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The editorial board would like to express their heartfelt appreciation for the contributions made by the authors, co-authors and all who were involved in the publication of this bulletin.

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RECTOR'S MESSAGE

Congratulations Faculty of Business and Management of Universiti Teknologi MARA Cawangan Kedah, Kampus Sungai Petani on the publication of the 6th Volume of FBM Insights!

I am very pleased to know that there are more than 40 authors and more emerging issues are being presented in this latest volume of FBM Insights. This portrays that UiTM Kedah Branch is actively involved in disseminating business related information and knowledge to the public.

I hope this bulletin can provide an opportunity for the Faculty of Business and Management staff to produce more academic materials and develop their skills in academic and creative writing. Furthermore, more initiatives should be launched to support this life-long process.

Again, well done to the Faculty of Business and Management and those who were involved directly and indirectly with the publishing of FBM Insights Vol.6. I wish FBM Insights all the best and continue to grow and move rapidly forward in the future.

Prof. Dr. Roshima Haji Said
Rector
Universiti Teknologi MARA (UiTM)
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السلام عليكم ورحمة الله وبركاته

Assalamualaikum warahmatullahi wabarakatuh

Welcome to the 6th Edition of FBM Insights 2022. This edition boasts 40 articles by the academics of Faculty of Business and Management UiTM Kedah Campus. The topics involved a broad range of business and management knowledge. Congratulations to all authors for your endless support and valuable contribution to the newsletter.

FBM Insights was mooted in 2020 and it came about with the intention to encourage and improve research writing activities among the lecturers of UiTM Kedah's Business and Management Faculty. As the editions progressed, the support from the academics has not faltered. I hope the support continues in editions to come.

I would like to congratulate the editors and the committee for the hard work and perseverance in managing the newsletter. All the best to everyone and thank you again.

Dr. Yanti Aspha Ameira Mustapha
FBM Insights Advisor

CONTRACT FOR DIFFERENCE FROM THE ISLAMIC FINANCE PERSPECTIVE

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The high unemployment rate in Malaysia (DOSM, 2021) during the COVID-19 event has forced individuals to seek alternative ways of making money. One of the examples includes online financial trading, which is conducted through synthetic brokerage located inside or outside of Malaysia, mainly through offshore financial institutions (Griffith, 2010). Online financial trading brokerage, regulated or unregulated, offers a myriad of financial assets and derivatives to trade such as foreign exchange currency (FOREX), crypto-currency, precious metal, energy, Crude Palm Oil (CPO), Brent, stocks, index, *etc*. Financial transactions of these assets and derivatives are performed using contracts, mostly via a Contract for Difference (CFD) (Mitchell, 2021).

The popularity of online CFD trading in Malaysia has soared as it offers large profits (or losses) to individuals using small capital (CFI, 2022). This phenomenon is also boosted and promoted by brokerage through Introductory Broker (IB) (Finance Feeds, 2022) and the emergence of e-teaching by YouTube's content creators. The major features of CFD that accelerate its acceptance in Malaysia include, but are not limited to the following: (1) individuals trade without actually owning or taking physical delivery of the underlying asset, thus having access to the asset at a lower cost rather than buying the asset completely; (2) the trading time is available to Malaysians as the brokerage operates 24 hours, 5 days per week; (3) short-term holding is permissible and the process of starting and ending the contract is easier electronically; (4) the use of small margin and higher leverage compared to the stock market; (5) the use of dollar currency, which multiplies the profit (or loss) from the transaction (Mitchell, 2021).

The CFD mechanism behind the brokerage is not disclosed publicly and the term can only be found if an individual scrutinizes the brokerage website. Therefore, since most brokerage customers in Malaysia are Muslims, the need to discuss the contract in simpler terms from the Islamic finance perspective is disregarding the view of the law and regulations of the country.

In general, CFD works as a legally binding contract between two parties, namely the buyer and the seller, stipulating that the buyer will pay to the seller the difference between the current value of an asset and its value at contract closure time, wherein the opposite likewise applies (Norman, 2009). This definition of CFD contradicts both the Futures contract (Cliffe, n.d) and the Option contract (Foot, n.d) in the sense that CFD does not expire. In this regard, since CFD is traded using the value of the asset, the contract can be initiated by paying a small premium or margin to the quantity of the lot to be traded (Chen, 2020).

