دار المراجعة الشرعية

SHARIYAH
REVIEW BUREAU

CFDS: A MODERN FACE FOR PROFESSIONAL GAMBLING?

Examining the Sharia Concerns

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Introduction

Contracts for Difference (CFDs) trading has emerged as a significant and rapidly expanding sector within the financial services industry. In the fast-paced world of modern finance, derivatives like CFDs are a popular yet controversial tool for traders seeking to capitalise on market movements without owning physical assets. CFD trading has emerged as a significant and rapidly expanding sector within the financial services industry. Since their introduction in the 1990s, CFDs have grown to represent around 25% of the UK's daily stock market activity. These instruments are favoured by both professional hedge funds and individual investors due to their potential for substantial returns in both rising and falling markets.

At its core, a CFD is a financial agreement between two parties—a buyer and a seller—to exchange the difference in the value of an underlying asset, such as stocks, currencies, commodities, or indices, between the time the contract opens and closes. Unlike traditional investments, CFDs allow traders to speculate on price fluctuations in both rising and falling markets, offering the allure of magnified returns through leverage. However, this convenience comes at a cost: CFDs are complex, high-risk instruments that have drawn scrutiny for their potential to amplify losses, embed hidden fees, and contravene ethical and religious principles, including Islamic finance laws.

CFDs function as a double-edged sword. On one hand, they democratise access to global markets, enabling traders to hedge portfolios, diversify strategies, and profit from short-term volatility with minimal upfront capital. On the other hand, they operate in a regulatory grey area, often criticised for encouraging speculative gambling-like behaviour and exposing traders to unlimited liabilities. This paper delves into the mechanics of CFDs, exploring how they work, their advantages and pitfalls, and the ethical debates surrounding their use—particularly their incompatibility with Shariah principles. Whether you're a seasoned investor or a curious novice, understanding CFDs is critical to navigating the risks and rewards of today's financial landscape.

What are CFDs?

A CFD is an agreement between two parties—a buyer and a seller—to exchange the difference in the value of an underlying asset (such as shares, currencies, commodities, or indices) from the time the contract is opened until it is closed. The difference in value is the contract for difference.

A CFD is a derivative product that has a value based on an underlying asset. Therefore, the investor never actually owns the underlying asset, but rather agrees to exchange the cash difference based on the market price changes of that asset. It is a tradable instrument that mirrors the movements of the underlying asset. The investor can use CFDs to trade on live market price movements, allowing them to take a position on the future value of an asset, whether they think it will go up or down.

A CFD is a margined product, which, unlike traditional investments, means the investor has only to put down a small deposit of the total value of the investment. It is possible to trade CFDs on a variety of financial products such as equities, indices, exchange traded funds (ETFs), commodities and currencies.

A CFD can be used to speculate on the future movement of market prices or as a risk management tool. The investor can speculate on the future movement of an underlying asset/financial market, regardless of whether it is rising or falling. They can go long (buy), allowing them to potentially profit from rising prices, or short (sell), allowing them to potentially profit from falling prices.

As a risk management tool, the investor can sell short to hedge their portfolio and offset potential loss in the value of their physical investments. A CFD mirrors the corporate actions involved in the underlying physical equity allowing the investor to participate in rights issues, share splits and other company activities. A ‘’long” CFD position will receive 90% of an equity dividend on the ex-dividend date[1].

CFDs are leveraged products. They offer exposure to the markets while requiring an investor to only put down a small margin (“deposit”) of the total value of the trade. They allow investors to take advantage of prices moving up (by taking “long positions”) or prices moving down (by taking “short positions”) on underlying assets.

When the contract is closed, the investor will receive or pay the difference between the closing value and the opening value of the CFD and/or the underlying asset(s). If the difference is positive, the CFD provider pays the investor. If the difference is negative, the investor must pay the CFD provider. CFDs might seem similar to mainstream investments such as shares, but they are very different as the investor never actually buys or owns the asset underlying the CFD.

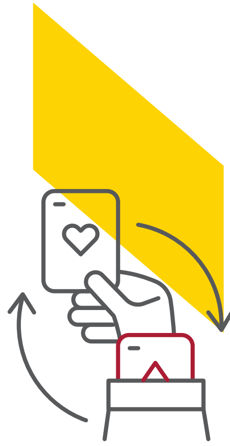
CFDs allow an investor to bet on rises and falls in shares, currency, and other assets while only putting up a small amount of their own money. The investor is leveraging the money they do have, in the hope of making more. With CFDs, the investor only has to put in a fraction of the market value of the underlying asset when making a trade, sometimes as little as 1%. The remaining 99% of the value of the asset is covered by the CFD provider. Even though the investor only puts up 1% of the value, they are entitled to the same gains or losses as if they had paid 100%. The actual percentage of the market value that will be required varies among different CFD providers and for different underlying assets.

