

## FOREX IN THE EYES OF SHARIAH: A QUALITATIVE ANALYSIS IN THE MALAYSIAN CONTEXT

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### Abstract

*The purpose of this study is to expound the fundamentals leading to a verdict on the permissibility of foreign exchange trading, commonly known as forex. This study will encompass Quranic verses, Hadith, Islamic legal maxims (qawaid fihiyyah), and contemporary views of the ulema (Islamic scholars). The scope of this research will be focused on a Malaysian context. Primary data gathered from a questionnaire administered to 100 Malaysian respondents will be presented. The findings indicate that most Malaysian respondents are aware of Forex trading but have never attempted it. This is primarily due to a lack of well-informed knowledge about Forex, scepticism, and extreme doubt. They feel more secure not being involved in this trading, which is strongly related to their prejudices. Therefore, the implications of Forex trading will be examined in three spheres of influence: economic, social, and national perspectives. Finally, recommendations for respective parties, such as governments, regulatory bodies, and the public, will be mentioned to address the public's lack of awareness about Forex from a shariah perspective. The research concludes that riba (usury) is unacceptable in any circumstance, and if Forex incorporates this forbidden element, this financial transaction may remain haram (forbidden) indefinitely unless it adheres to Islamic principles and guidelines.*

**Keywords:** *Forex, shariah, awareness, jurisdiction, uncertainty, interest*

## 1. INTRODUCTION

In today's world, various methods can be used as sources of income. Some people engage in trade for their daily necessities, such as barter, while others employ various means to attain financial stability. One of the prominent methods is through investment, and a well-known avenue for this is Forex Trading. Forex is an acronym for 'foreign exchange,' and it has garnered a significant reputation among online traders.

In this burgeoning online market, currencies from almost every country are exchanged with one another instantaneously. Forex is renowned for its high liquidity rate, with total daily profits that can reach up to \$5 trillion. The flow of Forex transactions never ceases, with trading opportunities available 24 hours a day, seven days a week, featuring the lowest margins and the highest leverage among other financial markets.

There are three methods for individuals to enter the foreign exchange market: the spot market, currency futures, and currency options. The spot currency market is the fundamental method of currency trading, conducted privately through brokers equipped with spreadsheet software. These brokers facilitate transactions by providing bid and ask prices for a country's currency. They act as intermediaries, offering bid and ask prices to their clients. In this process, brokers profit from the difference between the bid and ask prices (Naim, 2011).

Next, currency futures involve cross-rates with specific currencies. Brokers also engage in these transactions and generate profits through commissions or exchange fees facilitated by a clearing house. Futures contracts are executed daily. Using currency options, traders can hedge their risks, similar to how it is done in the stock market. Profits are derived from both buying and selling in the options market and selling in the spot market.

The method employed by online Forex investment brokers involves buying and selling foreign exchange directly through websites provided by foreign brokerage companies. However, the approach used by online Forex investment brokers can be somewhat opaque. This lack of clarity arises from certain ambiguous information, such as an absence of knowledge regarding the number of investors, uncertainty about the daily volume of currency purchases, and a lack of insight into the rate of increase or decrease in capital value. Moreover, there is uncertainty about whether the broker truly possesses the necessary funds for these transactions (Naim, 2011).

Forex has drawn the interest of numerous individuals seeking to generate income, with some willing to invest thousands of dollars to learn the fundamentals of trading through Forex classes. The primary reason Forex has become the preferred choice of society is due to the potential for immediate profits and its requirement of only internet access. The number of people profiting from Forex trading is steadily increasing, possibly owing to the simplified process of becoming a trader.

Typically, traders need a minimum deposit of USD50 and a trading platform, with the latter being referred to as a broker. The term "broker" is familiar in the realm of stock investing, as it pertains to an individual or entity that facilitates stock trading. Brokers function as agents who manage stock transactions and have direct access to specific stock exchanges like Bursa Malaysia or other relevant stock centres in various countries. Brokerage fees can vary depending on the broker, and there are various examples such as eToro, Avatrade, Instaforex, and many more.

Furthermore, CFD stands for 'Contract for Difference.' CFDs are straightforward contracts that allow individuals to trade a variety of financial instruments by capitalizing on differences in value between certain underlying assets that mature between the contract's start and end times. Trading with CFDs involves engaging in a contract based on price differences, resulting in either a profit or loss determined by the difference between the purchase price and the sale price of the associated stock, multiplied by the CFD's quantity. CFDs are generally considered to be complex and high-risk financial products. Investors must have a thorough understanding of this matter before venturing into Forex trading, as it is a subject that has sparked significant debate both in terms of knowledge and legal considerations.

The advanced technology supporting internet networking has provided the community with the advantage of sharing and exchanging opinions without limits. Online investments have also become prevalent, including various well-known options like ASB investments, pilgrimage fund investments, gold investments, and more. Undoubtedly, one form of online investment, namely Forex investing, continues to prominently feature on social media platforms.

The fundamental concept of Forex investing underscores the importance of adhering to established guidelines. To clarify, Forex investment should involve the immediate exchange of foreign currency, such as foreign currency exchange transactions conducted with physical cash simultaneously and without any delay over some time. Furthermore, there are additional conditions that every Muslim must fully adhere to before participating in any

form of investment. We must ensure that the investment is devoid of elements of *gharar* (excessive uncertainty) or doubt before it contributes to our income.

The dilemma arises when individuals get entangled with online fraud syndicates, as online Forex investing carries a higher risk of trust issues between the parties involved. Local newspapers have reported numerous instances where authorities successfully intervened to halt fraudulent activities (Suhaini, 2020). These cases typically involve individuals posing as members of online foreign exchange or Forex trading communities. Furthermore, it has been documented that even professionals have been ensnared in these online Forex investment scams, with irresponsible parties disguising themselves as brokers overseeing online currency trading (Latib, 2020).

