

Essential Questions & Answers regarding Forex and currency trading

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2

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فَمَنْ كَانَ يَرْجُوا لِقَاءَ رَبِّهِ فَلْيَعْمَلْ عَمَلًا صَالِحًا وَلَا يُشْرِكْ بِعِبَادَةِ رَبِّهِ أَحَدًا

**“So whoever hopes for the Meeting with his Lord,
let him work righteousness and associate none
as a partner in the worship of his Lord.”**

The Noble Qur.aan - Soorah al-Kahf, Aayah 110

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بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

3

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This treatise therefore answers the common questions related to currency trading and exchange. It is important to point out that the basic rule in Islamic economics is that all transactions are Ḥalāl (lawful) until proven to be Ḥarām (impermissible).

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Contents

Introduction

Glossary of terms

1. What is currency exchange and forex?
2. What is the Islamic ruling of currency exchange?
3. Can I delay taking possession of the currency I have exchanged?
4. Can I exchange different amounts of the same currency?
5. Can the delivery of one of the currencies be deferred to a later date?
6. Is it allowed for Islamic Financial Institutions (IFI) or brokers to have a monopoly on exchange rates?
7. Are currency transactions in the futures market permitted?
8. Are currency transactions in the forwards market permitted?
9. Is it permissible to hedge against the future devaluation of a currency?
10. Can an importer delay the payment of goods in anticipation of the currency depreciating?
11. Can £100 (GB pounds) be exchanged for \$200 US dollars?
12. Can a loan be repaid in currency that is different to the loaned currency?
13. How are debts discharged if there are two separate loans in differing currencies?
14. What is the ruling on combining currency exchange and transfer of money (Hawāla)?
15. Can a fee be charged for transferring or trading currencies?
16. Is it permitted for a money transfer to be made wherein the money is received immediately but the payment is delayed?
17. Is it permitted to pay back a loan in a different currency according to the exchange rate at the time when the loan is due?
18. Is it Halāl to pay back a loan in instalments at the rate of exchange on the day of the loan or on the day each instalment is due?
19. Is it Halāl for a lender to charge an extra fee to cover for any losses due to currency fluctuation?
20. Can money be exchanged in instalments?
21. What is the ruling on forex currency trading?
22. What is the ruling of a person who borrows money from a financial institution in order to trade in currencies?
23. Is it permissible for a financial institution to lend money to a customer on the condition that currency dealing must be effected with that institution and not any other?
24. Can I enter into a contract with another party to buy or sell currency at a future date?
25. Is parallel purchase and sale of currencies permissible?



5

Introduction

In the name of Allāh, the most Merciful, the Bestower of mercy. He is the source of our guidance and the One we turn to in times of need and prosperity. May peace and blessings be upon His noble messenger Muḥammad ﷺ, his companions and those who follow him upon goodness. To proceed,

Great importance is placed - rightfully so - on issues pertaining to 'ibādah such as Ṣalāh, fasting, Wudū etc.. However the rulings of financial transactions are often neglected. Indeed, choosing to turn a blind eye or a deaf ear to these essential issues is destructive to one's faith. It is imperative that we abide by the Sharī'ah no matter the worldly temptation otherwise our 'ibādah (worship) will be bereft of blessing.

This treatise therefore answers the common questions related to currency trading and exchange. It is important to point out that the basic rule in Islamic economics is that all transactions are Ḥalāl (lawful) until proven to be Ḥarām (impermissible).

Based on this, the purpose of this compilation is to make the reader aware of the Ḥarām transactions in the exchange of currencies in order to refrain from them and ensure all transactions remain pure and uncorrupted from Ribā and other Islamic prohibitions.

This treatise will be of benefit to a number of people, including:

- Students and scholars specialising in Islamic finance.
- Ḥawāla agents and those who trade in currencies for profit.
- Those who regularly transfer money to family and friends abroad.
- Those who import and export goods in different currencies.
- The wider community who wish to remain informed and educated in these issues.

In compiling this treatise, the following resources have been referenced:

1. Fatāwa of the Islamic Fiqh Council.
2. Fatāwa of a Permanent Committee of Senior Scholars, (Saudi Arabia).
3. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Sharī'ah standards.
4. Al-Fiqh al-Muyassar by At-Tayyar & co.

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...however the rulings of financial transactions are often neglected. Indeed, choosing to turn a blind eye or a deaf ear to these essential issues is destructive to one's faith.