This can make CFDs seem very attractive. Even if an investor does not have the money to buy the underlying asset itself, they can share in potential gains and losses on the value of that asset. But because the investor is trading with leverage, the gains and losses are magnified—and the risks are much greater. An investor can end up losing much more than they put in.

Unlike investing in shares, when trading CFDs, an investor is not buying or trading the underlying asset. What is being bought is a contract between the investor and the CFD provider. Because all that is owned is a contract with the CFD provider, the investor is also taking a bet that the CFD provider is in a sound financial position and will be able to meet its obligations.

Also, while the value of the CFD is derived from the value of the underlying asset, it may not track it exactly. These small differences can significantly affect any gains or losses made by the investor[2].

1 Pellard, D. A Guide to CFDs. CLEAR Capital Markets
2 ESMA (2013). Contracts for Differences. European Banking Authority

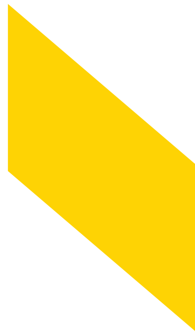


What is the ‘underlying asset’?

When an investor buys or sells a CFD, they are making an agreement to trade the difference in the value of an underlying asset (sometimes called the “underlying security” or the “reference asset”) between the present and a future date. However, they are not actually trading the underlying asset itself.

CFD providers allow investors to buy or sell CFDs on a range of underlying assets. Shares are the most common underlying asset, but most CFD providers also offer the opportunity to trade CFDs on other underlying assets, such as commodities and FX.

Some providers may also allow trading on certain market indices, such as the ASX 100, which aggregates the price movements of the top 100 stocks listed on the Australian Securities Exchange (ASX)[3].



3 Pellard, D. A Guide to CFDs. CLEAR Capital Markets

How do CFDs work?

- **Use Margin to Leverage a Position**

  A CFD is traded "on margin" meaning the investor only needs to deposit a percentage of the total value of the trade to gain exposure to the position. The profit or loss is calculated on the difference between the price the contract is opened and the price at which it is closed and based on the total leveraged consideration.

  The typical margin requirement is 10% on FTSE 100 and 250 shares. Therefore, a deposit of only £1000 is required to open and gain exposure to a £10,000 position and a 10% move in the contract price would equate to a £1000 profit or loss.

  Margin requirements can vary from 5% for highly liquid shares to 25%-100% for highly illiquid shares. Margin requirements in indices (e.g. FTSE 100, S&P, DAX) typically start at 0.5% of the total leveraged consideration.

- **Buy Long or Sell Short**

  A CFD gives the investor the flexibility to open both "long" and "short" positions with the view to profit from both rising and falling markets.

  The investor can go ''long" to position themselves with an aim to profit from rising prices. Meanwhile, selling ''short" enables the investor to sell shares they do not own and buy them back at a future date. The investor can go ''short" to position themselves with an aim to profit from falling prices.

- **Competitive Dealing Costs**

  There are many reasons why a brokerage charge on a CFD is typically lower in comparison to an equity.

  Firstly, because the investor does not take physical ownership of the shares, they are technically not being purchased, meaning CFDs do not incur stamp duty and do not attract custody fees.

  Secondly, dealing commissions tend to be lower for CFDs than equities because there is no settlement with CFDs. A settlement period structure of T+3, T+10, T+15 or T+20 has traditionally been offered by brokers and used by investors, with the main objective of trading short-term in and out of an equity within the settlement period, and ultimately to profit before the settlement becomes due. Brokers tend to charge a premium for such extended settlement facilities, typically starting from 1%, in addition to standard dealing costs. This can often result in total dealing costs reaching 3% to 4% for this method. Alternatively, the total dealing costs with CFDs can start from 0.1%, and typically do not exceed 0.5%, even for an advisory service.

  Capital gains tax (CGT) does apply to profits on both CFDs and equities and can be offset by capital losses. Tax treatment does depend on the individual circumstances of the investor.

