does any forbidden action for the company; this is because such actions are taken on the basis of authorization from shareholders by virtue of the articles of incorporation, bylaws and the corporation laws. BUT since this poses considerable hardship on many Muslim savers, who have small amounts of money to invest, a few Ulama argues that such hardships call for relaxation. They suggest certain criteria, essentially: main activity of the company must be permissible (i.e., conventional banks, weapon industry in the Western countries and environmental damaging industries are ruled out), interest and other prohibited income must not make more that 10%, of net income of the company, use of assets in interest based activities must not exceed 33%, leverage, i. e., dependence on loans must not exceed 50% of total net worth, and that one must always estimate the percentage of gains that arises from those prohibited minor activities and give an equivalent amount to Muslim charities and Islamic general causes such as helping occupation resistance in occupied Muslim land.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investing in non-Islamic companies that deals with Riba**

From: Islam on line

Date: MY 5, 2002.

Name of Questioner: Marriam

**Question:**

Is it allowed to invest in Non-Islamic companies who deal with Riba?

**My Answer:**

In the Name of Allah, Most Gracious, Most Merciful.

All praise and thanks are due to Allah and peace and blessings be upon His Messenger.

Dear Marriam:

Muslims are prohibited to take any Riba based transactions whether they work as individuals or in partnership (companies included). That is why the Muslim jurists discussed partnerships that involve Muslim partners and non-Muslim partners who may undertake Riba transactions. The debate of the Muslim jurists goes as follows: if a Muslim partner has sufficient assurances that her/his non-Muslim partner would not take any Riba based transaction on behalf of the partnership; then becoming a partner with non-Muslims under these circumstances is permitted. If the Muslim partner is the sole authorized person to undertake transactions on behalf of the partnership (because Muslims do not deal in Riba) then he can guarantee that no Riba transactions will take place. It becomes obvious then, that such a partnership is permissible regardless of the activities of the non-Muslim partner because she/he has no authority in transaction making anyway.

Share holding companies are considered permitted in Shari'ah on the basis of being an extended form of partnership, where the owner through their general assembly elect directors and delegate decision-making authority to them. Hence, directors act on behalf of shareholders (owners).

If we apply these rules that are stated above, the immediate conclusion we come to is the one OIC (Organization of Islamic Conference) Fiqh Academy came to on this matter, which reads: It is forbidden to buy stock from companies who deal in interest or other prohibited transactions, although their main line of business is considered permissible (Halal) by the Shari'ah.

But a group of jurists argue that such a prohibition places hardships on a large group of Muslims, especially small investors who do not have many other options for investment in our world today. While the Shari'ah calls for removal of hardship at any time especially when hardship affects a large group of Muslims, the argument of this group of jurists goes on distinguish between companies whose Riba based transaction makes a high proportion of their activities and those companies in which such transactions are a very small percentage. The matter becomes for these jurists, what is considered tolerable in such transactions and what indicators we should adopt to make this distinction.

Several contemporary jurists suggest 10- 15% interest earning/net-profit is a maximum that may be tolerated. They also added certain other indicators including a company leverage (rate of total liability to network), percentage of account receivable to total assets, and cash plus bank deposits/total assets.

Based on these criteria, the Islamic Market Dow Jones Index was created in February 1999. You can find this index and the companies that are listed in it on the Internet.

The conclusion is that if you want to take the opinion of this minority group of contemporary jurists, which is a respected opinion, one may follow the criterion on whose basis the Islamic Market Dow Jones Index is calculated and you may apply the same to other companies.

Almighty Allah knows best.  
Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Investment in debt funds to reduce tax liability**

From: Islam on line

Date: May 01, 2002

Name of Questioner Naseh

Country India

**Question**

I am living in India and working in a European Company. I have some questions dealing with economic issues a) Can a take interest based loan to buy a car? b) Can I invest in equity funds? These funds invest in shares. However some part of the funds may be debt or if not in debt than invested in Companies dealing with tobacco, alcohol movies etc. c) Can I invest in Index Funds? d) Can I take medical insurance cover for myself and my family? e) Can I invest in debt funds to reduce my tax liability ? Please help me.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Naseh

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- Buying a car on interest basis is forbidden unless having a car is a necessity in the area where you live for going around for handling personal and family matters and for going to work. Even under such conditions you can buy on interest basis only the car that satisfies the needs, no higher.

2- Investment in equity funds has the same criteria as investment in stocks. Please find the conditions in the Dow Jones Islamic market index website. Under all circumstance one has to give to Muslim charity an amount equal to the estimated gain generated by interest based actions of the stocks/fund.

3- If the interest only is exempt from taxable income, you will not be better off because you have to give away all interest to Muslim charity as the Shari'ah decrees that you do not own it. Do you get exemption on the principal? I have never heard of such a thing?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: buying shares**

From: Islam on line

Date: April 15, 2002

Name of Questioner Mohamed

Country India

**Question**

I hope you clarify that doubts. Nowadays stock exchanges in all countries including Islamic Countries are available in plenty. The companies which are dealing with Halal business such as Computer Software, Steel etc. are also available in the Exchange's list. If I wish to buy certain shares from that type of companies expecting the capital appreciation would that be Halal or Haram? Eg. I buy 100 shares of one company with a price of 10 Rupees. In one or two months the price becomes 20, 30 etc. This means that I will get a good profit if I sell the shares. In this case I want to know such a profit is it Halal or Haram? Hoping to hear from you. Jazakumullahu Khairal Jaza. Wa Ila Iliqa.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

It is permissible to buy and sell shares of companies whose business activities are permissible provided the management does not undertake any Haram activity or deal in a forbidden contract such as borrowing on interest or depositing funds in banks for interest, etc. Most companies do that.

A group of Muslim scholars argue that in order to avoid putting small Muslim investors in great hardship, buying and selling shares of such companies that may deal, occasionally, in interest and other prohibited matters (and the main activity is Halal), may be permissible if the forbidden transaction do not make big part of their transactions. and you then need to define what is big. Some of them take 10% of the company's income as a maximum. in all cases, when one invests in such companies, one has to donate to Muslim charity a percentage of the gain (capital gain and dividend) equal the estimated percentage of Haram activities of the company.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying shares as a tax shelter**

From: Islam on line

Date: April 14, 2002 Country India

**Question**

What is the rule of Islam about taking shares of companies and organizations like ICCL. Please shed a light on my question. May Allah assemble us in his Jannathul-Firdaus. What is the Shari'ah rule about taking insurance? We need to take this type of savings to get relief from tax. Please reply for this too.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdulla

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- You will need to explain what is ICCI. Until then my answer about it is I don't know...

2- It is permissible to buy shares of companies whose activities are permissible and whose management does not undertake any prohibited contracts, such as Riba, etc. Companies that may indulge in Riba and other prohibited contracts while their products/ services are permissible are disputed. Some Ulama argue that while the principle is that owning their shares is forbidden because what the management does is done in the name and on behalf of shareholders, such a prohibition cause hardship to individual Muslims especially those like you who live as Minorities in their countries. those Ulama call for relaxation based on the Shari'ah principle that hardship always should be removed. they design e few criteria that seem reasonable, you can find these criteria in the web of the Islamic market Dow Jones.

3- Cooperative/ mutual insurance is permissible provided premiums are paid on contributory basis. Insurance offered by profit seeking companies is considered, by a large group of Ulama, as containing Gharar (ambiguity regarding the number of premiums and date due of compensation. Other Ulama find insurance offered by commercial companies permissible on the ground that once we look at the large number and the theory of probability the Gharar becomes much smaller than thought of, and consequently tolerable in Shari'ah. I subscribe to the latter view. There are two conditions here: 1) the insurance contract must not contain any Riba element such as an investment clause at fixed interest and 2) the object of insurance must be permissible, e.g., one cannot insure a wine shipment.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Zero coupon bonds**

From: Islam on line

Date: March 15, 2002

Name of Questioner Jamal

Country US

**Question**

Is investing in zero coupon bonds Halal? Unlike conventional bonds, zero coupon bonds do not pay periodic interest. Instead the bond is purchased at a discount from face value at maturity the face value is paid to the investor.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jamal

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Zero coupon bands are interest based the same way paying coupon bonds are. No difference that affects the Shari'ah ruling. This is confirmed by a resolution of the OIC Fiqh Academy No. 60 (11/6) dated in the sixth annual session March 14-20, 1990.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: investment in the commodity futures**

From: Islam on line

Date: March 11, 2002

Name of Questioner

**Question**

Is there anything objectionable in Shari'ah to investing in the commodities or futures market? I am particularly wondering if there is any room for entering into a contract that involves both buying in advance (Salam) AND paying initially only a deposit (Damman)

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br./Sr. questioner

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Commodity markets were discussed in the OIC Fiqh Academy, in its seventh annual session May 9-14, 1992. Its decision is that all commodity futures are not permissible in Shari'ah. The reason is that all futures include delaying both price and delivery of commodity and this is not permissible. Underlying this decision were two points: 1) these are very speculative and only a small percentage, 3-4% ends implemented; 2) the classical Fiqh position of the prohibition against delaying both items in a sale contract. On the latter Ibn Taymiyyah was very strong.

I personally go along with the Fiqh Academy and I have one reservation that I wrote about to the Fiqh Academy that relates to real life contracts that require delaying both items exchanged. All businesses require planning in advance and all have to contract their products and their inputs in advance regardless of the idea of financing (remember Salam is only a financing contract). The simplest example is the letter of credit. It always includes sale with postponement of both delivery and price and they both are effected in a future date at the same time. I believe that the evidence from Sunnah against postponement of the two items is very weak and there is no claimed Ijma' on this issue that I find one of the necessities of life to the extent that it is impossible that our complete Shari'ah would make it unlawful.

Yet this is not to say that futures are permissible because I think only genuine trade with postponement of the two exchanged items (price and goods) is permissible not the speculative practice on price change only as it is normally in commodity futures. I always advise against getting into it.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Certificate with income guaranteed to be between 10 and 15%**

From: Islam on line

Date: March 04, 2002

Name of Questioner Asif

Country Pakistan

**Question**

One Textile mill is offering Investment Certificates and offers profit between 10-15% per annum. It means they will give profit on year end not less than 10% and not more than 15%. It means profit is not fixed. My question is this that this kind of profit is allowed in Islam or not.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi Ajma'in

Dear Br. Asif

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You should notice that all opinions on Musharakah and Mudarabah certificates are derived from the Fiqh chapter on partnership. Hence, imposing an upper limit on the share in profit of some parties in a partnership or company is permissible because it amounts to that party surrendering what is above that limit to the other party.

