

# CURRENCY AND PRECIOUS METALS

## Currency Exchange

*May I exchange different currencies?*

It is permissible to exchange different currencies at spot according to an agreed upon rate of exchange.

## Gold And Silver

*What constitutes gold and silver?*

Gold and silver includes pure gold and silver and items containing them, such as jewellery.

## Exchanging Gold Or Silver

*May I exchange gold for gold or silver for silver?*

It is obligatory that when gold is exchanged for gold or silver exchanged for silver (e.g. a gold bar for a gold coin) they be of equal weight and that the transaction is conducted on spot (i.e. transactions in which execution, payment, and delivery occur at the same time and the transacting parties are present throughout).

## Exchanging Between Gold And Silver

*May I exchange gold with silver, and vice versa?*

It is permissible that when gold is exchanged for silver or silver for gold (e.g. a silver coin for a gold coin) they be of different weight (or equal weight), though it is still obligatory that the transaction be conducted on spot.

## Exchanging Gold And Silver – Different Face And Market Values

*May I exchange gold and silver for each other if the market value is not consistent with the face value?*

When the market value of a gold or silver commodity is different from its face value (e.g. a \$1000 gold coin is selling for \$1100), or when the value addition to a gold or silver item increases its price in relation to its value in weight (e.g. gold jewellery worth \$1000 in weight sells for \$1100), its purchase in the same commodity (e.g. gold purchased for gold) for an amount other than its face value is forbidden. In order to make the purchase, it is necessary that one pay in a different currency (e.g. in cash or a similar exchangeable monetary instrument, in silver if buying gold, or in gold if buying silver). It is permissible to pay a part of the amount in the same commodity and the balance in a different currency (e.g. a gold coin whose face value is \$100 and market value is \$110 may be purchased with \$90 of gold and \$20 of cash). As a general rule to avoid *riba*, gold and silver and their products should be paid for in cash or a combination of the commodity and cash, and always on spot.

### **Gold And Silver Combined With Other Metals**

*May I trade in gold/silver alloys or gold/silver jewellery mixed with other material by paying an amount greater than the value of the gold/silver in it?*

When buying anything containing a combination of gold and non-gold material, or silver and non-silver material, or silver and gold, it is forbidden to pay in gold (for items containing gold) or silver (for items containing silver) an amount that exceeds the gold or silver contained in the item. It is permissible to defer payment for the amount equivalent to the non-gold or non-silver material contained in the item, while it remains obligatory to pay on spot the amount equivalent to at least the gold or silver material contained in the item. Generally, when there is doubt, it is preferable to pay in cash or a combination of the commodity and cash.

### **Spot Purchasing Of Gold And Silver**

*What should I do if spot purchasing gold or silver is not possible?*

If spot purchasing is not possible, it is permissible for the seller to first lend the buyer money as a separate transaction, and then make the exchange, placing no conditions between the loan transaction and the commodity transaction.

### **Buying Cash With Gold Or Silver**

*May I defer payment when buying cash with gold or silver?*

It is permissible to defer payment when buying cash with gold or silver.

### **Transfers To And From Abroad**

*Is it permissible for banks to issue cheques to their clients drawn against correspondent banks abroad and arrange for transfers by wire and by mail to all parts of the world in the same way that it accepts such transfers in the interest of those with whom it deals locally? Also is it permissible for the bank to accept brokerage fees as well as charge its client for its actual expenses?*

It is permissible for the bank to continue its dealings as mentioned in regard to the issuing of cheques and arranging for transfers to and from abroad.

### **Forward Trading For Clients**

*Is it lawful for banks to arrange deals involving the forward trading of currencies for its clients?*

It is not lawful for banks to be involved directly or indirectly in arranging deals involving the forward trading of currencies.

### **Selling Currency At Two Different Rates**

*Is it permissible for banks to sell foreign currency at two different rates; one rate for transfers and another for cash?*

It is permissible for banks to sell currency at a different rate for transfers than for cash as long as there is no international law to prevent it and on the condition that the transfer takes place at spot.