  Financing charges are an additional cost attached to CFDs that does not apply to equities. They are applied to all open overnight CFD positions and are typically 2.5% over the interest rate on ''long" positions, and typically 2.5% under the interest rate on ''short" positions.

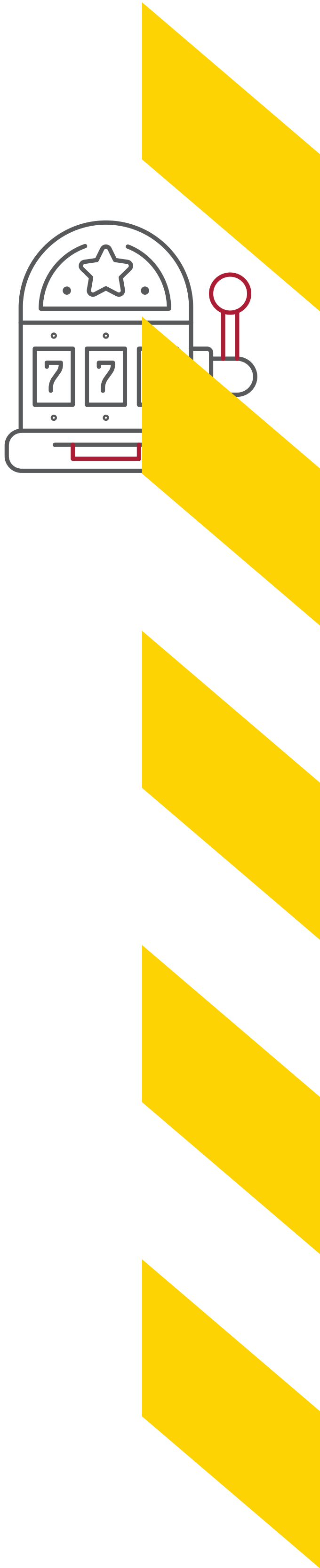
- **Liquidity and Diversification**

  CFD trading offers extensive market access since these instruments mirror the prices of their underlying assets while providing additional liquidity through CFD providers. Leading brokerages typically offer trading across multiple international markets through a single account, enabling broader portfolio diversification opportunities.

- **Hedge Your Portfolio to Manage Risk**

  CFDs may also act as tools for portfolio risk management. Investors can protect their long-term equity positions by establishing opposing short CFD positions in the same securities or related market indices. For example, if you anticipate a temporary market decline, opening a short CFD position could help offset potential losses in your long-term holdings. This hedging strategy often proves more cost-effective than completely liquidating and later repurchasing long-term positions, particularly when dealing with short-term market volatility.

Disadvantages of CFDs



- **Risk**

  A CFD is a sophisticated financial product, carrying higher risk than a traditional equity. A CFD is classed as a high-risk investment by default as it is a margined financial product. Using margin to leverage a position can be a double-edged sword because while potential profits can be magnified, so can potential losses.

  It is possible that the investor can lose more than their original investment and they are potentially liable for the whole amount of the leveraged position. For example, if an investor is long a £10,000 CFD position with a 10% margin requirement of £1,000, if the stock goes to zero, then the client is liable for a £10,000 loss. With a short position, an investor is potentially exposed to unlimited losses.

- **Margin Call**

  A CFD also has a collateral requirement which means that open positions are 'marked to market.' If there is insufficient collateral on the account to support open position losses, then the investor may be subject to a 'margin call.' The available margin limit does vary between established brokerages, however, typically it represents 150% of the cash value of the individual account. In the event of a margin call, the investor has the stark choice of providing additional funding to the account or be forced to close open CFD positions to reduce market exposure.

- **Finance Charges**

  A CFD is less suited to the long-term investor. This is because CFD positions held overnight are subject to overnight financing consisting of a daily charge based on the size of the contract and linked to interest rates. CFD positions held over an extended length of time (typically 3 months onwards), attract accumulated finance charges that can significantly reduce the effectiveness of returns and erode the value of an account. In such cases, it would prove more cost effective to buy the underlying equity instead.

- **Over Trading**

  Whilst a CFD is more suited to the short- and medium-term investor, there is always the self-induced risk of the investor 'overtrading.' This can result in losses from a combination of accrued trading costs and capital losses. Without the use of 'guaranteed' stop losses, stop loss limits are not guaranteed in fast-moving markets, which can lead to additional losses.