On the other hand, there is symmetry with imposing a minimum. Imposing a minimum amount to guaranteeing a fixed return and this may end up, under certain assumptions, to give all the profit or more to one party and depriving the other from any part of realized profit or even letting him down in the red. This is called interrupting the principle of sharing in partnership. And it is not permitted in Shari'ah, being a form of interest.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investing in the stock market**

From: Islam on line

Date: 2/6/2002

Name of Questioner Alvin

Country Indonesia

**Question**

In the Name of Allah, Most Gracious, Most Merciful. All praise and thanks are due to Allah, and peace and blessings be upon His Messenger. Dear Brother in Islam, I wish to ask a few questions: 1. I want to buy a house in Sydney, but all the banks in Australia are involved with charging interest on the term of the loan. My question is, is it considered Riba in Islam if I buy a house and paying interests for 25 years? 2. What is Islam's view on the stock market? I am interested in investing in financial markets, but wish to find

out more from Islam's perspective. I thank you for the answers. All praise and thanks are due to Allah, and peace and blessings be upon His Messenger.

**My Answer:**

Dear Br. Alvin

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

1 - The quick answer: yes it is Riba, no doubt about it. Riba is certainly Haram and a very gross sin. The Shari'ah rules call for relaxation of prohibition if there are pressing needs, are therein your personal situation being living in Indonesia. I personally don't know your family size nor circumstances of neighborhoods Sidney and other conditions of rent/buy Houses in Australia?

2 - Also the quick answer is according to reasonably acceptable opinion it is permissible to invest in stocks of companies whose main line of business is permissible and do not have much of activities in forbidden areas such as interest-based transactions. The matter in stocks is that owning a stock makes you a co-owner of the company and whatever the management does is done on your behalf by virtue of delegation of authority, in other words it is as if you made these transactions. Yet little relaxation is due because of the common hardship especially on small investors a blanket prohibition creates.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Limited mutual funds choice of 401K**

From: Fiqh Council of North America

Date: 1/14/2002

**Question**

Assalamu Alaikum

I work for a corporation which offers a 401k. I only have 9 mutual funds to choose from and one option which pays a fixed rate of interest.

1. If I put money into the fixed account, could I just give the interest earnings away to make my savings Halal?
2. None of the mutual fund options are Halal, but some are better than others. For example, I would not choose a bond fund, but do have money in a growth equity fund because it is all stocks. The problem is that some of those stocks are financial, e.g., Bank of America. I have no control over the actual stocks in a fund.
3. The only reason I use the 401k is because of the tax savings and because my company matches my contribution up to \$150 per month. If I do not contribute then I do not get that extra \$1800 per year. My concern is that the choices are not Halal so would I be better off passing on the \$1800 and saving on my own.
4. Is there anyway to be within the confines of Halal activity when the stock market and the way of doing business in the US is Haram?

I appreciate your answers and Hadith. I know the basic tenets of Halal investing, but I cannot see how to make them work in the reality of this country. If I cannot invest Halal should I not invest at all or just invest and not worry about whether the choice is "less Haram" than another choice?

**My Answer**

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Assalamu Alaykum Wa Rahmatullahi Wa Barakatuh

This is not really a matter of giving fatwa. the questioner seems to be acquainted with the basic principles, his evaluation of the market as "the stock market and the way of doing business in the US is Haram" is inaccurate and he wants a personal judgment that is not fair to be given by anyone since he is the only one who can make such a personal judgment.

1- Placing funds in interest earning accounts, in non-Muslim countries is permissible when there are no other alternatives to achieve the same objective, of security, easy access, etc. This is an exception of the rule, and not to be used for long term, as a pattern of placement, or without adequate justification. Certainly, giving away all earned interest for the general services of Islam and Muslims is a must.

2- Applying the same criteria established by the Shari'ah committee of the Islamic Dow Jones seems to be reasonable. These criteria are only "pointers" in a sense that going around them a few percentage points remains in line as long as an "estimated" Haram-caused income is given away to the cause of general services of Islam and Muslims. This argument can be applied to mutual funds by the concerned person.

3- This question is too judgmental and I think the questioner needs to make a little more homework in comparing the funds available to her/his 401K and come up with a compromise, if any.

4- The stock market and businesses are not our right Haram, One has always search for the best on a scale between the mixed [Mashbuh] and the Halal.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

---

**Subject: Investment in stocks and gambling**

From: Islam on line

Date: 1/9/2002

Name of Questioner Ehsan

Country Pakistan

**Question**

Why is investing in the Stock Exchange allowed in Islam but Gambling is not?

**My Answer:**

Dear Br. Ehsan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

In one word, gambling has no real base, it is completely vain. Flipping a coin or turning a wheel or running a horse. In the stock markets, you are buying a share that represents a

piece of a company. A company is a real thing that consists of organization, equipment and other assets, good will etc. It is like buying any goods for the purpose of reselling them when the price becomes in your favor. This is the essence of all trades. You buy goods at a certain price for the purpose of selling them at a higher price. All trades have that much of speculation and this is within the permissible limits in Shari'ah. In other words speculating on prices going up or down is not bad itself rather it is part of life and the basis of trading. Yet certain transactions in stock markets are not permissible (from the point of view of being closer to gambling) such as indices trading, e. g., buying and selling Dow Jones index. Because the index is just a calculation, it does not represent a share of any company.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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## **FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2001**

**Subject:** Investment techniques in stock trading

From: Islam on line

Date: Aug. 8, 2001

Name Sharif - Egypt

Profession Student

**Question**

Assalamu Alycom Warahmato'ALLAH

Dear Sir....

I am a Muslim Egyptian and I have a question for you please. I am an investor in the Egyptian stock market where there are some rules; price changes have a 5% limit for up and down movements, also we have three days for settlement before which we cannot sell any purchased stock...BUT the market is full of speculators and there are large price swings mainly attributed to the economic disturbances in the last year, but these price changes are more or less predictable so some investors usually follow this technique...they buy a special amount of a certain stock and keep it (I do follow Islamic restrictions on buying stocks acc. to Dow Jones Criteria).....during market rises they buy another amount of the same stock (this technique allows them to sell the older amount before the settlement of the newer one. so they profit even if the market rise ends before the three days).....Is that permissible from the Islamic point of view?

Thank you and jasakom ALLAH khairan for your patience and precious time.

**My Answer**

Bismillah wa al Salatu wa Salaam ala Muhammad

The question is on buying a quantity of stocks that with the hope that the three days restricted period of sales that the owner may sell from the former batch of stocks. Certainly this practice is allowed, it is intelligent to take this opportunity of the market while one doesn't violate any of the regulations, nor of interest rulings of Shari'a. And Allah knows best.

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**Subject: Spot and future palm oil contracts**

From: Islam on line

Date: 8/6/2001

Name of Questioner Hasan

Country Malaysia

**Question:**

My previous question is being regarded as vague. My ref. no. is ctv337. In a Commodity future market one can trade in various month such as 1st.month (spot month), 2nd month and so on (future month). In palm oil future market one can either sell or buy a contract from any month one wishes. For your information the palm tree only bear full fruits in the spot month only whereas the future month the seeds has not being ripe or fully grown yet. So my question is can I trade (buy or sell a contract) only for the spot month being fully aware that Islam forbids entering a contract for something that is not sure in the future such as fruits in trees which is not fully grown yet. Thank you

**My Answer:**

Dear Sr. Hasan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

I am sorry, Sister, for not understanding your first version of the question.

1 - Spot trading, if defined as trading for the present month, with the condition that you have the right to ask for delivery at any time during the month, as is the case with US commodity markets in Philadelphia, Chicago and other cities, is permissible. It involves paying a margin at the time of the contract (i.e., executing a trade on the board) and delivery on demand within the month (usually in three days from the time of serving a note of delivery). It is so although we know that many people take it as a means for hoping to make profit from buying and selling without delivery or aiming at it, as long as the contract itself is formulated in such a way that gives the choice of delivery. This is the essence of a resolution of the OIC Fiqh Academy. 2 - Spot trading does not have to be in the month of harvest of palm oil. It can be in any month as long as the choice and possibility (from warehouses) of delivery are there. Is palm oil harvested every month?

3 - Sale of things that are not sure is prohibited as you mentioned and the example you mentioned is correct, i.e., unripe fruits on trees. But you can sell things that do not exist at all at the time of contract. That is called Salam contract. Its main conditions are: full payment at the time of contract, the commodity must be such that is available in markets at the time of delivery, and commodity and price must be permitted for sale with lagging delivery according to the rules of Riba al Fadl.

4 - The OIC Fiqh Academy ruled against commodity futures on the ground that they almost are not intended for any actual delivery at the time that they violate the rules of both regular sale and Salam sale contracts.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Are Subject: Government issued income certificates in Pakistan**

From: Islam on line

Date: 8/1/2001

Name of Questioner Khalil

Country Pakistan

**Question:**

I belong to Pakistan. Our Government has issued Regular income Certificates which means that on one lac rupees, the Government will give some money as profit. They claim to deduct Zakah and tax from the profit. Is this money is HALAL to use? Moreover, one of my friends wants to do business but he is short of money. I, by the grace of Allah, belong to a well-to-do family. I want to give him some money as a loan but he does not agree to it. He has given me an option that he will give some money per month for one Lac rupees. Is it HALAL to take this money? Please guide me.

**My Answer:**

Dear Br. Khalil

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

1- Any increment given above the amount of a loan is Haram. It is Riba, whether it is paid periodically or not. You may give him the money on Mudarabah, a capital contribution to his business subject to profit and loss, that is permissible, and he may give you regular payment on the account that is subject to adjustment at the end of the year when final accounting statements are done.

2- The same for government bonds. If they are given to a specific profit making project, like railroad, the return of it is permissible, even if regular periodical payment are made on the account as long as they are subject to adjustment at the end of the year.

3- Government bonds provide money to the government for its general budget that have any return to lenders, are forbidden to issue and forbidden to buy whatever the name they may take, and the return of them is Haram, Riba, even if Zakah is deducted from it. Actually, Zakah is not due on the return because it has to be, all, given away to charity as being Mal Haram, Yet Zakah is due on the principal itself.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**stock companies permitted in Shari'ah? And what justifies**

From: Islam on line

Date: 8/1/2001

Name of Questioner mohammad Country

**Question:**

Assalamu Alaykum: I have read few Fatwas in the site about the stock market. And I would like someone to clarify few points for me. When we talk about the stock market, we should look into how the company was established, meaning look at the contract of buying and selling stocks, and then judge it according to Islam. It was mentioned that when you buy stocks you become a partner in that company that with the percentage of your stocks to the total stocks issues. Well the question comes, what kind of partnerships is that from an Islamic point of view? Is it OK in Islam to force yourself to be a partner in a company just because you have money? I know that in Islam the partner has the right to be involved in the decision of the company "al Shareek Motasarref", so how can we not look into that when we study the fact that the whole stock market is built upon? Money partnership, is it justified in Islam? 2. The second point is, it was mentioned that it is ok to deal with companies that has less than 50% of loan in their balance sheet? How can that be justified? And based on what? I have never heard of anything justifying the percentage of Riba....what I know is a dollar Riba is like a 100, there is no amount of Riba that is right and that is not. I would appreciate it if you answer my wondering about the structure of the company and all the points I have mentioned.

**My Answer:**

Dear Br. Mohammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Take it easy my dear Brother, your concerns are really justified but we should also look into a few important points.....

