

Islamic Juridical Ruling on Binary Option Internet Transactions

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ABSTRACT

Binary option is a type of internet-based commercial activity that is observable globally today. In this transaction, the broker acts as an intermediary between the parties with a predetermined profit. Each party deposits an amount as initial capital into their account. The trader, based on an analysis of price fluctuations within a specific timeframe, predicts the future price of an asset. In return for a correct prediction, the trader receives their principal investment and the predetermined profit; otherwise, they lose their entire initial capital. Due to the increasing prevalence of this type of transaction, clarifying its jurisprudential ruling appears to be essential. This research endeavors to deduce the juridical ruling on binary option transactions within *Imāmī* jurisprudence and, as far as possible, to collect and compile the views of contemporary *Shī'a* jurists through *istiftā'*. Some jurists maintain that binary option transactions are impermissible (*la-jawāz*), considering income derived through this method problematic. Others have deemed it permissible (*bilā-māni'*), provided it adheres to the *Shar'ī* conditions of a valid transaction. Among these viewpoints, the position of impermissibility holds greater soundness, based on the *Qur'an*, the Sunnah, and jurisprudential principles, due to its semblance of being artificial (*shibh-i šūriyat*), its lack of conditions for a valid transaction, and its similarity to *qimār* (gambling).

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Introduction

Given that the internet, as a leading information system, serves as the primary platform for electronic contracts—and online transactions are defined as those conducted within this framework—it can be argued that electronic contracts do not differ from conventional contracts in terms of essential validity conditions. These contracts adhere to general contract law principles, as their only distinction lies in the *instrument of intent expression* (ṣighah), with no substantive differences in other aspects.

Binary options trading (*tijārat-i bāynarī āpshan*), a subset of online transactions, derives its name from the term's "binary" (dual-choice) and "option" (right to choose). In this trade, the choice is limited to two outcomes: "yes/no" or "win/loss."

The core mechanism involves predicting asset price movements. Traders must open accounts with licensed brokers (*kārgozārī*), each offering fixed profit percentages. Upon accurate predictions, the trader receives the principal plus profit. Key variables include asset type, contract expiry time, and investment amount.

The primary advantage of binary options is their *fixed risk-reward ratio*: maximum profit/loss is predetermined, with losses never exceeding the initial investment. Crucially, no asset ownership is transferred; traders merely speculate on price trends within a fixed timeframe. Correct predictions yield profit; incorrect ones result in total loss. For example, a trader might predict gold's price rise within 15 minutes. A \$100 investment with an 81% return would yield \$181 if correct—or total loss if not.

In Iran's capital market, growing interest in such transactions stems from income generation and controlled risk. However, their speculative nature (*takhmin*-based) raises serious *Sharī'a* concerns, necessitating jurisprudential analysis to prevent non-compliant transactions (*mu'āmalāt ghayr shar'ī*).

Methodology

This study adopts a *descriptive-analytical* approach to compile and analyze contemporary Twelver Shia jurists' (*fuqahā'-i Imāmīyah*) views on binary options. Sources include:

1. **Library research:** Classical *fiqh* texts, modern articles, and credible online databases.
2. **Software-aided analysis:** Jurisprudential tools (e.g., *Nūr*, *Jāmi' al-fiqā'*) to cross-reference rulings.
3. **Doctrinal synthesis:** Evaluation based on Qur'ān, *Sunnah*, and *uṣūl al-fiqh* principles (e.g., *ḥarām* of *qimār* [gambling], *laḍrar* [no harm]).

Findings

Two dominant views emerged among contemporary Shia jurists:

1. **Prohibition** ('*adam-i jawāz*):

Majority verdict: Binary options lack *Sharī'a* legitimacy due to:

Qimār (gambling) elements (Qur'ān 2:219, 5:90–91).

Gharar (excessive uncertainty) in asset delivery/payment (Ḥadīth of Mu'ammār b. Khallād).

Violation of *bay'* (sale) conditions (undetermined *mabī'* [commodity] or *thaman* [price]).

2. Conditional Permissibility (*jawāz-i mashrūṭ*):

Minority stance: Valid *if* structured as compliant *bay'* (e.g., clear asset/price, avoidance of *ribā*).

Requires adherence to *ḍarūrah* (necessity) and *'adam-i ḍarar* (no harm).

Conclusion

The **prohibition view** holds stronger doctrinal weight (*iṭqān*) based on:

1. Textual evidence:

- Qur'ānic bans on *qimār* (5:90) and *akl al-māl bi-l-bāṭil* (4:29).
- *Ṣaḥīḥ ḥadīth* condemning speculative transactions.

2. Legal principles:

- *Laḍrar*: Systemic harm to economic subsystems (*khusūṣī-yi iqtisādī*).
- *'Uṣr wa ḥaraj*: Hardship imposed on one party nullifies contracts.
- *Gharar*: Uncertainty in asset/price voids transactions (*bāṭil*).

Binary options epitomize *gharar*-ridden, *qimār*-like transactions, disrupting economic stability (*ḥifẓ-i niẓām*). Thus, they fall under *ḥarām* and require:

1. **Legislative action**: Criminalizing such trades to prevent individual/societal harm (*ḍarar*).
2. **Public awareness**: Clarifying their non-*Sharī'a* compliance to deter participation.

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