- **Brokerage Margin Changes**

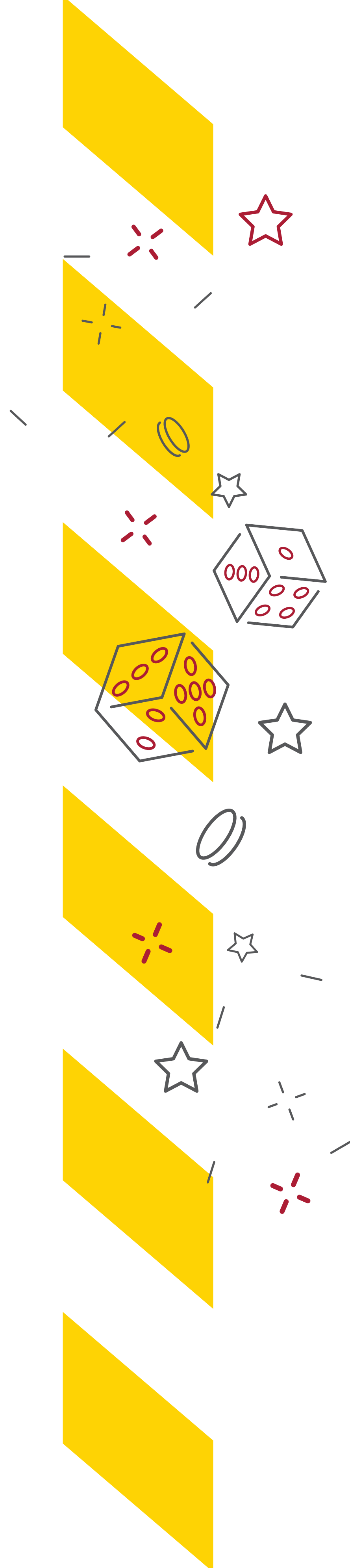
  An established brokerage can inadvertently increase an investor's margin exposure on their account if they decide to take the independent decision to increase the margin requirements on CFD positions. This is often conducted during times of market stress to reduce risk exposure.

- **No Share Ownership**

  Finally, a CFD investor has no voting rights as a shareholder since there is no physical ownership of the underlying equity. And because a CFD is an over-the-counter derivative product, the investor cannot transfer an open CFD position to a different brokerage account.

- **Costs**

  In addition to any profits or losses, there are different types of costs linked to transactions in CFDs. Costs will impact the effective return. Examples of costs include commissions charged by CFD providers. Be aware that while some CFD providers charge a general commission, others charge a commission on each trade (i.e. on opening and closing a contract). Costs related to CFD trading may also include bid-offer spreads, daily and overnight financing costs, account management fees, and taxes (depending on the jurisdiction in which you and the CFD provider operate). These costs can be complex to calculate and may outweigh the gross profits from a trade.

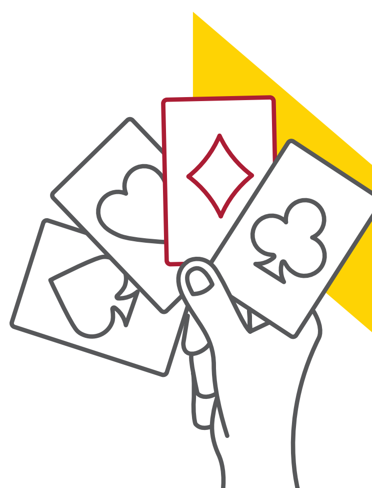


Examples of CFD Trades

An investor believes that a listed share (Share A) is undervalued and that its price will rise. They decide to buy 4000 CFDs in Share A at the price of £10 per CFD. The investor's "position" is therefore £40,000 (4000 x £10). However, they do not actually pay £40,000 upfront; the amount paid depends on the margin required by the CFD provider.

If the CFD provider requires a margin of 5%, for example, the investor's minimum initial payment is £2000 (£40,000 x 5%). The return on this initial payment will depend on the price of Share A when the investor decides to close their position (i.e. when they sell the CFD).

If the price of Share A decreases by 5% (from £10 to £9.50) and the leverage is 20, the investor loses the total amount (-100%) of their initial margin payment, meaning they lose £2000. If the price of Share A decreases by 10% (from £10 to £9) and the leverage is 20, the investor loses their initial payment of £2000 and their CFD provider will issue a margin call, requiring an additional £2000 if the investor wishes to keep the contract open. This illustrates how losses can exceed the initial margin payment.