Another concerning issue highlighted in the mass media regarding online Forex investing is the prevalence of illegal Forex websites. Reports suggest that a significant portion, approximately 90%, of Forex websites are fraudulent scams. Only around 10% of these websites engage in legitimate foreign currency conversion, either through face-to-face transactions or Forex managed by banks in Malaysia (Naim, 2011).

Consequently, it is imperative in today's landscape to deepen one's understanding of various investment types, including the risks associated with both short-term and long-term investments. Public participation in online investments should be subject to rigorous oversight and monitoring by authorities to combat instances of financial fraud effectively in Malaysia.

## 2. LITERATURE REVIEW

### 2.1 *Quranic perspective*

In essence, investing in stocks is generally considered permissible under Islamic law (Shariah), but it must adhere to certain *dharwabith* (conditions). One of these conditions is investing in shariah-compliant instruments, as non-shariah-compliant investments have a substantial potential to involve elements such as *riba* (usury) and *gharar*, among others. Muslims are instructed to refrain from engaging in prohibited acts, as stipulated in the Quran 2:275:

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

Translation: "...and Allah has permitted trading and forbidden interest..."

In this verse, Allah SWT unequivocally prohibits Muslims from engaging in transactions involving usury. Furthermore, Allah SWT promises severe consequences and painful punishment for those who transgress this prohibition. Similarly, the legality of investment in conventional banks is considered impermissible under Islamic law because such investments do not align with the principles of Islamic finance. These investments often involve non-shariah-compliant sectors, including gambling, usury, and uncertainty. This stance is reinforced by supporting statements found in Quran 2:278:

يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ

Translation: "O believers! Fear Allah and give up outstanding interest if you are 'true' believers."

Therefore, it is incumbent upon every individual who follows the Islamic faith to direct their investments towards shariah-compliant options, to avoid falling into the category of those who face severe and painful consequences promised by Allah SWT in the hereafter. As you may be aware, Bursa Malaysia offers a wide array of shariah-compliant investment products. Additionally, on September 5, 2016, Bursa Malaysia introduced the world's first fully shariah-compliant investment platform, catering to investors seeking to engage with shariah-compliant products through shariah-compliant services. This platform enables investors not only to invest in shariah-compliant products but also to conduct their investments in a wholly shariah-compliant manner. Consequently, there are no longer any justifiable reasons to refrain from adopting a shariah-compliant investment approach in its entirety.

Numerous adverse consequences can arise when individuals invest in stocks or put their money into investments without adequate knowledge or a solid foundation in the field. This underscores the critical importance of acquiring knowledge before undertaking any task or endeavour. In Islam, this principle is also emphasized, urging individuals to engage in actions with a foundation of knowledge. Imam al-Bukhari placed a special chapter that is العلم قبل القول والعمل (Knowledge before words and deeds), In his book, the author emphasizes the significance of acquiring knowledge before embarking on any endeavour [See Shahih al-Bukhari, 1/24]. His argument is in the Quran 47:19:

فَاعْلَمْ أَنَّهُ لَا إِلَهَ إِلَّا اللَّهُ وَاسْتَغْفِرْ لِذَنْبِكَ وَلِلْمُؤْمِنِينَ وَالْمُؤْمِنَاتِ ۗ وَاللَّهُ يَعْلَمُ مُتَقَلَّبَكُمْ وَمَثْوَاكُمْ

Translation: “So, know well, O Prophet, that there is no god worthy of worship except Allah. And seek forgiveness for your shortcomings<sup>1</sup> and for the sins of the believing men and women. For Allah fully knows your movements and places of rest O people”.

Imam al-Bukhari highlights in his commentary that in this verse, Allah SWT initiates with the word for knowledge, فاعلم (So know), before the declaration لَا إِلَهَ إِلَّا اللَّهُ (there is no deity except Allah) and preceding the action of seeking forgiveness, واستغفر لذنبيك (and seek forgiveness for your sin). This emphasis indicates that the importance and honour of knowledge precede the significance of deeds in this context.

## 2.2 Sources from Hadith and Islamic Legal Maxims (Qawaid Fiqhiyyah)

According to experts from the International Shariah Research Academy in Islamic Finance (ISRA), along with a careful examination of the presented arguments and views, the council has emphasized that foreign exchange trading (Forex) conducted through electronic platforms involves items (i.e., currency) associated with *riba*. From the perspective of Islamic jurisprudence (fiqh), it falls under the law of *Bay' al-Sarf* and is subject to the general conditions of sale and purchase. The specific conditions for *Bay' al-Sarf* are as follows:

1. The contracting party must possess the legal capacity to enter a contract (*Ahliyyah Al-Ta'auq*).
2. Both parties involved in the contract must have a clear and mutual understanding of the purchase price.
3. The item being purchased must exist, be fully owned by the seller, and be deliverable to the buyer.
4. The contractual formula (*Sighah*) must reflect the consent of both parties, devoid of any elements of delay or postponement. Additionally, the *Ijab/Qabul* (offer and acceptance) must align and be consistent with one another concerning the characteristics and rates involved.

Meanwhile, the special conditions for *Bay' al-Sarf*:

1. There must be a *taqabbudh*, which signifies mutual agreement between the two parties involved in the Forex platform before the transaction proceeds beyond the contractual ceremony.
2. Currency trading should strictly occur on a spot basis, with no delays permitted, and transactions should be settled within a maximum period of three days.
3. The sale and purchase agreement must not include any provisions for *khiyar al-syarat* (conditional option). The council further emphasizes that foreign exchange (Forex) trading operations must be free from any elements of usury, *al-Salaf wa al-Bay'* (granting of debt on condition of sale and purchase transactions), gambling, excessive uncertainty, tyranny, or exploitation.

The prohibition of *al-Salaf wa al-Bay'* is based on evidence that demonstrates the Prophet SAW forbade such combinations in his teachings.:

لَا يَحِلُّ سَلْفٌ وَبَيْعٌ

Translation: "*Salaf (loans) and also simultaneous buying-selling are not allowed*".

