

A financial fatwa
on
the various types of warrants



by

Ustaaz,

Ahmed Fazel Ebrahim

Private Iftaa (Islamic Verdicts) Department

Fatwa No: 3\2001

Date: 24 January 2001

Specialist Research Scholar: Islamic Finance & Economics

Ustaaz, Ahmed Fazel Ebrahim

Assalamu Alaykum wa Rahmatullah (May the peace and mercy of Allah be upon you)

Respected brother in Islam, Mufti Mas'ūd, Madrasah Arabia Islamia, Azaadville



In the absence of Arabic fonts on your system, the line immediately above here is Bismillahir Rahmaanier Rahiem. Some other characters may display on to your screen.

Only the following response is possible after consideration of the much appreciated details which you faxed me that fully describe and define the warrants and its application, as presently executed in the Johannesburg Stock Exchange (JSE), and dealt with by the fund managers of Banks, Financial Futures Exchanges and specific Insurance companies:

Warrants

Call warrants (with or without the intrinsic “in-the-money” value and immaterial whether long-term or short-term)

These are impermissible since you are paying for the right to purchase without acquisition of a reciprocal material value that is recognized in the Shar’iah.

Put warrants (with or without the intrinsic “in-the-money” value and immaterial whether long-term or short-term)

These are impermissible since you are paying for the right to acquire profits in shares that are external to your ownership purely on the basis of the changing market prices of the shares or indices concerned without having initial acquisition of the same.

Basket and Discount warrants: Similar principles, as those, here above, given apply due to the very nature of the warrant concept.

Indices: These are likewise prohibited in the Shari’ah since these purchases reflect the purchases of intangible assets, which reflect values of particular categories of shares, without acquisition of a reciprocal material value that is recognized in the Shar’iah.

Bond warrants: These are also impermissible due to:

1. the very nature of the warrant concept.

2. the fact that bonds are interest bearing instruments which are Haraam to purchase and impermissible investment tools for Muslims.

Since the purchased rights have no recognised formats of Islamic business contracts, therefore we are unable to place them within any category of Islamically acceptable contracts. The speculative profit consideration is neither valid, in the case of warrants, since there is no tangible purchase, in conformity to our classical and authoritative jurists, and nor any tangible assets e.g. copyrights which have been recognised by some of our latter jurists.

We can neither permit any Muslim stockbroker, Islamic Equity Fund managers and administrators, non-Muslim persons or juridical persons, in the form of any investment company, who administer Islamic Funds or Islamic Banks to engage in warrant purchases. Any profits made by such funds through the application and exercise of warrants will have to be diverted to a Haraam income account and disposed in Islamically acceptable avenues either by the Fund managers. In the case where such income is distributed to the shareholders of the particular fund, the latter would have to use their own discretion to the application of such Islamically impermissible income in terms of Islamic teachings.

Enclosed : Other relevant Fatawa which elucidate or express the impermissibility of options. The warrants are similar to the options, with the main difference in the delivery mechanism. However, the Shariah considers the contract in a comprehensive format.

Other : The other significant details which you have researched and extracted from our jurisprudence works are valid considerations which elaborate on Islamic regulations pertaining to the formats of “ A sale with an option” and the nature of those options. Many of these requirements, although not existing in the warrants, will not even apply to the warrants, since the very nature of the warrant denies any primary commodity value upon which the Islamic formats of options can be applied.

Important: Any further details, rectifications, notes, comments are more than welcomed since we are purely servants obligated to rectify our actions, conduct and perceptions to the Creator’s dictates.

May Allah reward you.

Ahmed Fazel Ebrahim

Johannesburg, South Africa