### **Delays In Exchange**

*What is the ruling in regard to the purchase of currency when the receipt of possession and receipt of the counter value take place on two separate days?*

Granting a cheque payable on demand and without post dating it, or even ordering a payment without deferment over the telephone may be considered fulfilling the condition of possession.

### **Setting Exchange Rates For Currency Deposited Without The Client's Or Bank's Information**

*What is the ruling in regard to an amount of currency deposited with a correspondent bank for a client without information to either him or the bank and on what basis should the exchange rate be set?*

In the event that an exchange is completed in a foreign currency and there are no instructions regarding the exchange to a local currency of the amount received in the client's name, the rate of exchange to be applied will be the price on the day the bank receives the transfer.

### **Setting Rates For Currency Exchange Made By Client Through Correspondent Bank**

*What exchange rate is used when a client expects an exchange through a correspondent bank?*

When a client expects an exchange to be made in his favor through a correspondent bank, the exchange takes place at the rate on the day the transfer arrives.

### **International Rates Of Exchange**

*Banks deal in currencies on the basis of two rates; one rate in the form of cash currency and one in the form of transfers. If a client wishes to deposit foreign currency in his account, is it permissible for the bank to purchase cash in that foreign currency and sell it in the form of a transfer deposited in the client's account?*

If the client wishes to deposit foreign currency in his account, it is permissible for the bank to purchase the cash in that foreign currency and sell it in the form of a transfer deposited into the client's account. It should be stipulated by the bank that the account is to be operated as a transfer account as in principle, when an account is opened with foreign currency, all withdrawals and maintenance take place in that currency.

### **Advance Agreement On Rate**

*What is the Shariah ruling in regard to an agreement on the sale and purchase of foreign currency at a rate that is agreed upon in advance, such that the transacting takes place at a later date and the delivery and receipt of cash take place at the same time?*

It is permissible to make a promise to sell by agreeing upon a rate in advance for a transaction to take place at a later date and the delivery and receipt of cash to take place at the same time. In the event that the promise is linked to anything that is suggestive of a contract of sale, like a down payment, the deal will become like the sale of debt for debt which is prohibited and must be avoided at all costs.

### **Exchanging Notes For Currency Other Than Original Issue**

*Is it lawful to exchange notes having payments deferred for several years for foreign currency other than the one in which the original note was issued?*

It is not lawful to exchange notes with deferred payments for the currency in which they were originally issued or for any other currency, as an exchange in the same currency will be like the sale of debt for debt that is deferred, when it is essential that the mutual exchange of equal counter values take place in the sale of currency for a similar currency.

### **Buying Back Notes Based On Payment In Currency Other Than The One Note Was Originally Issued In**

*Is it lawful for the issuer of a note to buy it back with payment in a currency other than the currency in which the note was originally issued while disregarding its maturity date at the same time?*

The issuer's buying back the note and disregarding the maturity date is the same as his agreeing to exchange the currency of the note for another currency in which it is permissible for one of the counter values to be in excess of the other. For a lawful mutual exchange there must not be a maturity date, the currency of the original note will be considered to have been paid in an account termed as an exchange on account where the possession of the counter value brought about by the debt, is dropped. It must be ensured however that the bank does not use this allowance as a device to earn profit in return for dropping the maturity date.

### **Mutual Promises To Buy Or Sell**

*What is the Shariah ruling in regard to a mutual promise for the sale of various currencies at the rate of exchange on the day of the agreement on the condition that delivery of both counter values will be delayed so that the exchange may take place hand to hand in the future?*

*Will it make a difference if the promise is binding or non-binding?*

A mutual promise such as this if binding on both parties is subject to the general prohibition against the sale of debt for debt and is therefore unlawful. In the event that the mutual promise is not binding on both parties, it is considered lawful.

