Options: From Conventional and Islamic perspectives Analyses on the Islamic solutions

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Options: From Conventional and Islamic perspectives

Analyses on the Islamic solutions.

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Abstract

**Purpose:** As Islamic finance is growing there is a need for more innovative instruments to be used especially for risk management purposes. The main purpose of this paper is to analyze “option” as derivative instrument form conventional point of view, and to analyze it from Islamic perspective. Also the paper aims to replace the prohibited elements in option by alternative Islamic contracts.

**Design/Methodology:** The methodology used in this paper is qualitative method in which it uses a combination of historical research and literature review based on some previously published articles and reports and library research.

**Findings:** The study finds out the diverged shariah opinions about the permissibility of “option” as a derivative instrument, rather than this the paper found various permissible Islamic contracts that can be used as alternative. The first alternative is the usage of simple Waad (promiss) with a fee, the second contract is a combination of Waad, Wakalah, and commodity Murabaha. The third alternative is the usage of Urbun (earnst money) as an Islamic alternative to call option as well as hamish al jediya. Furthermore the paper highlights the need of such instruments for hedging purposes rather than speculation.

**Originality/Value:** The significance of this study is the way the topic was treated. A lot of previous research papers have identified the prohibited elements of options and the Islamic alternatives, but this paper tries to facilitate the understanding of options from Islamic perspective by using diagrams. Also this paper clarifies the main alternatives and compares the classical and the contemporary shariah scholars’ views.

**Keywords:** Options, Waad, Urbun, derivatives, hedging

**Paper type:** Research paper.
Introduction

The last quarter of the 20th century was a point of transformation in the global markets with all the appearance of new technologies and the globalization. This era was a transformation in the capital markets also with the appearance of new instruments that didn’t take place before. In conventional capital markets, derivatives are being widely used. However in the Islamic capital markets generally derivatives are not used because they are considered as non shariah compliant. One of the popular derivatives and one of the most used is options. Alot of opinions arise when talking about the permissibility of options where there is a division of opinions among scholars between opponents and proponents. By analyzing options from conventional and Islamic point of view, this will permit do define the issues and the non shariah elements that exist in it. This analysis will lead to find the Islamic alternative contracts that can make the use options permissible. The usage of islamic alternative contracts such as Urbun and Waad can replace the issue of taking a premium for example.

Problem statement

While the remarkable growth of the Islamic capital market size creates a need for having some instruments that can form a sort of protection. Options as a derivative product can be used for hedging purposes; however alot of the shariah scholars and bodies have decalred options as impermissible instrument because of its current practices that are contradicitng the principles of Shariah. Therefore there are some islamic contracts that can be part of the solutions to make options permissible. With the usage of options our capital markets can become more stable and this can ease the path of growth of the market sizes.

Research questions

- What is the shraih point of view on options, what the reasons of the prohibition or in other words what the prohibited elements in the conventional options are?
- What are the solutions from Islamic perspective, is there any alternative contracts that can replace the prohibited elements existing in options?
- What are the shariah issues that arise from the Islamic alternatives when applying them in the context of options?
Research objectives

- To analyze the permissibility of options through classical and modern shariah points of view, also to define the reasons of impermissibility by identifying the prohibited elements.
- To establish solutions from Islamic perspective by applying Islamic alternative contracts.
- To define the Shariah issues that arises from the application of the Islamic alternatives for options.

What are options

An option is a type of financial derivatives in which an option contract will be sold by one party to the other; the seller is called option writer and the buyer an option holder. The option contract offer the holder the right to buy or sell (in other words call or put) a security or any other financial asset at a certain agreed strike price within a certain period also known as exercise date. According to Cohen an option is defined as «right, not the obligation, to buy (or sell) an asset at a fixed price before a predetermined date.» (Your Guide to Profitable Trading, p.9). There are two main types of options contracts, the European options and American options. These two types of options are contrasted mainly based on the right to exercise and settlement price.

Types of Options

1- Plain vanilla Options

As the name suggest, there are two clear cut types in the plain vanilla options:

   Call Option, or commonly referred to as long position, is a contract that gives its holder the right but not the obligation to buy a specific asset or securities such as a predetermined number of shares in a certain company for a fixed price during a particular period while it is the obligation of the seller (short position) to sell these shares to him when he exercises his or her right (contingent liability).
**Put Option** also known as short position is a contract that gives the person who pays the premium the right to sell a certain asset or a number of shares against a fixed price. The fixed and predetermined price at which the transaction will be carried is known as the exercise price or strike price during an agreed period of time. (Alamad, 2017).

