Introduction to Securities

Contents

Definition of Securities:	Documents of equal value that represent common shares in cash, debt or assets or a combination of the same, negotiable by commercial means and represent a right to shareholders or financiers.

Types of Securities:	**The various types of securities vary according to the regulations of countries for stock markets, including:** 1/shares, 2/sukuk (Islamic Financial Certificates), 3/ bonds, 4/units of investment funds, 5/subscription rights, 6/long term insurance contracts, 7/options contracts, 8/futures contracts, 9/swap contracts

Types of traders in securities	**Investor**: A person who buys securities intending to maintain them for long periods and benefit from the returns achieved by the company but does not intend to speculate.
	Speculator: A person who buys securities with the intention of trading in them and benefitting from the price spreads.

Types of trading in securities	**Investment**: Purchasing of securities to hold them for long periods and benefit from the returns achieved by the company, and not for speculation.
	Speculation: Purchasing and selling of securities with the intention of trading in them and benefitting from the price spreads.

Types of Speculators in securities	**Securities dealers for speculation purposes, differ according to the speculator's skill and purpose:**
	1/Speculator: this speculator builds his expectations and decisions about prices on a wide experience and knowledge of the market condition due to his permanent presence in it, and uses statistical and economic analysis tools to interpret the internal and external factors affecting the market.
	2/The outsider: this type of speculators, trades in the market for profit gaining without having sufficient knowledge of the factors affecting this market, and enters the market usually at times of high prices waves and leaves it when prices start to fluctuate for fear of his savings.
	3/Manipulator: This refers to a person who colludes with a group of dealers who have huge sums of money enabling them to have control over the market or over a certain security market so they can direct the market or those securities up or down by false means and behaviors to generate profits that harm others.

Patterns of Speculation in securities	**Speculators in securities have patterns and methods in speculation, the most important of which are:**
	Speculation when prices rise: the trader buys securities when he predicts a rise in prices, then sells the same when he his expectations come true and his profit shall be the price difference between both transactions.

	Speculation when prices fall: The trader borrows securities on overdraft basis predicting that their prices will fall, sells them at the time he deems appropriate, then buys the same at the time of price fall and return them to those from whom he borrows the securities. His profit, if any, will be the price difference between both transactions.

Types of Speculation in securities	**Speculation in securities can be divided in terms of their benefits and negative effects, into:**
	Good speculation: It is trading in securities to achieve profits from selling and buying differences using legitimate means as prospecting the future of the company through the speculator's experience and by using statistical and economic analysis tools.
	Evil speculation: this refers to the manipulation of securities prices using illegal means prohibited by sharia to achieve profit in illegitimate manner such as influencing the supply and demand rule, deceiving traders or spreading misleading rumors. Which we will talk about in terms of its sharia ruling , harms and prohibited means.

Benefits of good speculation in securities	1. Good speculation creates balance in the prices of securities as when the prices rise to the fair limit of the price of the security, the speculator abstains from purchase and the same reason causes him to sell the securities he is holding so the demand declines leading to preventing unjustified rise in prices. Likewise, when prices fall and supply increases, speculators tend to buy securities at a tempting price which prevent the unjustified decline in prices. This will eventually lead to valuating the security and reaching its fair price. 2. The advantages of good speculation include, increaseing liquidity and movement of the capital market. Also, one of the advantages of security markets ,lies in the ability of the security holder to liquidate it by selling it in the market whenever he wishes and getting cash. 3. It (good speculation) pushes issuers of securities, such as the joint stock companies, to improve their performance and raise the profitability of their companies so that investors and speculators can buy their securities.