### **Replenishing Overdrawn Accounts**

*In the event that a client holds several accounts for different currencies in the bank and one of these*

*currencies becomes overdrawn, while positive balances in the other accounts are retained, is it permissible for him to comply with the bank's request to make a payment to the account?*

If accounts in a certain currency become overdrawn while there are positive balances in other currency accounts, the client may request the bank to replenish the overdrawn account with funds from other accounts by way of exchange for the price on that day. The client may even replenish his account in the same currency if he so wishes.

### **Promises And Commitments In International Exchange Market**

*What is the Shariah ruling with regard to the promises and commitments to enter into exchange operations for a specified price when delivery is delayed and no price or advance is paid out?*

If a promise is made to enter into exchange operations at a specified price, a delayed delivery and no advance payment, the exchange must be completed for each of the two currencies, hand to hand, such that each party takes possession of the currency it is owed at the time specified for delivery. Such a delayed exchange does not involve an element of riba since the international market regularly announces definitive prices for currencies around the world and markets operate on the basis of rules that are honored by all the parties who trade there.

### **A Promise To Purchase Different Currencies**

*What is the ruling on a binding mutual promise to purchase different currencies at the rates current on the day of the promise when the delivery of the counter values will be delayed to allow for a hand to hand exchange in the future?*

In the event that the promise is considered binding on both parties it will fall under the general prohibition against the sale of debt for debt and will therefore be unlawful. If the promise is not binding on both parties then such an exchange involving different currencies at the rates current on the day of the promise for a hand to hand exchange in the future is permissible.

### **Mutual Promises In Exchange**

*What is the ruling in regard to mutual promises, in the exchange of currencies?*

It is not permissible for a mutual promise in the exchange of currencies to be binding. If the promise is not binding on both parties, the exchange based on it will be lawful.

### **Agreeing To Sell Currency At Pre-Determined Rate**

*Is it permissible for the bank to sell currency at a pre-determined rate that remains in effect for a certain period of time and which may be higher or lower than the exchange rate for the currency on the day the exchange takes place?*

It is permissible to exchange currencies at a rate that is fixed at the time of the agreement or one that is higher or lower than the exchange rate for the currency on the day of the exchange.

### **Bearing Costs Of Exchange**

*Who bears the cost of exchange when a client seeks to exchange the value of a cheque in cash?*

The one to whom the cheque is written bears the cost of the exchange since he is the one carrying out the exchange.

### **Foreign Currency Investment Accounts**

*What is the Shariah ruling in regard to deposits of foreign currency in joint investment accounts such that when withdrawals are made by the clients, they are made from these accounts in the same currency and at the same rate as the one prevailing when they were deposited?*

It is permissible for clients to make deposits of foreign currency in joint investment accounts in order to share in the resulting profits and to be able to retrieve these deposits in the same currencies at the time of withdrawal. The bank possesses the right to invest these deposits in overseas projects or for the purpose of covering letters of credit etc. The bank must calculate the earnings accrued to the amounts deposited, at the purchase or the average price of the day the deposits were made.

### **Purchasing Currency For Cash**

*Is it permissible to purchase currencies for cash and at prices below the current market rates if the purchase is made from one of the banks with which a client has extensive dealings?*

In the event that a definite price for the currencies has not been set by a responsible authority, legal consideration may be given to what the two parties agree upon. The cash however must actually exchange hands or otherwise immediate ledger entries by both parties in the exchange of currencies may be considered lawful as well.

### **Buying Foreign Currency From Local Client**

*When a client approaches the bank for a Murabaha deal, the bank purchases the goods from a dealer abroad and after taking possession, sells them to the client. In the event that the client offers to sell the bank foreign currency at an appropriate rate to make payment to the supplier of goods, will it be permissible for the bank to engage in such a transaction?*

As long as the contract for the sale of goods remains separate from and independent of the contract for the purchase of currency from the client, such a transaction is permissible.

