

Islamic Futures Contracts in Iran

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الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ
الشَّيْطَانُ مِنَ الْمَسِّ
ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَ
أَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا (2/275)

Those who swallow down usury cannot arise except as one whom Shaitan has prostrated by (his) touch does rise. That is because they say, trading is only like usury; and Allah has allowed trading and forbidden usury.
(Translated by SHAKIR)

The Nature of Derivatives

A derivative is an instrument whose value depends on the values of other more basic underlying variables

Derivatives

Main Derivatives Include:

- ❖ Futures Contracts
- ❖ Options
- ❖ Swaps

Ways Derivatives are Used

- ❖ To hedge risks
- ❖ To speculate (take a view on the future direction of the market)
- ❖ To lock in an arbitrage profit

Futures Contracts

A futures contract is an agreement to buy or sell an asset at a certain time in the future for a certain price

By contrast in a spot contract there is an agreement to buy or sell the asset immediately

(or within a very short period of time)

Futures Contracts

- ❖ Available on a wide range of underlying assets (real assets, financial assets, etc)
- ❖ Exchange-traded
- ❖ Specifications need to be defined:
 - ❖ What can be delivered,
 - ❖ Where it can be delivered, &
 - ❖ When it can be delivered
- ❖ Settled daily

Other Key Points About Futures

- ❖ They are settled daily
- ❖ Closing out a futures position involves entering into an offsetting trade
- ❖ Most contracts are closed out before maturity

Margin in Futures

- ❖ A margin is cash or marketable securities deposited by an investor with his or her broker
- ❖ The balance in the margin account is adjusted to reflect daily settlement
- ❖ Margins minimize the possibility of a loss through a default on a contract



Islamic Rules & Regulations for Contracts

سازمان بورس و اوراق بهادار
SECURITIES & EXCHANGE ORGANIZATION

Riba (Usury):

For Lending, Gaining More Than Principal Is Forbidden.

Gharar (Great Ambiguity):

Great Ambiguous in Contracts Is Forbidden.

Darar (Harming):

No One May Harm Himself or Community.

Akl Mal Bil-batil (Devouring Property Falsely) :

No One May Have sth on a Non-Shariah Compatible Base.

Conventional Futures In Islam

❖ Kali to Kali Sale

	Cash	Salam	Nasiah	Kali to kali
Payment	Now	Now	In Future	In Future
Delivery	Now	In Future	Now	In Future

❖ Superficial Transactions

1. Most Contracts Will Not End to Delivery
2. There Is Not as Much Real Underlying Asset

Conventional Futures In Islam

يا ايها الذين آمنوا لاتأكلوا اموالكم بينكم بالباطل الا ان تكون تجاره عن تراض
منكم

O you who believe! do not devour your property among yourselves falsely, except that it be trading by your mutual consent (translated by: SHAKIR)

❖ **Devouring Property Falsely in margin**



Islamic Futures Contracts

Is Futures Contract a Kind of Sale?

“Commitment to Sale Contract”

Not A Case of Kali to Kali Sale

Islamic Futures Contracts

How To Avoid Superficial Transactions?

❖ The Matter of Delivery

❖ The Matter of Exceeding Futures Contracts Value Than Real Underlying Assets Value:

“Futures Underlying Assets Volume Must Not Exceed Real Underlying Asset Volume”

Margin in Islamic Futures

- ❖ Margin Is an Article Added To The Main Contract
- ❖ Both Traders Allow a Separate Third Party (i.e. Clearing House) to Have Access to The Margin & Settle It on a Daily Basis.
- ❖ At The End of The Contract, Margin Would Get Finalized.

“There Is No Ownership Transferring Through Margin”



Islamic Futures Contracts

(Case Study: Iranian Islamic Capital Market)

The Main Stages of Trading Futures Contracts In Iran:

- ❖ Listing futures Contract
- ❖ Customer Registration
- ❖ Transactions
- ❖ Daily Settlements
- ❖ Delivery and Final Settlement

Listing Futures Contract

Receiving producer's, consumer's and market participant's demand to list inventory-based securities