Negative effects resulting from harmful speculation in securities. **Prohibited Speculation.**	**Harmful prohibited speculation results in damage to the individual and society, including:**
	1. The spread of manipulation and the forbidden behaviors in the markets, help the corrupted manipulators to gain great and quick profits without making efforts, which drives investors to move to those markets in the hope of getting quick profits, leading to aggravating the problem and affecting the other productive and

	useful economic activities.
	2. The act of gaining huge profits by speculators, leads to maldistribution of wealth and confining it to the hands of a few people, as the profit and wealth of the corrupted manipulator, is achieved at the expense of the deceived traders.
	3. Such behaviors makes inside and outside investors lose confidence in the economy at large, forcing them to migrate their money to other places which enjoy more security and confidence, or make them refrain from investing in the country for fear of their money.
	4. The outbreak of manipulation in securities causes the supply and demand rule to lose its natural advantage which is evaluating the security by its fair value, as the party who controls the price of securities by causing them to rise or decline in the markets where manipulation spreads, is the corrupted speculator who focuses only on his interests, unlike the natural situations in which prices are subject to logical factors, technical standards and the real profits of the security.
	5. Violating and illegal behaviors and practices, makes those who commit them, subject to penalties imposed by the Capital Market Authority.

General rules in the jurisprudence of transactions in Islamic law	**Our glorious Sharia (Islamic law) has established general rules to regulate the transactions of people in a way that preserves the right of God and the rights of people from manipulation, injustice and eating up wealth in vanity, as follows:**
	1. **Originally, contracts and conditions (terms) are permissible (halal):** because Allah allows us all financial transactions and does not prohibit anything unless otherwise provided for in the Quran or Sunnah and the evidence on this norm is His Almighty saying (but Allah has permitted trade) Surat al-Baqarah verse: (275).
	2. **The contracts and conditions are based on mutual agreement between the parties**: it is not permissible originally to take people's money without their consent and knowledge, and the evidence of that is His Almighty saying: ((O ye who believe! Squander not your wealth among yourselves in vanity, except it be a trade by mutual consent) surah An Nisa: (29).
	3. The contracts or conditions shall not contain one of the reasons for prohibition in the Islamic law, as cited below follows: **A - Usury (Riba)**: Interest in Islamic jurisprudence is of two types: **The first type: usurious debt:** an increase in due money in exchange for the term and divided into two parts: **1. Usurious Loan, riba al-qarud**: The conditional increase at the beginning of the loan required by the lender from the borrower whether fixed or variable. 2.Riba al- Jahiliyyah (time of ignorance , or pre- Islamic era): is the increase imposed by the creditor on the debtor in return for postponement of debt due to non-payment on maturity.

The second type is Riba al-buyu (the usury of trade): It is a special type in sales, which is the sale of money for money, food for food with al-fadl (increase) or al-nasia (delay), which is prohibited and allocated in the six categories and what is equivalent to the same in the legal cause (illat), The Prophet (peace and blessings of Allah be upon him) said: " 'Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, and salt by salt - like for like, equal for equal, payment being made on the spot. If the species differ, sell as you wish provided that payment is made on the spot'. Hadith: Muslim

Riba al-buyu, the usury of trade is divided into two parts:

1. **Riba al-Fadl((excess usury):** The concept of Riba al-fadl refers to excess of one of the two considerations if they unite in the legal reason such as: one riyal for three riyals, or 1 kg gold for two grams of gold, this is a prohibited form of usury of trade.

2. **Riba Naseeih** (**delay**): an increase in the term (postponement) not in the amount and its judgment varies according to the following:

- If both considerations are combined in legal cause and type such as: selling 1 kg of gold being delivered now in exchange of 1 kg of gold delivered after a month or 100 kg dates being delivered now in exchange of 100 kg dates to be delivered after a month. It is not permissible to delay here but the transaction should be on exchange basis, otherwise the transaction will be forbidden.

- If both considerations combined in the legal cause not in the type such as: to sell 1 kg of gold being delivered now in exchange of 1 kg of silver to be delivered after a month, or to sell 100 kg of barley being delivered now in exchange of 150 kg barley to be delivered after a month, It is not permissible to delay here also but the transaction should be on exchange basis, otherwise the transaction will be forbidden.

- If the legal cause is different such as selling wheat in exchange of gold or dates in exchange of riyals, there is no place for usuary here, so it is permissible to delay and increase.

B. Gharar (uncertainty): is the sale of probable items whose existence, characteristics or amount are not certain and cannot be delivered . The evidence of its prohibition is what was reported by Abu Hurayrah may Allah be pleased with him that he said: ((The Prophet (PBUH) prohibited the pebble sale and the Gharar sale)) narrated by Muslim.