### **Promise To Purchase Currency**

*What is the Shariah perspective on the promise to purchase a designated currency, of a designated amount, for a certain price within a given period of time?*

It is not permissible to make a promise to purchase currency. The only sale of currency allowed is a straightforward sale that is accompanied by a direct receipt in money barter or the exchange of price for price at spot.

### **Purchasing Currency On Credit**

*Is it lawful to purchase foreign currencies from mercantile banks by deducting the price of the currencies from the credit accounts held with them?*

It is lawful to purchase currencies in such a manner from mercantile banks since it is akin to paying something they owe as a debt, either in full or in part by means of the mutual cancellation of loans.

### **Preferential Currency Exchange Rates With Mercantile Banks**

*To what extent is it lawful for the Islamic bank to deal in a preferential manner in regard to the rates of currencies with mercantile banks considering that exchange transactions are completed either by means of cash or through immediate receipt through entries in debit and credit ledgers?*

Preferential treatment between banks is a good practice however it should be ensured that the possession for the currency is taken in a setting in which the deal is transacted such that neither of the parties leaves until actual or abstract receipt is accomplished.

## **Deferring Receipt Of Currency**

*In the event that the client imports goods on credit terms that require the payment to be made after 180 days from the date the goods are shipped, is it permissible for the importer to purchase the currency required for payment to the foreign exporter from the bank while the bank retains this amount until the date the payment falls due? Is it lawful for the bank to use the money and offer its client a price for that currency which is better than the going rate?*

In a transaction of currency it is unlawful to defer the receipt of the currency exchanged regardless of whether there is a condition to that effect. It will however be lawful after a spot exchange to deposit the currency with the bank until the time of payment to the exporter.

## **Commissions On Transfers To Foreign Banks**

*Is it permissible for the bank to deduct a percentage from the value of the transfer which includes a 2.5% commission and other expenses involved in the wire transfer?*

It is permissible for the bank to deduct a certain percentage as commission for actual and direct services it performs for its client, in this case wiring funds.

## **Transferring Deposits**

*Is the legal maxim that “all loans which bring on profit are riba” applicable to the exchange of deposits in the event that if the two parties fail to agree to the loan exchange, it will not take place at the initiative of only one party?*

The legal maxim mentioned does not apply to an exchange of deposits as no profit is realized from a loan per se; rather the same amount borrowed is returned without any increase in either cash or kind. In trade, benefits usually accrue in transactions where the parties agree to transact with one another.

## **Trading In Currencies**

*What is the Shariah ruling in regard to the bank providing funds to trade in currencies?*

The Shariah permits the borrowing of amounts from the bank at no interest for the purpose of trading in currencies if the borrower is free to transact as he sees fit. However, if the deal is conducted as a currency exchange, without either party taking delivery, then it will not be lawful because it amounts to an exchange with a delay. The same will be true if the borrower is loaned an amount

without him being able to take possession of it.

### **Buying Gold From Bank And Selling It To Clients**

*Can one purchase gold from a bank, deposit the purchase price in that bank's account, and then sell the gold to clients on the basis of a mutual receipt?*

Since the sale of gold by the bank to clients takes place after its purchase and the deposit of its price in the seller's account, the sale is perfectly lawful. It is a sale of what is owned and possessed after mutual receipt of the two counter values in both the original purchase from the other bank and in the sale to the Islamic bank's clients.

### **Stones Set In Gold Jewellery**

*What is the Shariah ruling in regard to the purchase of precious stones mounted in gold jewellery?*

It is lawful to purchase precious stones set in gold on the condition that there be compliance for the amount of gold present in the jewellery with the rule for selling gold. This rule is that the price of the gold be paid immediately to ensure actual possession. With regard to the jewels, however, their sale may be made on the basis of a deferred payment.

### **Deferred Payments For Platinum**

*Is it lawful to purchase platinum on the basis of deferred payments?*

It is permissible to deal in platinum on the basis of deferred payments as it is not the same as gold or silver and the conditions applying to these two metals do not apply to it.

