269079 - Is Investing in the eToro Website Allowed?

the question

There is a great deal of talk about working for eToro and trading through it, as it is possible to buy and sell shares. There are those who say that it is halal and others who say that it is haram, and others say that it is a Jewish company so we should not deal with them, and so on. I hope that you can explain.

Summary of answer

From examining the eToro website, it is clear that trading is done through the use of financial leveraging (margins), including interest-bearing overnight fees, and CFDs which are haram.

Detailed answer

Praise be to Allah.

Investing in the stock market: Halal or haram?

Investing in the stock market and so on through a broker may be permissible or it may be haram, depending on the type of transaction and the extent to which it complies with Islamic guidelines.

It is not permissible to deal in what are called margins, or in the trading leveraging of the Forex system, because that involves a number of infractions of Islamic teachings, as has been explained previously in the answers to questions no. 106094 and 125758 .

One of the infractions – as was mentioned in a statement issued by the Islamic Fiqh Council concerning this topic – is:

The trading that takes place in these transactions in the financial markets usually includes a number of transactions that are prohibited according to Islamic teachings, including the following:

1. Trading in bonds, which comes under the heading of riba (usury), which is prohibited. This was confirmed in a statement of the Islamic Fiqh Council in Jeddah, no. 60, during its sixth session.
2. Trading in company shares without distinguishing between types of companies.

The fourth statement issued by the Islamic Fiqh Council of the Muslim World League during its fourteenth session in 1415 AH confirmed that it is prohibited to deal in shares of companies whose primary purpose is haram, or some of whose transactions are haram, such as riba.

1. Buying and selling currencies is usually done without the hand-to-hand exchange as prescribed in Islamic teachings which makes the transaction permissible (i.e., the hand-to-hand exchange would make it permissible).
2. Trading in options contracts and futures contracts. A statement of the Islamic Fiqh Council in Jeddah, no. 63, in its sixth session confirmed that options contracts are not permissible according to Islamic teachings, because the subject of the contract is neither wealth nor a benefit nor a financial right that may be compensated for. The same applies to futures contracts."

Can we invest in eToro?

From examining the eToro website, it is clear that trading is done through the use of financial leveraging (margins), including interest-bearing overnight fees, and CFDs (contracts for difference), which are haram.

A contract for difference (CFD) is an agreement between two parties, usually referred to as the purchaser and seller, the value of which is based on an underlying asset (for example, a stock index, shares or commodity futures contract).

At the end of the contract, or when the parties to the contract decide to close the deal, the seller pays to the purchaser the difference between the current price of the asset and its price when the contract began. This applies if the value of the underlying asset has risen.

In contrast, if the value of the underlying asset has dropped, and the difference between the current price and the initial price is negative, in that case the purchaser pays the difference to the seller." (IFC Market)

Contracts for difference (CFDs) are haram; this refers to the options contracts and futures contracts mentioned in the statement of the Islamic Fiqh Council.

If added to that is dealing in the margins system, this is another reason for it being prohibited.

And Allah knows best.