125758 - Is Islamic Forex Allowed?

the question

I know that dealing with the regular Forex system involves riba and other infractions, and it is prohibited as was stated by the Fiqh Council. My question has to do with dealing with the Islamic Forex, which also has some infractions, but there is no blatant riba involved in it. All I do there is just one type of business by which I make money, which is buying gold when it is cheap and selling it when it is expensive, and I make money as a result of the difference in price. I do not deal with anything else, but I make a great deal of profit from that.

But I found out that Forex does not make me trade with the money that I deposited there; rather that is only an insurance against loss, in the event of loss, so that they can take their rights.

The dealing is done via financial boosting which multiplies the sum of money you deposit by as much as one hundred times, i.e., I deposit one thousand dollars, and I can carry out a transaction worth one hundred thousand dollars, and they do not take any interest for that, but they benefit from the difference in price between the request and the sale.

In other words, they do not give me a loan for nothing, but because when I borrow, I will do this transaction through them and they will make money from it, even though they do not charge any interest. What is the ruling on the money that I make, and if there is any sin, who bears that burden? If I give some of that money in charity, will that make it halaal?

Summary of answer

The Islamic Fiqh Council issued a statement that Forex trading is not allowed. The so-called Islamic Forex is not free from the reasons for the prohibition of Forex trading, or most of them. For more, see the detailed answer.

Detailed answer

Praise be to Allah.

Is Forex trading legal?

Dealing with margins, or with the Forex system , is a matter concerning which the Islamic Fiqh Council issued a statement that it is haram and is not allowed. You may see the text of this statement in the answer to question no. 106094 .

The so-called Islamic Forex is not free of the things that are mentioned in that statement of reasons for the prohibition, or most of them.

Why Forex trading is not allowed in Islam

The reasons mentioned by the Council for the prohibition of Forex trading are as follows:

1- It involves obvious riba , which is represented by the addition to the amount of the loan which is called “paying fees for delaying the deal”. This is a kind of haram riba.

The fact that some institutions that deal in margins have abolished these fees does not mean that the dealings are halal, because the following infractions are still present:

2- The combination of giving a loan and getting something in return. You stated that they do not give you a loan for free; rather it is so that you will buy and sell through them, so that they may benefit from the difference in prices.

It says in the Council’s statement:

“Secondly: The agent stipulates that the customer must deal through him, which leads to combining both giving a loan for something in return and paying commission, which is akin to combining giving a loan and selling at the same time, which is forbidden in the Shari’ah because the Messenger (peace and blessings of Allah be upon him) said: **“It is not permissible to give a**

loan and sell at the same time…” The hadith was narrated by Abu Dawud (3/384) and al-Tirmidhi (3/526), who said it is a hasan sahih hadith. In this case, he has benefited from his loan, and the fuqaha are unanimously agreed that every loan that brings a benefit is haram riba.”

3- There is no hand-to-hand exchange with regard to that in which hand-to-hand exchange is stipulated, such as currencies and gold and silver. This comes under the heading of riba an-nasiah.

The Council said: “Buying and selling currencies is usually done without the hand-to-hand exchange prescribed in shari‘ah which makes it permissible to dispose of them (after buying them).”

4- It causes harm to the economy. In the Council’s statement it says:

“Fourthly: This transaction involves economic harm to the parties involved, especially the customer (investor), and to the economy of the society in general, because it is based on borrowing to excess and taking risks. Such matters usually involve cheating, misleading people, rumours, hoarding, artificial inflation of prices and rapid and strong fluctuation of prices, with the aim of getting rich quickly and acquiring the savings of others in unlawful ways. Hence it comes under the heading of consuming people’s wealth unlawfully, in addition to diverting wealth in society from real, fruitful economic activity to this type of risk that has no economic advantage, and it may lead to severe economic turmoil that will cause great loss and harm in society.”

Is Islamic Forex allowed?

That which is called the Islamic Forex may avoid one infraction, which is fees for delaying the deal, but it is not safe from the combination of lending and getting something in return, and the infraction of delaying the hand-to-hand exchange, and causing harm to the economy.

Our advice to you is that you should fear Allah, may He be exalted, and refrain from this prohibited means of earning a living. You should understand that that which is with Allah cannot be attained except by obeying Him, and that that which is haram cancels out barakah (blessing) and leads to

bad consequences. We ask Allah to keep us and you safe and sound.

And Allah knows best.