Narrated by Tirmidzi (1234), Abu Daud (3504), Nasaie (4611)

In the context of this hadith, Al-Qarafi mentions:

وَبِإِجْمَاعِ الْأُمَّةِ عَلَى جَوَازِ الْبَيْعِ وَالسَّلْفِ مُفْتَرِقَيْنِ وَتَحْرِيمِهِمَا مُجْتَمِعَيْنِ لِذَرِيعَةِ الرِّبَا

Translation: "*And with the consensus of the ummah that it is permissible to buy and sell and borrow separately, and it is forbidden to both together, because it is the route of usury*".

(Buku Transaksi Kewangan Sah dan Kontemporari, p.369)

This is evident in the context of the leverage and margin system provided by brokers. Following a comprehensive study conducted, the council has determined that individual forex trading is not exclusively carried out in cash (individual spot forex) through electronic platforms. It often involves elements like usury due to the imposition of rollover interest, terms of sale and purchase linked to debt through leverage, unclear exchange transactions, sale of currency that is not in the possession of the seller, and speculation resembling gambling. Furthermore, from the legal standpoint of the

Malaysian government, these activities are deemed illegal. In summary, the Fatwa prohibits such practices for these reasons:

1. There is no immediate cash, no *taqabuddh* in essence because in the matter of sale and purchase there must be immediate consent, therefore *syubhah*.
2. Alternative form that incorporates the element of usury.

In Forex trading, brokers offer loan facilities to investors, and this loan primarily benefits the broker. It allows investors to engage in currency trading or trading transactions with the broker. Additionally, brokers often generate profits through spreads, which represent the difference between the bid price and the asking price. In this process, the broker sells the currency to the trader at a higher price and buys it back at a lower price. This aspect raises concerns from a shariah perspective regarding the benefits received by the broker-lender who provides the loan facility. Such benefits are considered *riba*, and this widely recognized method has been discussed by many scholars of jurisprudence, albeit using various terminologies, such as:

كُلُّ قَرْضٍ جَرَّ مَنفَعَةً فَهُوَ رِبًا

Translation: "Every loan that benefits (to the lender), then it is usury"  
(Fiqh Saudagar Muslim, p.129)

While some brokers offer Islamic Forex accounts without the rollover interest component, certain practices may still involve fees or other commissions for traders who hold positions overnight, or these brokers may apply higher spread rates instead of rollover charges. In essence, when scrutinized, the imposition of separate fees or commissions and the escalation of spread rates often serve to conceal the rollover charges typically incurred by foreign currency traders. Consequently, traders with shariah-based accounts may end up paying more than those with regular accounts. Even though these additional fees or commissions may not be explicitly labelled as rollover interest or charges, their function essentially remains the same, which is to increase the debt amount based on the extension of time. This aligns with the jurisprudential perspective articulated by Al-Jauziyyah, which asserts that:



### العبرة في العقود للمقاصد والمعاني لا للألفاظ والمباني

Translation: "What is taken into account in the contract is based on meaning and significance, not based on literal pronunciation and expression."

In general, Islam acknowledges the presence of speculation within the realm of transactions and investments. This acknowledgement is reflected in the development of various jurisprudential methods concerning liability for losses, such as *al-kharaj bi al-dhaman* and *al-ghunm bi al-ghurm*. Speculation is considered impermissible only when it entails excessive uncertainty and risk, closely resembling gambling or zero-sum games. In this context, Ibn Taymiyyah is among the scholars who have expounded upon the concept of risk (*mukhaatarah*), which is articulated as follows:

وأما المخاطرة فليس في الأدلة الشرعية ما يوجب تحريم كل مخاطرة؛ بل قد علم أن الله ورسوله لم يحرم كل مخاطرة، ولا كل ما كان متردداً بين أن يعنم أو يعرّم أو يسلم... ولكن يحرم من هذه الأنواع ما يشتمل على أكل المال بالباطل، والموجب للتحريم عند الشارع أنه أكل مال بالباطل، كما يحرم أكل المال بالباطل وإن لم يكن مخاطرة؛ لأن مجرد المخاطرة محرم

Translation: "There is no Islamic evidence that forbids all forms of risk, in fact Allah and His Messenger did not forbid all risks, and all activities that are doubtful whether they will gain or lose or be safe (do not gain any gain or loss) ... On the contrary, the prohibited risk is that which contains the element of consuming property in vain. The reason for its prohibition in the sight of Allah is because it is in the form of consuming property in vain, just as it is forbidden to consume property in vain even though there is no risk. Risk alone is not a ban".

From Ibn Taymiyyah's description above, it becomes evident that the forbidden risk is the one associated with invalid transactions. It includes situations where property is consumed in vain, especially when the contract applied is invalid and is conducted with the intention of making a profit. Characteristics of an invalid sale and purchase agreement that render Forex trading invalid encompass the issues mentioned earlier, involving elements like usury, uncertain trading, incomplete ownership, trading in non-existent currencies, and judgments (*hukmi*) issues.

In the case of spot Forex, it not only involves a delay in the exchange rates (*ta'jil al-badalayn*) but also incorporates elements of gharar concerning the price. This contradicts the principles of currency exchange discussed in the

chapter on *Bay' al-Îarf* and is inconsistent with the Prophet's PBUH prohibition on *bay' al-gharar*, as evidenced by his teachings:

هَي رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ عَنْ بَيْعِ الْحَصَاةِ، وَعَنْ بَيْعِ الْعَرَرِ

Translation: "The Prophet PBUH forbade sale and purchase by using gravel and sale of goods with uncertainty."

Narrated by Muslim (1513)

### 2.3 Contemporary Scholars' Opinion and Malaysian Ulema's Verdict

Rollover Interest is a prominent concern in Forex trading. In the process of trading and exchanging foreign currency on a spot basis through electronic platforms, traders will either receive or pay rollover interest depending on the direction of their position (buy or sell) and the interest rate differential between the two currencies involved if the position is held overnight. This benefit arises because the funds used in spot forex trading are essentially borrowed by traders from brokers through the concept of leverage.