1- No doubt that common stock companies are an invention of Western Europe and North America. They were not known in the third and fourth centuries of Hijrah when the rules of Sharikat in our Fiqh were developed. By the way all the terms and definitions of the kinds of partnerships came only in the late second and third centuries of Hijrah, they were not known at the time of the Prophet and his companions, pbut all. So al Sharik Mutasarrif came only at those centuries....

2- Muslim Fuqaha studied the new company and had different opinions, from Haram to permissible. The issue, however, was finally settled in a collective Ijtihad, in 1412 H by the OIC Fiqh Academy. Its resolution considered common stock companies permissible, issuance of shares and stocks permissible, and dealing in them is also permissible. It is a new kind of companies that does not have to abide by all the old rules. Yet, the Sharik (stock holder) still has some kind of tasarruf through the collective decision of the general assembly and delegation of power to the executive board. By the way both principles are recognized in Shari'ah with regard to partnerships, all partners have to take decisions together, and some may delegate authority to others.....

3- Yes there is difference between one Dollar Riba and a thousand Dollar Riba, as one is more Haram than the other. This does not mean that a small amount of Riba is tolerable. It is Haram too.

4- The idea of those Fuqaha, who took the stand of permissibility of stocks' transactions of companies that deal sometimes in Haram while their main business is permissible, is based on the principle of Hajah 'Ammah. That is a second best solution because otherwise there will be great hardship on Muslims, and unfortunately, as we live today the fact is that it is true there is a great deal of hardship. This is felt by the haves, not by the have-nots, and the rich ones among us need to be relieved of hardship too. Hence the 50% or 33% or any thing else is an exception not a rule, and we live a life of many exceptions as one can easily realize.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in stocks**

From: JUMA, UK

Date: June 20, 2001:

**Question**

Assalamu Alaikum. As a Muslim, am I allowed to invest my money in a stock market and if not why? And am I allowed to bank with non Islamic banks and if not why?

**My Answer**

Assalamu Alaikum wa Rahmatu Allah

Al Hamdu li Allah wa al Salatu 'ala Rasuli Allah

First, investment in the stock market: Stocks are documents that represent shared ownership in a company. It means you are a partner in that company. If the management produces anything that is forbidden, it is producing it on behalf of you the owner because.

The implications of this are:

- 1) A Muslim must not produce anything (commodity or services) that is prohibited.
- 2) Any income generated to the owner that mingled with prohibited earnings needs to be purified by giving away to charity that part that is not permitted in Shari'ah.

Based on that, companies are classified into three categories:

- a) Companies whose main business is prohibited in the Islamic Shari'ah such as interest based banks, casinos, and porno or alcoholics production.
- b) Companies whose main function are permitted and at the same time their management abide by the rules of Shari'ah. The example of this category is Islamic banks and Islamic Insurance companies. Buying their stocks and trading them are permissible within the known rules of sales contracts in Shari'ah.
- c) The third category covers the very large majority whose main business is permissible such as computer or technology, but its management makes some prohibited transactions such as taking loans from banks or depositing cash against interest. Buying stocks in these companies may be considered forbidden because it is forbidden for any muslim to do any prohibited transaction, no matter how little it would be in relation to the total amount of transactions he/she makes. This is the opinion of many Muslim scholars.

However, there is a group of very learned scholars that consider this opinion very restrictive and very difficult to implement in our contemporary time. This group is led Shiekh Taqi Uthmani from Pakistan and by Abd al Sattar Abu Ghuddah of Syria. These group argues that if you buy the stock for investment (with the objective of looking at profit in dividend and growth) and you have no way of imposing on the management to abide by the Shari'ah rules, it is permissible within certain criteria to invest in the stocks of this third category of companies. The criteria are that the percentage of non-permissible transactions to total business of the company must be small and they suggest a small is not to reach, with regard to interest transactions, 10 to 15 percent. They put a few criteria around that idea of small percentage. These criteria are implanted by the Dow Jones Islamic Market Index under the supervision of a group of Learned Islamic scholars. This is available via the Internet.

The second criterion is the necessity of cleansing ones income the stacks of these category of companies. One must give for charity a portion of ones gains from investment that equals the estimated percentage of returns generated from prohibited transactions made by the management. The objective of these cleansing criteria is to keep ones own money pure from the prohibited and unlawful income according to Shari'ah.

Dealing with banks in UK: It has become very cumbersome and inconvenient to stay away from dealing with banks in our contemporary world especially for the Muslims living in the west. The rule is that where there are no Islamic banks it is permissible to deal with non-Islamic banks or Riba based bank as long as the transaction is not forbidden in Shari'ah. This means you may have a checking account; you may change currency, do transfer, and other non-interest related transaction with a conventional bank. If it happens that interest is generated to your account, you have to give away that amount of interest to charity.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Prize bonds**

From: Islam on line

Date: 5/9/2001

Name of Questioner ashraf

Country Egypt

**Question:**

al Salam Alaikum. I want to ask about a new type of investment in one Egyptian bank, which includes a monthly prize for "shehadat" whose original value is 100 LE, and the prize is up to 1500000 LE. Do you consider it Halal or not? Thanks...

**My Answer:**

Dear Br. ashraf

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Prize giving bonds are specifically mentioned in the resolution of the OIC Fiqh Academy of 1412H. All bonds are interest bearing, whether in the form of prizes or in the form of fixed or variable amount. They all are Haram.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Futures, indexes and options**

From: Islam on line

Date: 4/30/2001

Name of Questioner mia Country U S

**Question:**

Assalamu Alaikum, Is it Halal to trade what is called (futures contracts) and (Options contracts), like the NASDAQ futures contracts (NQs)...or is it Haram? and why? Mind you I'm only interested in the NASDAQ index futures contracts trading. Jazaka Allah Khairan

**My Answer:**

Dear Br. M I A

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

1 - Trading indices is Haram because they are conceptual not real. You cannot sell a concept you calculate mathematically? What is it that is traded in an index? any other than thin air! Shari'ah goes with real life and does not allow non-real contracts. this is the reason why it is Haram to trade indices. And the OIC Fiqh Academy studied this matter and resolves that it is forbidden to trade indices because there in no reality to them.

2 - Futures of currencies and gold and silver are also prohibited because they are "Ribawi item." The Prophet, pbuh, made a condition for currency trading that it must be with immediate delivery of both currencies, Yadan bi Yad, otherwise it falls in the Riba area.

3 - Futures of commodities are resolved by the OIC Fiqh Academy as prohibited unless they are reformulated on the basis of Salam contract, which is known in Shari'ah. It requires immediate payment of the price in the sitting of the contract. I personally believe that a genuine future contracting by parties who relate to a commodity, like its producers and users cannot be Haram, because it is genuine and necessary. However that does not include trading futures in the commodity market for speculation on prices.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Shares are speculative, is it permissible to trade them?**

From: Islam on line

Date: 4/13/2001

Name of Questioner ait

Country Algeria

**Question:**

Assalamu Alaykum, My question is in two parts: First it is well known that any dealing with interests as in banks is considered "Riba" hence Haram, however much confusion arises when we speak about shares (stocks). What does Shari'ah say about them given that their value is not intrinsic but the result of much speculation (this is true for many traded stocks if not all). So I would like an answer on this. Jazaka Allah Khairan Second, I am a university graduate in finance and banking and in an English university, and considering to do a Ph.D. in Finance. Since about 90% of the knowledge acquired is about innovation on Haram.... Then is there any merit in seeking this knowledge.

Notes: Jazaka Allah Khairan

**My Answer:**

Dear Br. Ait

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

1 - Trading (and issuing stocks) was discussed in several Seminars and meetings, the most dignified of them are the plenary meetings of the OIC Fiqh Academy. A summary of the resolution of the OIC Fiqh Academy is given in the following: a) trading shares of companies whose line of business is permissible in Shari'ah such as Islamic banks, is permissible; b) Trading shares of companies whose business is Haram such as conventional banks, is forbidden; c) trading shares of companies whose main line is permissible but the management may sometime make prohibited transactions, such as interest-based borrowing and lending is, in principle forbidden; d) certain kinds of share are forbidden for issuance and trade, specifically preferred shares if the preference is financial, and shares of a company whose majority of its assets are still in the form of cash and /or debts unless the trade is done at exactly the nominal (face) value of the assets.

In commenting on (c) above, several Shari'ah experts argue that since it applies to the predominant majority of shares in today's markets, this creates a great inconvenience for Muslim savers, especially small ones. Hence these Ulama believe that shares of many of these companies may be traded if certain conditions are fulfilled. These conditions aim at assuring that total non-permissible transaction are only a small proportion of the grand total of the activities of the company.

Please notice that the point that the market price of a share, compared to its book price is irrelevant to the Shari'ah ruling. In other words, a share may be traded at any price determined by the forces of supply and demand. These forces include many speculative elements.

2- Studying finance at a higher level is certainly permissible, even if you study many aspects of Islamically non-permissible financing activities. WHAT MATTERS IS WHEN YOU TAKE A JOB YOU MUST NOT DO ANY THING THE SHARI'AH PROHIBITS.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Muqaradah bonds and investment and development certificates**

From: Islam on line

Date: 4/13/2001

Name of Questioner Mitrim Country Malaysia

**Question:**

Can you tell me about Mu'amalat with Muqaradah bonds and development and investment certificates? What is Islamic view of these Mu'amalat?

**My Answer:**

Dear Br. Mitrim

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

I need complete details and descriptions of these bonds and certificate before I can give you an answer. These terms are used in different meaning in different countries.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in bonds**

From: Islam on line

Date: 4/11/2001

Name of Questioner yusri Country Malaysia

**Question:**

Assalamu Alaikum, I'm interested to know about Bond...as far as I know it looks like an investment for us with bank or government. Someone said bond can't be invested in stock market (because it is not a share) but another said that we could do that...

Wassalam yusri

Notes: I hope DR Monzer Kahf would answer my question

**My Answer:**

Dear Br. Yusri

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Bonds are documents of indebtedness. A bond represents a loan given to a government or a corporation for interest. This interest is Riba, it is forbidden. In Malaysia they issued bonds that they called Islamic bonds. These bonds give interest that is determined only at the end of each year by the government. Also the Housing Corporation issued Bonds for the housing loans given to consumers/house purchasers. These bonds also represent debts that are discounted. Both kinds of bonds violate the opinion of the OIC Fiqh Academy. It has decided that it is not permissible in Shari'ah to discount a debt. A debt can only be transferred to another person for its face value only and a loan does not earn any increment. Any increment in a loan, fixed or variable is Riba. Riba is clearly forbidden in the Qur'an.

Wa Allahu A'lam

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Trading currencies, futures and shares**

From: Islam on line

Date: 3/29/2001

Name of Questioner abdelmouiz Country Morocco

**Question:**

what is the opinion of Islam in trading in financial markets (currencies & futures & shares) in order to make profits in small time (speculation Halal or Haram?)

