



Bonds

📅 20 March, 1990 | Fiqh of Financial Transactions, Bonds

In the Name of Allāh,

the Entirely Merciful, the Especially Merciful

Praise is due to Allāh, Lord of the worlds, may the blessings and peace be upon our master Muḥammad, the last of prophets, on his family, and all his companions.

Resolution No. 60 (11/6) Bonds

The Council of the International Islamic Fiqh Academy of the Organization of the Islamic Conference, holding its 6th session in Jeddah, Kingdom of Saudi Arabia, on 17-23 Sha‘bān 1410h (14-20 March 1990),

Having reviewed the research papers, recommendations, and conclusions of the Financial Markets Seminar held in Rabat, Kingdom of Morocco on 20-24 Rabī‘ al-Akhir 1410 (20-24 October 1989), in collaboration between the Academy and the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB), and hosted by the Ministry of Habous and Islamic Affairs of the Kingdom of Morocco,

Having considered that a bond is a certificate by which its issuer under- takes the liability of paying its nominal value to the bearer on its maturity along with an agreed-upon interest relating to its value or to a predetermined profit, either in lumpsum or as a discount or in the form of prizes to be distributed on the basis of ballot,

Resolves

First: The bonds which represent a commitment to pay its amount along with an interest related to its nominal value or to a predetermined profit are prohibited in Shariah. Their issues, their purchase and their trading, all are pro- hibited because they are interest-bearing loans, no matter whether their issuing authority belongs to the private sector or is a State-affiliated public entity. The alteration in the nomenclature, such as calling the bonds “certificate” or “investment securities” or “saving certificates” or calling the interest as “profit” or “income” or “service charge” or “commission” have no effect on the aforemen- tioned ruling.

Second: The “zero coupon bonds” are also prohibited because they are loans sold at a price inferior to their nominal value, and the owners of such bonds benefit from the difference in their prices which is considered a discount on the bonds.

Third: Similarly, the “prize bonds” are also prohibited because they are loans in which a liability to pay a predetermined profit or an additional amount is undertaken in favor of their bearers as a whole, or in favor of an undermined number of persons out of them. Moreover, these bonds have a resemblance with gambling (qimār).

Fourth: The usury-based bonds, which are prohibited, can be substituted by the bonds and certificates issued on the basis of a contract of Muḍārabah (profit and loss sharing) meant for a particular project or a particular enterprise or company, wherein no predetermined profit or interest shall be paid to the bearers, but they shall be entitled to get a proportionate share in the profit of the project in relation to the proportion of their respective investments. This profit cannot be given to them unless it has been effectively accrued.

A scheme of the Muḍārabah certificate has already been approved by the Academy in resolution no. 30 (5/4) issued at its fourth session, concerning Muqāraḍah Bonds.¹³

Indeed, Allāh is All-Knowing.

Resolution no. 30 (5/4).