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5. Al-Mughni by Ibn Qudāmah.
6. An-Majmū' by an-Nawawi.
7. Fatāwa of contemporary scholars such as Ibn Bāz and Ibn 'Uthaymīn.

I have also included a glossary of Arabic terms which are repeated during the course of this compilation. The reader is advised to first understand the glossary of terms, as the Arabic is mentioned throughout.

Written by Abu Salmah Muhammad Aideed
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Friday, 7th Rabī' ath-Thānī, 1443h;
Corresponding to 13th November, 2021.

6

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Based on this, the purpose of this compilation is to make the reader aware of the Ḥarām transactions in the exchange of currencies in order to refrain from them and ensure all transactions remain pure and uncorrupted from Ribā and other Islamic prohibitions.

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Glossary of terms

This glossary has been included to avoid repetition of translation when mentioning Islamic terms. The original Arabic terms have been used throughout the work, with the understanding that the reader can refer to the glossary.

AAOIFI Standards: Accounting and Auditing Organization for Islamic Financial Institutions, established to maintain and promote Sharī'ah standards for Islamic financial institutions, It is a non-profit organization primarily responsible for developing and issuing standards for the global Islamic finance industry.

Ḥalāl: This is one of the rulings of the Sharī'ah which means lawful, permitted and allowed to do, and by extension permitted to leave.

Harām: The opposite of Ḥalāl i.e. unlawful, prohibited or forbidden to do or partake in.

Ribā: Translated as “interest” or “usury, its most basic form is in giving a loan, with an additional amount stipulated upon return. It can also occur in trading, wherein two commodities of the same kind in different quantities or delaying payment in one of the goods or both. The types of goods wherein Ribā occurs have been specified in Aḥādīth.¹

Ribā an-Nasīa: Ribā of delay or postponement. This is where an additional amount is stipulated if there is a delay in repaying a loan or a commodity purchased on credit or instalments.

Ribā al-Fadl: Ribā of surplus or excess. This is the type of Ribā that exists in, or results from, a sale transaction which involves an increase when trading two commodities of the same type. The types of commodities where Ribā al-Fadl occurs have been mentioned in the Ḥadīth of 'Ubādah. [Footnote 1]

1 'Ubāda Ibn Sāmit said, “I heard the Messenger of Allāh ﷺ forbidding the sale of gold by gold, silver by silver, wheat by wheat, barley by barley, dates by dates and salt by salt, unless it is hand for hand, like for like, otherwise whoever [exchanges] with an additional amount or accepts an addition, committed the sin of Ribā.” [Muslim]

In the above Ḥadīth, the commodities in which Ribā occurs are limited to the above types or those similar in form or cause.



This glossary has been included to avoid repetition of translation when mentioning Islamic terms. The original Arabic terms have been used throughout the work, with the understanding that the reader can refer to the glossary.



8

Jahālah: Ambiguity in the commodities and/or currencies being exchanged such as purchasing a commodity without knowing its details, or purchasing a known item for an ambiguous amount of money.

Gharrar: This is when a transaction contains excessive uncertainty, speculation or risk. It can occur in various forms, the most common of which is Jahālah.

Murābaḥa: Cost plus financing. It is a contract of sale in which the seller declares his cost and profit.

Salam contract: The purchase of a commodity for deferred delivery in exchange for immediate payment.

Muqāsah: A contract in which two debts that are equal in terms of their type, attributes, and settlement dates are set off against each other

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...this is when a transaction contains excessive uncertainty, speculation or risk. It can occur in various forms, the most common of which is Jahālah.

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In the name of Allāh, the most Merciful, the Bestower of mercy.

1. What is currency exchange and forex?

Currency exchange is a transaction which involves the exchange (i.e. trade) of currencies through buying and selling in the foreign exchange market at a specific exchange rate either in person or electronically.

The term currency trade and currency exchange are used interchangeably.

“Forex” is an abbreviation for “foreign exchange”, and it relates to exchanging currency usually electronically. The “Forex Market” is a global marketplace where currencies are exchanged and where exchange rates for every currency are determined.

2. What is the Islamic ruling of currency exchange?

The default ruling on any form of trading, including currency exchange, is that it is Ḥalāl – as long as it does not entail other Ḥarām matters. This is due to the saying of Allah,

{Allāh has permitted trading and forbidden Ribā (interest)} [02:275]

Exchanging currency is Ḥalāl provided that the transaction is done ‘hand to hand’ and does not entail anything that contradicts the Sharī’ah.

