93334 - Dealing with a company that buys and sells currencies

the question

I would like to ask about an investment company on the internet – is dealing with it halaal or haraam? This company is a long-term investment company which is basically a “middleman” company in the field of global currency trading. It offers account management services, managing the money of investors and investing it in the FOREX (foreign exchange market). It is a kind of investment fund, like the investment funds that exist in some countries to invest money in the stock exchange; it collects investors’ money in this fund then a group of specialists invest it in the foreign exchange market (FOREX). Of course there is a group of specialists who are managing clients’ money (account management system) and it pays weekly interest to the investors between 8 and 12 %, i.e., variable interest. The company does not deal with alcohol, gambling or haraam things, and it has a minimum amount required for an individual to subscribe to it. I hope that you can tell us whether dealing with it is halaal or haraam, because it is very widespread and many people are dealing with it.

Detailed answer

Praise be to Allah.

Firstly:

The Muslim should beware and be very cautious about dealing with foreign companies, especially when he is dealing with them from a distance, because he does not know about the people he is dealing with or about their business activities. He may be deceived and cheated, or he may be dealing with people who do not care about applying the rulings of sharee’ah to their dealings, and they may be concealing the true nature of their dealings in order to attract Muslim wealth so that they can invest it according to what they think is good and not according to what is permitted by Islam.

Secondly:

Dealing in currencies is a permissible kind of trade, but that permissibility is conditional upon the exchange being made on the spot in the same meeting as the deal is done.

It was narrated that ‘Ubaadah ibn al-Saamit (may Allaah be pleased with him) said: The Messenger of Allaah (peace and blessings of Allaah 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. If any of these types are different, then sell however you like, so long as it is hand to hand.” Narrated by Muslim (1587).

Currencies come under the same ruling as gold and silver with regard to zakaah and with regard to the stipulation that the transaction be done hand-to-hand when selling them. The hadeeth clearly states that the hand-to-hand transaction is essential when selling gold for gold and silver for silver. Based on that, it is not permissible to sell one currency for another unless the exchange is made on the spot in the same meeting as the deal is done.

Shaykh ‘Abd al-‘Azeez ibn Baaz (may Allaah have mercy on him) said:

One currency should not be sold for another unless it is done hand to hand, like for like. If one currency is sold for another, such as riyals for dollars, or pounds sterling for another currency, it is permissible to sell them hand to hand, without any delay, even if the amounts differ. Islamically acceptable means are available and are sufficient – praise be to Allaah – and the people have no need of riba, but the shaytaan calls them to that and makes quick earnings by means of riba attractive to them.

Majmoo’ Fataawa al-Shaykh Ibn Baaz (7/294, 295).

Shaykh ‘Abd-Allaah al-Jibreen (may Allaah preserve him) said:

There is nothing wrong with dealing in currencies, which means selling one currency for another, but that is subject to the condition that the exchange be made before parting, whether one pays actual currency and receives something that takes the place of currency, such as certified

cheques, in return, and whether the two parties are acting on their own behalf or on behalf of someone else. If the custom is not to do it in this manner, then it is not permissible and the one who does that is sinning thereby and lacking in faith.

Fataawa Islamiyyah (2/364).

Exchanging currencies hand to hand over the phone or via internet when the two parties are far away from one another is impossible. Hence the contemporary scholars stated that it is permissible to sell currencies by phone or internet if there is something that takes the place of hand-to-hand exchange, which is immediate transfer of funds from the account of the seller to the account of the buyer, or if the buyer's agent takes possession of certified cheques made out to the other party. This is the view of the Islamic Fiqh Council. There follows the text of their statement:

The Islamic Fiqh Council, which convened during its sixth conference in Jeddah in the Kingdom of Saudi Arabia between 17-23 Sha'baan 1410 AH (14-20 March 1990), after studying the research presented to the Council concerning the issue of Hand to hand exchange: forms thereof, especially newly invented forms, and rulings thereon, and after listening to the discussions that took place on this topic, determined the following:

Firstly:

As the exchange of wealth may be done physically in a hand-to-hand transaction, or by measure or weight in the case of food, or by transfer of the purchased goods to the possession of the purchaser, it may also be achieved in other ways, by giving it up and putting it at the disposal of the purchaser, even if the exchange does not take place physically. The way in which the exchange takes place may vary according to the situation and customs with regard to receiving the value.

Secondly:

Among the non-physical forms of receiving the value that are permissible are the following:

1.Transferring money into the agent's account in the following ways:

a.When it is deposited into the agent’s account, directly or via wire transfer

b.When the agent makes arrangements between himself and the bank to receive the money in the case of buying one currency for another, so that the money will automatically be transferred to the agent’s account

c.When the bank – on the instructions of the agent – deducts money from one account to another account of his in a different currency, whether it is in the same bank or a different one, in the interests of the beneficiary or another agent. The banks should pay attention to ensuring that these arrangements are in accordance with the principles of Islamic banking.

The delay in transferring the money before the beneficiary is actually able to take possession of it may be overlooked for the usual amount of time that such transfers take in the banking system, but it is not permissible for the beneficiary to dispose of the currency during this grace period, until after the money has been transferred and actually received.

2.Receiving a cheque, provided it is covered and withdrawable in the currency written on it when it has been received and deposited into the account.

Majallat al-Majma’ (issue no. 6, 1/453), Qiraaraat wa Tawsiyaat Majma’ al-Fiqh al-Islami (p. 113, 114).

Scholars who specialize in contemporary financial dealings have pointed out that selling currencies via the internet is not a transaction in which hand-to-hand exchange can take place, so it is haraam according to sharee’ah.

Moreover, there is another reason for forbidding the transaction asked about here, which is that the company gives investors profits of between 8 and 12% on a weekly basis, and this renders the investment contract invalid, because what is required in the case of an investment contract is that profits should be distributed by percentage among the partners, so each partner should get a specific share of the profits, such as one half or one quarter and so on; taking a fixed percentage based on the capital invested is not permissible.

To sum up:

Selling currencies via this method is not permissible for two reasons:

1-Selling currencies via the internet is not a transaction in which hand-to-hand exchange can take place

2-The investment contract stipulates that the profits should be shared among the partners as a percentage, and it is not permissible for that percentage to be calculated only on the basis of the capital invested.

We should point out that it is not permissible to borrow from these middlemen or agents in what is called the “margin system”, which is where you required to deposit part of the value of the loan you give them with them so that they can deal on the stock exchange – and especially with currencies – and these agents make deals worth many times more than what you gave them, and any losses will be deducted from the money you have deposited with them.

You should know that dealing with the margin system is haraam according to sharee’ah and it is not permissible for anyone to deal with it. Many people – even non-Muslims – have warned against it because of the bad effects it has on financial dealings in the stock exchange. One of the main causes of the collapse of the New York Stock Exchange on “Black Monday” was dealings with the margin system, because of commands to sell that were programmed into brokers’ computers, telling them to sell in the event that prices dropped to a certain level. When the prices actually fell, the commands to sell were triggered automatically, which led to an unprecedented flooding of the market when there was no demand, and this is what led to the collapse. In Kuwait and elsewhere, many economists called for an abolition of this system.

What concerns us here is the ruling of Allaah on this system and others, which is haraam for several reasons, including the fact that it is a riba-based loan in the form of a permissible transaction, and that buying currencies is not done hand-to-hand in accordance with sharee’ah, and that it involves risk which makes it a form of gambling.

Our advice to you is to refrain from dealing with these remote strangers, because the Muslim does not know what they are doing with his money. And beware of falling into haraam things.

And Allaah knows best.