### **Deferred Payments For Precious Metals And Stones**

*Is it lawful to sell precious metals and stones other than gold or silver on deferred payment?*

Yes, it is permissible to sell precious metals and stones other than gold or silver on deferred payment.

## **Promise To Purchase Metals**

*Is it permissible to purchase precious metals from the international market? And may one take a down payment which may be forfeited and the seller freed of the agreement in the event that the buyer does not make a payment within the stipulated period of time?*

The sale of precious metals in the international market is termed a sale of a non-existent because the object of the sale is not present. If the object of sale is gold or silver, a deferral in no way may become a part of the deal in regard to the object of sale nor its price since mutual receipt is essential to the completion of such a contract. In the event that the object of the sale is a metal other than gold or silver, then all the conditions of a Salam contract must be complied with including the receipt of the price in its entirety and the specification for the time of delivery.

In the event that the metals are present physically with the seller and the contract is completed, it is not lawful to defer the exchange of the two counter values lest it become a sale of debt for debt. In case the seller offers to sell the metal at a certain price and promises to honor it for a certain period of time, then this may be considered a binding offer and it is lawful for the buyer to advance a sum on the understanding that when the deal is concluded the advance will be deducted from the selling price and if the deal is not concluded, the advance will be left to the seller.

## **Delayed Delivery Of Gold Or Silver**

*Is it lawful to buy and sell gold, silver and currency for one another if the delivery is deferred until after the deal has been closed and the parties have left the place of closing?*

It is not lawful to buy and sell gold, silver or currency for one another unless possession is taken immediately.

## **Paying Cash For Gold**

*Is it lawful to pay without delay the price of gold in ready cash and how can mutual possession be accomplished?*

It is lawful to pay for gold with ready cash in any currency at the market price on the day of payment. Possession of the counter values in such an exchange must take place on the spot.

## **Methods Of Trading In Gold**

*What is the Shariah ruling in regard to the purchase, storage and possession of gold when prices are*

*low and its sale and delivery when prices rise? Also what is the Shariah perspective with respect to the promise to purchase and sell gold at the same time, also referred to as a currency swap?*

Trade in gold is in and of itself lawful and it is imperative that execution be at spot. The purchase, receipt and storage of gold when prices are low followed by sale and delivery when prices rise is permissible provided the buyer receives the gold and the seller receives the price at the time the transaction takes place.

If a promise to buy and a promise to sell are both made at the same time and place, the goods are agreed upon with respect to their description in detail, their quantity and the date of their receipt in case of a purchase, or their delivery in case of a sale, the promise is considered completed.

If the promise is carried out by means of both parties initiating a new contract of sale such that the buyer receives the gold and the seller receives the selling price at the same time and place, then this transaction will be sound and lawful however if the receipt by one of the two parties to the transaction is delayed until after the other, the transaction will be unsound even if both parties agree.

### **International Trade In Gold**

*How does the international trade department of the bank deal in gold and what is the Shariah ruling in regard to the promise to sell or purchase gold?*

Gold is purchased and the full price is paid and it is stored in the treasury of the correspondent bank in the Islamic bank's name. The bank then sells the gold to the one willing to pay the price acceptable to it, such that the transaction is hand to hand, the gold is delivered to the purchaser and the payment is received from him at the same time and place.

The bank may at times enact a promise to sell the gold it possesses at a later time for a higher price than its own purchase price based on the understanding that the exchange takes place hand to hand at the appointed time and without any advance. A promise is considered binding if a reason is given for soliciting it whether or not the one soliciting it becomes involved.

If no reason is given, then a promise is not binding and the one soliciting it is not bound to honor it. So there is no legal impediment to a promise to trade in gold as long as the sale or the exchange takes place after it and is Shariah compliant in terms of the transaction being hand to hand, at the same place and at the same time.

