Fatwa no. 11409

Q: Is it permissible to buy foreign currency through what is called a right of choice contract, where the purchase process goes as follows: The purchaser makes an agreement with a specific bank according to the right of choice that the bank gives to the purchaser (beneficiary). The purchaser then pays a fee or premium to the seller (the bank) at the time of entering the right of choice contract to purchase the currency.

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During the agreed period, the purchaser may pay the agreed price and buy the currency regardless of the current market price at the time of actual purchase. Furthermore, the purchaser is not obliged to buy currency according to the contract, and that is the nature of this contract. They are only obligated in the situation when they do not wish to complete a purchase process to pay the premium or fees, which were stipulated at the beginning of the contract in return for being given the right of choice and which are non-
refundable, whether a transaction is completed or not.

An example of this is a right of choice contract to buy 10,000 Marks, at a price of 1 Mark to 2.20 Riyals within a set period of right of choice of three months. For this the bank charges 5 Halalas (100 Halalas = 1 Riyal) as the fee for each Mark.

The first scenario:

During the above period, the exchange rate of the Mark increases to 2.40 Riyals, and the purchaser makes use of their right of choice and pays for the Marks at the agreed price, i.e., 2.20, regardless of the current exchange rate.

The second scenario:

There is a decrease of the exchange rate of the Mark to 2.00 Riyals, and in this situation, the purchaser does not make use of their right of choice during the contracted term and the contract expires when the expiry date is reached. The seller (the bank) is still entitled to the fees due under the right of choice contract, i.e., the 5 Halalas, as they are not refundable to the purchaser, as mentioned previously.

A: It is not permissible to buy and sell one currency for another unless the exchange is completed within the same contracting session. If the currencies are of the same type, they must be of equal amounts and the exchange must take place in the same sitting.

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Ithas been authentically reported in the Two Sahih (authentic) Books of Hadith (i.e. Al-Bukhari and Muslim) and others, on the authority of Abu Sa’id Al-Khudry (may Allah be pleased with him), that the Messenger of Allah (peace be upon him) said, ("Do not sell gold for gold, except like for like, and do not let the quantities differ. Do not sell silver for silver, except like for like, and do not let the quantities differ. Do not sell that which is absent for that which is present.") The Prophet (peace be upon him) saying, “Do not sell that which is absent for that which is present,” indicates that it is a condition that the exchange is to be made in the same contracting session, and that selling by choice is invalid.

May Allah grant us success! May peace and blessings be upon our Prophet Muhammad, his family, and Companions!

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