**My Answer:**

Dear Br. abdelmouiz

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

The answer of your question is two folds:

1- It is very important to notice that the application of Shari'ah itself tames, to a certain extent speculative behavior and reduces excessive speculation. You have several areas some of them are: prohibition of sale before possession, prohibition of sale on margin, prohibition of sale before you own except as Salam which requires full advance payment of the price, prohibition of all currencies except spot, and the prohibition of interest. Hence several of the practices that encourage speculation in the present Western markets are done away with from the beginning if the Shari'ah is applied. These matters also govern the behavior of Muslim transactors even in the present market. This means that a Muslim's behavior is less speculative in the existing markets than the behavior of a person who does not abide by these rules.

2- Any purchase for the purpose of sale is speculative, i.e., any trader is a speculator, whether a trader gets a quick or slow, a high or low profit. The examples from the market of Madinah at the time of the prophet, pbuh, and the behavior of the companions are plenty.

Speculation in capital, money, financial and commodity markets must be governed by the Maslahah, and there is tremendous evidence that hot or high speculative behavior in these markets hurts economic stability and negatively affects the pace of growth in the economy. This means that although buying for the purpose of watching prices and then selling when the price is lucrative cannot be prohibited, the Government, that is the care taker of the economic welfare of the society, has the right to organize and regulate any and all speculative market for the purpose of reducing their heat. Such regulations may include requiring certain period of holding stocks, and other assets before you can sell them, limiting the financing that goes into such markets, etc.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading stocks without knowing the financial statements of their companies**

From: Islam on line

Date: 3/24/2001

Name of Questioner Ms. M.

Country Egypt

**Question:**

Assalamu Alaykum wa Rahmatullahi wa Barakatuh 1. I am an investor in the Egyptian Stock Market and I want to ask if it's permissible to invest in stocks where their financial results are unavailable also I do lack the technical experience to analyze these results properly from an Islamic point of view to exclude non-permissible stocks (e.g. high leverage & large amount of non Halal income)? 2. I want to ask if I bought an amount of a certain stock for which I got dividends then I sold the stocks at a price less than the price of their purchase so that the net result was loss, do I still have to get rid of the percentage of money representing the non-Halal income of the company by giving them to the needy? Jazaka ALLAH Khairan.

**My Answer:**

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

A - Buying stocks makes you a partner/owner in the company and in Shari'ah it is forbidden for a Muslim to make decisions that involve Haram transactions, even if these transactions are done, on his behalf, by his partners. This is the reason for the OIC Fiqh Academy resolution that: In principle, it is forbidden to buy, own and sell stocks of companies that do sometimes forbidden transactions although their main line of business may be within permissible limits.

The exception a handful of Ulama took is essentially based of removing a substantial Haraj (inconvenience) in relation to those Muslims, like you who deal in stocks and have not much of other expertise to use their savings.

You see that we can sort stocks into three categories: 1) permissible, the example of which is stocks of Islamic banks; 2) forbidden; where the main line of business is Haram, such as conventional banks and alcohol, tobacco, and Pig producers and distributors; and 3) the majority of companies, where the main line of business is permissible, but the management undertakes some transactions that are forbidden, such as Riba-based contracts, sale of certain goods before they take possession of them, make parties for guests and employees with alcohol and cigarettes offered, etc.

Those Ulama who attempt to remove the inconvenience came up with a few criteria to test the permissibility. These criteria are:

1- Main line of business must be permissible;

2- Percentage of dependence of loans (leverage) must be not high, and they considered one-third to be a limit for what is high (we have several use of the one-third in Fiqh as a criteria of what is high: Last Will, Gharar, Jahalah, etc.) Leverage is measured as percentage of loans to total assets;

3- Indulging in prohibited transaction must not be high. as an example they take Riba and assumed that a company that has too much cash in banks and too much receivables

to mean that it has too many Riba-based use of their assets, considering one half is a limit here, that is one half of their assets is a limit for total of cash and receivables;

4- Income from prohibited transactions, such as Riba, must be low, no more than 5% to 10%.

5- The main line of business must not be in an Area that is harmful to the Muslim Ummah, such as American military industry that usually cooperate with Israel and other aggressors against Muslims.

6- Once these criteria are applied, you still need to calculate, or at least make an educated estimation of, the proportion of Haram in the income you get from a stock (this covers both dividends and capital gain) and exclude that proportion from your own wealth or property by giving it to charity or similar disbursements for the general welfare of the Ummah, you may not use this part of income to make up a loss you otherwise incur or to pay taxes the law requires you to pay, etc.

'Umar, may Allah be pleased with him, has a relevant statement: He who does not know the Fiqh needed to play in our market must stay away from it. My dear Brother you need to either acquire the technical know-how to apply these points or to hire someone to do it for you or quit that market.

B - You cannot use an income you know it is Haram for you to compensate a loss of any asset of yours, stocks or otherwise, because that Haram income is not yours. I belong to whoever paid it to you and if you do not know the payer, or it is in contradiction with rational behavior to return it to the payer (as is the case here because the payer is a Riba player) , You have to exclude it from your own property by giving it to charity. Yes, you still have to give that amount away.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Future foreign currencies**

From: Islam on line

Date: 3/2/2001

Name of Questioner

**Question:**

Is 'forward booking' in foreign exchange transaction permissible in Islamic Shari'ah?

**My Answer:**

Dear Br. Shamsuddoha

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Please explain what do you mean by forward booking? Is it forward buying and selling on a margin at it is practiced in the currency exchange in America? If so, yes it is forbidden because the Prophet, pbuh, made a condition for all currency transaction that there must be mutual delivery of both currencies at the time of the contract and considered any delay in one or both a forbidden Riba.

We know that in today's economics that that difference represents the difference in the interest rates between the two currencies.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: What is the problem with trading options and futures?**

From Islam on line

Date: 3/2/2001

Name of Questioner Hani

**Question:**

What is the issue in trading options that you already own? What is the issue regarding trading futures and options? Is there anything in Islamic transactions that is like trading futures and commodities?

Notes: Salam I would like to thank the scholars and the people on this for having such a Wonderful place for a person to go and ask regarding their personal issues!!! Its a good place to get the information that you need with qualified Ulama. I thank you again and may Allah reward you for the great work that you have done!!! I would also like to thank Monzer Kahf for taking his time in answering my question!!

Wassalam

**My Answer:**

Dear Br. M Hani

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

The real and final issue is that Shari'ah wants us to be real not assumptive. What is real in options? And how do you own it? And how do you deliver it? If we come to be truthful with ourselves and look at the reality, would option be any thing more than a fantasy we create by our imagination? Futures are very close to that too.... Are they really true? What is the percentage of future contracts that end in actual delivery? Didn't we create these kinds of transactions by our own fantasies to get people come in and speculate and then we created a role for and benefits of this new class, the speculators?! Let us for a moment liberate our minds from the nuance of these organized markets and see what is factually real, realistic and true of it?? Only very little... There is a real need, I recognize, for transactions on future delivery and future payment. This is needed for planning our economic activities: production, transportation, wholesale and retail sale. We need futures for that only. But do we need future so you and I find a price to watch on a screen and call that investment? What are we investing our time in and what are we investing our money in? What do I and you produce to the rest of the world by this kind of "investment"?

Shari'ah is realistic and wants investment to be real activities real contracts real and transactions real. And Shari'ah still tolerates a transaction as long as it maintains certain relations to reality, even a very thin hair. That is why trading stocks, within conditions is permitted and trading mutual funds in also permitted, they have certain link or touch

with reality, stocks symbolize certain real tangible and intangible assets and mutual funds are collections of stocks.

By the way trading indices is also not permitted for the same reason.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment in stocks and mutual bonds**

From Siddiga

Date: 2/20/2001

**Question**

What is considered Halal investment given that there are different areas of investment such as mutual fund, stocks, bonds?

I truly appreciate your response as soon as possible.

**My Answer:**

Dear, Sr. Siddiga

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Since your question begins general on Halal investment, I will start from the general too. The best investment most rewarding is to give a loan to Allah [using the Qur'anic expression] because the rate of return is seven hundred times and more, and your principal and return are both guaranteed. There are many areas for this investment including the Waqf that aims at building the infrastructure necessary for religious and social uplifting.

There are several types of investment that are Halal and some of them are even encouraged in Shari'ah. Investment in projects that help improving the welfare of the Muslim Ummah anywhere in the world especially in your own community where you live or belong, Projects of development of energy, water supply, health, education, etc., have priority over others for almost all Muslim countries.

Even promoting and supporting individual and personal projects of friends and family members is a lot better than other kinds of investment.

In general investment in real markets is better than investment in the financial and capital market. This means that investment in establishing a company is better than in buying its stocks second hand.

In Exchange markets, one may buy and hold stocks of companies that avoid all Shari'ah-non-permissible commodities and transactions. The example of these stocks is Islamic banks and Islamic insurance companies. None of these is on any American or European Stock Exchange.

The OIC Fiqh Academy in a couple of its resolutions declared that:

1 - It is prohibited to buy, hold or sell treasury bonds and similar bond (interest-based) whether issued by governments or companies.

2 - It is forbidden to invest in stocks of companies whose main line of business is forbidden in Shari'ah such as conventional banks, tobacco companies, breweries, etc.

3 - It is permissible to invest in Shari'ah abiding companies such as Islamic Banks.

4 - In principles it is forbidden to invest in stocks of companies that, although their main line of business is permissible, deal sometimes with prohibited transactions such as Riba-based borrowing and lending or depositing. The basis for this prohibition is that a shareholder in a company is a partner and she/he is morally and religiously responsible for all transactions made in her/his name and on his/her behalf by the management. This means that a shareholder is indulging in prohibited transactions.

This last point practically covers all companies on the stock Exchanges in America and Europe. But there is a group of Shari'ah scholars who argue that because this kind of prohibition makes it very difficult and very inconvenient for many individual Muslims to invest their savings, This group argues that because of such hardship there must be a little relaxation of the rules and they went on to suggest that with the following conditions, a Muslim may buy, hold and sell stocks of companies that deal sometimes in Riba and other prohibited transactions. The conditions are:

- 1 - The main line of the company must be permissible.
- 2 - The ratio of loans to equity must not exceed one third.
- 3 - The ratio of receivable to assets must not exceed 50%.
- 4 - The ratio of interest earning to net profit must not exceed 10% .
- 5 - The company must not be dealing with commodities that are mostly used to harm the Muslim Ummah, such as American (and obviously Israeli) military industries.

6- AND MOST IMPORTANT THAT THE INVESTOR MUST ALWAYS CALCULATE THE PERCENTAGE OF EARNING FROM FORBIDDEN SOURCES TO TOTAL GAIN SHE/HE MADE (CAPITAL GAIN + DIVIDENDS) AND GIVE THAT AWAY IN A MANNER THAT KEEPS HER/HIS INVESTMENT CLEAN.

Based on these criteria, the Dow Jones company issued its Islamic Market Dow Jones Index of companies that fulfill the first 5 conditions.