The issue of rollover interest is perhaps the most significant shariah concern in spot forex trading. If a trader holds a position overnight, they may become involved in the giving or receiving of *riba al-nasiah* (delayed interest), which is prohibited by shariah law. Drawing from the Quranic verses 1:278-279 and the consensus reached during the 18th meeting of *al-Majma' al-Fiqh al-Islami (Rabitah al-'alam al-Islami)* in April 2006, the scholars expressed their view on this matter in a resolution.

ويرى المجلس أن هذه المعاملة لا تجوز شرعاً للأسباب الآتية

أولاً: ما اشتملت عليه من الربا الصريح ، المتمثل في الزيادة على مبلغ القرض ، المسماة رسوم التبييت

فهي من الربا المحرم

Translation: "...And this council determines that this transaction is not allowed by shariah based on the following arguments: First: This muamalat contains a real element of *riba*, that is, through the addition of the total debt (rollover charge). It is usury that is forbidden..."

While there are brokers that offer Islamic Forex accounts without the rollover interest component, some of them may impose fees or commissions on traders who hold positions overnight, or they might apply higher spread rates as an alternative to rollover charges. Upon closer examination, it becomes apparent that the imposition of these separate fees or commissions and the elevation of

spread rates are essential tactics to conceal the rollover charges that would typically apply to foreign currency traders. Consequently, traders with shariah-based accounts may find themselves paying more than traders with regular accounts.

In the current Malaysian context, the then chairman of the committee, Tan Sri Dr. Abdul Shukor Husin, stated that they have rejected the permissibility of engaging in conventional Forex trading. This decision was since foreign exchange activities do not comply with Islamic law and raise doubts among Muslims, which goes against Islamic principles. Therefore, the National Fatwa Committee has declared that Muslims are prohibited from participating in this business system. Abdul Shukor noted that there were numerous questionable aspects related to foreign exchange trading, making it unnecessary for Muslims to get involved. Additionally, activities conducted over the internet among individuals could result in uncertain profits and losses. He further emphasized that other forms of foreign exchange transactions, such as those conducted through money changers or between banks, are permissible because they do not entail currency speculation or the potential for volatile profits and losses. The council also reached a consensus to permit Muslims to invest or save through the Premium Savings Certificate Scheme (SSPM) administered by Bank Simpanan Nasional (BSN). This decision was made after the committee received a satisfactory explanation regarding the scheme's implementation during a presentation by the Central Bank of Malaysia's Shariah Panel at the conference. Consequently, the council has ruled that individual cash-based forex trading (individual spot forex) conducted through electronic platforms, as it is currently practised, is deemed illegal. This conclusion is based on the contravention of Islamic law requirements and national regulations. Hence, Muslims are prohibited from participating in such currency trading. It is essential to note that this ruling does not apply to over-the-counter foreign currency exchange transactions conducted by licensed money changers or foreign currency exchange transactions carried out by financial institutions licensed under Malaysian law.

The discourse on Forex trading within the framework of shariah presents a multifaceted terrain influenced by religious, financial, and regulatory considerations. Scholars such as Obaidullah (2009) have examined the challenges posed by Forex trading within Islamic finance. While spot settlements align with shariah principles by avoiding *riba* and excessive speculation, they lack comprehensive risk management mechanisms. Deferred contracts, as discussed in the study by Ahmad and Sobri (2022), offer some risk mitigation but require careful limitations to prevent undue

speculation, reflecting a more balanced approach in line with Islamic finance ideals.

The Malaysian perspective, as explored by Shamsudin (2017), showcases the nation's pivotal role in advancing Islamic banking, particularly in Forex transactions. The study highlights that various Forex products in Malaysia adhere to Islamic business ethics by avoiding *riba* and other prohibited elements, thereby earning the recognition of compliance with shariah principles. This revelation underscores the viability of foreign exchange operations in Islamic banking within Malaysia, positioning them as Halal and legitimate business activities.

Furthermore, the paper by Oziev et al. (2020) accentuates the significance of adhering to Islamic guidelines in Forex transactions to avert involvement in usurious transactions. It underscores the importance of accurate interpretations of the concept of *illah* for *riba*, particularly about paper money. This interpretation posits that paper money's value is rooted in its role as a medium of exchange, rather than intrinsic worth.

Considering these academic perspectives, it becomes evident that Forex trading within the scope of shariah remains a topic of substantial debate and regulatory adaptation. While Malaysia has successfully integrated Forex into its Islamic banking system, scholars and practitioners continue to grapple with issues surrounding *riba*, speculation, and adherence to Islamic principles. The introduction of alternative systems like the Gold-dinar system in the Eastern Asian context, as hinted at in the concluding remarks, highlights the ongoing evolution of Islamic financial instruments in response to the complexities of the Forex market. Therefore, navigating the intersection of Forex trading and Islamic finance requires a nuanced understanding of these dynamics and a commitment to aligning financial practices with ethical and religious principles.

### 3. METHODOLOGY

To gather comprehensive data for the discussion on Forex Investment from an Islamic perspective, we conducted a survey questionnaire using the online platform "Google Forms." The target audience for this study primarily consisted of Malaysians from the youth demographic, including students, employees, and unemployed individuals. Our group successfully collected responses from a total of 100 participants who completed the questionnaire.

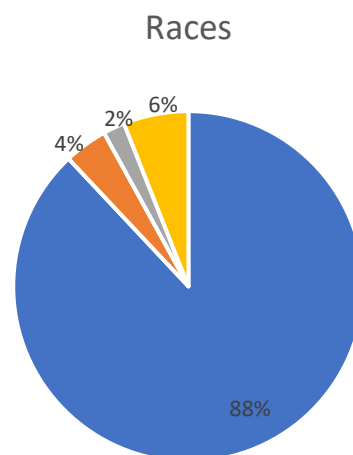
The questionnaire was structured into four sections for analysis, covering the following areas: demographic information of respondents, fundamental knowledge about Forex investment, participation in Forex investment, and

awareness of the significance of investing. The data collected from these sections has been instrumental in facilitating further research on Forex Investment from an Islamic Perspective. The main objective of this questionnaire was to assess the level of knowledge among Malaysians regarding Forex-related issues and the legal aspects of Forex trading. As a result, numerous questions and issues have emerged for discussion in our research.