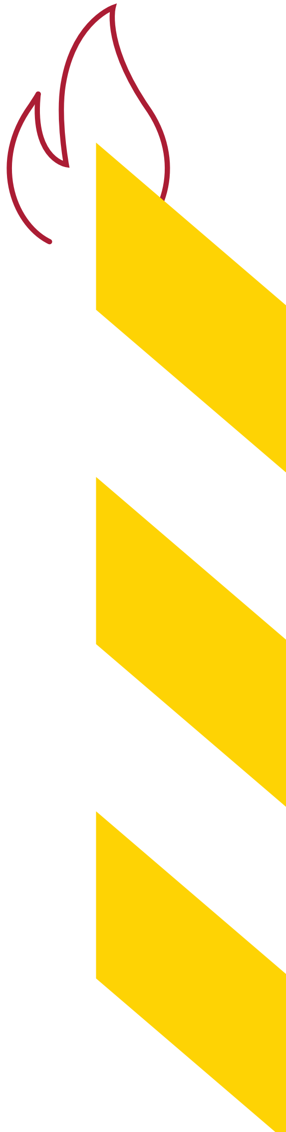


The below example compares buying 1000 shares in Royal Dutch Shell (RDSB) with the share price trading at 2300p. For CFDs Royal Dutch Shell is margined at 5%.

Action - BUY	Physical Shares	CFDs
Opening Value	£23,000	£23,000
Opening Commission (Shares 0.5%, CFD 0.25%)	£115	£57.50
Stamp Duty (0.5%)	£115	Nil
Cash required to open the position (CFD margined at 5%. £23000 × 5% = £1150)	**£23,230**	**£1,207.50**
After 5 days, the BT Group share price has increased to 2500p and the investor chooses to sell for a profit.		
Closing Value	£25,000	£25,000
(Gross Profit)	**£2,000**	**£2,000**
Closing Commission (Shares 0.5%, CFD 0.25%)	£125	£62.50
Finance Charges (LIBOR + 3%)	Nil	£12
Cost on closing the position	£125	£74.50
Cost to open the position	£230	£57.50
Total Costs	**£355**	**£132.00**
Net Profit (net of all costs)	**£1,645**	**£1,868**
RETURN ON EQUITY	**7.15%**	**162.4%**

N.B. The example shows profit from a rising price, however if the price falls, the losses on the CFD are magnified.

Risks of CFDs



CFDs, particularly those with high leverage (where increased leverage heightens overall risk), involve a substantial degree of uncertainty. These instruments are not standardised, and different CFD providers often impose their own unique terms, conditions, and fee structures. As a result, CFDs are generally deemed unsuitable for the majority of retail market participants.

Individuals who do trade CFDs usually do so to speculate—often over very short time frames—or to hedge positions in existing portfolios. Such trading activities typically require significant experience in volatile markets and the financial capacity to tolerate potential losses.

CFDs are ill-suited for “buy and hold” strategies since they may necessitate continual monitoring over short intervals (minutes, hours, or days). Retaining a position overnight can increase exposure to heightened risk and added costs. Because market fluctuations and leveraged positions can cause rapid shifts in overall investment value, swift action is sometimes essential to control risk or meet margin requirements. Consequently, those unable to keep a close eye on their investments on a regular basis are generally advised against trading CFDs.

Liquidity risk

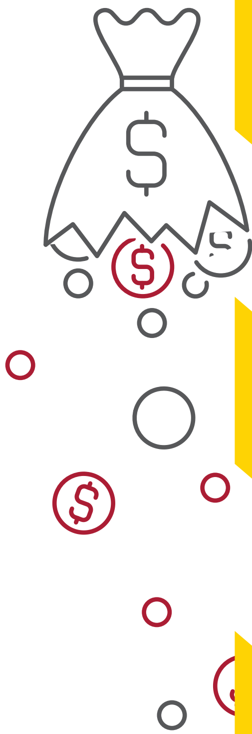
Liquidity risk refers to the possibility that a CFD or the underlying asset cannot be traded precisely when an investor wishes to buy or sell—whether to avert a loss or secure a profit.

In addition, the deposit (margin) maintained with a CFD provider is frequently recalculated each day based on variations in the underlying asset’s value. If the calculation indicates a decrease from the previous day, investors must supply additional funds immediately to restore the margin and cover any losses. Failure to do so may prompt the provider to close out the position(s), regardless of the investor’s preference, and any resultant losses remain the investor’s responsibility—even if asset prices recover later. Certain providers might even liquidate all existing CFD positions if the margin requirement is not met, including those that are currently profitable.