Finally, with these conditions a Muslim may invest in stocks, and what applies on stocks applies to Mutual funds.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject:        Becoming a small partner in a private company**

From    Islam on line

Date:  2/19/2001

**Question**

Salam Alaikum, Subject: Business Transaction Question No. 1 I am an engineer working for a private American consulting engineering firm which is owned by 6 partners. The company designs construction plans for projects such as highways for public clients and residential developments for private clients. The company does not do construction. The company pays me a salary like other employees. As part of the benefits of advancement in this type of company, the company gives bonus money to the good employees. The company can keep a portion of my bonus money and put it towards

ownership of the company to allow me to become a small partner. Since this is an American company, sometimes they buy equipment like computers or cars with loans and pay interest. The company also has a line of credit with a bank. This means when the company does not have enough cash flow to pay the salaries of the employees in a certain month or week, they borrow from the bank and pay it back with interest. Is it HALAL for me to become a partner in this company with the bonuses they save for me? Question 2 Is it Halal to become a partner in this company if I purchased a portion of it with my own money and without the bonuses they save for me? Please provide me with the DALEEL for your answer and the qualifications of the MUFTI. Jazak Allah Khair

**My Answer:**

Dear Br. Mr. engineer

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Your question is intelligent and deserves a butter Mufti. Since I am only a makes hift Mufti with a Ph. D. in Economics and over forty years of study at Ulama and intensive drilling and rehearsals in Fiqh, I will only give you the detailed argument on this issue and leave it to your own heart to reach the Fatwa.

The discussion is detailed and the opinion is clear, in all schools of Fiqh that in partnerships, a partner/manager's act or decision is done on behalf of all the partners, i.e., as if it were done by each and every partner. There is no dispute about this at all between all Fuqaha. That is why they say for instance that it is incorrect to enter into a partnership with any unbeliever unless the Muslim is the manager because the other does not mind making Riba-based transactions.

In recent years, there were discussion in several seminars, about the issue of common stock companies and the OIC Fiqh Academy passed a resolution a few years back that says: in principle, it is forbidden to buy stocks in a company that deals sometimes in Riba or any other prohibited contracts, although its main line of business is perfectly permissible. The basis of this resolution is exactly that when the management of a common stock company undertakes a prohibited transaction, it does that in the name and on behalf of all stock holders.

There were two qualifications of this resolutions, that came in some side meetings of Ulama and there was an interpretation that actually takes a form of a descent:

Qualification one: if you buy stocks in a company with the intention of transforming it to Shari'ah compatible company, your action falls within a permissible limits provided that you have the voting (and other kinds of) power to make such a change and that you put a reasonable time limit for this attempt such as one or two years.

Qualification two: It is permissible to buy and own stocks in companies in Muslim countries whose main business is basic infrastructures, such as energy, utilities, basic communication, etc., and make the backbone of the economy, especially in countries where such companies cannot be cleansed of Riba and other prohibited transactions because they must not be left in the hands of non-Muslim minorities and/or crooked Muslims who do not mind dealing with Riba.

The dissenting interpretation of the basic resolution argues that:

1 - the principle is true and correct,

2 - it create a great hardship for Muslim investors, those who have no accessibility to investing their savings directly or with friends and relatives,

3- the intention of such investors is really only to get some dividend/capital gain from buying/owning a given stock , with no interest in the management and the company itself,

4 -Yet it is understood that buying stocks in a company means you are a partner and supporter of it.

All that calls for accepting the principle and making an exception for those common stock companies that have only LITTLE prohibited transactions....

The minority of Ulama who adopts this interpretation/dissent put a few criteria to what is little, or tolerable stock, provided you are not in a position of decision making nor founder in such a company and that you give away to charity a percentage of realized income from such stocks that is equal to what came from prohibited transactions. These criteria aim at putting a definition of the degree of tolerance. They are: receivable/assets must be low, debts and loans/equity must also be low, income from interest/net profit must be low, no dealing in prohibited commodities/services such as tobacco companies and conventional banks, no essential contribution to industries whose products are used against Muslims such as American military industry, etc. I intended not to mention percentages because the Ulama do not agree on what is little and the only thing agreed upon for sure is that when a percentage is zero that is the littlest a thing can be!

Finally allow me please to touch on your specific question. There is a difference between receiving a bonus (shares) and buying shares in you partnership based company that has only six partners. Bonus is given to you without a specific effort on your part to acquire them, and if someone gives you something that contains a bad part and a good part you don't have to throw it away, you are required to give-up the bad part only, in this I don't see a problem in keeping these shares and periodically give to charity the part of income that you think results from prohibited transactions.

In buying stocks you are seeking to become a partner in a partnership (it doesn't matter call it corporation, it is the same) whose management makes prohibited transaction in your name and on your behalf. The case of common stock companies does not apply to you.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying technology shares**

From Islam on line

Date: 2/14/2001

Name of Questioner: Said

**Question**

Assalamu Alaikum, Is it lawful to buy shares in a technology mutual fund? Although the companies themselves do not deal in anything Haram, some of them (I do not know)

may borrow money from banks with interest to finance their activities. Would this make them Haram? Jazakum Allahu Khairan

**My Answer:**

Dear Br. Said

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Buying, owning and selling stocks: As long as we avoid companies whose main business is prohibited, like conventional banks, the matter becomes controversial. There is a group of Scholars that argue it is permissible with certain conditions, mainly that the percentage of non permissible transactions to total activities of the company must be little. This group of Ulama made certain criteria that are implemented in the Islamic Market Dow Jones index. You find it on the Internet. Mainly that earning from interest must be low, no more than 10%, percentage of loans from others to equity should not exceed 33%, percentage of receivable (suspect of being interest earning) to total asset should not exceed 50%, and the company activities is not in the area that hurt the Muslim Ummah, like arm producers at this age we live in (they are mostly providers of arms to enemies of the Ummah). the Most important condition is that you are required to CLEAN YOUR EARNING FROM BUYING HOLDING AND SELLING SUCH Stocks, by giving away to charity a percentage of the earning that you calculate as being related to the Haram activities of the company you hold its stocks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Buying technology stocks**

From Islam on line

Date: dated 2/14/2001

Name of Questioner suad

**Question**

Is it permissible to buy/sell stocks of companies that deal in Technology and manufacturing or biotech, but that has debt and borrow money from Banks for their research and development? Thus, if the company deals in permissible things but borrows money with interest and has debt is it OK for me to buy their stocks

**My Answer:**

Dear Sr. Suad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Buying, owning and selling stocks: As long as we avoid companies whose main business is prohibited, like conventional banks, the matter becomes controversial. There is a group of Scholars that argue it is permissible with certain conditions, mainly that the percentage of non-permissible transactions to total activities of the company must be little. This group of Ulama made certain criteria that are implemented in the Islamic Market Dow Jones index. You find it on the Internet. Mainly that earning from interest

must be low, no more than 10%, percentage of loans from others to equity should not exceed 33%, percentage of receivable (suspect of being interest earning) to total asset should not exceed 50%, and the company activities is not in the area that hurt the Muslim Ummah, like arm producers at this age we live in (they are mostly providers of arms to enemies of the Ummah). the Most important condition is that you are required to CLEAN YOUR EARNING FROM BUYING HOLDING AND SELLING SUCH Stocks, by giving away to charity a percentage of the earning that you calculate as being related to the Haram activities of the company you hold its stocks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Long and Short currency contracts**

From Islam on line

Date: 2/14/2001

Name of Questioner Masoud

**Question**

Salamu Alaykum From the Fatwa bank, I read that Dealing in Foreign Currency is Halal. The question is about a more specific action in this deal. Where we have two action: (1) Long Deal: Where you buy now and sell later (\$ against a major currency) (2) Short Deal: Where you sell now & buy later The first one is clear, where you buy something & sell later on, but the 2nd one you sell what you don't own, so what is the Fatwa about this. Wassalam Alaykum Masoud

**My Answer:**

Dear Br. Masoud

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Currency transactions are used very often as a vehicle for Riba-based borrowing/lending. Therefore the rules currency exchange are not the same in Shari'ah as the rules of other commodities (very similar to currencies the exchange of what we call cash crops, and at the time of the Prophet Muhammad, pbuh, the cash crops were wheat, barley, date and dried grape). Currency exchange is called in Arabic and in the Fiqh literature "Sarf" and the rules of Sarf are basically derived from a correct Saying of the Prophet, pbuh, that introduces Two Conditions: 1) the transaction must be completed with delivery at the time of the contract; and 2) if you exchange the same currency (or any of the other four commodities), the quantity must be the same regardless of differences in qualities.

This Hadith then requires that any Sarf must have immediate delivery at the time of contract of both currencies exchanged. Hence, in currencies both long and short are not permissible because both do not fulfill the condition of immediate delivery, "yadan bi yad " as the Prophet, pbuh, expressed it.

Spot currency transactions in the NY exchange are executed (delivered) within three days. But although this is not literally "Yadan bi Yad" the OIC Fiqh academy rightly

considered delivery as immediate because this is the normal time the no-delayed-delivery transaction takes and the Malikites argue that a very short period for delivery does not matter as long as the transaction is not meant to be deferred one.

Be careful my dear Brother, you were incorrect in thinking that a long currency is clear. Rather LONG CURRENCY TRANSACTION IS AS FORBIDDEN AS THE SHORT BECAUSE BOTH OF THEM HAVE A PERIOD OF TIME FOR DELIVERY.

One more problem in both the long and the short seems to me in need of some clarification. In Shari'ah sale contract may delay either delivery or payment but not both; while in the long and short transactions both are delayed and only a margin is paid by both the seller and the buyer. The OIC Fiqh academy issued a famous resolution on commodity exchange in which it considered both the long and the short in violation of the Shari'ah conditions and it called for taking the Shari'ah known contract of Salam (that requires full payment at the time of the contract) as a basis for any delivery-deferred transaction in commodities. You may notice that the heat of the market is reduced drastically if you eliminate contracting on margins only and this is one of the objectives of the Islamic Fiqh: to bring transactions down to earth and keep them in close ties with reality or actuality.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Currency options**

From Islam on line

Date: 2/1/2001 SUBJECT:

Name of Questioner: Hassan

**Question**

Assalamu Alaikum, My question is about the ruling in Islam on currency options (a kind of investment).

**My Answer:**

Dear Br. Hassan

Assalamu Alaykum Wa Rahmatullahi Wa Barakatuh

My Answer: Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah

Options on stocks, commodities and currencies are forbidden according to the OIC Fiqh Academy resolutions. The reason is that options are not true things. they are contracts created for trading them (Derivatives). So the resolution says: they are not the kind of financial right that can be sold (or bought) according to Shari'ah.

More than that, trading currencies and gold and silver (currencies at the time of the Prophet, pbuh, named in His Respected Sayings) is not permitted on future basis, or better except on spot basis. Because the Prophet, pbuh, said in an authentic and correct saying that exchanging gold and silver must be Yadan be Yad, i. e, hand to hand that is an emphatic word for spot.

Now if futures are not allowed in currencies, then option futures are more not allowed.