**Double Options** are combined sell and buy of put and call options, with a premium which is nearly double a normal premium. When you are betting that the share price will move out of the range represented by the premium cost. (Hussain, Mohsin & Septya, 2015).

## 2- Exotic Options

There are many types of exotic options with different features and different prices (premiums), the following are among this type:

**Up and In Option:** This type of exotic options gives its holder the right to exercise only when the market price reaches a certain upper level, in other words the holder cannot exercise his right even when the market price is higher than the strike price, hence this type of option has a limited right and therefore it is less expensive than a plain vanilla option.

**Up and Out Option:** In this type of option, the holder has an opposite right than the previous type whereby he only can exercise when the market price of the underlying asset is between the interval of the strike price and an upper barrier. That means if the market price is higher than the upper barrier the holder then cannot invoke the option. (Hussain, Mohsin & Septya, 2015)

There exist quite few other types of exotic options but for our concern we only took a sample of two types just to highlight its unique features that make it different from the plain vanilla type.

## 3- Stand-alone and Embedded Option
The standalone option is the type of option that is not attached to the underlying asset and can be bought and sold separately. Thus, it derives an independent price. This type rises a controversy from a shariah perspective where it will be addressed in the coming section. (Hussain, Mohsin & Septya, 2015).

The embedded option however is the opposite of the stand-alone where it is attached to the underlying asset and generally it doesn’t have an independent price, nor can it be traded on its own, and example for this type would be a hybrid sukuk and a call warrant which gives a right to the existing shareholders to purchase a predetermined number of shares in the company for a predetermined price in a future date.

Economic Benefit of Options

Options are beneficial in their essence as they are among the risk management tools used to hedge against uncertainty and volatility of prices, the followings are some advantages of the options

- In futures contracts one is being locked in the position hedged and would not benefit from subsequent favorable price movements as the futures are obligations, however options are more flexible in this aspect and they give their holder the right and not the obligation to exercise them, so options buyer will exercise them when the conditions are in his favor and revoke them when the economic conditions are against him and he loss is only limited to the premium he paid (limited loss). (Muhammad al-Bashir Muhammad al-Amine, 2008)

- The second benefit is related to the tradability of options whereby options can be bought for a fraction of the money needed to buy the underlying assets. Investors who do not have enough funds and still want to benefit from the underlying asset price movement can by options and acquire the same benefit as acquiring the underlying asset while his loss is limited to the premium (Bacha & Mirakhor, 2013). Nevertheless, this benefit may turn out into a disadvantage where it is misused and become a pure speculation in the market that affect the price of the real underlying assets.
Options from shariah perspective

Going back in history to the early era of Islam, the origins of option can be found in the Sunnah of the Prophet (PBUH) when he advised a Sahabi (companion) that was frequently being cheated in sale “when you conclude a sale, you may say that there must be no fraud, and you preserve yourself with an option lasting 3 days”, but at that time the context of that option is not similar to the context of today’s options. The main concept that occurred in Sunnah and in fiqh books was for the purpose to reach fairness and propriety (Kamali, 2000). Today option is needed not to ensure fairness but more as a risk mitigation tool for a hedger to hedge his position against market fluctuations. It should be noted that the main fiqh schools (madhahib) approve the validity of (khiyar al-shart) option of stipulation that is mentioned in the above Hadith (Sultan & Hassan, 2012).

The big debate on the permissibility of conventional options is subject to disagreement as the majority of the jurists and boards have specified the impermissibility of conventional options, starting from the OIC Fiqh Academy which has clearly mentioned that, “Since the subject of (option) contracts is neither sum of money, nor a utility, nor a financial right which may be waived, then the contract is not permissible in Shari’ah” (Resolution No. 63/1/7; 2001). Also AAOIFI in the standard (20) “Sales of Commodity in Organized Markets” after defining conventional options, states that option are permitted neither in their formation nor in their trading. The following table shows the main opinions of scholars between proponents and opponents regarding options.