To keep positions open, some investors authorise CFD providers to draw extra payments, often via credit card, at the provider's discretion to satisfy margin calls. In a volatile market, such arrangements can accumulate large credit card obligations in a short period.

Leverage risk

Leverage magnifies both potential profits and potential losses. With lower margin requirements (sometimes as small as 0.5%), the likelihood of substantial losses increases if market movements turn unfavourable. Moreover, losses may exceed the initial deposit, which means it is possible to lose more money than the amount originally invested.



'Stop loss' limits

Certain CFD providers offer "stop loss" orders intended to limit losses by automatically closing positions once they reach a predefined price level. However, sudden price swings or market closures may render these orders ineffective. In such situations, stop loss mechanisms cannot guarantee full protection from additional losses.

Execution risk

Execution risk arises from the potential delay between submitting an order and the order's actual execution. During this gap, the market may move in an unfavourable direction, causing the final execution price to diverge from what was initially expected. Some CFD providers allow trading outside standard market hours, but the prices at those times may differ significantly from the official closing price of the underlying asset, and spreads can be considerably wider.

Counterparty risk

Counterparty risk entails the possibility that the CFD provider (the investor's trading counterparty) could default on its obligations. If the provider experiences financial difficulties and has not segregated client funds properly, investors could face the risk of not recovering the funds owed to them.

Shariah Review of CFDs

CFDs are not Shariah compliant instruments. This is due to a number of reasons, as follows:

1. Not owning the underlying asset

It is a requirement from a Shariah perspective to own anything that you are trading. The only exceptions to this are a Salam transaction and an Istisna' transaction. This requirement is based on the following narration:

عَنْ عَمْرِو بْنِ شُعَيْبٍ ، عَنْ أَبِيهِ ، عَنْ جَدِّهِ : أَنَّ النَّبِيَّ ﷺ قَالَ :"لَا طَلَاقَ إِلَّا فِيمَا تَمْلِكُ، وَلَا عِتْقَ إِلَّا فِيمَا تَمْلِكُ، وَلَا بَيْعَ إِلَّا فِيمَا تَمْلِكُ"
(أبو داود)

The Prophet ﷺ said: There is no divorce except in a marriage which you are a partner; Freeing a slave cannot take place except in that which you own, there can be no transaction except in that which you own." [Abu Dawud]

2. Not possessing the underlying asset

Another infringement of CFDs is that the trader does not possess the asset they are trading. This is another non-compliance issue. Not only does a trader need to own an asset, but they must also have possession and bear the risk of the underlying.

قَالَ رَسُولُ اللَّهِ ﷺ
"لَا يَحِلُّ سَلَفٌ وَبَيْعٌ وَلَا شَرْطَانِ فِي بَيْعٍ وَلَا رِبْحُ مَا لَمْ يضمن وَلَا بيع مَا لَيْسَ عِنْدَكَ"
رَوَاهُ التِّرْمِذِيُّ وَأَبُو دَاوُدَ وَالنَّسَائِيُّ وَقَالَ التِّرْمِذِيُّ: هَذَا صَحِيح

"The proviso of a loan combined with a sale is not permitted, nor two conditions relating to one transaction, nor the profit arising from something that you do not bear the risk of and nor is the sale valid of something that is not in your possession." [Sunan al-Tirmidhi]

3. Bay’ al-Ma’düm (Selling Non-Existent or Unpossessed Assets)

The classical jurists narrate a statement in the books of Fiqh of the prohibition of selling “a bird in the air” (بيع الطير في الهواء). This statement is the reference for the principle that one cannot sell what they do not own, control or have at the time of the contract (*ghayr mamlūk*). The *Ḥanafī* texts emphasise that ownership (*tamalluk*) and immediate deliverability (*qadr ʿalā al-taslīm*) are prerequisites for valid sales. For example, selling a bird mid-flight is invalid because it is not yet captured, owned, or deliverable (*mashkūk al-wujūd* – doubtful existence). As far as the contract is concerned, the only thing that is being traded is the idea of the bird, and not the bird itself.

In CFD trading, the trader does not own the underlying asset (e.g., shares, commodities) but speculates on price differences. This mirrors selling a “bird in the air,” as the seller (trader) neither possesses the asset nor guarantees its delivery. The contract hinges on a speculative outcome (price movement), making it analogous to *bayʿ al-maʿdūm* (selling non-existent assets). CFDs fail this criterion, as the “asset” in the contract is merely a virtual claim, not a tangible, owned item.

