645865 - What is the ruling on trading in gold electronically, and what are the conditions of it being valid according to Islamic teachings?

the question

I am looking for a permissible way of trading in gold electronically without any infraction of Islamic teachings and within Islamic guidelines.

Summary of answer

Trading in gold electronically is permissible provided that the gold is identifiable and real, the price is paid immediately, and actual or constructive possession – as recognized under Islamic teachings – is established, and the buyer is enabled to dispose of and take delivery of the gold. However, nominal trading – such as through Contracts for Difference (CFDs), futures contracts, and similar instruments that do not involve actual ownership and possession of the gold – is not permissible.

Detailed answer

Praise be to Allah.

I.

To sell gold for gold or silver or for cash or cryptocurrency, it is stipulated that the exchange must take place immediately, because of the report narrated by Muslim (1587) from ‘Ubadah ibn as-Samit (may Allah be pleased with him), who said: The Messenger of Allah (blessings and peace of Allah be upon him) said: “Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, same for same, hand to hand. But if these commodities differ, then sell as you like, as long as it is hand to hand.”

Paper currencies come under the same rulings as gold and silver.

It says in a resolution of the Islamic Fiqh Council belonging to the Organization of Islamic Cooperation:

Regarding the rulings on paper currency: it is considered notional currency that possesses the full status of a medium of exchange. It is subject to the same rulings as gold and silver, specifically the rulings on riba, zakat, payment in advance (salam), and so on.

End quote from *Majallat al-Majma`* (Issue 3, Vol. 3, p. 1650; and Issue 5, Vol. 3, p. 1609).

The exchange of gold for the aforementioned currency is called *sarf* (currency exchange), and the exchange at the time of the transaction is a condition of it being valid, according to scholarly consensus.

Al-Bukhari (2060) narrated that al-Bara' ibn 'Azib and Zayd ibn Arqam said: We were traders at the time of the Messenger of Allah (blessings and peace of Allah be upon him), and we asked the Messenger of Allah (blessings and peace of Allah be upon him) about exchanging currencies (*sarf*). He said: "If it is hand to hand, there is nothing wrong with it, but if the exchange is to be completed at a later date, then it is not good."

Muslim (1589) narrated it as follows: "Whatever is hand to hand, there is nothing wrong with it, but whatever is to be paid for later is riba."

Ibn Qudamah (may Allah have mercy on him) said: *Sarf* means exchanging one currency for another, and completing this exchange at the time of the transaction is a condition of it being valid, and there is no difference of scholarly opinion regarding that.

End quote from *Al-Mughni*, 4/41.

II.

Possession may be either actual or constructive. Actual possession of gold and currency is achieved by taking physical possession of the items yourself or through an agent. Constructive possession of currency is achieved through depositing into an account, a certified cheque, or

receipt of a bank transfer confirmation.

Constructive possession of gold occurs when the actual (specific) gold is credited to a dedicated account of yours, such that you can withdraw the gold from it at any time after the contract is concluded.

The Shari`ah Standards Board has authorized a form of constructive possession regarding the purchase of gold, stating the following:

Sale of gold bullion for paper currency: For the sale of gold bullion for paper currency, it is stipulated that both counter-values be exchanged during the contract session. The buyer's possession of the bullion is established by taking possession of the item itself – either personally or through an agent – whether such possession is actual or constructive.

Constructive possession is established by designating the bullion and enabling the buyer to dispose of it, or by taking possession of a certificate representing ownership of specific, distinct bullion (allocated) – identified by serial numbers or similar distinguishing marks – provided that the certificate is issued on the trade date (T+0) by entities recognized under law and custom, and entitles the buyer to take physical possession of the purchased bullion whenever he wishes.

Based on that, it is not permissible to sell an unspecified bullion bar without actual possession taking place; this includes what is known in market practice as "unallocated" gold.

End quote from Al-Ma`ayir ash-Shar`iyyah, p. 1332, Standard No. 57 regarding gold).

It further states on p. 1348: The basis for recognizing constructive possession in the sale of gold bullion for paper currency is that receiving a gold certificate – bearing the specifications outlined in the Standard – is equivalent to actual possession of the gold in terms of legal consequences, the transfer of risk and appreciation, and the ability to dispose of the asset. This is particularly relevant given that, in the modern era, gold bullion is stored in specialized, licensed warehouses governed by regulations that control transactions, and the entities managing these warehouses act as agents for the certificate holder regarding the possession, safekeeping, and insurance of the

gold bullion, among other matters. End quote.

III.

Gold trading takes several forms, including:

1. Direct trading: This involves purchasing gold with paper money and taking possession of it, whether physically or constructively (legally). This is permissible.
2. Electronic trading: This is invalid because actual possession of the gold does not take place. However, it is permissible if a specific bar is purchased – one that is distinguished from others (i.e., "allocated") by serial numbers or similar unique identifiers – as this constitutes constructive possession, and the bar remains held in trust by the seller until the buyer collects it.
3. Trading via Contracts for Difference (CFDs): This method involves speculating on the price of gold without actually owning the asset. This is prohibited, even if it involves commodities other than gold.

Resolution No. 63 of the Islamic Fiqh Council in Jeddah, issued during its sixth session, states that options contracts are not permissible according to Islamic teachings, because the subject matter of the contract is neither property, nor a usufruct, nor a financial right for which compensation may be sought; the same applies to futures contracts and index-based contracts. End quote.

4. Trading in gold via futures contracts – which are agreements concluded in the present for the delivery of gold at a future date – is prohibited. This is because Islamic teaching requires the mutual exchange of the countervalues at the time of purchasing the gold, as noted above.

It says in *Al-Ma`ayir ash-Shar`iyyah*, Standard No. 57 on Gold: Contracts for the sale of gold in which the exchange of both countervalues is deferred – including what are commonly termed "deferred sales" or "futures contracts" – are not permissible, due to the failure to satisfy the requirement of mutual exchange (taking delivery) mandated by Islamic teachings. End quote.

Based on that, the Islamically acceptable way to trade in gold electronically is to purchase actual,

existing gold – where the specific bar or quantity bought is allocated to you – and to pay the price and have the gold assigned to you during the contract session without delay. You must acquire the right to dispose of it and take physical possession whenever you wish, and you must not sell it until you have taken possession of it. Furthermore, you must avoid financial leverage, Contracts for Difference (CFDs), futures contracts, and any transaction that does not result in the ownership and possession of actual gold.

To sum up: Gold trading is not permissible unless there is an actual or constructive exchange of possession regarding both counter-values; any form of trading that fails to meet this condition is prohibited.

And Allah knows best.