If there is any spot options on currencies or commodities, please let me know and educate me about them and I will find out, InShaAllah, the Fiqh ruling on them.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Currency spot trading on margins**

From Islam on line

Date: 2/1/2001

Name of Questioner: MOHAMMED

**Question**

I just join a new company which is working some like investment but difference is that we ask people to invest their money in our company but their is no limit profit they have to accept profit & loss, in details we do trading with people's money we buy & sell currencies, stocks and oil on the spot we buy them and sell on the same day different is that if they are investing 20,000\$ and when he wants to buy a contract in international market we deposit from his account 1,000\$ as security when he sold a contract we return his security with his profit or loss against all this procedure we charge him 40.00\$ as our service charges , please remember the contract sizes are like this 100.000\$ = 1.000\$ my question is that is this is Haram or Halal because some of my colleagues says that buy & sell is Halal. I am so confused please guide me that working in this company is ok or not and please remember that al Baraka investment company is doing same things but in that company they fixed the profit rate and that is 3% . please send me answer in details.

**My Answer:**

Dear Br. Mohammad

Assalamu Alaykum Wa Rahmatullahi Wa Barakatuh

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah

1) To give you a detailed answer, I need more details about the way you trade and the contracts you have with depositors and those you make in the Market.

2) I think al Baraka does not do fixing of the rate of profit at 3% as you mentioned, Are you sure?

2) Spot trades in currencies and commodities is permissible, even on margins as it is in commodities exchanges that I know. If the commodities and currencies are traded spot in the exchanges your company deal in, in the way that you buy (or sell) a contract and put a margin in the escrow account and you have the right to immediate delivery with a maximum of three days and you receive the receipt of delivery before you sell the same contract. or you are issued the delivery note for the short contract (Salam) and you transfer the delivery note when you buy a contract to cover your short, This is to my knowledge is consistent with the OIC Fiqh Academy resolution on commodities exchanges (Seventh Meeting 1410/1990).

Brokerage on above mentioned contract is permissible and it is permissible to work in that company. It is also permissible to work in that company, even if it does some

contracts that are not allowed in Shari'ah as long as you personally do not broker a forbidden contract because most of the disallowed elements in these contracts relate to Riba and the Prophet, pbuh, puts the wrath of Allah on the writer of a Riba contract and in a narration on its two witnesses too.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Index futures and short contracts**

From Ebrahim

Date: 1/31/2001

**My Answer**

Dear Br. Dr. Ebrahim

Assalamu Alaykum Wa Rahmatullahi Wa Barakatuh

You asked about the Fiqh position on index futures and trading short, or taking short positions.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah

1- trading indices was discussed by the OIC Fiqh Academy in its seventh session held in Jeddah 1410/1990. Its resolution, papers and discussion are published in the Academy's Journal V. 7, part one. The OIC Fiqh Academy resolves that trading indices in not permitted in Shari'ah. This applies to all indices whether stocks, or commodities or any other index because indices are mere abstract things that exist in the mind only. They do not any commodity, goods, Asset or financial right that is recognized in Shari'ah. I was in the meeting and I fully agree with this resolution.

2- Commodity Futures were also discussed in the same meeting and there was a lot of heat against them because of their over-speculative nature. The Adopted resolution took a conservative position judging futures on the basis of the Salam contract, and Allowing it if the conditions of Salam are fulfilled. 'Aqd al Tawrid, which was discussed and postponed in the 12th meeting, Sept. 2000 relates to some aspects of commodity futures. You may take a look at the papers presented on it in the 12th issue of the OIC Fiqh Academy journal which is not yet published, or ask the Academy's office in Jeddah to send you a copy of these papers, One of them is mine. The relation between 'Aqd al Tawrid and commodity futures lies in the fact that any sale contract in which both delivery and payment are determined in future date is a Tawrid contract, futures are thus only standardized toward! And the Toward is indispensable part of life, Especially in a world of Production for the market and more especially a world of mass production.

3- Short stocks contracts were also referred to in the same seventh meeting of the OIC Fiqh Academy. In short stocks the seller borrows the stocks from the broker for interest (pl. correct me if I am wrong) and because of that it is not permissible. Short commodity futures (except for currencies, gold and silver) are part of the issue of futures mentioned above. However, there are cases of short commodity spots that do not pose any problem from Shari'ah Point of view especially if we take into account the Maliki view on accepting a few days delay in the payment of the price in Salam.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## FATAWA SHARES, STOCKS, FUTURES, OPTIONS 2000

**Subject:** Investment in stocks

From Islam on line

Date: 12/22/2000

Name of Questioner: SYED

**Question**

Is it Halal to do Shares/Stocks Business/Investment?

Dear Br. Syed

Assalamu Alaikum,

**My Answer:**

Al Hamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah,

Stocks/ shares are basically of two kinds: common and preferred. If the preference in preferred shares in financial such as guaranteed minimum return, priority in payment at time of liquidation and the like, preferred stocks/shares are then prohibited because equal owners of the companies principal must be treated equally. They are forbidden to issue, buy, own and sell. If the preference is managerial they may be permissible.

Common stocks are not prohibited from this point of view.

From another angle, stocks/shares may belong to companies that are fully compatible with Shari'ah in establishment and all activities such as Islamic Banks, to companies whose main and major business is forbidden such as conventional banks or Las Vegas type entertainment companies, or to companies whose main/major business is permissible but their articles of incorporation allow them to undertake activities that are prohibited in Shari'ah and their management actually do such activities, this category covers most companies on the stock exchanges such as Microsoft, Intel, Sony, General Motors, etc. because they are involved in at least one kind of unpermissible transaction, i.e., Riba-based borrowing and/or lending.

Obviously, the Shari'ah ruling on issuing, buying, owning and selling the first category is permissible while prohibited on the second.

The third category is troublesome and needs certain details. It is prohibited for a Muslim to establish a company that indulged in prohibited activity and consequently, it is also prohibited to issue its stocks and offer them to the public for sale. The principle must be that it is also prohibited to buy and own such a stock because by doing so the owner becomes in fact a partner in the company whose management take up prohibited

activities on behalf of all its owners as their deputed officers. In other words, the management acts as your agent, this means, you are doing this prohibited activity.

In this regards, two points are important. If one buys such stocks with the intention (that is coupled with ability) to convert such a company into all Halal activities through having a majority in its board and general assembly, such a purchase is certainly permissible because it reduces the Haram in the world, although the process may take a few month or may be a year or two.

The second point (that may be more relevant to the questioner) is buying and owning such stocks as small investor and a small minority holder to get benefit from expected capital gains and from dividends. A small group of Muslim scholars argue that this category of stocks may be purchased and owned for investment within certain conditions that can be summarized in being sure that the prohibited activities do not make a high percentage of the total activity of the company. these include that the company does not have high rate of liability/ asset, i.e., it does not live on loans, it does not earn a lot on interest it is not involved in activities that basically Hurt the interests of Muslims such as producing and selling arms attackers of Muslim people (Ummah), etc. Based on these conditions Dow Jones, in cooperation with a group of Muslim Scholar, studied the registered stocks and made a list that is issued under the name of Islamic Market Dow Jones Index.

Wa Allahu A'lam,  
Dr. Monzer Kahf

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**Subject: Employees option to buy company's stocks and 401K**

From Ali

Date: 12/18/2000

**Question**

Salaam Alaikum.

I talked to you on the phone the night before last and here are my questions.

1. Stock Options program: I read that it is Haram to trade in options. How about the company giving me options to buy (within 10 years) a number of options with a fixed price? There is the condition that I can't fully exercise them till after 4 years (1/4 each year). They may be granting me other options in the future (to keep employees). In this program I have no choice. I have been granted those options upon my acceptance of the job.

2. 401 K program: In this program I have the choice to participate or not. A percentage of money is taken from my payroll (before taxation). Matched (each Dollars the company will add 50 cents to certain limits). I can't use this money till I am 59 years old or if I leave the company. The money will be invested in one of the following funds (I can choose).

EuroPacific Growth Fund (Class A Shares)

Fremont Institutional U.S. Micro-Cap Fund (Class A Shares)

KLA-Tencor Common Stock Fund

New Perspective Fund (Class A Shares)

PIMCO Total Return Fund (Institutional Shares)

Seligman Communications and Information Fund (Class A Shares)  
The Growth Fund of America (Class A Shares)  
The Income Fund of America (Class A Shares)  
Van Kampen Emerging Growth Fund (Class A Shares)  
Washington Mutual Investors Fund (Class A Shares)  
Wells Fargo S&P 500 Stock Fund  
Wells Fargo Stable Asset Fund 3.

Employee Stock Purchase Plan: I have the choice to participate in this plan. The company keeps a percentage of my payroll (up to 10%). By the end of the period (6 months), the company buys me with that money shares at 85% of the lowest price between the beginning and the end of the period.

Example: I saved \$1700 during the 6 months. In the beginning of the period the share was \$120 and in the end dropped to \$100. I will have  $1700 / (.85 * 100) = 20$  shares. I can sell those shares straight with  $100 * 20 = \$2000$ .

4. Life insurance: The Company is buying me the basic of life insurance (I have no choice). I have the choice to buy more. What is the ruling?

5. You may not answer this question (it is kind of financial advice). I want to start dealing in stock in future. Can you give me a list of symbols that are permissible by Islamic rulings. I have no idea about the numbers and percentages that are conditions to deal in a company stock.

Jazaaka Allah Khairan. The answer to these questions will not help only me. I have many brothers that have the same questions and they avoid to deal with many things just because they don't know. I am sure that we missing many Khair by avoiding it that way. Salaam Alaikum. Sincerely Ali.

**My answer:**

Dear Br. Ali

Assalamu Alaikum,

Al Hamdu li Allah wa al Salatu ala Rasuli Allah,

1) A company's option granted to employees as a fringe benefit to buy its stocks at fixed price is permissible to exercise as long as there is no interest involved in the transaction and the stock itself is permissible to buy at least according to the opinion of a few Muslim scholars as expressed in the list of the Islamic Market Dow Jones index, i.e., the main business of the company is permissible and its interest income is a small percentage of its total net income and it is not over-leveraged (to more than 30%) and it is not involved in donating to causes that participate in killing Muslims, nor in armament sale to countries that attack Muslims.

2) It is also permissible to participate in the 401K plan. Select the fund(s) that have least percentage of investment in shares outside the list mentioned above. You can get information about stocks they invest in from their respective annual reports. And calculate the percentage invested of each fund in non-permitted stocks. Keep in mind that you have to clean your own money from the return that results from non-permitted stocks when you start withdraw from the 401K. For instance if you find that the global percentage of undesired investment you estimated came to be 12%, add one or two percentage points just to be on the safe side and at the time of withdrawal you

should give away that percentage of the return (not of the principal paid by you and for you by the company) for charity or to the Islamic center (better to inform the management what is it that you are giving to I C not to individuals, though not necessary).

3) I didn't find question No. 3.

4) Life insurance, in brief: The opinion of the late Shaikh Mustafa al Zarka is very much worth contemplating. I personally follow it. Insurance offered by profit-seeking companies as well as by mutual companies is permissible provided the contract does not have any interest element and the insured is permissible. What is ruled out is regular life insurance with fixed policy amount at the end of the policy period and insuring say production or transportation of alcoholic drinks. The implication of this opinion is that term life insurance is permissible, whether its premium is paid by the employer as a fringe benefit or by you personally, i.e., in case of term life insurance you are permitted to increase the policy value if you so choose. Most likely what your company offers its employees is a term life although you didn't specify. Also permissible is the variable equity regular life insurance that invest in stocks rather than treasury bonds, and you need to apply the same cleansing procedure mentioned above because the insurance company invest in similar funds.