CFD is traded without owning the underlying asset and the profit derived from the trade is based on the speculation of the asset price movement when the contract opens and the asset value when the contract closes (Norman, 2009). In layman's terms, a brokerage will use a time-based price movement chart of a specific asset and allow the trader to trade the price movement based on their analysis. For example, instead of buying and selling physical gold or US dollar banknotes, the trader can speculate if their price is going up or down before buying; if the asset price goes up, the trader profits and if it goes down, the trader will suffer losses.

Figure 1. Time-based price movement chart in MT5 software, shown here in candlestick.

An in-depth analysis of CFD concerning Islamic Finance in its entirety is out of the current paper's scope. However, by comparing CFD terms to the principle of Islamic Finance, we can arrive at a simple judgment on whether it is in line with the principle or contradicts the principle.

The Islamic Finance principle generally prohibits any transaction involving the following activities: (1) predetermined payment or *riba* (Quran, 2:278-280); (2) excessive uncertainty (*gharar*), as in contract ambiguity and excessive payoff (Quran 4:29); (3) investing in forbidden activities such as rearing pigs and making alcohol (al-Bukhaari, 1212; Muslim, 1581); (4) uncertain quantity and quality of asset ownership; (5) selling what one does not own (Bukhaari, 2132; Muslim, 1252); (6) *maisir*, gambling or speculation (Quran 2:219); (7) charging interest on late payment of loans (Quran 2:280); (8) alleviating the risk from the loan provider and transferring it to the loan seeker, and deriving profit from the passage of time (Garrett, n.d).

The CFD term involves all activities stipulated by the Islamic Finance principle above. The interest (*riba*) in CFD is derived in two ways: (1) overnight swap of the asset, incurred when the trader holds the position of buying for more than a day although the trader can opt for a swap-free account, leading to higher spread offered (TradeFW, n.d); (2) *riba* derived from the unequal exchange of asset by leveraging and margin trading (Wahed, 2019). The *maisir* (gambling and speculating) definition in CFD comes from an unpredictable market that reacts to economic news and world event. Although technical, fundamental, and sentiment analyses can be used to predict the price movement in normal day trading with CFD, the process of buying or selling an asset to a certain extent is more inclined to gambling as the trader will speculate the price movement to either go up or down (Sampson, 2009). Meanwhile, the *gharar* (uncertainty or excessive risk) definition in CFD outlines that the price can sway in different directions from what the trader anticipates in a matter of seconds. The movement can also wipe out the account value if the trader is not careful in their planning (Sampson, 2009).

Perhaps the main contradictions to the Islamic Finance principle are that (1) no ownership of the underlying asset is needed when trading (Muslim, 3640-3653) and (2) the economy does not derive any benefit from the CFD trade. Besides, Islamic Finance dictates that only the owner of an asset or property can sell to other individuals. However, in CFD, no asset is present at all, *i.e.*, the asset does not exist in the brokerage for trading (Norman, 2009). The trader only trades numbers on the chart, profiting from the difference in price when the contract closes. Consequently, this does not benefit society as there is no transfer of assets and its value merely happens between the parties. For example, if a trader trades physical gold, the gold will switch ownership to a new owner and still carries a value that can be exchanged for money, should the new owner sells it (Quran 8:2-4). In CFD, when one opens a contract at a price position, the contract cannot be exchanged for money or sold to another new owner, yet one can retrieve the value in profit or loss at the end of the contract. Since CFD is a zero-sum game (Kenton, 2022), only one party will profit and the other will suffer a loss, net change in wealth, or zero benefits.

CONCLUSION

This paper does not assign any Islamic jurisdiction indicator such as Halal (permissible) or Haram (forbidden) to CFD because many other factors such as the contract term, *i.e.,* leverage and swap or Bai' al-Sarf of currency exchange have not been discussed as a whole to arrive to such a conclusion. Thus, an aspiring trader needs to choose a non-CFD broker to alleviate the risk of contradicting the Islamic Finance principle before a Sharia-compliant contract is created.

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