<table>
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<tr>
<th>Source</th>
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<tr>
<td>Mufti Taqi Usmani (Fiqh Academy – Jeddah)</td>
<td>Promises as part of a contract is acceptable in Shariah, however the trading and charging of a premium for the promise is not acceptable. Yet others have argued against options by invoking “maisir” or unearned gains. That is, the profits from options may be unearned.</td>
<td>Hashim Kamali (1998, International Islamic University, Malaysia)</td>
<td>Finds options acceptable Invokes the Hanbali tradition, cited Hadiths of Barira (RA) and Habban Ibn Munqith (RA). Also draws parallels with the al-urbun in arguing that premiums are acceptable. Cites that contemporary scholars such as Yusuf al-Qaradawi and Mustafa al-Zarqa have authenticated al-urbun.</td>
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<tr>
<td>Abu Sulayman (Fiqh Academy – Jeddah, 1992)</td>
<td>Acceptable when viewed in the light of bai-al-urbun but considers options to have been detached and independent of the underlying asset – therefore : unacceptable</td>
<td>Shariah Advisory Council (SAC) Securities Commission, Malaysian</td>
<td>No formal opinion on options. The fact that there are no equity options, only index options available currently has meant that there is no urgency. Index options are disallowed based on the argument that some of the stocks in the KLSE CI are non-halal. However, the SAC has approved as halal, the</td>
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Some of the jurists debate on the permissibility for an option to seek an amount (premium) because it is intangible right (Sultan & Hassan, 2012). This means that option is a financial right which can have an intrinsic value. To understand better the technical definition of a financial rights, AAOIFI has issues a standard (20) about this matter, it defines financial rights as “the prerogative of a (natural or artificial) person recognized by shariah to have rights and responsibilities and the legal capacity to enter into transaction” including three types of assets (personal, proprietary, intangible).

Although the OIC Fiqh academy recognizes option as a financial right but they disallow it. Their justification is that in order to make profit you should own a real asset that has physical intrinsic value or intrinsic productivity (excluding debt), and here they highlight that options are not this kind of asset (Kahf, 2007). On the other hand AAIOFI in its Standard (42): Financial Rights and How They Are Exercised and Transferred, it also recognizes option as a financial right but it is not permissible to take a counter value for transfer of option rights whether by selling or otherwise. The issue is that although options are recognized as financial rights why they are not yet recognized as a shariah compliant contract.

In regarding this issue some scholars have defined the prohibited elements that exist in the modern application of Options. The major opinions of scholars lead to three different main reasons (Rahimi, 2016):

- The use of options and its nature are similar to the nature of gambling (maysir), it is a zero-sum game where the winning of one party is related to the loss of the other party (Iqbal, Kunhibava, & Dusuki, 2012).

- In the modern markets, options are being used for high speculations (excessive). This means it is not used to protect the real value of the assets, but it is used to make profit from the increase of the value of the asset (Iqbal, Kunhibava, & Dusuki, 2012).

- The premium which is paid for the option is not permissible because it consists of a promise and charging a fee for a promise is impermissible (Usmani, 1996).
Islamic alternative Structures

After revising the shariah point of view pertaining to the options, we found out that there is a variety of arguments between shariah scholars for the permissibility of this financial instrument if used as a hedging tool. Despite the arguments presented above regarding the embedded characteristics such as *Gharar*, gambling and the premium as a counter value for the options, there is some structures for Islamic options to manage the risk inherited in the modern transactions. in our study we incorporate three shariah compliant structures for Islamic options namely, the first structure involves *Wa`d* contract, basically there are two structures using *Wa`d*, the first using purely *Wa`d* with a direct paid fee, and the second using a combination of contracts (*Wa`d*, *wakalah* and *commodity murabaha*) in which commodity murabaha used as a manner to receive fee. the third structure involves *Urbun* contract.(Rahimi, 2016), as for the third and the fourth products, they are structured using Urbun and Hamish al-Jiddiya consecutively.