4. The presence of Riba

CFD trading involves speculating on price movements of assets without owning them, resulting in a cash settlement of the difference between the opening and closing prices. This structure inherently results in Riba in two primary ways: *Riba al-Fadl* (excess in exchange) and *Riba al-Nasi’ah* (excess due to delay).

Crucially, CFD trading constitutes a direct exchange of money for money without an underlying asset, which causes Riba. The Prophet ﷺ said:

“Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt—like for like, equal for equal, hand to hand. If the commodities differ, then sell as you wish, provided it is hand to hand.” [Sahih Muslim]

This Hadith establishes two rules for *ribawi* items:

1. Equality: Exchanges of the same commodity (e.g., currency for currency) must be equal in quantity.

2. Immediacy (*yadan bi yadin*): The exchange must occur immediately, with no delay.

In CFD trading, no physical asset (e.g., shares, gold, oil) is ever bought, sold, or delivered. Instead, the contract is a pure cash settlement based on price fluctuations. For example:

- A trader opens a “long” CFD position on gold at $1,800/oz.

- If the price rises to 1,850/oz, the trader receives 1,850/oz, the trader receives 50 (the difference) from the broker.

- If the price falls to 1,750/oz, the trader pays 1,750/oz, the trader pays 50 to the broker.

This transaction is a money-for-money exchange, as the trader and broker exchange cash amounts based on price movements. Since there is no tangible asset being traded, the contract reduces to exchanging one sum of money for another, with the difference determined by market speculation.

This violates the prohibition of *Riba* because there is no underlying asset being actually traded. The absence of a tangible asset (*‘ayn*) or usufruct (*manfa‘ah*) means the contract lacks a legitimate basis (*māliyyah*) required for valid trade.

Further, the trader’s profit or loss represents an unequal exchange of money over time, which combines *Riba al-Fadl* (inequality) and *Riba al-Nasi’ah* (delay).

Riba al-Fadl prohibits exchanging *ribawi* items (e.g., gold, silver, currencies) of the same type in unequal amounts, even if settled immediately.

CFDs on currencies (forex CFDs) or commodities (e.g., gold CFDs) involve exchanging cash based on price differences without physical delivery. For instance: Trading a EUR/USD CFD means speculating on the exchange rate between euros and dollars. The profit/loss is settled in cash, with no actual euros or dollars being exchanged.

In addition to the above, overnight financing fees (swaps) are also Riba based. Brokers charge interest (swap rates) on leveraged CFD positions held overnight. For example:

- A trader borrows $10,000 from the broker to open a CFD position.
- The broker charges a daily interest rate (e.g., 3% annually) on the borrowed amount.

Even if no leverage is used, the deferred settlement of profits/losses (e.g., settling after hours or days) introduces delay (*nasi'ah*), which is prohibited in money-for-money exchanges.

5. The presence of Qimar

CFD trading inherently embodies Qimar, which is gaining wealth through chancing, wagering, staking and betting without any real economic activity or trade.

The Quran condemns Qimar:

"O you who believe! Intoxicants, gambling, idolatry, and divining arrows are abominations of Satan's handiwork. Avoid them so that you may prosper." (Quran 5:90).

In CFD trading, profits or losses depend entirely on unpredictable price movements of assets (e.g., stocks, commodities, currencies). Traders bet on whether prices will rise or fall without any actual trade or economic activity. For instance, a trader opens a CFD position on oil prices. If prices rise, they profit; if they fall, they lose. This is akin to betting on a sports match or roulette wheel.

CFDs involve no physical ownership or transfer of assets. The contract is purely a cash settlement based on price differences. This detachment from real economic activity aligns with gambling, where gains/losses are abstract and unlinked to tangible value creation.

CFDs often use leverage (e.g., 10:1 or 100:1), allowing traders to control large positions with minimal capital. While this magnifies potential gains, it also exponentially increases the risk of total loss.

For instance, a trader invests 1,000 with 100:1 leverage giving him control of a 100,000 position. A 1% price drop wipes out their entire investment. This resembles high-stakes gambling, where participants risk losing everything.

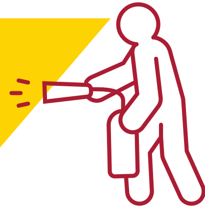
CFD profits for one party directly equate to losses for another (often the broker or other traders). This creates a zero-sum game, where wealth is redistributed based on speculation rather than generated through productive enterprise.