Gharar is divided into:

1. **Gharar in the form of the contract**, such as combining two sales in one as to sell the commodity for a thousand riyals collected currently or for deferred two thousand without specifying one of them.

2. **Gharar in the subject of the contract**, such as not knowing the type of sale or its status as to sell a car, for example without mentioning its type or description.

3. **Gharar in the conditions of the contract**, such as making the choice for an

	unknown time as selling a building and excluding a floor without specifying it. **C. Harm:** It is to cause impairs and damage to others and the methods of harm, varies. The evidence on its prohibition is Hadith of our Prophet peace be upon him that he said: ((There should be neither harm nor malice)) including the followings: **1. Cheating**: A party shows the subject of the contract in contrary to the fact and reality by verbal or actual means or conceals an undesirable description which if the other party knows it, he would refrain from entering into the contract. The evidence of its prohibition is the Prophet (peace and blessings of Allah be upon him) Hadith (Whoever cheats me is not from me (or in another narration: whoever cheats us is not one of us)'. narrated by Muslim. **2. Al-Najash (fraudulent auction or sale by a manipulative overpricing):** A form of prohibited sale in which a person or group of persons connive with a seller to bid up the price of a commodity offered for sale not meaning to purchase but only to harm the purchaser, or benefit the buyer the buyer, or both, and the evidence on its prohibition: **It was narrated from Ibn 'Umar that:** "The Prophet forbade artificially inflating prices." **3. Fraud**: It is an act that makes the buyer imagines characteristics bringing increase, or concealment of the defect and it is prohibited through the words of the Prophet peace be upon him: ((Trick in the fire)) Narrated by Bukhari. **4. The deception:** is to trick or solicit the contracting party by a means or a deed to enter into the contract considering that it is in his interest and the reality is otherwise. It is prohibited through the Hadith of the Prophet peace be upon him: ((Trick in the fire)) Narrated by Bukhari. **5. Dishonesty**: Not to give deposits of money by denial or default. It is prohibited through the Hadith of the Prophet peace be upon him: ((**your religion will not be complete if you are not honest**)) Narrated by Ibn Hibban in his Saheeh. **6. Monopoly:** is to save the commodity that people need, in order to increase its sale price. It is prohibited through the Hadith of the Prophet peace be upon him: ((No one hoards but the sinner)) Narrated by Muslim.

The prohibited behaviors used by speculators to influence financial securities:

First: The prohibited behaviors related to corporate management	Senior administrative positions in joint stock companies such as the company's board of directors, chief executive officer, general managers, and employees who are aware of and familiar with, important information (insiders) are of great importance in protecting the capital market from the prohibitive behaviors affecting securities prices. However, some may exploit their positions to achieve profits for themselves or for one of their relatives. However, others may manage to make their companies avoid losses that were expected to occur, due to their knowledge of important information affecting the prices of securities. Among the behaviors prohibited by Sharia, which some of the departments’

	employees may commit , are the followings:
	1. **The employee's disclosure of a secret information that has an effect on raising or reducing the price of a security** whether it is disclosed by a relative of the employee, his friend or third parties. The damage results from using the information in his favor in such a manner that ,if it is positive, he buys the securities before being announced and thereby achieving a profit by raising the price of the security but if it is negative, he sells the securities he owns before being announced avoiding the expected loss and charging it to the buyer of that security. This action is prohibited according to sharia, because it is dishonesty and a breach of the covenants and contract between him and his company. He also exploited his position for his own interest or for the interest of his relative by disclosing information he had promised not to disclose.
	2. The employee's non-disclosure of information that are supposed to be disclosed to customers in the financial markets , due to their impact on the current or future performance of the company. This information is of two kinds: one is specified by law, such as the announcement of the resignation of a senior official in the company. The other type is what is known as a sort of control expressed by the material information, namely that important information affecting the price of securities in the market, such as the conclusion of large contracts resulting in profits, or financing contracts the proceeds of which will be used in supporting its projects. This action is also clearly prohibited by sharia, as the concealment of what must be stated is like disclosing what must be hidden, both fraud, breach of the trust, the covenants and the contract.
	3. **Arranging or concluding prohibited contracts by the employee:** such as usurious financing contracts, usurious bonds or buying shares of prohibited companies such shares of usurious banks, alcohol companies, gambling companies, forbidden games, singing and musical instruments companies, companies of pornographic magazines and movies, commercial insurance companies or investment funds with assets similar to the above prohibited ones, or otherwise. This behavior is clearly prohibited, because if Allah almighty, prohibits any thing, he also prohibits its price and prohibits whatever lends support to it. Usury (riba), gharar and the spreading of taboos, alcohol, gambling and singing are prohibited by sharia.