**1- Islamic Option based on *Wa`d* with a fee**

Before we illustrate the type of this Islamic option structure let use highlight first the *Wa`d* contract and its shariah rulings from different shariah ruling bodies. *Wa`d* is a promise or a commitment whereby one party (the promisor) undertakes to fulfill a future task or action to another party (promisee), while the promise particularly the unilateral promise is legally binding for the promisor and is an obligation in certain circumstances( such as when the promise is tight to a condition to be fulfilled by the promisee and when the promisor revoke his undertaking it causes a loss for the promisee) in the other hand it is a right and not an obligation for the promisee whether to call it or revoke it. the Accounting and Auditing Organization for Islamic Financial Institutions however distinguishes between two types of promise the unilateral promise and the bilateral promise, AAOIFI resulted for the permissibility of the binding unilateral promise and the impermissibility for the binding bilateral promise such as being used in back to back derivatives, this stand was also made by the International Fiqh Academy when it disallowed the binding bilateral promise and recognize it as tantamount as a real contract.(AAOIFI, 2015).
On the other hand both Shariah Advisory Council of Bank Negara Malaysia and Securities Commissions have resolved the permissibility of binding bilateral promise because it is not a contract and the contract will only be entered into at a time which has been agreed in the future. (Bank Negara Malaysia, 2016)(Securities Commission, 2014). we should also mention that the SAC of BNM has explicitly disallowed a counter value (fees or charges) on the promise while AAOIFI disallowed the tradability of Wa`d and also any specific counter value for the promise. (AAOIFI, 2015)

Pertaining to the permissibility of the application of Wa`d in currency derivatives, all the above shariah bodies have convergence on the permissibility provided that it is structured for the purpose of hedging.

Because there is a convergence pertaining to the permissibility of using promise to build up a shariah compliant hedging instrument we have chosen Islamic currency option as an example to illustrate the options structured based on Wa`d. This structure is basically very similar to the conventional we can divide it into the following steps:

**Step 1:** Assuming we have a subsidiary of a Multinational Company that operates in Malaysia and desires to hedge its revenue income denominated in Malaysian Ringgit into US Dollars by approaching an Islamic bank for an Islamic currency option based on Wa`d, and let us assume that the spot exchange rate was US 1 dollar for 4 Malaysian Ringgit. the Islamic bank will first undertake to exchange a pre-determined amount of Ringgit into US Dollars for a pre-determined exchange rate which may differ from the sport rate ( for example US 1 dollar for 4.10 Ringgit ) and for a pre-determined time frame (03 months European option ) and subsequently the bank will receive a fee from the subsidiary company for its promise. (Imran, Sherin & Dusuki, 2012)

**Step 2:** On the pre-determined future date, the investor has the right but not the obligation to call for the promise depending on the exchange rate at that date. thus we have two scenarios, the first scenario is when the exchange rate moves in favor of the company so this latter will exercise its right, hence it successfully hedged its position taking into consideration the fee it paid which is not refundable nor it is a part for the
purchasing price while the Islamic bank is obliged to fulfill his promise and will suffer a certain loss assuming for the sake of simplicity that the Islamic bank didn’t close his position with another entity. The second scenario is when the exchange rate moves in the opposite way, here the company is seen to be out of the money and will revoke its right assuming that we ignore the effect of the payoff of the fee paid, consequently the Islamic bank is not obliged to fulfill its commitment and it keeps the fee that was already paid at the beginning of the contract.

The issue in this structure is the nonrefundable fee (a counter value of the promise and not a down payment of the selling price) and the shariah basis adopted to support this structure which is basically derived from the minority view of shariah scholars like Prof Kamali. (Imran, Sherin & Dusuki, 2012)

After we elaborated this straightforward structure we found out that one of its benefit is that the low cost of transactions (only one underlying promise). however, this structure incorporates some shariah issues which are the prohibition of a counter value for a promise, the impermissibility of the tradability of the promise and the structure is being adopted based on the minority of the shariah views.

2- Islamic Option based on a combination of Wa’d, Wakalah and Commodity Murabahah

To make it constant let us use the same above example of currency option to demonstrate this structure so we will quote the following:

The spot exchange rate is US 1 dollar for 4 Malaysian Ringgit and the strike price is US 1 dollar for 4.10 Ringgit and the Islamic bank will be the option writer. This structure combines three shariah contracts (murabahah, Wa’d and wakalah) and the following steps are illustration for this type of Islamic option:
Step 1  wakalah agreement

In this step the Islamic bank will act as an agent for its client (the subsidiary company) whereby it becomes the buyer agent when the company client would purchase commodity and seller agent when the company client would re-sell the commodity in the market. (Syed & Aznan, 2012)

Step 2  Unilateral promises

This step takes place after the Islamic bank becomes the agent of his client, in this stage both parties will undertake an irrevocable promise to each other on different conditions and time-frames. First the company undertakes it shall purchase under a Murabahah contract the underlying commodities from the Islamic bank at a spot price (cost plus markup) and at the time of entering the option contract. The second undertaking is given by the Islamic bank to purchase under a Murabahah contract the underlying commodities from the company client at the future predetermined date which reflects the date of exercising the option and at a sale price marked up to the pre-agreed strike price.