### 3.1 Demographics

Based on the data we gathered, among the 100 respondents, 68% of them were women, and 32% were men. The purpose of this question was to determine which gender displayed a greater interest in learning more about Forex. It is often assumed that Forex trading is predominantly pursued by men, but this data suggests otherwise. Notably, successful women traders like Kathy Lien, Raghee Horner, and Linda Rasch have challenged this stereotype. In terms of employment status, 59% of the respondents identified as students, 27% were employed, and 14% were unemployed. This data indicates a significant interest in Forex investment among students. Many students often seek part-time work to support their education expenses. Given that the Forex market operates 24 hours a day, it offers flexibility for individuals, whether they are students or engaged in part-time work outside of regular working hours (Sabri, 2017).

## 4. RESULTS AND ANALYSIS



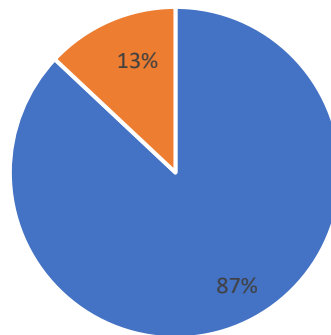
**Figure 1**

Malaysia's population is diverse, consisting of various races and religions. The largest ethnic groups in Malaysia are Malays, Chinese, and Indians. Based on the diagram provided, it is evident that most respondents,

accounting for 88%, were Malays. Chinese respondents comprised 5%, Indians 6%, and 1% belonged to other races.

It's important to note that Forex trading is legally permitted in Malaysia, provided individuals use approved and regulated institutions and agencies sanctioned by the Malaysian government. Forex trading offers benefits to all ethnic groups and is not limited to any ethnicity. However, the higher representation of Malay respondents in this survey may be attributed to the distribution of the questionnaire, which might have been more focused on areas or communities with a predominantly Malay population.

Have you ever heard about Forex?

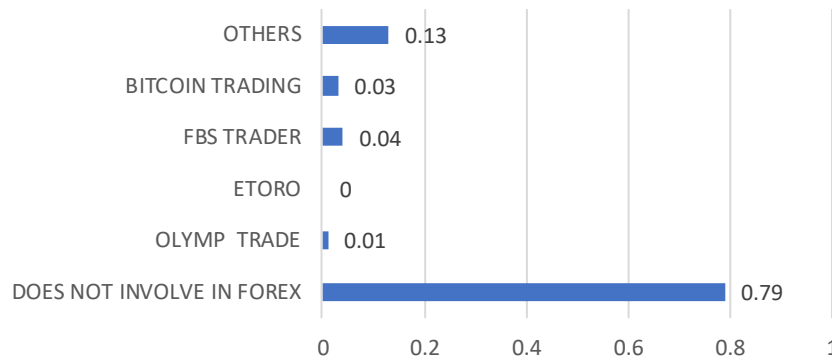


**Figure 2**

To obtain clear information, we inquired whether the respondents were familiar with Forex. As depicted in the diagram, among the 100 respondents, 87% indicated that they had heard of Forex, while 13% of respondents stated that they had never heard of Forex.

The data illustrates that Forex trading has been gradually gaining popularity over the last five years. People are drawn to Forex trading because, as one of the largest financial markets, it offers the potential for substantial profits and swift returns.

### If you're involved in Forex, what type of Forex do you use?

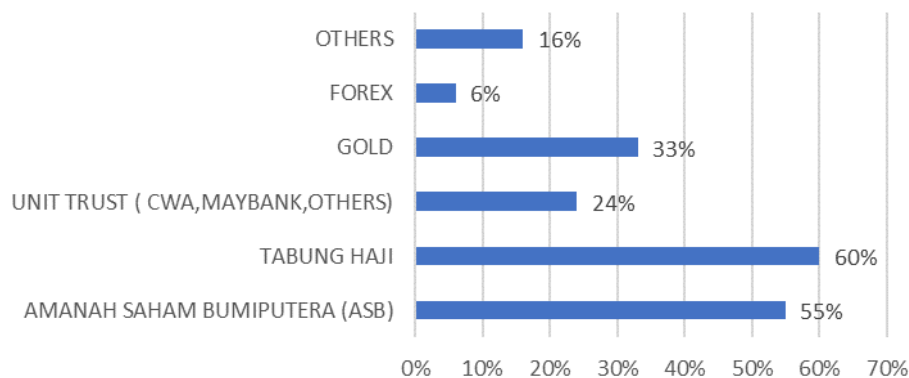


**Figure 3**

In today's context, when someone mentions "forex," they are typically referring to a form of investment trading that has become increasingly common (Manaf & Markom, 2015). As shown in the diagram, 21% of the respondents have been or are currently involved in Forex, while the remaining 79% have not participated in Forex trading.

Among those who have engaged in Forex investments, the breakdown of specific subtypes is as follows: Olym Trade (1%), FBS Trader (4%), Bitcoin Trading (3%), and other Forex investments (13%). This data provides insights into the various avenues within the Forex trading landscape that respondents have explored or are currently involved in.

### If you have additional money, which platform will you use to invest your money?

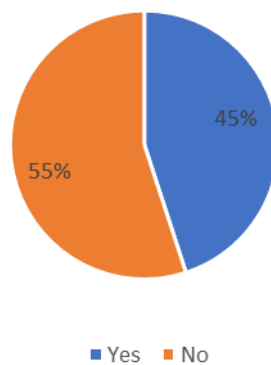


**Figure 4**

The involvement of respondents in Forex investing is assessed based on their inclination towards investment activities. As indicated in Figure 4, most respondents, 60%, opt for Tabung Haji as their investment vehicle. One of the primary reasons cited for investing in Tabung Haji is its alignment with Islamic Law, as it adheres to all regulations issued by the Securities Commission (SC) and ensures that its investment activities are shariah-compliant (Tabung Haji, n.d.). Following Tabung Haji, 55% of respondents choose to invest in Amanah Saham Bumiputera (ASB). Unit Trust (Unit Trust) investments are favoured by 24% of the respondents, while gold investments account for 33%. Additionally, 16% of respondents prefer other investment options. In contrast, Forex investment represents only 6% of the total, indicating that it constitutes a minority percentage among the respondents in this study.