	All behaviors intended to deceive traders in the financial markets to influence their decisions to buy or not to buy securities, are sort of conducts prohibited by Islamic Sharia. Our glorious Sharia is characterized by a balanced system that preserves the rights of all parties, sellers and buyers, rich and poor ..etc. Such rights are preserved by the existence of a clean market free of the harmful behavior to its system which affects its prices, as Sharia leaves the determination of prices of goods to the market powers according to the natural supply and demand rule in

Second: the behaviors related to the traders	which the seller sells the buyer a commodity to benefit from it. In legitimate cases, commodity prices rise when their supply decreases in the market due to factors outside the control of their traders such as the shortage of goods supplied due to drought or floods, etc., while commodity prices rise in illegal cases as a result of the harmful actions of some traders in the market such as the monopoly of goods to affect the supply and demand rule leading to price increase , or by spreading rumors to provoke panic amongst some dealers indicating the supply interruption of a certain commodity at the current time or in the future leading to buying the commodity with no immediate need for fear of interruption, which will raise its price. Oppositly, the prices of goods can be affected by reducing them, and in this case, though apparently it indicates that the buyer will benefit from the low prices, but the damage occurs due to the losses incurred by some small traders such as small and medium enterprises, who have an effective impact on the prices of goods because they are often satisfied with little profits compared to what major traders aspire to. In addition to the above negative effects, the fact that a few traders monopoly the selling of these commodities after the fall of their juniors, has a negative impact on raising the prices after they have been low. In the field of trading in securities markets, we find that this effect is apparent due to the limited number of securities held by one company. Some behaviors that are prohibited by sharia and legally, which may be committed by some traders, are as follows: **1. The purchase or sale of securities to affect the price of the general index of the market up or down.** This behavior has negative effects on investment decisions and the psychological state of the traders and traders may think that this is the status of the market whether positive or negative forcing them to buy in cases where they are presumed that they are positive and to sell or refrain from buying in cases which they are presumed to be negative. This behavior is prohibited by Islamic law because of the deception and deceiving the dealers in the market.
	2. Offering, selling or purchasing securities to influence prices up or down. This conduct is done through many ways, such as: a. Offering securities to influence the opening price of the security (fictitious offers): the speculator, before the opening of the market, offers his securities for sale at different prices to make the trader believes that it is time to sell the stock as its price is expected to fall. Accordingly, the owners of this specific security offer their securities for sale at a price below the price offered by the speculator, just before the opening of the market. Then the speculator cancels the offer orders and buys the offered securities of the deceived owners. After the rise of the security's price, the speculator sells it at a higher price. B- Offering, selling or buying securities to affect the closing price: the speculator ,

