

21127 - Ruling on buying shares in a foreign company

the question

What is the shar'i ruling on buying shares in a foreign company?

Detailed answer

Praise be to Allah.

1 - Definition of "shares"

A share is a specific part of the total capital of a company.

A share is defined as being the share that the shareholder has in a financial company, or the portion of the company's capital that is assigned to him as confirmed in a legal document that has a nominal value, where the sum of all the shares represents the capital of the company and each share is of equal value.

Based on this, a share is an independent document that is given to the shareholder and contains information that has to do with the company, such as the company name, the amount of its capital, its nationality, the location of its headquarters, the serial number of the share, its value and the name of the shareholder, if he is to be mentioned by name, or the comment that the share belongs to the bearer.

2 - Ruling on shares:

There is nothing basically wrong with buying and selling shares, but there are a number of things to be avoided, as follows:

(i) Buying and selling shares in companies in which it is haraam to have shares, because they sell

Islam Question & Answer

General Supervisor:
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things that are not halaal, or they help in spreading corruption and falsehood.

(ii) Buying and selling shares in banks that deal in riba (usury or interest).

(iii) Depositing shares in riba-based banks, because that will lead to the profits being mixed with riba.

The Standing Committee was asked about buying shares in private companies that deal only in charitable work, agriculture, banks, insurance companies and petroleum companies. They replied:

It is permissible for a person to buy shares in these companies so long as they do not deal with riba; if they deal with riba then it is not permitted, because it is proven in the Qur'aan and Sunnah, and by scholarly consensus, that dealing in riba is haraam.

Similarly it is not permissible for a person to buy shares in commercial insurance companies, because insurance policies involve ambiguity and buying something unknown, and they involve riba, so they are forbidden according to Islamic sharee'ah.

Fataawa Islamiyyah, 2/43

The following is the text of a question and answer from the Fatwa Council of the Kuwaiti Finance House:

Question:

Is it permissible to buy and sell shares in foreign companies such as General Motors, Phillips and Mercedes, knowing that these are manufacturing companies, but they do not hesitate to lend and borrow money with interest?

Answer:

Islam Question & Answer

General Supervisor:
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The principle of buying shares in manufacturing, commercial and agricultural companies is allowed according to sharee'ah, because they are subject to either profit or loss, and this is akin to mudaarabah or limited partnerships which the Lawgiver allows, subject to the condition that this partnership avoid engaging in riba transactions, whether that involves taking or paying interest. It may be understood from your question that you are aware that these companies deal with riba, taking and paying interest. On this basis, buying shares in them is to be regarded as buying shares in a riba-based operation, which is forbidden in sharee'ah. And Allaah knows best.

Kitaab al-Fataawa al-Shar'iyyah fi'l-Masaa'il al-Iqtisaadiyyaah, al-Ajzaa' Bayt al-Tamweel al-Kuwaiti, Fatwa No. 532.

And Allaah knows best.