



In the name of the Allah, The Beneficent, The Merciful

Is it permissible to purchase stocks using call and put options?



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الجواب حاكمًا و مطلبًا و منه الصدق و الصواب

Call and put options are essentially the sale of a right which one party gives to another in return for a fee. The option holder purchases the option to hedge against possible negative price changes in a bid to minimise his loss. Call and put options do not exist as the essential norm that are granted by Shari‘ah itself regardless of any contractual stipulation, but only exist as a consequence of an agreement between the parties concerned. Such rights are not recognised as compensation in a contract of sale. Even rights that are founded in textual evidence but exist to remove harm – *daf‘ al-darar*, such as the right of pre-emption, cannot be made the subject of sale. The AAOIFI Standard on the Sale of Commodities in Organised Markets [p. 356-357] states:

5/2/1 A contract by means of which a right is bestowed - but not an obligation – for the purchase or sale of an identified item (like shares, commodities, currencies, indexes or debts) at a determined price and for a deferment period. There is no obligation in this contract except on the person selling this right.

5/2/2 Option contracts indicated above are not permitted neither with respect to their formation nor trading.

In Appendix B [p. 362] the Shari‘ah basis for this ruling is given as follows:

12. The basis for the impermissibility of options is that the subject-matter of the contract in them is not wealth that can be deemed compensation according to the Shari‘a.¹

However, the AAOIFI standard [p. 357] does mention alternatives to conventional options on the basis of *‘arbūn* – earnest money [validated by the Hanbalī School], *khiyār al-shart* - option of stipulation and *al-wa‘d al-mulzim* – binding promise as follows:

5/2/3 Shari‘a substitutes for options

5/2/3/1 The conclusion of a contract pertaining to ascertained assets is permitted according to Shari‘a, along with the payment of part of the price as earnest money (‘arbun) with the stipulation that the buyer has the right to revoke the contract within a specified period in lieu of the entitlement of the seller to the amount of earnest money in case the buyer exercises his right of revocation. It is not permitted to trade the right established with respect to the earnest money.

5/2/3/2 The conclusion of a contract for commodities in themselves along with the stipulation of an option for establishing the right of revocation for one of the parties, or for both, during a known period. This option is not eligible for trading.

5/2/3/3 The issuance of a binding promise by the owner of assets to sell them, or a binding promise by one desiring to buy them, without specifying a counter-value for the promise. The promise is not eligible for trading.

And Allah knows best.

Mohammed Zubair Butt

¹ Resolution of the International Islamic Fiqh Academy, resolution No. 63(1/7).

Chair, Al-Qalam Shariah Panel