Shariah permits trade (*bay'*) and investment (*istithmar*) that involve:

- Asset Ownership: The buyer/seller owns or transfers a tangible asset (*'ayn*) or usufruct (*manfa'ah*).
- Value Creation: Transactions contribute to the real economy (e.g., agriculture, manufacturing, services).
- Balanced Risk: Risks are proportional to effort, knowledge, and shared responsibility (e.g., partnerships like *Mudarabah*).

CFDs violate the above principles:

- No Asset Ownership: Traders never own the underlying asset (e.g., shares, gold).
- No Value Creation: CFDs generate no societal benefit; they merely redistribute wealth based on speculation and betting where one wins at the expense of another.
- Disproportionate Risk: Leverage creates asymmetric risk, where losses can exceed initial investments—a hallmark of gambling



Conclusion

CFDs represent a paradox in modern finance: a tool that empowers traders with unprecedented flexibility while ensnaring them in a web of amplified risks and ethical dilemmas. By allowing investors to speculate on price movements without owning the underlying asset, CFDs democratise market participation, offering opportunities to profit from volatility, hedge against downturns, and access global markets with minimal capital. Yet, these benefits are overshadowed by profound dangers—leverage that can obliterate savings, hidden costs that erode profits, and counterparty risks that leave traders vulnerable to broker insolvency.

The allure of CFDs lies in their simplicity: a bet on whether an asset's price will rise or fall, settled in cash. However, this simplicity masks a labyrinth of complexity. Margin requirements, overnight financing fees, and volatile markets can turn even a well-calculated trade into a financial quagmire. For instance, a 10% margin on a £10,000 position means a mere 10% adverse price movement wipes out the entire investment, while a 20% drop could leave the trader indebted to their broker. The absence of ownership—no voting rights, no dividends beyond partial equity payouts—reduces trading to a speculative game, detached from the real economy's value-creation processes.

From a Shariah perspective, CFDs are unequivocally non-compliant. They violate foundational Islamic finance principles:

Ownership and Possession: Traders never own or physically possess the underlying asset, contravening the Prophetic injunction against selling what one does not own ("Do not sell what is not with you").

Riba: The interest-based financing charges (swap rates) and unequal cash settlements mirror the prohibited exchange of money for money with delay (*Riba al-Nasi'ah*) and excess (*Riba al-Fadl*).

Gharar: The speculative nature of CFDs introduces excessive ambiguity in outcomes, akin to gambling (*Qimar*), which the Quran explicitly forbids.

Zero-Sum Exploitation: CFD profits depend on another party's loss, resulting in the manifestation of *Qimar* activity.

For Muslim investors, CFDs are not merely risky—they are prohibited. Even secular traders must confront the ethical implications of a system that prioritises speculation over productivity, often at the expense of financial stability.

In conclusion, while CFDs offer a tantalising shortcut to market gains, they demand a sober assessment of their risks and moral compromises. For Shariah-compliant investors, alternatives like equity trading, *Sukuk*, or ETFs provide avenues to grow wealth without sacrificing principles. For all traders, the lesson is clear: in the high-stakes world of CFDs, the line between opportunity and peril is perilously thin. Tread cautiously—or better yet, seek paths where profit aligns with integrity.

About SRB

Since our humble beginnings more than 13 years ago we've grown to include more than 100 companies across a host of industries, thousands of transactional programs, multi-disciplinary teams and a combined scholarly workforce of 35 Sharia Scholars from 19 countries. And we're not done yet: our Sharia Advisory and Sharia Audit services will continue to improve—serving local and international businesses to help them maintain and manage Shari'a compliance.

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Disclaimer

This is a preliminary Shariah research and is by no means a definitive conclusion or fatwa on the aforementioned subject. This paper was written to develop knowledge and research on this complex subject from a Shariah perspective. We hope that this paper will prompt and engage global Islamic finance bodies, Shariah scholars and Muslim economists to analyze, comment and build upon the arguments expressed. Additionally, the views, analysis and opinions expressed in this article are those of the author and Peer Reviewers and do not necessarily reflect the official policy or position of Shariyah Review Bureau or scholars on its network or other practicing scholars of the Islamic Industry. Moreover, the information contained or quoted in this paper are derived from public and private sources which we believe to be reliable and accurate but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness. Shariyah Review Bureau or its employee, are not liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such supply. Shariyah Review Bureau will incur obligation of no kind arising from this document and will not be held responsible for any use of this document.

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