Market investigation and possibility of listing futures contract in the exchange

Exchange asks "listing board" for listing futures contract

Preparing feasibility report and prospectus

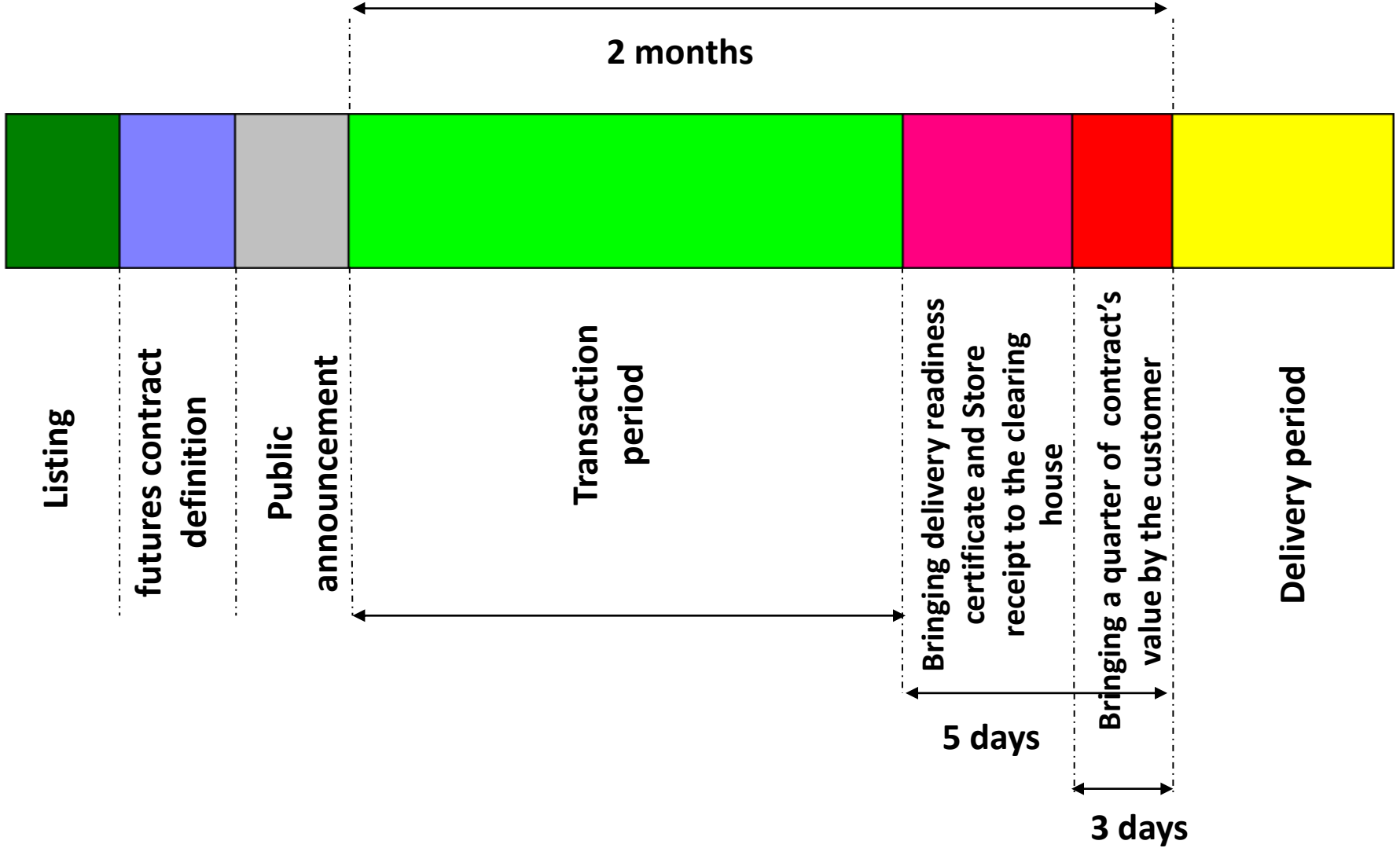
Investigating by "Listing Board"

Listing contract

Customer Registration

- ❖ Customer choosing a broker
- ❖ Surrendering his identification documents
- ❖ Signing risk statement
- ❖ Allocating client account from clearing house
- ❖ Opening a proxy account from the agent bank
- ❖ Declaring the account number to clearing house
- ❖ Registering client's details and client account to the system

Transactions



Daily Settlement

- ❖ Determining settlement price
- ❖ Daily settlements
- ❖ Transferring funds between bank accounts
- ❖ Sending margin call

Delivery & Final Settlement

Month of the Contract: the due month of the contract

Delivery: delivering the underlying asset of the due futures contract by the seller to the buyer

Delivery Announcement: An announcement by clearinghouse for the purpose of informing buyers about the Delivery status.

Delivery Readiness Deceleration: a specified certificate filling by the “futures contract” seller, in order to inform clearing house of his readiness to deliver goods.



Islamic Futures Contracts

(Case Study: Iranian Islamic Capital Market)

- ❖ First futures contract in Iran launched in June 2008 for gold bullion.
- ❖ Underlying assets for Islamic futures contracts in Iran:
Gold Coin, Wired Copper, Copper Cathode, Gold Bullion
- ❖ It is planned to extend Islamic futures market for other underlying assets such as:
Stocks, Petrochemical Assets, Agricultural Assets



*Thank You Very
Much For Your
Kind Attention*

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