283613 - Ruling on investing in a company that deals in currency and gives daily returns that are not fixed

the question

I have a question about an investment company and dealing in currencies via the Internet, where the investor deposits a sum of, say, $1,000 on the basis that the company will give him a daily return, but that is not fixed. For example, on some days the return will be 1%, and 0% on some other days. In other words, the rate of return changes, depending on fluctuations in currency prices. The monthly return may be reinvested instead of withdrawing the money. For example, if a person earns $200 in returns for the month, and he reinvests it, the complete amount invested will be $1,200 instead of $1,000; hence the rate of returns will be greater too, and the returns will increase with each re- investment. Recently, the company is saying in its contract that it cannot guarantee the original capital of the individual after a certain period, or after the contract period ends, which is either six months or one year, and that depends on the time, circumstances and other changes. The investor may or may not be able to take back the money; in other words, there are no guarantees. I wanted to ask about this transaction, and whether it is riba or not, because in fact I am investing in this company, and I do not want to earn haraam wealth.

Detailed answer

Praise be to Allah.

In order for investment in any company or bank to be permissible, the following conditions are stipulated:

1.

It is essential to know the field of investment and whether it is permissible. It is not permissible to invest in a company when its activities are not known, because the money may be invested in riba

(usury), or in unlawful transactions on the stock exchange or otherwise, or in gambling venues or places that sell alcohol. Trading in currency may be permissible, or it may be forbidden. See the answers to questions no. 72210 and 106094.

2.

There should be no guarantee of the capital. So the company should not commit itself to returning the capital in the event of loss, so long as there has been no shortcoming or negligence on its part that was the cause of the loss.

That is because if the capital is guaranteed, then it effectively becomes a loan, and any returns on it are regarded as riba (usury).

3.

The returns should be specified and agreed upon, but it should be stated in the form of a fraction or percentage of the profit, not the capital. So the investor may get one third, for example, or half, or 20% of the profit, not of the capital.

It is not valid for the percentage of returns or profits to be unknown, because this invalidates the contract according to shar'i rulings.

Ibn Qudaamah (may Allah have mercy on him) said: One of the conditions of mudaarabah (profit-sharing) being valid is that the share of the one who is running the business should be stated, because he becomes entitled to it when his share is stipulated as part of the deal and can only be worked out in accordance with what is stipulated.

Then he said: If he says, Take this money and do business with it on the basis of profit-sharing [mudaarabah], and you will have a part of the profit or a share of the profit, that is not valid, because the exact share is unknown, and it is not permissible to set up a mudaarabah (profit-sharing) contract except on the basis of a known percentage of the profits.

The ruling on partnerships is the same as the ruling on mudaarabah (profit-sharing), in that it is

essential to know the share or percentage of the profit that each partner will have.

End quote from al-Mughni (5/24-27).

Based on that: you have to find out the field of investment, and make sure that it is permissible. It is also essential to agree upon a known share or percentage of the profits.

It is also essential to make sure that the company adheres to Islamic rulings on buying and selling currency.

And Allah knows best.