5) Consult the list of the Islamic Market Dow Jones index under Dow Jones on the Internet.

Finally, please do not hesitate to write me for any help you may think I may be able to serve you with.

wa Allahu A'lam,  
Your Brother,  
Dr. Monzer Kahf

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**Subject: The Fatwa of boycotting, do I sell the stocks at a loss?**

From Islam on line

Date: 12/17/2000

**Question**

Assalamu Alaykum, I currently own some stocks on US markets. After the Fatwas on boycotting US products, I feel guilty about having these stocks. However, the prices of the stocks are very low now and if I sell them I will loose over 50%. Should I still sell them and just stop dealing with these people, or should I wait till the prices go up again?

**My Answer:**

Dear Br. Hany

Assalamu Alaikum,

Al Hamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah,

No, Brother, do not sell now, the intent of the boycott is not to loose but not to give brokers any more commission, you better wait until you sell at a better price and perhaps at a time when the American Government becomes better even handed.

Wa Allahu A'lam,

Your Brother,

Dr. Monzer Kahf

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**Subject: Does the call to boycott the aggressors cover the American stocks?**

From Islam on line

Date: 12/11/2000

**My Answer**

Dear Br. Dr. Mohammed

Assalamu Alaikum,

Your question is about dealing in American stocks after the Fatwa of boycotting American goods because of the support the American government give to the Aggression of Israel on the innocent Palestinians in the occupied land of Palestine.

My answer: Al Hamdu li Allah wa al Salatu ala Rasuli Allah, if you live in America, application of the spirit of new Fatwa requires you to boycott those products and businesses that support, by any means, the aggression against the Palestinians and Muslims and Arab in general in the Middle East. You cannot avoid American products because you live here. If you live outside America I think that the Fatwa implies avoiding anything that do with America, including its stocks and its brokerage houses, even if their local agent may be an Arab or Muslim. Still you do not have to sell at loss the stocks you bought before the Fatwa if you expect their prices will go up, wait until you break-even or make some profit so you can donate to relief some of the agony suffered by fellow Muslims in Palestine.

Wa Allahu A'lam,

Monzer Kahf

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**Subject: What is better than trading stocks?**

From Islam on line

Date: 12/8/2000 10:17:04 AM Pacific Standard Time

**My Answer**

Dear Sister Laila

Assalamu Alaikum,

Yours is exactly the million dollar question. You ask about a better investment than the stock market at a downturn of the economy and especially of the financial market.

I really have no answer and if I have one I would have applied it myself. It may be a good time to invest more in the market now, it either already bottomed out or about to. It also may be a good time to stay aside for sometime. The conventional answer of bonds does not come from a Muslim because, as you said, interest is prohibited.

One other thing, all experts and part experience assure that the long term is brighter, think more on a long term, the stock market averaged in the past 12%+ even with all the terrible recessions included, It will pick up InShaAllah, and you will be happier, and Ramadan Mubarak and Happy Eid to you and your family.

WA Allahu A'lam,

Monzer Kahf

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**Subject: Buying and selling stocks**

From Islam on line

Date: 12/6/2000

**My Answer**

Dear Brother/sister

Assalamu Alaikum,

I wish you gave your name so I can address you in a more respectful way.

Your question is whether it is permissible to buy and sell stocks in the stock exchanges, knowing that it is a market that involves a lot of manipulation by the many traders, market makers, insiders, managers, etc. Who always exists in the market and always try to make the best out of it for their own benefit.

My reply: Al Hamdu li Allah wa al Salatu wa la Salamu ala Rasuli Allah, Yes it is still permissible to trade stocks, within the known conditions even with the knowledge you revealed, which is also known to me and to most people who are familiar with the stock exchanges. The reason is that it is not prohibited to buy from a manipulator or to sell him/her. The manipulator is prohibited to make any thing that contains mischief, fraud, etc. Even when a manipulator makes fraud you still can make transaction with him as long as you are satisfied, and when you are not satisfied you can go to court and prove the fraudulent action and get either compensated or the contract annulled. Additionally, you, like many others, got this information so you know how to perceive it and react to it, and may be make a lot of benefit from it as long as any transaction is clear, parties know their mutual obligations and nothing is prohibited in the object of sale or the conditions of the contract.

On the other hand, the exchange markets need a lot of reform from Islamic point of view to minimize the opportunity of any fraudulent activity and to make all transactions in such a way that a person with less information is not likely to be taken advantage of, the matter that came in the Hadith of "La Khilabah." The Islamic stock exchange must fulfill the condition of La Khilabah {no advantage is taken of the person with less information or less power of bargain}. The existing stock markets reveal a lot of information and whoever deal in these markets should first be acquainted with it if he/she does not want to be a loser, and that, in the final analysis applies to any market even potato selling on a street in any Muslim city.

Wa Allahu A'lam,

Monzer Kahf

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**Subject: Investment in stocks and Zakah on stocks**

From Islam on line

Date: 10/25/2000

**Question**

Dear Sister Razan:

Assalamu Alaikum,

You have several questions, they are, as I understand them, as follows:

- 1 - Is it permissible to invest in stocks within the Dow Jones Islamic market, and/or FTSE Islamic index listing? And if the listing is not updated soon enough, is it still permissible?
- 2 - Are dividends of companies in these indices Halal? And if the rise in price of the stock affected by dividends (and I add or by any Shari'ah un-remitted action by the

management such as borrowing for interest, etc.), is the gain from price rise permissible?

3 - What is the Zakah on stocks and how is it calculated, whether I keep the stock for a short period or a long period?

**The answers:**

Alhamdu li Allah WA al Salatu wa al Salamu ala Rasuli Allah,

1&2 - You know that Islam prohibits interest and certain other practices that contain any immoral or unfair ingredients such as gambling, unbalanced transactions, ambiguous contracts, etc. This prohibition includes that a Muslim must abstain from such practices as an individual as well as a partner in a company, meaning that if a Muslim enters in a company with others, Muslims/non-Muslims, a Muslim must always be keen that other partners do not indulge in any non-permitted transaction, because the management of a company acts on behalf of its owners.

Accordingly, many Fuqaha argue that it is prohibited to buy, own/hold or sell stocks of companies that makes any prohibited transaction what so ever. But a group of Fuqaha, whose opinion is respected, argue that this ruling poses a great deal of inconvenience and hardship on many Muslims, especially in the West and other non-Muslim countries, because there are only a few stocks that comply with it such as stocks of Islamic banks and a few other small companies, even these are not available for the greatest majority of Muslims. And since hardship always calls for relaxation, they argue for exceptionality at this time and until a time when there will be reasonable number of Halal stocks available to absorb the investments of Muslims, which may be even theoretically a long time...

Yet this exception has certain conditions that can be summarized in three groups: a) the company main line of activity must not be itself Haram, such as interest based banks and insurance companies and Las Vegas type entertainment business, etc., b) the degree of involvement in prohibited transaction must not be high, and here they argue that depending on interest-based loans, maintaining high percentage on receivables that in most of the times carry interest and having high percentage of interest in the company's net income or giving donations to prohibited causes, etc. may be indications that should be considered, obviously the ideal is zero on all these, but one may say that 5%, 10%, 25%, 33% or the like may not to be a high to induce the prohibition on any or some of these points, c) there always must be active process of cleaning your investment, i.e., to do away with the income that results from prohibited transactions by giving it to charity since according to Shari'ah you really do not own it, and remember you are, God willing, rewarded for this action of cleaning but not as a Sadaqah nor Zakah.

On the basis of these conditions the Dow Jones is make market index came about and the same they s t s e is that make index bought

This means that investing according to these indices or stocks in them must keep in mind that this is on one hand an exception of the basic principle and on the other hand always calls for cleaning your income, both from dividend and price increment, that may have resulted from Shari'ah unlawful activity of the company.

To my knowledge, the listing in these indices is updated every three or six months, and if you have old information on a specific stock you may look in the web of that company and see if there was any substantial change in its fundamentals, balance sheet and income statement from the previous period when it was listed, if the change is not substantial, you may work on the assumption that it has not changed since during the period of comparison, this is not easy, is it?

3 -Zakah on stocks: the opinion of the majority of the contemporary Fuqaha is that if stocks are purchased for the purpose of capital gains, i.e., watching prices and get an opportunity to sell, even after split, at higher prices, especially if the idea is done in the short run, stocks are then objects of trade and they are subject to Zakah at the market value on the day a Hijri Hawl is complete from the day a Nisab is owned. This market value is added to your other Zakatable assets, like cash and bank accounts, and Zakah is due at 2.5% of the total if it is Nisab or above. This means whatever dividend you got during the year is actually included (when it is either used for new stocks or other Zakatable assets) unless was used for consumption (whether used up like food or durable like a refrigerator and both are exempt from Zakah).

Wa Allahu A'lam,

Sincerely,

Monzer Kahf

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**Subject: Zakah on stocks-continue**

From Islam on line

Date: 10/25/2000

**My answer:**

Sister Razan

Sorry, the answer of Zakah was sent incomplete. Here is the rest of it.

Continue the majority's opinion:

But if stocks are used for income (their dividends), the Zakah is due only on a percentage of the stocks' value that equals the percentage of the net mobile assets (inventory + cash on hand and in banks + receivables and similar - payables) to total equity of the company.

In all cases if it is difficult to calculate the Zakatable amount at the Hijri Hawl, you may take the figures from the Gregorian (solar) year and compensate for the difference by adjusting the rate of zakah from 2.5% to 2.577% (= 2.5% + 2.4%multiplied by 354/365).

Besides this opinion, there is a view that only the income (dividends) of stocks held for their income is subject to zakah at a rate of 10% in similarity with agricultural land and products. I believe that this view is weak and cannot be substantiated by the rules of Usul al Fiqh or by the Fiqh rules.

wa Allahu A'lam,

Sincerely,

Dr. Monzer Kahf

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**Subject: Day trading in stocks**

From Islam on line

Date: 10/25/2000

To: scitech@islam-online.net

Dear Br. B A al Rawi

Assalamu Alaikum,

Your question: I have an account in bank through which I buy and sell shares (Stocks). The Bank is getting commission when I sell or buy. I could get facility from Bank as follows: I can buy shares (stocks) even if I have no cash to cover that but I have to sell them before the closing time for that day, regardless the price. So I might gain or lose depending on the price. Bank is getting its commission also. Is this deal Halal or Haram and why? Thanks,

Wassalam.

**My answer:**

Alhamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah.

Buying stocks (that are permissible to buy) electronically is permissible. Their receipt is also done electronically, by the records of the broker's and the bank's computers, selling them within the day is thus also permissible and the loss or profit is yours. All that provided this daily arrangement with the bank does not involve any interest as in leveraging which has interest.

