241297 - Is It Permissible to Study Futures Contracts?

the question

Is it permissible to study and teach some financial contracts in the global stock exchange, such as futures contracts?

Please note that I am currently preparing a doctoral thesis on the topic: How to protect oneself from financial risks in the oil markets, by using futures contracts. Is it permissible for me to do that?

Please note that I am in my final year of study.

Summary of answer

There is nothing wrong with studying futures contracts and other financial contracts and dealings even if they are prohibited, subject to two conditions: 1. that the student should have enough Islamic knowledge to be able to distinguish between contracts that are permissible and those which are prohibited, 2- he should believe that what Allah has prohibited of such contracts is prohibited.

Detailed answer

Praise be to Allah.

Is it permissible to study futures contracts?

There is nothing wrong with studying futures contracts and other financial contracts and dealings , even if they are prohibited, subject to two conditions:

- That the student should have enough Islamic knowledge to be able to distinguish between contracts that are permissible and those which are prohibited, even if he has to ask scholars

whom he trusts, so as to ensure that he will not be deceived or tricked by falsehood.

- He should believe that what Allah has prohibited of such contracts is prohibited, because it is not permissible to approve of evil and affirm it.

By engaging in this study, he should intend to find out what is prohibited so that he can avoid it and warn people against it, and he should strive to find permissible alternatives for people, so that they will have no need of that which is prohibited.

Do futures contracts involve buying or selling in a real sense?

The way in which futures contracts are conducted in this market, in most cases, does not involve buying or selling in a real sense, because no exchange takes place between the two parties to the contract with regard to items for which it is stipulated in Islamic teachings that the two items (money and the item being purchased) should be exchanged or one of them should be handed over.

The seller [in a futures contract] usually sells something that he does not possess of currency , shares, bonds, or items, in the hope that he will be able to buy it from the market and deliver it on time, without receiving payment at the time of drawing up the contract, which is an essential condition when paying in advance for something (Salam transaction).

The purchaser [in a futures contract] usually sells what he has bought to someone else before taking possession of it , and the other person also sells it to a third person before taking possession of it. Thus sales and purchases happen repeatedly to the same thing before taking possession of it until the deal reaches the final purchaser, who may want to take possession of the goods from the first seller, who sold what he did not possess, or ask for the difference in the price at the time of delivery, which is the time when things are settled, at the time when the role of the buyers and sellers, apart from the first and last ones, is limited to taking the difference in price when there is a profit or paying the difference when there is a loss, at the time of delivery as mentioned above, which is exactly what happens among gamblers." (From a statement of the Islamic Fiqh Council regarding stock exchange dealings)

It says in another statement of the Islamic Fiqh Council:

“The trading that is done in such transactions in the global markets usually includes many prohibited elements, such as the following:

Dealings that are done in this manner in the global markets usually involve many contracts that are prohibited according to Shari`ah, such as:

- Dealing in bonds, which comes under the heading of Riba which is prohibited. This was stated in a resolution of the Islamic Fiqh Council in Jeddah, no. 60, in its sixth session.
- Dealing indiscriminately in company shares . The fourth statement of the Islamic Fiqh Council of the Muslim World League in its fourteenth session in 1415 AH stated that it is prohibited to deal in the shares of companies whose main purposes are prohibited, or some of their dealings involve Riba.
- Selling currencies is usually done without the hand to hand exchange which makes them permissible according to Shari`ah (i.e., hand to hand exchange is what makes the transaction permissible).
- Dealing in options and futures. A resolution of the Islamic Fiqh Council in Jeddah no. (63), in its sixth session, stated that options are not permissible according to Shari`ah, because the object of dealing in these contracts is not money or services or a financial obligation which it is permissible to exchange. The same applies to futures and trading in indexes.

The point is that futures contracts and other common dealings in the stock market include elements that are prohibited. The one who is researching this matter should know the rulings on that and explain it to others, so that no one will be deceived, and he should not write anything that will help people to do that or encourage them to do it.

And Allah knows best.