The meaning of the term “hand to hand” is that there should be no delay between the giving of one currency and the receiving of the exchanged currency. This is taken from the Ḥadith of ‘Ubāda Ibn Ṣāmit who said, “I heard the Messenger of Allāh ﷺ forbidding the sale of gold by gold, silver by silver, wheat by wheat, barley by barley, dates by dates and salt by salt, unless it is hand for hand, like for like...”²

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The “Forex Market” is a global marketplace where currencies are exchanged and where exchange rates for every currency are determined.

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² Collected by Ṣaḥīḥ Muslim.

10

3. Can I delay taking possession of the currency I have exchanged?

Scenario: Zayd wants to exchange \$20 for GB pounds, he has given the dollars today however he would like to receive the pounds tomorrow.

This is Ḥarām as both parties must take possession of the currencies before the transaction ends. This is either done physically in person or electronically by way of receipt.³

This is due to the saying of the Prophet ﷺ in the Hadith of Ubāda Ibn Ṣāmit: ‘hand to hand.’

4. Can I exchange different amounts of the same currency?

If the same currency is being exchanged, they must be of equal value, regardless of whether one of them is paper money whilst the other is in the form of coins, like a 5 pound note being traded for 5 pound coins.⁴

This is due to the Ḥadīth of Ubāda Ibn Ṣāmit that the Prophet ﷺ forbade ‘the sale of gold by gold...unless it is hand for hand, like for like...’

“It is permissible to trade currencies that are different to each other because every currency is considered to be a kind of money on its own, like that of gold and silver, and therefore it is permissible to sell a particular currency such as dollars, for another currency such as Indian Rupees even for inequality as it is permissible to sell gold for silver for a different weight, provided the bilateral taking possession of the two counter values (two currencies) must take place in the session of the contract. However, if a certain amount of a particular currency is sold for the same currency such as Indian rupee for Indian rupee, the inequality is impermissible.”⁵

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If the same currency is being exchanged, they must be of equal value, regardless of whether one of them is paper money whilst the other is in the form of coins, like a 5 pound note being traded for 5 pound coins.

”

3 Refer to: Majallat al-Mmjmā' al-fiqh al-islāmī, issue no. 06, p. 113,114; and AAOIFI Standard 2/1/3.

4 Ṣaḥīḥ Muslim (1587)

5 Majmū'āt al-Fatāwa Ash-Shar'iyyah, Administration of Fatwā of Kuwait 3/160 no. 788.

11

5. Can the delivery of one of the currencies be deferred to a later date?

Scenario: Zayd agrees to exchange \$100 for GB pounds with Qays, they both agree to defer delivery of the pounds to a later date.

This transaction is Ḥarām as the contract must not contain any conditional option or a deferment clause regarding the delivery of one or both currencies. For example, it is impermissible for the contract to stipulate that one of the currencies will be delivered at a later date.⁶

6. Is it allowed for Islamic Financial Institutions (IFI) or brokers to have a monopoly on exchange rates?

The aim of currency exchange is not to establish a monopoly in controlling exchange rates, to cause financial loss or other harmful consequences to individuals and the wider community.⁷ Rather, the purpose is for the exchange of currencies to be facilitated by the institutions.

7. Are currency transactions in the futures market permitted?⁸

It is Ḥarām to carry out currency transactions in what is known as the futures market.⁹

This is due to a number of reasons:

1. This type of contract involves speculation which is a form of “Gharrar”.
2. It involves the sale of assets that are not in the possession of the seller which is impermissible.

⁶ Refer to AAOIFI Standard 2/1/3.

⁷ Refer to AAOIFI 2/1/4.

⁸ Futures markets are where an asset is bought or sold for delivery in the future with a pre-determined price known as the forward price which is determined in the present date of the transaction.

⁹ Al-fiqh al-muyassar, and Majallat al-majma' al-fiqh al-Islāmi, issue no. 07, 2/1273.

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The aim of currency exchange is not to establish a monopoly in controlling exchange rates, to cause financial loss or other harmful consequences to individuals and the wider community.

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12

3. The countervalues i.e. the money and the assets may not even be in existence at the time of the contract.
4. In a futures contract, the buyer is not able to take possession of the commodity they have purchased. From the conditions of a sale is that the buyer must be able to take possession.
5. It Involves Ribā an-Nasīā which is strictly prohibited.