Step 3  Invoke or Revoke the agreement

After the client has fulfilled his undertaking at the entering date of the option contract (purchase of commodities at a spot with a mark-up as a premium) comes the future date when the company has the right but not the obligation to call for the promise given by the Islamic bank. At this point of time there are three possible scenarios pertaining to the rate of exchange. First scenario is when at the predetermined future date, the
actual exchange rate is higher than the exercise rate (for example the actual rate is USD1= RM4.00), in this case the company will not invoke the promise given by the Islamic bank and the Islamic bank is therefore free from any obligation and the company can exchange its proceeds denominated in ringgit in the open market. The second scenario is when the actual exchange rate is equal to the exercise rate, thus the company find it unfavorable to invoke the promise and again the Islamic bank is free from any obligation. The third scenario is when the actual rate of exchange is lower than the exercise exchange rate at the predetermined date (the prevailing rate is USD 1= RM 4.02), in this case the company client will invoke the promise and the Islamic bank is obliged to fulfill his undertaking, hence the Islamic bank will perform a Commodity *Murabahah* transaction with its company client as illustrated below:

Flow of the transaction:
1- The Islamic bank as the agent of company client purchases a commodity denominated in Ringgit from broker A.
2- After the company possesses its commodity it subsequently enters into a Murabahah contract with the Islamic bank on the same commodity denominated in US dollar whereby the sale price shall be in spot basis and is marked up to the pre-determined strike price on the Islamic option agreement.
3- The Islamic bank then will sell the commodity to a broker B and receive his sale price. (Syed & Aznan, 2012).
The structure illustrated above seems more appropriate from shariah point of view than the previous one that is based on promise with fee, however it can be further enhanced especially in terms of the two following points:

1- In the first stage of the structure, the commodity murabahah was based on a spot payment which contradicts the nature and the purpose of the contract and at some extend it appears that the commodity was used only to create the premium which is the mark up under the concept of form against substance.

2- in the second stage where the structure uses a commodity Murabaha and where the selling price is linked to the strike price, there is another option to use a binding unilateral promise for and Bai al Sarf contract at the pre-agreed strike price and on the pre-agree future date. (Syed & Aznan, 2012).

3- Islamic option based on Urbun

As mentioned above that in call option the buyer exercises the rights but not the obligations if the price of the underlying asset increases and the reverse in the put option. The main issue here in term of the prohibition is the fee (premium) paid on the promise of purchase or sell. Mufti Taqi Usmani mentions clearly that the prohibition of options is done on the basis of the fee charged for the promise (Bacha, 1999). So in this case we understand that the promise itself doesn’t contain an issue from shariah point of view.

As a step forward into making options in compliance with the Islamic commercial law, the premium paid for promise should be removed. In this case “earnest deposit” (urbun) is suggested to the alternative of the premium fee from shariah perspective. In fact Urbun is defined legally as a sale contract where the purchasing party pays the urbun amount to the selling party (Kamali, 2000). If the buyer proceeds with the contract, then the urbun amount will be considered as a part of the total price (as if it was down payment), but if the buyer recedes with the contract then the urbun amount will be owned by the seller, in other words urbun will be forfeited as a gift to the selling party (Dali & Jalil, 2006). Throughout the history there
were a lot of opinions concerning the legitimacy of Urbun between opponents and proponents and many contemporary scholars have proposed to use it in Islamic derivatives as a substitute (Kamali, 2000) (Al-Amine, 2009). Today, the Islamic fiqh academy of the Organization of Islamic Cooperation has approved Urbun but with certain conditions:

- The predetermination of the contracts time frame
- If the contract proceeds, the Urbun is considered as part of the selling price.
- Urbun is not applicable in the sales which stipulate the reception of the two exchange elements of the contract (price and delivery).

