# 124311 - Ruling on dealing in petroleum and other commodities on the stock exchange

**the question**

What is the ruling on working in the global stock exchange and dealing in petroleum only, and not in currencies or gold, and not working in the index system either?.

**Detailed answer**

Praise be to Allah.

It is permissible to deal in commodities via the stock exchange, if the conditions of valid transactions are fulfilled, one of which is that a person sells what he owns. In fact in the case of the stock exchange, people often sell what they do not own and what is not in their possession, and this is forbidden in sharee'ah.

Abu Dawood (3503), al-Tirmidhi (1232) and al-Nasaa'i (4613) narrated from Hakeem ibn Hizaam (may Allaah be pleased with him) that he said: I asked the Messenger of Allaah (peace and blessings of Allaah be upon him): "O Messenger of Allaah, people come to me wanting to buy something that I do not possess; should I buy it for them from the marketplace? He said: "Do not sell that which you do not possess." This hadeeth was classed as saheeh by al-Albaani in Saheeh al-Nasaa'i.

A statement was issued by the Islamic Fiqh Council belonging to the Muslim World League in 1404 AH, explaining the shar'i reservations with regard to stock exchange dealings. This is its text:

and blessings and peace be upon the Messenger of Allaah and his family and companions. To proceed:

The Islamic Fiqh Council has examined the issue of the global finance market and stock exchange, and the transactions that are carried out therein – buying and selling – involving paper currencies,

company shares, commercial and government bonds, and commodities, and some of these contracts are with immediate effect and some are deferred.

The council has also studied the positive and beneficial aspects of this market from the point of view of economists and those who work in it, and the negative and harmful aspects of it.

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As for the positive and beneficial aspects of the stock exchange:

(i)It establishes a permanent market which makes it easy for buyers and sellers to meet and engage in immediate and deferred transactions in shares, bonds and commodities.

(ii)It makes it easy to finance industrial, commercial and government institutions by means of offering shares, bonds and securities for sale.

(iii)It makes it easy to sell shares and bonds to others and to benefit from their value.

(iv)They make it easy to find out the prices of shares, bonds and commodities, and how they are fluctuating in the marketplace on the basis of supply and demand.

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The negative and harmful aspects of this market are:

(i)The deferred transactions that take place in this market are not real sales or real purchases in most cases, because no actual exchange takes place between the two parties in deals where sharee’ah stipulates that money and goods, or one of the two, be handed over.

(ii)The seller usually sells something that he does not possess of currency, shares, bonds or commodities, in the hope that he will be able to buy it from the market and deliver it on time, and without taking possession of the price at the time of making the deal, with is a condition in the salam [forward buying] transaction.

(iii)The buyer usually sells what he has bought to another person before taking possession of it, and the other person also sells it to a third person before taking possession of it. Thus sales and purchases happen repeatedly to the same thing before taking possession of it until the deal reaches the final purchaser, who may want to take possession of the goods from the first seller, who sold what he did not possess, or ask for the difference in the price at the time of delivery, which is the time when things are settled, at the time when the role of the buyers and sellers, apart from the first and last ones, is limited to taking the difference in price when there is a profit or paying the difference when there is a loss, at the time of delivery as mentioned above, which is exactly what happens among gamblers.

(iv)What is done by financiers of monopolizing shares, bonds and commodities in the market in order to control the sellers who sold what they did not possess in the hope of buying before the appointed delivery time at a lower price and still deliver on time, and trying to put them in a difficult situation.

(v)The danger of the financial market becomes a means of affecting the markets in general, because prices in it are not based on real supply and demand on the part of those who need to sell and buy, rather they are based on many things, some of which are artificial, deliberate acts on the part of those who are dominating the markets or those who have monopolies on commodities or bonds, such as spreading false rumours and the like. Here resides the danger that is forbidden in Islam, because that leads to unnatural fluctuations in prices, which may affect economic life in a bad way.

Hence the stock market has produced a lot of arguments and debates among economists, the reason being that during certain periods in the world’s economic history, it has caused the loss of huge amounts of wealth in a short period of time, and it has caused others to become rich with the minimum of effort.