### **Guaranteeing Gold**

*The operations of the bank include the sale of gold after its acquisition from international banks*

*which require that the gold remains guaranteed in the hands of the Islamic bank for the entire period, i.e. from the Islamic bank's receipt of the gold to the time that a purchase is completed. What is the Shariah ruling regarding such a guarantee and the trade of gold in this manner?*

Such a deal is permissible because it includes the loan of gold and trading in it while it is the property of the seller-borrower and then a contract of exchange for the purchase of gold for a price agreed to by both parties on the condition that the price is paid immediately and without deferment.

### **Standard Transactions On Gold Market**

*What is the Shariah ruling regarding the exchange of gold for paper currency?*

It is permissible to trade gold for paper currency in the international market as long as the transaction takes place in accordance with the rules governing the exchange of currencies.

### **Promising to Buy Gold And Silver In Future**

*What is the ruling with regard to a promise to buy or sell either gold or silver at some time in the future?*

A promise to buy or sell gold or silver in the future opens the door to the sale of debt for debt which is prohibited. A contract for the sale of gold and silver may only be enacted on the basis of a direct mutual receipt of the gold on one side and the price for it on the other, at the same place and at the same time.

### **Agency In The Sale Of Gold**

*What is the Shariah ruling in regard to certain foreign banks that deposit amounts of gold with local money changers engaged to arrange the sale of the gold on behalf of the banks?*

The Shariah views the money changer as an agent of the depositing bank and the gold in his safekeeping is considered a trust which cannot be guaranteed by the trustee except in cases of gross neglect or willful destruction. If the agent sells to other than himself, the price must be received from the buyer without delay. If the agent sells the gold to himself, the bank must be notified so that the deal may be completed between the two parties directly as stipulated by the Shariah. The bank may even deduct the sale price from the agent's account thereby fulfilling the requirement for direct and immediate exchange. If the agent does not possess an account with the bank, he must arrange to make immediate payment.

## **Currency As Medium Of Exchange**

*What are the different types of mediums of exchange and what are the rules for their trade?*

There are two types of mediums of exchange: natural mediums of exchange (ie. gold and silver) and legal tender (ie. paper currency). In the exchange between two natural mediums (ie. gold for gold, silver for silver, or gold for silver), it is necessary that they be equal in value and delivered at spot. In an exchange involving legal tender or currency, both currencies must be of equal value and their payment may be either deferred or at spot.

## **Permissibility Of Forward Currency Contracts**

*Is it permissible to enter into forward currency contracts?*

No, it is not permissible to enter into currency contracts for the future since they involve elements of riba and gharar.

## **Ruling Regarding Exchange of Similar Currency**

*Can there be an exchange of similar currency between two contracting parties?*

Yes, in order to avoid the risk of loss due to fluctuating exchange rates, it is permissible for two contracting parties to deal in the same currency. If at the time of the contract's maturity the party that needs to make the payment is unable to do so in the established currency, the amount can be converted into the currency of the country at the going rate and paid as such. This ruling may be applied where the client is willing to leave himself open to the risk of fluctuating currency rates. The delivery of both amounts must be at spot.

## **Actual And Constructive Delivery Of Payment**

*What do the terms "actual" and "constructive" delivery of currency mean?*

Actual delivery refers to a hand-to-hand exchange of currency between contracting parties. Constructive delivery refers to anything that is given to a party in the contract empowering it to use it completely to its benefit. For instance, constructive delivery may be made by means of a cheque, by purchasing a currency and financing it through an existing account or by means of the transfer of credit using a debit or credit card. According to the rules of currency exchange, both parties must receive possession of payment at "the place of the contract."

## **Permissibility Of Trading Foreign Exchange At Spot**

*Is Forex trading where Islamic banks buy and sell foreign exchange at spot (where spot here means transaction settlement after 2 business days) Shariah-compliant?*

The scholars permit the settlement of spot transactions to take place 2 business days after the actual transaction provided that the buyer does not sell the item before taking legal constructive possession of it. If all other aspects of the foreign exchange trade are permissible, then this would be allowed.