106094 - Is Dealing in Forex System Currencies Permitted in Islam?

the question

Is it permissible to deal in currencies in the foreign exchange market (Forex) over the Internet? What is your opinion regarding the issue of stipulating interest for not using the deal at the same day? What is also your opinion about the clearing process which is to delay submitting one to two days after the contract ends?

Summary of answer

It is permissible to deal in currencies if the deal is done hand to hand and the transaction is free of conditions that stipulate Riba, such as the stipulation of fees for delaying the deal, which is interest that is charged to the investor if he does not take a decision concerning the deal on the same day.

Detailed answer

Praise be to Allah.

Is dealing in the Forex system currencies permitted in Islam?

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Ruling on charging fees for delaying the deal and trading in margins

With regard to the fees for delaying the deal and trading in margins, a statement has been issued by the Islamic Fiqh Council concerning this, which says the following:

“Praise be to Allah alone and blessings and peace be upon the one after whom there is no Prophet, our master and Prophet Muhammad, and upon his family and companions. To proceed:

The Islamic Fiqh Council of the Muslim World League, in its eighteenth session that was held in Makkah al-Mukarramah from 10 to 14/3/1427 AH (8 to 12 April 2006 CE), has examined the issue of trading in margins, which means that the customer pays a small amount of the value of what he wants to buy, which is called a “margin”, and the agent (the bank or otherwise) pays the rest as a loan, provided that the purchase contract remains in the name of the agent as a pledge for the money that was loaned.

After listening to the research that has been submitted and the detailed discussion on this topic, the opinion of the council is that this transaction involves the following:

- Dealing in buying and selling for the purpose of profit, and this dealing is usually done in major currencies or financial certificates (shares and bonds) or some types of products, and it may include trade in options, futures and the indexes of major markets.
- Loans, which refers to the money given by the agent to the customer directly if the agent is a bank, or via a third party if the agent is not a bank.
- Riba , which occurs in this transaction in the form of fees for delaying the deal. This is interest that is charged to the purchaser if he does not make a decision on the same day, and which may be a percentage of the loan or a set amount.
- Commission, which is the money that the agent gets as a result of the investor’s (customer’s) dealing through him, and it is an agreed-upon percentage of the value of the sale or purchase.
- The pledge, which is a commitment signed by the customer agreeing to leave the contract with the agent as a pledge for a loan, giving him the right to sell these contracts and take back the loan if the customer’s losses reach a specific percentage of the margin, unless the customer increases the pledge in order to compensate for a drop in the price of the product.

The Committee believes that this transaction is not permissible according to Shari`ah for the following reasons:

1. It involves obvious Riba, which is represented by the addition to the amount of the loan which is called “paying fees for delaying the deal”. This is a kind of Riba which is prohibited. Allah says (interpretation of the meaning):

“O you who believe! Fear Allah and give up what remains (due to you) from Riba (from now onward) if you are (really) believers. And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums).” [Al-Baqarah 2:278-279]

1. The agent stipulates that the customer must deal through him, which leads to combining both giving a loan for something in return and paying commission, which is akin to combining giving a loan and selling at the same time, which is forbidden in Shari`ah because the Messenger (peace and blessings of Allah be upon him) said: “It is not permissible to give a loan and sell at the same time…” The Hadith was narrated by Abu Dawud (3/384) and At-Tirmidhi (3/526), who said it is an authentic Hadith. In this case he has benefited from his loan, and the jurists unanimously agreed that every loan that brings a benefit is Riba and is prohibited.
2. 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 haram, 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.

- In some cases the agent is selling something that he does not possess, and selling what one does not possess is forbidden in Shari`ah.

1. This transaction involves economic harm to the parties involved, especially the customer (investor), and to the economy of the society in general, because it is based on borrowing to excess and taking risks. Such matters usually involve cheating, misleading people, rumours, hoarding, artificial inflation of prices and rapid and strong fluctuation of prices, with the aim of getting rich quickly and acquiring the savings of others in unlawful ways. Hence it comes under the heading of consuming people's wealth unlawfully, in addition to diverting wealth in society from real, fruitful economic activity to this type of risk that has no economic advantage, and it may lead to severe economic turmoil that will cause great loss and harm in society.

The Council advises financial institutions to follow the ways of finance that are prescribed in Shari`ah and that do not involve Riba and the like, and do not have harmful economic effects on their customers or on the economy in general, like Shar`i partnerships and the like. And Allah is the Source of strength.

May Allah send blessings and peace upon our Prophet Muhammad and all his family and companions." (Majallat al-Majma` al-Fiqh al-Islami, issue no. 22, p. 229)

We ask Allah to guide us and you.

For more details, please see the following answers: 125758 , 360987 , 310956 , 327070 , and 303336 .

And Allah knows best.