This data provides insights into the diverse investment preferences of the respondents, with traditional and shariah-compliant investment options being more prevalent compared to Forex investment.

If you ever involve or trade in Forex,  
does it give profit to you?



**Figure 5**

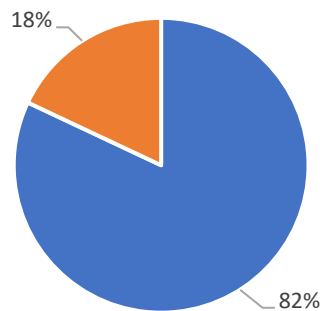
The next question also inquired whether respondents found Forex investments to be profitable. The results revealed that 45% of respondents believed that Forex investing had yielded them a profit, while the remaining 55% of respondents indicated that Forex investments were not profitable for them.

The success of investment decisions in this study was assessed by considering factors such as the risk and return that investors experienced and were willing to tolerate. It was also measured based on whether the respondents' investment objectives were achieved (Muhammad, 2009). Different



respondents held varying perspectives on Forex trading. Some viewed it as a promising opportunity, while others had a different opinion, considering various factors such as the information sources, religious laws, and other considerations that come into play when engaging in Forex Trading.

Do you feel safer (from scam, fraud etc.)  
if you do not get involved in Forex Trading?

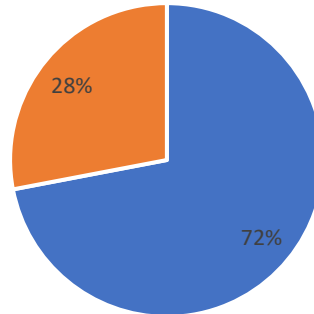


**Figure 6**

Out of the respondents who did not utilize Forex as an investment medium, 82% of respondents believed that abstaining from Forex investment could be beneficial. They cited reasons such as avoiding scams or fraudulent elements associated with Forex trading. On the other hand, the remaining 18% of respondents disagreed with this statement, indicating that they did not perceive involvement in Forex as leading to victimization by fraud.

Forex trading indeed carries significant risks, and not everyone is willing to undertake these risks. It involves the possibility that the value of an investment may decrease due to fluctuations in the relative values of the currencies involved. Investors may also encounter jurisdictional risks related to foreign exchange fluctuations and other factors that can affect their investment outcomes.

"Forex is a spread betting".  
Do you agree with this statement?

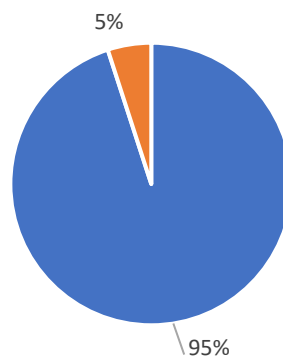


**Figure 7**

Money management that adheres to moral, ethical, religious, or other non-financial constraints is commonly referred to as Socially Responsible Investing (SRI) (Pitluck, 2008). As depicted in the diagram, the question pertains to Forex investment and whether it is categorized as money betting or otherwise. Most respondents, constituting 72%, agreed with the statement, while 28% of respondents disagreed.

Forex trading involves the process of buying or selling one currency in exchange for another, whereas spread betting allows individuals to place a wager on the performance of a selected currency pair. Notably, there is a substantial gap between those who agreed with the statement and those who disagreed, with the majority leaning towards viewing Forex investment as a form of speculation rather than traditional investing. Forex spread betting enables speculation on currency movements without direct transactions in the foreign exchange market.

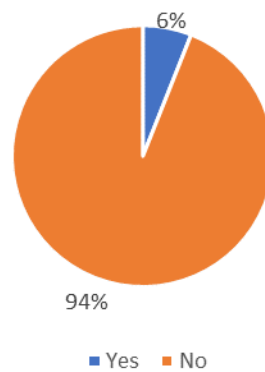
Is it important to know the risk of Forex trading?



**Figure 8**

Risk-taking is a fundamental and inevitable factor, whether it is celebrated for promoting growth and economic development or not. This is because risk can create incentives for entrepreneurial efforts and value-added work. However, from an Islamic perspective, risk, like hardship, is not desirable for its own sake (Al-Suwailem, 2000). Every action carries some level of risk, and it is crucial to be aware of these risks before taking any action. This concept applies to Forex trading as well. As shown in the diagram, understanding the risks associated with Forex investing is considered important by most respondents. Specifically, 95% of the respondents agreed that it is important to be aware of the risks involved in Forex investing, while only 5% disagreed with the statement. This indicates a strong consensus among the respondents regarding the significance of risk awareness in Forex trading.

Do you think that Malaysians fully understand about Forex?



**Figure 9**

In the Islamic perspective, money is viewed as something that cannot be hoarded excessively, nor can it be wasted in large quantities (Ahmad & Hassan, 2006). The diagram above represents the understanding of Malaysians regarding Forex investing. Among the 100 respondents, the majority, constituting 94%, agreed that Malaysians have an incomplete understanding of Forex investing. In contrast, only 6% of respondents believed that Malaysians possess a complete knowledge of Forex investing. This data suggests that there is a prevailing perception among the respondents that there is a need for greater awareness and understanding of Forex investing among Malaysians.

'Investment is permissible in Islam'. In your opinion it important to know the Islamic law before you inv the money?

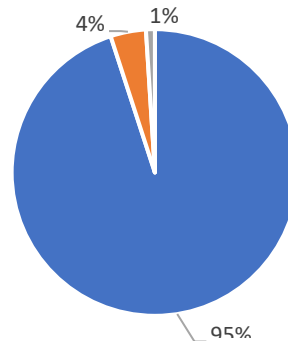


Figure 10

The term 'Islamic Investment Fund' refers to a collective pool in which investors contribute their surplus funds for investment, aiming to generate halal (permissible) profits in strict accordance with the principles of shariah (Usmani, 2007). The diagram illustrates the respondents' perspectives on the importance of knowing the laws governing investments before engaging in any investment activity.