Wa Allahu A'lam,

Sincerely, Monzer Kahf

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Subject: can we buy stocks?

From Islam on line

Date: 10/4/2000

Dear Sister Umulkheir

Assalamu Alaikum,

your question is about buying shares from your company...

My reply:

Alhamdu li Allah wa al Salatu ala Rasuli Allah, buying share from a company you work for has the same general rules of shares transactions.

if the company's main line of business is permissible, and it is not loaded with debts that exceed one third of its assets, and its receivables do not make high percentage of its assets that they produce interest as a important form of its income, interest does not make more that 10 to 15% of its net income, the company is not involved in selling military technology to countries that fight Muslims or occupy parts of their land and it does not lend outright support to immoral practices such as homosexuality, and if you buy through a contract that includes no prohibited clause such as buying on an interest bearing loan, then buying and selling and profiting from such shares is permissible according to the view of a respected minority among contemporary Muslim scholars.

wa Allahu A'lam,

sincerely

Monzer Kahf

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Subject: what stocks can Muslims buy?

From Islam on line

Date: 10/4/2000

Dear Br. Fadi

Assalamu Alaikum,

your question is about stocks

my reply is:

Alhamdu li Allah wa al Salatu ala Rasuli Allah,

According to all contemporary Muslim Shari'ah scholars, stocks represents shares in the ownership of companies, and a stock holder is an owner of a percentage in the company equals to the number of stocks she owns divided by the total number of shares.

Establishment of common stock companies is permissible, and it must be announced to public, i.e., that it is a common stock company and it has limited liability (see OIC Fiqh Academy resolutions)

Preferred stocks are not permissible to issue and own if the preference is in the rate of profit, its guarantee, guarantee of principal or in the distribution of proceedings at liquidation.

Owning a stock and trading it is subject to the general principles of sale and ownership. The business of the company must be permissible in Shari'ah (this rules out stocks of banks, western entertainment business, etc.) as well as permissible businesses in which the management make un-permissible transactions such as getting loans against interest or depositing funds in banks for interest, or any other illegitimate kind of transaction. Additionally there is an important rule in Shari'ah, it is as follows: you can sell any owned asset, mobile, fixed or abstract (e.g., publication right) for an agreed price, which is essentially based on the market price. BUT you cannot sell money or debt except for their nominal amount, regardless of the date of maturity (for a debt). This implies that stocks of companies at the inception stage when all there assets are either cash on hand or cash deposited in bank accounts must sell only t the face value of the stock, BUT once other assets exist including intangible assets, and the total of physical and abstract assets becomes more that the total of debts and cash, the stock may sell at any price regardless of the face value.

Otherwise such a sale involves Riba as it is obvious.

All the above quote the majority's or unanimous views.

minority opinion: because there is great inconvenience in the above rules, a few, but still very respected scholars argue that inconvenience must be removed, hence one may buy and own stocks of companies that deal with prohibited products or have un-permitted transaction within certain conditions. these are: the main and predominant business of the company must be permissible and the prohibited products and transactions must be marginal and accidental. interest earning must not make more that 15% of net earning, total borrowed loan to total asset must not exceed one third, the company must not be an outright supporter of enemies of Muslims/immoral causes such as homosexuality or arms sales to aggressors, ADDITIONASLLY, ONE MUST ALWAYS CLEAN ONE'S EARNING FROM SUCH STOCKS BY ESTIMATING, IN AN EDUCATED MANNER, THE PERCENTAGE OF UNPERMI TTED EARNING AND GIVE IT AWAY FOR CHARITABLE CAUSES. Where the numbers came from? from analogy to similar numbers

and ratios used in Fiqh for several other issues, there is nothing so great about them , the principle is the lowest un-permissible thing is always the better.

IMPORTANT NOTE: even if we take this relaxing opinion, which is an exception anyway, a Muslim is forbidden to run the business of such company herself because it is completely Haram to produce anything forbidden or to be part of any forbidden transaction.

Wa Allahu A'lam  
Monzer Kahf

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Subject: Splitting stocks and dividends, are they Haram?

From Islam on line

Date: 8/20/2000

Question

If a person owns stock and the stock splits does that make it Haram? Are dividends Haram? If so, then what exactly do you mean by dividends? Jazzaka Allahu Khayr

My Answer:

Dear Br./Sr.

Assalamu Alaikum and Ramadan Mubarak

Al Hamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah,

Stocks/ shares are basically of two kinds: common and preferred. If the preference in preferred shares in financial such as guaranteed minimum return, priority in payment at time of liquidation and the like, preferred stocks/shares are then prohibited because equal owners of the companies principal must be treated equally. They are forbidden to issue, buy, own and sell. If the preference is only managerial they may be permissible.

Common stocks are not prohibited from this point of view.

From another angle, stocks/shares may belong to companies that are fully compatible with Shari'ah in establishment and all activities such as Islamic Banks, to companies whose main and major business is forbidden such as conventional banks or Las Vegas type entertainment companies, or to companies whose main/major business is permissible but their articles of incorporation allow them to undertake activities that are prohibited in Shari'ah and their management actually do such activities, this category covers most companies on the stock exchanges such as Microsoft, Intel, Sony, General Motors, etc. because they are involved in at least one kind of unpermissible transaction, i.e., Riba-based borrowing and/or lending.

Obviously, the Shari'ah ruling on issuing, buying, owning and selling the first category is permissible while prohibited on the second.

The third category is troublesome and needs certain details. It is prohibited for a Muslim to establish a company that indulged in prohibited activity and consequently, it is also prohibited to issue its stocks and offer them to the public for sale. The principle must be that it is also prohibited to buy and own such a stock because by doing so the owner becomes in fact a partner in the company whose management takes up prohibited activities on behalf of all its owners as their deputed officers. In other words, the management acts as your agent, this means, you are doing this prohibited activity.

In this regards, two points are important. If one buys such stocks with the intention (that is coupled with ability) to convert such a company into all Halal activities through having a majority in its board and general assembly, such a purchase is certainly permissible because it reduces the Haram in the world, although the process may take a few month or may be a year or two.

The second point (that may be more relevant to the questioner) is buying and owning such stocks as small investor and a small minority holder to get benefit from expected capital gains and from dividends. A small group of Muslim scholars argue that this category of stocks may be purchased and owned for investment within certain conditions that can be summarized in being sure that the prohibited activities do not make a high percentage of the total activity of the company. these include that the company does not have high rate of liability/ asset, i.e., it does not live on loans, it does not earn a lot on interest it is not involved in activities that basically Hurt the interests of Muslims such as producing and selling arms attackers of Muslim people (Ummah), etc. Based on these conditions Dow Jones, in cooperation with a group of Muslim Scholar, studied the registered stocks and made a list that is issued under the name of Islamic Market Dow Jones Index.

Wa Allahu A'lam,  
Dr. Monzer Kahf

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**Subject: buying options**

From Islam on line

Date: 6/6/2000

**My Answer**

Dear Br. Al Shaikh Muhammad

Assalamu Alaikum

My answer to this letter regarding the fatwa on options is as follows:

1- The views attributed to Shaikh Yaqubi are generally correct. There is no unanimity on the subject, and the OIC Fiqh Academy takes its resolutions by consent not by specific vote counting. It does not usually leave room for dissent. Its resolution on options is not any exception, it came within resolution no. 63 (1/7)by its plenary session of 1412H 1992.

2- An option is a right, rightly as stated by Shaikh Yaqubi; yet it is a right formulated in an independent contract, as rightly stated by the questioner. The right, which is a financial right, is the subject matter of the contract, and the Chicago Board of Exchange mentions this fact as quoted by the questioner.

3- The problem of this financial right is that it is not a right that represents a value, abstract or material. The fact is that it is a right that is created solely for the purpose of making transactions. The Fiqh Academy stated that it is not a kind of financial right that can be "substituted" for other assets, cash or otherwise.

All the description mentioned in the questions was known and detailed to the Fiqh Academy, in several papers extended on two annual meetings and a special seminar held in Rabat 1410. All papers are published in the Journal of the Fiqh Academy, Vol. Seven. I was present in all those meetings

4- Call and put options, both American and European styles, are all the same from the point of the Shari'ah ruling.

5- Finally, please trade real things. Trading indices have the same problem as trading options.

6- An option to increase quantity in a sale contract is permissible as long as it is part of the sale contract, not separated alone. And as such it may have an influence on the price, i.e., I may pay more for a sale contract of two cars with an option to add a third one for a given stated price, than without this option.

Wa Allahu A'lam

Salam with respect

Monzer Kahf

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**Subject: Buying stocks**

From Dr. shahida

Date: 2/29/2000

**My Answer**

CC: Dr S.

Dear Dr. Shahida

Assalamu Alaikum,

The OIC (Organization of Islamic Conference) Fiqh Academy that includes Fiqh Scholars representing the 53 Muslim countries in addition to others experts selected on their scholarly reputation, in several resolutions and recommendations dealt with purchasing stocks. This can be summarized as follows:

1 - Stocks of companies whose products are not permitted in Shari'ah are prohibited to own, purchase, sell etc. Examples: interest-based banks and insurance companies, entertainment buz, etc.

2 - Stocks of companies that abide by the rules of Shari'ah, such as Islamic banks and Islamic Insurance companies are permissible.

3- Stocks of companies whose products are permissible but the company indulges in non-allowed transactions such as getting interest based financing, depositing in banks for interest, making contracts that include prohibited conditions, e.g., selling gold and/or silver and/or currencies in other than spot , or giving donations or selling arms to aggressors such as Israel. Also companies that produce permissible products but also produce non -permissible products as a minor line of production, and this category 3 includes most companies in the world such as Microsoft and IBM. All these stocks are not permissible, in principle according to the Fiqh Academy. And this is a decision that actually represents a majority.

A group of respected scholars disagrees and consider this resolution too Idealistic to a degree that creates hardship for Muslims all over. This group suggest that stocks of such companies (category 3) may be permissible within a few conditions that are mainly:

a - N more than 15%of the company's net income comes prom interest and other prohibited transactions

b - Borrowing / equity ratio must not exceed 33%

c - Companies of category 1 must be avoided totally

d -Companies must not be a producer of aggressive and/or harmful products such as military industries and environment violating industries

e - When you invest in such companies, you MUST ESTIMATE THE PERCENTAGE OF TOTAL INCOME YOU GET (capital gain and dividends) THAT RESULTS FROM INAPPROPRIATE ACTIVITIES AND TRANSACTIONS AND DONATE THAT TO A CHARITY OR THE POOR AND NEEDY , FOR the purpose of preserving your investment clean and pure. Dow Jones crated an index based on these criteria that includes more than six hundred companies. It is called DJ Islamic Market Index, you can find it and the list of companies on the internet.

Mutual funds are companies that buy and sell stocks and bonds. Apply the same criterea on them and select mutual funds that do not deal with stocks of prohibited companies, i.e., category 1 and that you can estimate their problematic area to be less than 15% and make your charitable contribution a bit on the safest side.....

Sincerely,

Monzer Kahf

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