8. Are currency transactions in the forwards market permitted?¹⁰

It is Ḥarām to enter into such contracts. It is not permissible to agree on an exchange rate today in order to transfer currency later due to the reasons outlined in the above question.

9. Is it permissible to hedge against the future devaluation of a currency?

“Hedging” is a financial instrument used by companies to protect themselves from foreign exchange fluctuation risks. This type of risk is usually associated with imports and exports. If a company exports goods on credit, it has an exact figure for debtors in its accounts. The final amount it will receive depends on the foreign exchange movement from the transaction date to the settlement date.

To clarify further, let us assume company A exports 100 kilos of dates from Saudi to Egypt.

The exporter agrees to sell the dates for 10000 Saudi Riyals and the importer agrees to pay in 1 month when the dates reach Cairo. The exporter has decided to invoice in the buyer’s currency (Egyptian pound). Currently, 10,000 SR is worth 41,755 EP

A few things can happen in that month;

1. The rate of the Egyptian Pound could increase in value (e.g. 50,000 EP), thereby the exporter stands to gain.
2. It decreases in value (e.g. 30,000 EP), thereby the importer stands to gain.
3. It could remain the same.

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It is not permissible to agree on an exchange rate today in order to transfer currency later due to the reasons outlined in the above question.

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¹⁰ A forward contract is a foreign exchange agreement to buy one currency by selling another on a specified date within the next 12 months at a price agreed upon in the present, known as the forward rate. More concisely, it is the exchange rate agreed today to transfer the currency later.

13

The question arises; Should the buyer pay the equivalent of 10,000 riyals in Egyptian pounds at the time of the transaction or when the goods are delivered after a month?

This transaction is considered complete at the time of the sale which is when both parties agree to the transaction and as such the importer must pay according to the value of the Egyptian pound at the moment of purchase not delivery, although it is permissible to delay payment until the dates are delivered as long as the importer is fully aware of the type of dates they are purchasing.

If the buyer were to pay when the goods are delivered, there would be an element of “Gharrar” in the transaction¹¹ since neither the exporter nor the importer will know the exact price due to currency fluctuation. In order to remove this “Gharrar”, the transaction date is considered, and the price has to be known.

In light of the above It is Ḥalāl for an exporter to hedge and protect itself from future devaluation of the currency in one of the following methods¹²:

1. Agreeing on a fixed price for goods prior to exportation, specifying a currency - regardless of which currency they choose to invoice. The appreciation or depreciation of the currency will have no effect on the price of the goods.
2. A bank can act as the broker:
Step 1: The broker purchases the goods from the exporter for a particular price (X). Since the goods are to be delivered in a month, the bank agrees to make the full payment now in Egyptian Pounds.¹³

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Should the buyer pay the equivalent of 10,000 riyals in Egyptian pounds at the time of the transaction or when the goods are delivered after a month?

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11 This “Gharrar” can occur if the price of the dates is connected to the delivery date.

12 Hedging involves a number of transactions and not all of them are Shariah Compliant so caution must be exercised when dealing with hedge contracts, however if conditions are met then it is lawful, refer to AAOIFI Standard 2/4/1 & 2/4/2.

13 This is known as a “Salam” contract. Its legitimacy is rooted in the Sunnah, whereby the Prophet ﷺ is believed to have observed the practice of people paying the price of dates in advanced for them to be delivered within one, two or three years in Madīnah. The sale, however, did not specify the quality, measure or weight of the dates at the start of the contract. The Prophet ﷺ ordained that: ‘Whoever pays money in advance [for fruits to be delivered later] should pay it for a known quality, specified measure and weight [of dates or fruit] along with the price and time of delivery’. [Collected by al-Bukhārī & Muslim]

14

Step 2: The bank then sells these goods to the importer (Y) at a price that includes the bank's cost price (X) and adds a profit/markup (Δ) which the bank discloses to Y.

Thus Y's cost price is equal to $X + \Delta = L$.¹⁴

The bank has taken a risk because of the fluctuating currency but the importer and exporter are protected from the uncertainty surrounding the state of the currency between the transaction period and the delivery of the goods.