A significant majority of respondents, totalling 95%, strongly agree that it is crucial to understand the laws and regulations of investments before embarking on any investment endeavour. Another 4% of respondents acknowledge the importance of this knowledge, while only 1% of the total respondents believe it is not important to be aware of the investment laws before initiating an investment. This data highlights the consensus among the majority regarding the significance of being well-informed about investment laws when considering investment opportunities.

#### 4.1 Questionnaire Summary

The main purpose of this questionnaire was to raise awareness and assess the level of knowledge about Forex investing in Malaysia. It aimed to gather feedback from the youth target group regarding the advantages and disadvantages of Forex investing in Malaysia. The results of the questionnaire revealed that most respondents, 90%, were not involved in Forex investing, while only 10% were engaged in Forex investing.

From the data obtained, it was clear that 60% of respondents were attracted to invest in Tabung Haji, followed by 55% in Amanah Saham Bumiputera (ASB) investments, and 33% in gold investments. Respondents also showed an

inclination towards investing in Unit Trusts (Unit Trust) at 24% and other forms of investments at 16%. Forex investing was the choice of only 6% of the respondents.

Furthermore, a significant 94% of respondents emphasized the importance of understanding the laws governing investments before entering any investment in Malaysia. This understanding is crucial to ensure that the chosen investment aligns with shariah principles. Islamic investment principles stipulate those investments must adhere to established guidelines, such as avoiding direct involvement in alcohol, gambling, and the trade of prohibited goods. Additionally, the concept of *riba* is prohibited in Islam due to its harmful consequences on certain parties.

In conclusion, this questionnaire served as an early exposure for respondents to ensure that they make informed decisions when engaging in Forex investing. It highlighted the importance of knowledge, legal compliance, and the benefits of investing before venturing into the world of Forex investment.

## 5. IMPLICATIONS

There are various implications of Forex investing on society that can have either a positive or negative impact. These implications will consider three main aspects: economic, social, and national.

### 5.1 *Economic*

From an economic perspective, investment generally serves as an injection component, which means it enlarges the size of the income cycle flow. If investment flows increase, production, employment, and income will also increase. On the positive side, the profits gained from Forex investing can boost one's income, subsequently increasing purchasing power. With greater purchasing power, there may be a tendency to buy more than necessary. The increase in income has a positive impact on the cash flow within a country's economy (Wahab, 2018). Furthermore, an increase in household income can lead to a reduction in the poverty rate. This is because money invested in Forex can yield significant and multiplied profits. Therefore, it is not surprising that social media promotes the benefits of generating income through online Forex trading.

However, this can be further clarified by the issues that have arisen in Forex investing, as reported in local newspapers and the mass media. Forex investing continues to entice people to invest more in the online Forex market

in hopes of reaping substantial returns. Consequently, some individuals are willing to go into debt in pursuit of online Forex investments (Azim, 2017). It is well-known that Forex investment carries a very high level of risk. Therefore, Forex investing often raises concerns about trust in Forex investment brokers.

The negative impact of Forex investing is that investors may incur losses. Whether the loss is small or large in value, it is not guaranteed, unlike legitimate investments in Malaysia such as ASB and Tabung Haji. Therefore, if a person engages in online Forex investment and ends up borrowing money, they may find themselves burdened with significant debts. According to financial reports, Malaysia experiences high cash outflows to other countries at any given time. Excessive cash outflows can lead to economic instability and a potential economic recession in the Malaysian economic sector, making it less attractive for foreign investors (Rohman et al., 2018).

## **5.2 Social**

The implications of Forex investing on society can also be viewed from a social angle. An increase in community income does not only contribute to the country's economic growth but also elevates the social standard of living within the community. People can improve their lifestyles, such as owning luxurious houses, driving the latest cars, and utilizing cutting-edge technology in their daily lives. This positive effect can lead to a society that enjoys comfort and financial stability. Another positive aspect is the ability of the wealthier members of society to contribute to the less fortunate, helping them elevate their standard of living through financial or material assistance. This strengthens social networks and demonstrates how online Forex investing can change the social dynamics of society.

Conversely, there are negative effects associated with losses in Forex investment. Those who face losses not only have to bear the financial burden but may also encounter other problems that can take a toll on their well-being. As reported, individuals who become indebted due to an obsession with getting rich through Forex investments may experience misunderstandings and hostilities with others. This is often because online Forex investing transactions are typically not governed by clear contracts (Azim, 2017).

Furthermore, individuals who suffer losses in Forex investments may also encounter disruptions in their social lives, including depression and stress, which can ultimately lead to severe emotional distress and a cascade of problems. In Malaysia, debt-related stress is a significant factor contributing

to depression (Rahman, 2017). Online Forex investing has the potential to elevate a person's social status and wealth, but it can also have the opposite effect, leading individuals to pawn their property and lose important relationships (Rahman, 2017).

### **5.3 National**

In general, developed countries tend to attract high levels of foreign investment due to their stable economies and effective economic governance (Abdullah, 2010). This attractiveness can extend to online Forex investment as well. On the positive side, if online Forex investments yield substantial returns, the country can experience robust economic growth, balanced national development, and an improved quality of life for its citizens. A favourable international image can lead to technological advancements, sophisticated infrastructure, and significant progress across various industries. Furthermore, a prosperous nation can offer financial support to other countries for high-tech infrastructure development, further contributing to its advancement.

However, the question of whether profits gained from online Forex investment are considered halal (permissible) or haram (forbidden) still lingers within the Malaysian community. Online Forex investment is viewed as "easier" due to its remote nature and simplified initiation process, making it a topic of debate among Muslims in Malaysia. Given that the majority of Malaysians are Muslims, this issue holds significant importance. Uncertainty regarding the legitimacy of profits from such investments may tarnish the image of Malaysia as an Islamic state.