For all these reasons, after studying the facts about the market for bonds and commodities (the stock market) and the immediate and deferred transactions in shares, bonds, commodities and currencies that are conducted in it, and discussing that in the light of Islamic shar’i rulings, the

Islamic Fiqh Council has determined the following:

Firstly:

The aim of the stock market is to create a permanent market in which there will be supply and demand, and traders buying and selling. This is something that is good and useful, and it prevents professionals from cheating the inexperienced. But this advantage of the stock exchange is accompanied by a number of things concerning which there are shar'i reservations, as well as gambling, exploitation and consuming people's wealth unlawfully.

Hence it is not possible to give a general shar'i ruling concerning it, rather it is essential to explain the rulings on the various types of transaction that are conducted in it, each one on its own.

Secondly:

With regard to deferred deals involving goods which are actually present and in the seller's possession, in cases where it is stipulated by sharee'ah that payment or transfer of goods must occur in the same sitting where the deal is done – these are permissible transactions so long as they are not transactions in haraam things. But if the sold item is not in the possession of the seller, then the conditions of the salam (forward buying) transaction must be fulfilled.

Thirdly:

The immediate transactions in institutional and company shares, where the shares are in the seller's possession, are permissible, so long as the field of activity of those companies or institutions is not haraam, such as riba-based banks and alcohol companies; in that case it is haraam to deal in their shares, whether buying or selling.

Fourthly:

Both immediate and deferred transactions in bonds which involve interest, of all kinds, are not permissible according to sharee'ah, because they are transactions that deal with haraam riba.

Fifthly:

Deferred transactions of various kinds which take place in an open manner, i.e. in shares and commodities that are not in the seller's possession, in the manner in which it is done in the stock market, are not permissible according to sharee'ah, because it is narrated in a saheeh report that the Messenger of Allaah (peace and blessings of Allaah be upon him) said: "Do not sell what you do not possess." And Imam Ahmad and Abu Dawood narrated with a saheeh isnaad from Zayd ibn Thaabit (may Allaah be pleased with him) that the Prophet (peace and blessings of Allaah be upon him) forbade selling goods in the place where they were bought until the merchants had moved them to their own location.

Sixthly:

Deferred transactions in the stock market are not like the salam transaction which is permissible according to sharee'ah, because there are two differences between them:

(a)In the stock market, the price in deferred transactions is not paid in the same sitting where the deal is done

(b)In the stock market, the product which is the subject of the deal is sold many times whilst still in the possession of the first seller and before the first purchaser acquires it, and the aim behind that is only to take or pay the difference in price between sales and purchases that are not real (i.e., on paper only), and are done on a basis of risk to make a profit, exactly as in the case of gambling, whereas it is not permissible to sell the item in a salam transaction before taking possession of it.

Based on the above, the Islamic Fiqh Council thinks that those who are in charge in Muslim countries should not give the stock exchanges in their countries free rein to deal as it wishes with transactions and deals, whether they are permissible or haraam, and not leave them to those who tinker with prices and do what they want. Rather they should oblige people to pay attention to the shar'i, permissible methods of doing deals and prevent deals which are not permissible according to sharee'ah, so as to prevent the kind of tinkering which leads to financial disaster and ruins the public economy, causing calamity for many, because all goodness is in adhering to the way of Islamic sharee'ah in all things. Allaah says (interpretation of the meaning):

“And verily, this is My straight path, so follow it, and follow not (other) paths, for they will separate you away from His path. This He has ordained for you that you may become Al-Muttaqoon (the pious)”

[al-An’aam 6:153].

And Allaah is the source of strength and the One who guides to the straight path. May Allaah send blessing and peace upon our master Muhammad and his family and companions. End quote.

With regard to working in the index system, that is not permissible. See the answer to question no. 106094

Based on that, it is essential to deal with the stock exchange on the basis of insight into what goes on in it, and not to engage in any transaction until you are certain that it is permissible.

And Allaah knows best.