	within a short time prior to closing the market, offers, buys or sells a quantity of securities in order to affect the last price of a transaction in the market up or down to achieve the following matters or one of them: 1/Give false information about the performance of the security and accordingly the traders may take wrong investment decisions. 2/Affect the price of the stock at the beginning of trading for the next day. 3/Affect the maximum and minimum limit of the stock price in the next day. 4/Affect the closing price. C) Offering securities for the purpose of influencing their price by increasing or decreasing it: this behavior has many types, such as: 1/The speculator enters one or more than one purchase order without intending to execute it in order to delude the traders that there is an increasing "purchase order" on the securities pushing them to buy, so the prices rise and then sell his securities at a high price. 2/The speculator enters one or more sale order without an intention to execute it, in order to delude the traders that there is increasing "sale offer" on the securities pushing them to sell, so the prices fall and the speculator buys new securities at a low price. These behaviors contain some forms of Najash (deception and deceiving others which is prohibited by the Islamic law.
	3. Buying or selling securities for the purpose of controlling their market and affecting their price (monopoly). This behavior has the greatest effect in raising and reducing the prices of securities in an unjustifiable manner to achieve profits through ways that are prohibited according to the Islamic sharia and the Law. A- Buying large quantity of a specific security by one or more speculators in order to control and monopolize its market for the purpose of raising the price, followed by the sale of a large quantity to achieve profit from selling at a high price. B- Selling a security by one or more speculators in order to control and monopolize its market for the purpose of reducing the price, then purchasing a large quantity at a low price. C- A group of speculators agree to buy or sell a company's securities so that they can control the company's market due to the low number of its securities to increase or reduce the price. These behaviors include monopoly for the security by the trader, which is forbidden in Islamic Sharia, because it causes damage to the traders, whereas some speculators are the only ones who make profits.
	4. Buying or selling securities in large quantities which do not result in a real transfer of ownership, in order to delude the traders that there is unusual activity on the securities and to persude them to buy or sell them (turnover or high circulation).

	This behavior affects the decision of the speculator to sell or buy the securities and thus affect the prices of securities. This behavior takes different forms, to name a few: A- One or more speculators sell shares of a particular company owned by them and then buy them at the same time from another portfolio owned by him, or by his relative or others, for deluding the traders that there is unusual trading on the company's stocks, thus pushing them to buy or sell. B- The speculator agrees with one or more speculators to sell the shares of a company, where one speculator sells the shares of a certain company, and the other speculator purchase from him for the purpose of deluding the traders that the company is witnessing an unusual activity as a result of undeclared information that is owned by the seller and the purchaser only, pushing them to buy or sell the shares. These types of behavior, contain cheating and exposing the traders to danger, which is prohibited by Islamic sharia, as they forms of misleading and delusion to other traders.
	5. Buying or selling securities for the purpose of going against the supply and demand theory, the technical parameters of the support prices and the resistance prices assumed or set by the financial analysis specialists and others (solicitation). This behavior leads to the solicitation of traders to buy or sell certain securities based on supply and demand prices affected by the manipulation of speculators. This behavior may take the following forms:- a. A number of traders agree to speculate in a particular security to raise or lower its price in order to manipulate the theory of supply and demand, as well as the technical standards set by the specialists to solicit other traders. B. One or more speculators purchase securities which are influential on the general index of the market to influence its price for the purpose of manipulating the theory of supply and demand and disturbing the support and resistance prices which are based on the technical standards set by specialists, in order to solicit traders to buy or sell. These behaviors are forbidden by Islamic Sharia as they involve tricking and cheating the traders in the market.
	6. Spreading rumors and misleading information: spreading false or misleading information or news influencing the price of a security through the various media such as the Internet and modern means of communication, in order to raise or reduce the price of the securities so that the speculator could make profits from the differences in prices. This behavior has a significant impact on the prices of securities and in the difficulty of detecting the violator because the manipulator

	depends, in raising and reducing the price, on the purchase or sale transactions made by a large number of traders at one time, whereas the total sum of these orders lead to raising or reducing the price of the security. This behavior leads to false impression and fraud to the traders and deceive them, which is prohibited and not permitted by Islamic sharia.