Moreover, the country could face economic setbacks and social challenges, including property loss, due to the adverse effects of high-risk online Forex investments (Rohman et al., 2018). For developing countries, these issues can be particularly challenging to overcome.

The Malaysian government has issued statements emphasizing the risks associated with illegal investments, emphasizing that such activities can result in financial losses for individuals and the community at large. Only Forex investments conducted in Malaysia under the supervision of Bank Negara Malaysia are legally permitted, as they fall under national securities regulations (Bernama, 2012). Malaysians are encouraged to acquire knowledge in this investment field to avoid potential pitfalls.

## 6. RECOMMENDATION

Some numerous shortcomings and gaps require attention and improvement from all stakeholders in the context of forex investment. Below, we provide details about each party involved, along with their respective areas of authority and responsibilities in the realm of forex:

### 6.1 *Government (Law Enforcement)*

There is a wide scope for the government to enforce the law on Forex investing as well as protect investors from Forex fraud. The most influential government machinery in this regard is the Central Bank of Malaysia (BNM), which is responsible for monitoring all currency transactions in and out of the country. There is a specific bill regarding illegal Forex trading. An illegal foreign currency transaction refers to the activity of buying or selling foreign currency between an individual or company in Malaysia and any individual who is not authorized by BNM under the Financial Services Act 2013 or the Islamic Financial Services Act 2013. It is an offence for an individual in Malaysia to buy or sell foreign currency (forex) or to commit any act involving, in connection with, or in preparation for buying or selling foreign currency with any person other than an authorized trader or dealer. Under this Act, it is an offence for a person to assist or abet another person to buy or sell foreign currency with any person unless that person is an authorized dealer. BNM will assess the modus operandi carried out by the parties involved, and if there are elements that violate any provision under the Act administered by BNM, BNM will take appropriate action against the parties involved. However, if the modus operandi conducted does not indicate the existence of a forex investment business, then the activity may be more geared towards fraudulent activities that use forex as an attraction. Cases involving fraud, fall under the jurisdiction of the Royal Malaysia Police (PDRM), and the public is advised to make a complaint directly to the PDRM for appropriate action.

### 6.2 *Auctioning/Regulatory Bodies*

Investment organizations serve as intermediaries between the public (investors) and the authorities (BNM). Therefore, they play a pivotal role in the financial flow of Forex and are subject to the laws that have been established. To begin, they must obtain accreditation or recognition from BNM as authorized traders to conduct Forex transactions on behalf of their investors or clients. Additionally, they must adhere to the guidelines set by the authorities for conducting their business, ensuring there are no errors in



their procedures. They are required to meet specific standards and maintain transparency in their operations. If any fraud or irregularities are proven, the forex investment organization involved can be prosecuted according to the relevant laws. It is recognized that investment organizations engaged in fraudulent schemes often employ sophisticated tactics that make it challenging for authorities to detect their activities. These tactics include offering the public opportunities to transact foreign currency with the parent company (which supposedly holds a valid license for foreign currency transactions abroad), creating a professional and reputable image through well-dressed employees, state-of-the-art office conditions, and advanced IT facilities that facilitate online account operations for investors.

Furthermore, they provide transaction tools such as news screens displaying exchange rate movements to create the impression of a professional and legally legitimate business. Typically, investors are required to sign transaction contracts with the company, though these contracts are often not legally binding as they are not signed by the company itself. This lack of a formal binding contract poses a challenge for investors seeking legal recourse against the company, further complicating the authorities' efforts to curb illegal forex activities that harm investors.

### **6.3 General Public**

Based on our survey of 100 respondents, 87% have heard of forex investing, but 90% of respondents have never actually invested in forex. This is further reinforced by the fact that as many as 94% of respondents admit that Malaysians' understanding of forex investing is still lagging. Therefore, the government can promote and provide education on forex investing, along with clear guidance to the public, so that they become interested in participating and can align forex investing with shariah-compliant guidelines. Once the public is aware of legally valid forex investment guidelines, they can take proactive measures and become more financially literate when investing. This will enable them to identify or suspect scams if they encounter something that appears highly profitable but lacks a rational explanation.

To ensure their financial security, individuals should deal exclusively with licensed financial institutions and authorized foreign currency dealers, verify with the relevant authorities beforehand, avoid rushing or succumbing to pressure to invest, exercise caution regarding online investments, be wary of undocumented investment opportunities, and, if they do invest, securely preserve all investment-related documents and private communications.

## 7. CONCLUSION

Foreign Exchange (Forex) using the individual spot concept is considered *mubah* (permissible), albeit not mandatory but also not restricted. This is because Forex trading is gaining increasing recognition and popularity worldwide. However, it is crucial to highlight certain issues due to the potential risk of involving forbidden elements in trading methods, such as spot transactions, currency futures, and currency options. These three elements should serve as guidelines before embarking on a Forex investment.

Spot transactions involve investment transactions conducted without any delay or postponement. Financial institutions engaged in Forex transactions, provided they are legally registered, are closely monitored by regulatory bodies and authorities to ensure compliance with Islamic law guidelines.

In Islamic law, there is a hadith emphasizing the importance of mutual agreement in trading gold and silver, with no postponement allowed. Cash serves as a liquid asset used for business transactions. Postponing currency exchange between countries is considered forbidden and not by Islamic law, as it should adhere to the fundamental concept of spot transactions without any delay.

Forex online trading has been widely promoted on social media platforms, where transactions are said to be overseen by brokers. Brokers act as intermediaries in investment transactions between different countries, such as currency trading between the US Dollar (USD) and Malaysian Ringgit (MYR). However, the existence of unscrupulous brokers who prey on unsuspecting victims has harmed the Forex investment field. This underscores the importance of conducting thorough background checks on brokers involved in trading to safeguard against deception and scams. While brokers are initially seen as agents to facilitate Forex trading, some have unfortunately engaged in fraudulent activities, necessitating caution and due diligence when selecting a broker for Forex transactions.

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