

Islamic trading and brokerage

Islamic trading accounts are a specific category of investment trading accounts that follow Shariah (Islamic law) to meet the needs of Muslim investors. Many banks and brokerages in the Middle East offer Islamic stock trading accounts and it is a relatively straightforward brokerage service that does not pay or charge interest on the cash funds in the account. Transactions and commission fees are charged similar to a conventional stock trading account and may or may not be competitive. SUHAIL AHMAD explores.



ISLAMIC STOCK TRADING

By Suhail Ahmad

However, the complexity and difference in opinion among scholars on Islamic versus non-Islamic forex (foreign-exchange) trading accounts remain an overhang for the currencies market, the largest financial market (by daily volume) in the world.

Islamic forex trading accounts claim to permit Muslim clients to trade on an interest-free basis (swap-free or rollover-free) with no extra charges or penalties to holding the position overnight to the next day as is the norm on a conventional trading account.

“ Individuals who try to perform sophisticated forex trading and speculating utilizing electronic exchanges are likely crossing the line according to the Fatwa ”

The waiver of interest costs is often offset with additional costs in the form of higher spreads, generally one point higher than conventional accounts and other transaction fees.

Forex trading, let alone the validity of forex Islamic accounts, remains an area of contention among Islamic scholars. Several Fatwas (or rulings) have been issued over this matter and the majority of Shariah scholars agree with the

following generally-accepted guidelines for forex trading:

- There must be an immediate (spot) buying and selling of currencies without delay.
- Currencies need to be transferred from the account of the seller to that of the buyer and vice versa (so actual exchange).
- The cost of the trade should be paid without delay and not in installments.
- No interest is paid or earned on the currency trade or cash held in currency accounts.

However, one of the biggest issues of forex trading is not the issue of Riba or interest but that of Gharar (uncertainty) and speculation. Gharar in Islamic finance is a risky or hazardous sale, where details concerning the sale item are unknown or uncertain. Gharar is prohibited under Islam, which explicitly forbids trades that are considered to have excessive risk due to uncertainty.

Forex trading involves a high degree of risk with leverage as high as a 1:200 ratio meaning for each US\$1,000 investment, the investor is controlling a US\$200,000 position. Meaning just a 0.5% change in price could either double the US\$1,000 investment or evaporate it to zero. Hence, the forex markets are an ideal playground for speculators and less so for long-term traders.

This issue with forex trading was highlighted in 2012 by the Fatwa of the National Fatwa Council of Malaysia which ruled that foreign exchange trading except by money-changers or between banks was not permissible.

The council chairman at that time, Dr Abdul Shukor Husin, said the ruling against forex trading was due to the fact that their study found such trading involves currency speculation which is against Islamic laws. It is therefore ‘Haram’ or forbidden for Muslims.

Traders at licensed banks can keep

trading, and individuals who change cash at licensed exchange outlets are also in the clear. But everyday individuals who try to perform sophisticated forex trading and speculating utilizing electronic exchanges are likely crossing the line according to the Fatwa. This will continue to be a major overhang for the forex trading firms that are marketing to Muslim investors.

On the other hand, Islamic stock trading platforms have been doing relatively well as Middle Eastern stock markets have risen sharply over the past few years. Even firms like Saxo Bank of Denmark have seen strong growth from the Middle East and it opened its second office in Abu Dhabi last year after moving into the Dubai International Financial Center in 2009. The Copenhagen-based firm now derives 10% of its revenues from the Middle East.

In an effort to tailor its products to local investors, Saxo Bank is offering a multi-asset trading platform in Arabic meeting Shariah criteria. “We have a Shariah compliant version of the platform where we have tailored it to this region so you can only trade in commodities and products that meet the tenets of Shariah law,” said Lars Seier Christensen, CEO of Saxo Bank last year and he admitted that they are “not sure it (Shariah product) has been hugely successful so far.”

Challenges remain for the Islamic trading and brokerage firms with forex traders losing Shariah ‘credibility’ and stock trading firms battling to differentiate themselves in a highly price-competitive marketplace. But the improving market sentiment and the opening up of the markets (i.e. Saudi Arabia) to international cross-border investments should help the industry grow.☺

Suhail Ahmad is CEO of Hikmah Capital Corp. He can be contacted at suhail.ahmad@hikmahcapital.com.