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Interest and Leverage: Key Concerns in Sharia-Compliant Trading

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The Sharia framework imposes strict prohibitions on interest (riba) and excessive uncertainty (gharrar), directly impacting the permissibility of widely used financial instruments such as margin trading, leveraged positions, and certain forex operations. In a globalized, digital financial landscape, Islamic investors face the challenge of aligning religious principles with modern market practices without breaching core tenets. This article examines why many conventional instruments are deemed haram due to their reliance on interest, how this shapes trader behavior, and what Sharia-compliant alternatives are emerging in response.

The Prohibition of Riba: Theological Basis

The Quran and Hadith contain an unambiguous prohibition on riba – any guaranteed profit that is not associated with real risk. In the classical interpretation, this means:

- prohibition on the accrual and payment of interest;
- inadmissibility of profit without participation in entrepreneurial risk.

As a result, any financial instruments with predetermined returns—particularly those involving fixed interest rates—are generally prohibited under Sharia. This is why margin trading, which involves paying interest on borrowed funds, is often classified as **haram due to interest**.

Margin Trading and Leverage: In the Spotlight of Criticism

Mechanism

In traditional brokerage systems, a trader borrows from a broker to open a leveraged position. A fee is charged for using the funds, which is essentially an interest payment.

Reasons for non-compliance with Sharia

- the presence of riba in the form of marginal interest;
- the possibility of forced closing of a position (margin call), which violates the principle of fairness;
- high level of speculation and garrar.

Private fatwas and debates

Shariah boards in Malaysia, the UAE, and Saudi Arabia have consistently affirmed that leverage involving interest payments is haram due to riba. However, if margin funding is provided free of charge or through a fixed, non-interest-based fee structure, such arrangements may be deemed permissible.

Forex and CFDs: Gray Areas

Forex

Currency trading is considered permissible in Islam if the following conditions are met:

- the transaction is executed immediately;
- no swaps or overnight fees;
- no loan from Riba is used.

However, traders should be aware that not all so-called Islamic accounts adhere to AAOIFI or IFSB standards, which define the accepted principles for Sharia-compliant financial practices.

Contracts for Difference (CFDs)

CFDs are challenging to fit into the Shariah framework due to several factors:

- there is no ownership of the asset;
- profit is generated based on speculation;
- high volatility and short-term nature.

Most Shariah boards classify CFDs as potentially haram instruments due to their association with interest (riba) and excessive uncertainty (gharrar).

Alternatives: Shariah-Compliant Trading Without Riba

- Spot Trading
  The immediate purchase and sale of real assets—such as equities, currencies, or commodities—is the most widely accepted form of trading under Shariah law. Since transactions are settled instantly and do not involve interest or speculation, spot trading aligns closely with Islamic financial principles.

- Islamic ETFs and Indices
  Funds like the Wahed FTSE USA Shariah ETF and the SP Funds S&P 500 Sharia Industry Exclusions ETF invest exclusively in assets screened for Shariah compliance. These products exclude companies involved in prohibited sectors (e.g., alcohol, gambling, interest-based finance) and apply financial ratio filters in accordance with AAOIFI standards.

- Musharakah and Mudarabah
  These traditional Islamic partnership models remain relevant in modern finance. In a Musharakah, all partners contribute capital and share profits and losses. In a Mudarabah, one party provides capital while the other offers expertise and management. Profits are split according to pre-agreed ratios, while losses are borne solely by the capital provider—ensuring adherence to the principle of risk-sharing.

- Tokenized Islamic Assets
  At the intersection of blockchain technology and Islamic finance, tokenized halal assets are

gaining traction. For example, gold-backed tokens issued through certified Islamic platforms offer digital ownership of physical assets without involving interest (riba). These instruments aim to provide transparency, liquidity, and Shariah compliance within decentralized ecosystems.

- Shariah-Compliant Screening Platforms
  Apps like Zoya and Islamicly offer investors real-time tools to screen equities, ETFs, and mutual funds based on Shariah principles. They evaluate factors such as business activity, financial ratios, interest income, and use of leverage—empowering Muslims to make informed, compliant investment decisions.

New Trends in Islamic Trading

a) Application of Decentralized Finance (DeFi)

Despite the skepticism, several developers are working on Sharia-compliant DeFi protocols, such as platforms with fixed income tied to real assets, without the use of interest.

b) The influence of macroeconomics

Rising interest rates in the US and EU are making traditional instruments even more unacceptable for Muslims, spurring interest in alternatives, from Islamic fintech to Mubarabah-based crowdfunding platforms.

c) Geographical expansion

Markets in Indonesia, Nigeria, and Turkey are showing strong demand for Shariah-compliant products, leading to the creation of new exchange platforms with built-in Islamic certification.

Legal Aspects and Regulation

The legal framework for Islamic trading continues to evolve. In 2024, the IFSB and AAOIFI released joint guidelines on the use of derivatives in Shariah-compliant jurisdictions, aiming to clarify ambiguous areas and minimize the risk of non-compliant practices.

In addition, the governments of the UAE, Malaysia, and Saudi Arabia are actively licensing Islamic brokerage platforms and creating sandboxes for Sharia-compliant fintech. That makes Sharia-compliant trading more institutionalized and predictable.

A global database of halal-certified assets is also set to launch in 2025. Backed by the Islamic Development Bank and several OIC member states, the initiative will enable traders to verify Shariah compliance in real-time via API integrations with trading platforms. In parallel, discussions are ongoing around the creation of a transnational Shariah rating agency, which would assign compliance scores to financial instruments—similar to ESG ratings—bringing greater transparency and standardization to Islamic investing.

Outlook for 2025

Islamic trading, despite restrictions, is becoming more accessible thanks to:

- growth in the number of certified brokers;
- support at the level of central banks of Muslim countries;
- development of standardized frameworks.

Technological innovations, from AI to blockchain, can provide the necessary transparency to reduce the risks of Shariah violations.

Shariah trading volume in MENA and Southeast Asia is expected to grow by 15-18% in 2025. The focus will remain on the development of riba-compliant Islamic derivatives, which will be a key challenge for Islamic lawyers and traders.

Conclusion

Interest and leverage remain among the most debated aspects of Islamic trading. However, advancements in fintech, increasing investor awareness, and proactive regulatory efforts are paving the way for practical, Shariah-aligned solutions. Investors are increasingly seeking to balance adherence to ethical principles with participation in global financial markets. While most derivatives remain prohibited due to their interest-based structures, the future of Islamic trading lies in adaptation through technology and a renewed focus on real-economy assets—free from speculation and riba.

Photo: Tima Miroshnichenko via Pexels.

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