The above is Sharī'ah compliant because (a) no interest is being charged by the bank (rather, the bank is making a profit, which is justifiable since it bears the risk, for however short a period, of not being able to sell the commodities to the importer) and (b) the financial transaction is backed by tangible assets.

It is important to keep both steps of the Murābaḥa as separate transactions - that is, (i) the purchase of goods by the bank from the exporter, (ii) the sale of goods by the bank to the importer.

10. Can an importer delay the payment of goods in anticipation of the currency depreciating?

Scenario: Zayd wants to import a fleet of cars from Germany for 100,000 euros, he agrees to pay the equivalent of 100,000 euros in British pounds, he receives the cars but delays payment to see if the euro depreciates and loses value against the pound, this will mean that he pays less in pounds.

From the conditions of buying and selling is that the price of the goods being sold must be known and fixed at the time of the transaction. Based on this, it is impermissible for an importer to delay payment due to anticipated currency fluctuations because payment must be made in accordance with the agreed price during the sale transaction, if no price was agreed upon, the transaction is Ḥarām. This type of transaction can lead to disputes and animosity between the buyer and seller.¹⁵

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From the conditions of buying and selling is that the price of the goods being sold must be known and fixed at the time of the transaction.

”

¹⁴ This is known as a Murābaḥa transaction, A sale contract in which an institution sells an asset to the customer, the selling price is the sum of the cost price and an agreed profit margin. The murābaḥah contract can be preceded by a promise to purchase from the customer.

¹⁵ Al-Majmū' by an-Nawawi (9/171), al-Mughnī (4/144)

15

It is worth noting that importers often trade on credit i.e. goods are delivered and the cost is added to their personal 'credit' account, with payment to be made once some of the goods are sold. This is Ḥalāl as long as the price is agreed upon and fixed during the sale transaction; currency fluctuation will not affect the price of the goods as the price has already been agreed upon.

11. Can £100 (GB pounds) be exchanged for \$200 US dollars?

Assuming the above exchange is in line with the currency rates at the time of the exchange, it is Ḥalāl as long as the exchange is completed immediately, with no delay in the possession of either currency. This can either be electronically - by way of receipt - or physically.

The Prophet ﷺ said, 'do not sell gold for gold unless equivalent in weight, and do not sell a less amount for a greater amount or vice versa; and do not sell silver for silver unless equivalent in weight, and do not sell a less amount for a greater amount or vice versa and do not sell gold or silver that is not present at the moment of exchange for gold or silver that is present.'¹⁶

This Ḥadīth shows that it is Ḥalāl to exchange gold for silver in different amounts and vice versa, on the condition that the transaction takes place immediately.

Fiat money¹⁷ has replaced gold and silver as it used to be backed by physical gold and silver assets in the past, in present times its value is backed by the strength of the economy of the issuing government.

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It is worth noting that importers often trade on credit i.e. goods are delivered and the cost is added to their personal 'credit' account, with payment to be made once some of the goods are sold.

”

¹⁶ Narrated by Abu Sa'īd al-Khudrī; Collected by al-Bukhārī (2177) & Muslim (1584).

¹⁷ Also referred to as Fiat currency, it is a government issued currency such as pound and dollars.

16

12. Can a loan be repaid in currency that is different to the loaned currency?

Scenario: Zayd owes Qays £100, and he would like to repay him the equivalent amount in US dollars.

The base ruling is that loan repayments are made in the same currency as the original transaction occurred in.

However, it is permissible for the lender and borrower to agree at the time of repayment that the repayment will be made in a different currency - as long as this is at the rate of exchange on the day of repayment not the rate of exchange that existed on the day when the loan was given.

Conversely, if both parties agree at the time of the loan that repayment will be in different currencies, this transaction becomes unlawful. The reason for this, is because the transaction involves selling one currency for another to be paid at a later date which is Ribā an-Nasii'ah¹⁸.

Today's currencies are based on the value of gold and silver so the same rulings apply.

13. How are debts discharged if there are two separate loans in differing currencies?

Scenario: Zayd owes Qays £100 (GB pounds), however Qays also owes Zayd \$300, (dollars).

This is known as muqāсах (setting-off) and it is the discharge of two debts¹⁹. There are three different scenarios in this situation and each one has a different ruling.

Scenario 1: If both debts are equal in all respects, same currency, same amount and same time period, they nullify each other automatically and without the choice of both parties. No muqāсах is needed here.

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The base ruling is that loan repayments are made in the same currency as the original transaction occurred in.