So in this case, Urbun represents an Islamic alternative to the fee in call and put options. Also AAOIFI has approved the usage of Urbun, by stating that “contracts that do not require payment on spot of one or both counter values” (standard No.53, issued on November 2014); also in the Standard No. (20) the usage of Urbun as an alternative for options is permissible with “stipulation that the buyer has the right to revoke the contract within a specific period”. In fact during a discussion forum that was published previously in the International journal of Islamic Finance Services, one of the scholars indicates that the “we cannot find the modern options in any Islamic fiqh law because these type of modern transactions didn’t take place during the classical theory of fiqh” In the same discussion also El Gari is one of those who argue in favor of adapting transactions of call options using the framework of Urbun. There is a need for more innovative initiatives that can make our transactions easier and mitigate risk. (Ayub, 2002)

These opinions and decisions of various scholars approved using Urbun only in developing call options, because the Urbun cannot be used in the put option in view of scholars who defined Urbun as a deposit to purchase whereas in the put option the promise is to sell the right. Here Urbun doesn't represent a full alternative to the conventional options because it doesn’t cover both types.

The Urbun call option is basically a deposit for rethinking and reconsideration (Dali & Jalil, 2006). Basically Urbun call option will treat the deposit amount as part of the
total payment if the market price is higher than the exercise price. In the Urbun call option there are two scenarios one if the market price is higher than the exercise price and the other is when it is lower than exercise price.

The above diagram illustrates the structure of the Urbun call option. When the buyer wishes to engage in the transaction, he pays a small amount as a deposit (10%) to the seller. Upon receiving the Urbun the seller promises to sell at a predetermined price. Upon the due date, the price of the market is above the strike price so the buyer proceeds and pays the rest of the amount because the urbun is considered as an early settlement. Seller will apply his promise and sell at the strike price (Dali & Jalil, 2006).

On the other side, if the strike price is higher than the market price so the buyer has a disadvantage of preceding with the contract in this case the buyer will have two options:

- To proceed in the contract and honor his promise and the Urbun will be a settlement
- To recede with the contract and the Urbun will be forfeited to the seller.

The below Diagram illustrates the structure of the Contract:
Shariah Issues in Using Urbun

There are some controversial issues related to the application of call option using Urbun from fiqh perspective.

The main issue concerns the tradability in the secondary market and if the buyer sells it to a 3rd party. As mentioned above, the Nature of Urbun is a sale contract between two particular parties, so here the seller is obliged to sell the subject matter to a specific party. However, if the buyer decides to sell his right (to precede or recede) then this can be done only with the consent of the seller (Dali & Jalil, 2006). Regarding this issue of tradability, AAOIFI has clearly mentioned that “it is not permitted to trade the right established with respect to ‘Arboun (earnest money)” (standard No.(20), issued on May 2004); On the other side Obaidullah have indicated that several scholars have made analogy between options and khiyar and they came with a conclusion which is according to previous scholars khiyar can be inherited, so for them this proves the ownership of khiyar can be transferable (Dali & Jalil, 2006), so it could be traded. If the analogy is in its place then with some adjustments options also could be traded. With regards to the other part of the issue which concerns the consent of the seller, it could be stipulated early in the Urbun contract that the buyer might sell his right to a third party, so with this condition all parties are bounded with this condition of the contract.

Conclusion

Options have been around for 30 years, and they have been labeled with many negative attributes such as “risky” and “dangerous”, discarding all the possible benefits that can be derived from them; luckily, there are various shariah compliant contracts that can replace the prohibited elements in the conventional options. The main concept of using these contracts should be for the purpose of hedging not speculation or else it won’t be different from the conventional concept. Today, the financial market are volatile and not stable, so Islamic financial institutions need these instruments to protect the transactions from market volatility. Finally, after looking deeply in the concept of options we can conclude by saying that the main reason of the prohibition of options is
not the option itself but because of the market miss use by the speculators and arbitragers. For the purpose of risk management such products are needed and should be adopted by the financial institutions for the purpose of risk mitigation only because they offer multiple strategic alternatives with the better grasp on possible risk, especially in the hands of a sophisticated and trained user.

Based on our findings we suggest the following:

- To review options as a risk management tool not as a speculation tool and also to take in consideration the real need of this financial instrument.
- In order to fight against speculation, the seller should stipulate that if the buyer has advantage to exercise the call option and after proceeding with full payment, **the buyer cannot sell the underlying without taking real possession of it**. To make sure that he is using option for hedging not speculation.
- For future researches,
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