Third: the prohibited behaviors related to financial analysts and media professionals	**The financial analysts and media professionals have an impact on the trend of the financial markets, especially during times of serious crisis and economic or political events. The sentiments of traders have great effect on the way they make their buying or selling decisions. When the market climate is positive, there will be a buoyant demand for buying but in the negative environment, decisions tend to sell, which affects the prices of securities in general, or on the prices of a particular sector or the price of the general index of the market. Hence, the importance of financial analysts and media professionals, becomes clear in the interpretation of these events and their impact on the prices of securities.** **The followings are types of behavior prohibited by Islamic Sharia as well as the Law, in which some financial analysts or media professionals may fall:**
	1. One or more traders agree with financial analysts or media professionals to publish misleading positive information in order to give a false impression to raise the price of a security, in order to be able to sell his securities. This is what the Islamic Sharia has forbidden because it contains liar, cheat and deception to the traders in the market.
	2. One or more traders agree with financial analysts or media professionals to publish misleading negative information in order to give a false impression which leads to reducing the price of a security , to enable him to buy securities. This is what the Islamic Sharia has forbidden because it contains liar, cheat and deception to the traders in the market.
	3. The analyst relies in the interpretation of economic or political events on astrology or astrologers and magicians because Islamic Law forbids questioning astrologers or relying on their interpretations as the Prophet (ﷺ) said, "He who goes to one who claims to tell about matters of the Unseen and believes in him, his Salat (prayers) will not be accepted for forty days." **Muslim Hadith, the Prophet, peace be upon him, said: "Whoever comes to a sorcerer and believes what he says, then he has disbelieved in what was revealed to Muhammad" [Narrated by Abu Dawud, on the authority of the four authors of Sunan.**
	4. The financial analyst issues a recommendation to the traders to buy a security while his studies indicate that the correct decision is to sell it, which is forbidden by Islamic Sharia because it cheats the traders and deceives them.
	5. The financial analyst issues a recommendation to the traders to sell a security

	while his studies indicate that the correct decision is to buy it, which is forbidden by Islamic Sharia because it cheats the traders and deceives them.
	6. The behaviors prevented by the instructions and regulations of the CMA, include also: (A) The analyst buys a security before making a recommendation or a study that motivates this purchase, even if that recommendation is valid. (B) The analyst sells a financial security before issuing a recommendation or study that motivates this sale, even if that recommendation is valid. (C) The financial analyst buys a financial security in contradiction to the recommendation or study to sell that security. (D) The financial analyst sells a financial paper in contradiction to his recommendation or study to purchase that security.

Fourth: the prohibited behaviors related to investment and Brokerage companies	The brokerage and investment companies have a great influence in controlling and proving the prohibited behaviors and preventing the violators because they are the usual outlet for buying securities from the market, and the employees of these companies have greater responsibilities in performing rights, keeping secrets and maintaining the trust. Some of the behaviors that are prohibited by the Islamic Sharia and the law, which may be committed by some investment and brokerage companies, include:
	1. Refrain from executing the customer's orders to buy or sell securities with the intention of affecting their prices up or down, which is a betrayal of the trust vested in the companies, and this is contrary to what Islamic Sharia called for with regard to keeping the trust and performing it in a proper manner.
	2. Selling or buying the securities owned by the traders without their permission, whether sold in the market or to himself. This is what the Islamic Sharia forbids as it involves exploitation of the trust that the customers have vested in the company and betrayal of the trust.
	3. Some brokers abuse the confidence vested in them by their customers through betraying the trust and exploiting the confidence of their customers, as their interest in gaining commissions from large number of transactions, impels them to deceive third parties and delude them that their interest is in trading on the security by sale or purchase at the prevailing price without this being actually true. This is an exploitation of the trust vested by the customers in the company and betrayal of the trust, which Islamic Sharia called for keeping and caring for.
	4. Spreading the secrets and information of one or more clients to non-competent entities, such as the amount of the client's money or the type of securities that he owns. This is contradictory to what the Islamic Sharia called for with regard to keeping the trust and performing it in a proper manner.
	5. The investment companies staff benefit from the financial information of the

	customer to buy or sell securities and make a financial profit for themselves , or for one of their relatives , or their friends or third parties, based on such information. This is what the Islamic Sharia forbids as it involves exploitation of the trust that the customers have vested in the company and betrayal of the trust.
	6.Some of the behaviors prevented by the instructions and regulations of the CMA include: (A) Giving gifts to the customer for the purpose of encouraging him to buy or sell securities for increasing the profits of the company by increasing trading in securities. (B)Exercising the brokerage business without a license: this occurs when persons who are not licensed by the Capital Market Authority, carry out the securities business, such as brokerage and management of investors' portfolio for a percentage of the portfolio profit or for a lump sum, or when unauthorized persons publish recommendations on the shares of the companies listed in the market (Buy or sell) to other people. (C)When some persons make recommendations or call for participation in recommendations for the purchase or sale of shares of companies that are listed in the financial market through a website (website-forums - social networks - text messages - newspapers and television channels) or through any other means of communication or media without obtaining a license from the Capital Market Authority.