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18 As mentioned previously, the fundamental condition in exchanging currency is that it must be done hand to hand as is indicated by the words of the Prophet ﷺ: "Gold for gold, silver for silver, like for like, same for same, hand to hand... but if these commodities differ, sell as you wish, if it is hand to hand".

19 Al-Mawsū'ah al-Fiqhiyya (38/329)

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Scenario 2: If both debts are equal in terms of currency but the amount and the time period are different, muqāsah can be applied here. The debt that is lower is set off against the higher debt, so the debt that is higher decreases in proportion to the amount of the lower debt.

Example: Zayd owes Qays \$100 and Qays owes Zayd \$50, so after the muqāsah, Qays no longer owes anything to Zayd however, Zayd now only owes \$50 to Qays. Of course, there is no currency exchange, as both debts are owed in dollars²⁰.

Scenario 3: Both debts differ in terms of currency, for example, one debt is owed in dollars and the other in pounds.

In this scenario, muqāsah is applied, and both must repay their debts according to the set rate of exchange between the dollar and the pound, completely or partially²¹.

The creditor is the debtor and the debtor is the creditor and they can both make and receive payment in a currency different from that in which the debt was incurred, provided the settlement is effected as a spot transaction at the spot exchange rate on the day of settlement²².

14. What is the ruling on combining currency exchange and transfer of money (Ḥawāla)?

It is Ḥalāl to execute a financial transfer of money where currencies are exchanged, however it must be immediate. The Ḥawāla agent and the customer must conclude the transaction in the same sitting i.e. the customer must make the payment in full and the agent must immediately issue a receipt detailing the amount of money which will be collected after the transfer and/or currency exchange, or the agent can issue a certified bank draft.

20 Al-Mawsū'ah al-Fiqhiyya (32/264) also refer to "al-Muqāsah in cash debt" by Dr. 'Abdullah ad-Dirshūwi.

21 AAOIFI Standard 2/10/1

22 AAOIFI Standard 2/10/2, Al-Muqāsah in cash debt by Dr. 'Abdullah Ad-Dirshūwi p15, also refer to Majmū' fatāwa of Ibn Taymiyyah (29/472). This is the school of thought of Imām Mālik & Imām Abu Ḥanīfah.

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It is Ḥalāl to execute a financial transfer of money where currencies are exchanged, however it must be immediate.

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As long as a receipt has been issued, there can be a delay in the transferred money being collected.

15. Can a fee be charged for transferring or trading currencies?

The bank or agent is permitted to charge a fee for this service as long as it is a set amount and not a percentage based amount²³.

“If a transfer of money is to be made in a currency different from the currency of the amount paid by the applicant, the transaction is based on currency exchange and transfer of money. The currency exchange takes place before the transfer, that is, the customer pays the amount of money to the bank and the bank, after agreeing on the currency exchange rate that is printed on the receipt delivered to the customer, issues a bank draft on the basis of transfer of debt in the sense that has been mentioned.”²⁴

16. Is it permitted for a money transfer to be made wherein the money is received immediately but the payment is delayed?

There are two questions in the above question.

1. Is it allowed for the agent to send money and collect it later?
2. Which exchange rate is considered?

Scenario: A Ḥawāla agent agrees to transfer the equivalent of \$100 in GB pounds; he agrees to transfer \$100 dollars to the recipient immediately, he also accepts from the sender a delay in payment until the end of the month.

Should the exchange rate on the day he sends the \$100 be taken into consideration or the exchange rate on the day of payment?

Firstly, this transaction is considered Ḥarām because the currency exchange must be concluded immediately either physically or electronically²⁵. If there is a delay - even by a few hours - the transaction is considered to be Ribā an-Nasiiā.

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The bank or agent is permitted to charge a fee for this service as long as it is a set amount and not a percentage based amount.

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23 Al-Mughnī Vol 5. Page 9; Liqā' al-bāb al-maftūḥ (9/12).

24 International Islamic Fiqh Academy Resolution No. 48 (1/9)

25 Due to the Ḥadeeth in Ṣaḥīḥ Muslim (1578), also refer to Fatwa (13/448) of The Permanent Committee

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Secondly, the impermissibility applies even if both parties are in agreement, as a Ḥarām transaction is not made lawful due to the agreement of both parties.

Finally, the solution is for the sender to either wait until he has \$100 or request a loan from the agent personally - not the Ḥawāla company. Once the sender has \$100, he can then send this amount. Both transactions must be separate. When the appointed time to repay the loan arrives, he must repay the loan at the rate of exchange on the day of repayment not the day he received the loan²⁶.

17. Is it permitted to pay back a loan in a different currency according to the exchange rate at the time when the loan is due?

Scenario: Zayd borrowed \$100 from Qays and when it was time for him to repay the loan, they agreed that he would pay him back in Saudi Riyals. They also agreed that he would pay him back according to the exchange rate when he repays the loan.

This is Ḥarām and is considered Ribā an-Nasīa. This is essentially a currency exchange and as we have learnt previously, it must be done hand to hand or on the spot without delay. The scholars cite the Ḥadīth of Ibn ‘Umar (radiAllāhu ‘anhumā) who said: ‘I used to sell camels for dinārs [i.e. to be paid at a later date] but accept dirhams, and sell them for dirhams but accept dinars. I asked the Messenger of Allāh ﷺ about that and he said: “There is nothing wrong with taking it based on the current price, so long as you do not separate with something still outstanding.”²⁷

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Secondly, the impermissibility applies even if both parties are in agreement, as a Ḥarām transaction is not made lawful due to the agreement of both parties.

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26 For Q15 & Q16 refer to Fatwa (14/143) & (14/144) from Fatāwa al-Lajnah ad-Dā’imah.

27 Narrated by Aḥmad (6239), Abu Dawūd (3354), al-Nasā’ī (4582), at-Tirmidhī (1242) and Ibn Mājah (2262)

20

18. Is it Ḥalāl to pay back a loan in instalments at the rate of exchange on the day of the loan or on the day each instalment is due?

Scenario: Zayd borrowed \$1000 from Qays, and they agreed that Zayd can pay the loan back in GB pounds in 5 monthly instalments.

You must pay each instalment at the rate of exchange on the day it is due. This is permissible as there is no delay in exchanging the currency.

19. Is it Ḥalāl for a lender to charge an extra fee to cover for any losses due to currency fluctuation?

Scenario: Zayd borrowed \$2000 from Qays for a period of 3 months to be paid back in GB pounds. He agreed to pay back Qays at the rate of exchange at the time of repayment. Qays has stipulated as part of the loan that he pay back an extra £50 to cover him for any losses due to currency fluctuations.

This is Ḥarām and is considered Ribā al-fadl because the lender has sought more than what is owed to him. There is a well-known principle in Fiqh based on a Ḥadiith; 'Every loan which leads to a benefit is usury.'²⁸

20. Can money be exchanged in instalments?

Scenario: Zayd exchanges £100 in US dollars, he has agreed to pay £50 immediately and the remainder at a later.

This transaction is Ḥarām as it goes against the principle of the exchange being "hand in hand" i.e. immediate.

If the payment is difficult, it is better for this to be two separate transactions. The first £50 is exchanged immediately at the current exchange rate, and the second £50 is exchanged later according to the exchange rate at the time²⁹.

Please refer to Question 16.

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You must pay each instalment at the rate of exchange on the day it is due. This is permissible as there is no delay in exchanging the currency.

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28 For Q 15 & 16 refer to Fatwa (14/143) & (14/144) from Fatāwa al-Lajnah ad-Dā'imah.

29 AAOIFI Standard 2/6/1.

21

21. What is the ruling on forex currency trading?

FX trading or Foreign Exchange Trading involves betting on the rising or falling values of currencies against one another. Forex transactions involve the following:

- Buying and selling currencies for the purpose of profit.
- Loans are given by an agent (usually a bank) to the “investor”³⁰.
- The customer is charged interest if there is a delay in the deal.
- The agent receives a commission as a result of the investor’s dealings through him.

Based on the above, it is Ḥarām to engage or trade in the Forex markets for the following reasons:

- It involves clear Ribā due to the conclusion of transactions during currency fluctuations and delays in receiving payments as well as the fact that the customer is charged interest if they delay payment.
- Because the agent stipulates that the investor must deal through him, this leads to combining the giving of a loan for something in return and a commission which is akin to a sale. This is forbidden because the Messenger of Allāh ﷺ said: “It is not permissible to give a loan and sell at the same time...”³¹
- It involves dealing with options³² and futures/forward contracts which are impermissible.
- This transaction involves “Gharrar”, cheating and economic harm to all parties. The spirit of this transaction is unethical and involves the artificial inflation of prices with the sole aim of becoming wealthy at the expense of others. It goes against all Islamic economic principles³³.

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FX trading or Foreign Exchange Trading involves betting on the rising or falling values of currencies against one another.

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30 Please note, the term “investor” is being used very loosely, in reality this transaction is a Ribā based loan not an investment.

31 Narrated by Abu Dawūd (3/384) and at-Tirmidhī (3/526), who classified it as Ḥasan Ṣaḥīḥ.

32 An option gives the holder the right, but not the obligation, to buy (or sell) the underlying asset at a predetermined price at, or any time before maturity. To acquire this right under an option, payment of a premium is required. Like futures contracts, options are traded on the FX exchange.

33 Please refer to: Majallat al-Majma' al-Fiqh al-Islami, issue no. 22, p. 229.

22

22. What is the ruling of a person who borrows money from a financial institution³⁴ in order to trade in currencies?

It is well known that financial institutions entice their customers by offering them loans through various credit facilities that are prohibited and non-shariah compliant, for this reason, it is impermissible for the customer to enter into currency trading for an amount of money exceeding the amount of money he owns, using credit facilities granted by the Institution which handles the currency trading, thus enabling the customer to enter into a transaction for an amount in excess of what he would otherwise be able to pay for³⁵.

23. Is it permissible for a financial institution to lend money to a customer on the condition that currency dealing must be effected with that institution and not any other?

This is Ḥarām and is considered Ribā al-fadl, because the lender has sought more than what is owed to him. Ribā al-fadl occurs when the lender requests something of benefit on top of the loan repayment.

This is based on the well-known Fiqh principle, 'every loan which leads to a benefit is Ribā.'³⁶

“

It is well known that financial institutions entice their customers by offering them loans through various credit facilities that are prohibited and non-shariah compliant...

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34 The term "Financial institutions refers to commercial organisations such as: insurance companies, banks, brokers, Islamic Financial Institutions (IFIs) etc...

35 Please refer to: AAOIFI Standard 2/12/1

36 Refer to; Musannaf Ibn Abi Shaybah 4/327 no: 20690.

23

24. Can I enter into a contract with another party to buy or sell currency at a future date?

This is Ḥalāl as long as this is not a bilateral promise to purchase and sell currencies, and the promise is non-binding³⁷.

To further clarify:

- If both parties promise to buy and sell currencies at a later date and there is a clause in the contract that makes the said promise binding, then this is Ḥarām and the contract is null and void. The reason for this is because transactions that involve currency exchange must always be done hand to hand and in the same sitting.
- If both parties promise to buy and sell currencies at a later date and the promise is not binding, but when that date is reached, they renew the transaction. This is permissible.

25. Is parallel purchase and sale of currencies permissible?

Parallel sale is when a person sells currency to another person on the condition that the buyer sells the currency back to the original seller.

This transaction is Ḥarām because it is not permitted for the seller to stipulate a condition on the buyer that contradicts the essence and very nature of the sale contract.

In this case, it is the right of the buyer to sell his currency to whoever he wishes, so to restrict this right and enforce a condition that only allows him to sell his possessions to a specific person goes against the nature of a sale, hence it is deemed Ḥarām³⁸.

In addition to this, the Prophet ﷺ forbade two transactions within one contract, or selling goods for a price on the condition that the buyer sells the same goods for a stated price³⁹.

“
This transaction is Ḥarām because it is not permitted for the seller to stipulate a condition on the buyer that contradicts the essence and very nature of the sale contract.
”

37 Mawāhib al-Jalīl Vol.. 6 Page 139.

38 Al-Mughni Vol. 4 Page 224 – 226 & 235.

39 From the Ḥadīth of Abu Hurayrah in Abu Dawūd, Tirmidhi and Nasa'i.; graded Ṣaḥīḥ by Al-Albāni in al-Mishkāt.

Furthermore, this transaction harms one of the parties, because if the currency appreciates in value, the buyer is harmed or if it depreciates in value, the seller is harmed. This will result in the transaction transforming into Ribā.

Allāh knows best and He is the source of our guidance.

May peace and blessings be upon our Prophet and those who follow his guidance.

24

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Furthermore, this transaction harms one of the parties, because if the currency appreciates in value, the buyer is harmed or if it depreciates in value, the seller is harmed.

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