

Shares

Definition of Shares: Shares are deeds representing units of ownership in a company's capital. Each share has an equal value, cannot be split up, can be traded (bought and sold) on the market, and proves ownership rights as a shareholder in that business.

Corporations are owned by shareholders who own shares of a stock. The ownership can be public (traded on stock exchanges) or private (not publicly traded)

Characteristics of shares in corporations:

1. **Equal in value**, all shares are equal in value, because the capital of the company is divided into equal parts
2. **The share is indivisible** against the company (if more than one person partakes in one share, one person only will represent them in front of the company)
3. **The shares are tradable**, and they can be sold, bought or traded.
4. The shares have a **nominal value**(stated value in the deed), specified by the law, with a maximum or minimum limit.

The share has four types of values:

1. **Nominal value (Par Value):** The face value printed directly on the deed.
 - For stocks, it represents the absolute minimum price at which shares can be issued, serving primarily as a legal benchmark.
 - Par value is generally established as a fixed monetary amount (such as \$1 or \$10) that does not change over time.
2. **Issue value:** refers to the price at which a company's shares are offered to the public during an initial public offering (IPO) or when new shares are issued.
3. **Real value:** The actual financial worth of the share determined by subtracting the company's liabilities from its assets; this value fluctuates up or down based on the company's profitability.
4. **Market value:** The current trading price of the share on the stock exchange, driven by supply and demand, market speculation, and broader political and economic conditions.

Types of shares in corporations:

Shares vary into different types based on various considerations: based on the rights of the shareholders, recouping the nominal value, and the nature of the share itself.

First Classification: Shares are classified based on the rights they grant to their holders into:

- 1- **Ordinary Shares:** Shares that are equal in value and grant shareholders equal rights.

These rights are:

1. **The shareholder's right to remain in the company:** They cannot be expelled from it, nor can ownership of their shares be forcibly expropriated except with their consent.
 2. **The right to vote in the company's general assembly:** One vote per share.
 3. **The shareholder right to receive dividends.** (Dividends are payments made by a corporation to its shareholders, typically as a distribution of profits)
 4. **The right to dispose of shares:** By selling, gifting, or otherwise, because they are tradable.
 5. **The right to monitor the company's business:** By reviewing its balance sheet, profit and loss statements, and other financial records.
 6. **The right to file a liability lawsuit against members of the board of directors** due to their errors.
 7. **The right to priority in subscription:** If the company decides to increase its capital and issue new shares.
 8. **The shareholder's right to recoup** his share from what's left of the company's assets in case of liquidation.
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- 2- **Preferred Shares:** Shares that grant their holder special rights not found in ordinary shares, in order to attract the public to subscribe to them. Among these rights are:
 - a. The right to receive **fixed profits** regardless of whether the company makes a profit or a loss.
 - b. The right to recoup the **full** share value upon the liquidation of the company.
 - c. The right to grant the holder of the preferred share **more than one vote** in the general assembly.

The Ruling of Preferred Shares:

This type of share is not permissible to issue according to Islamic jurisprudence (*Sharia*) because: (why?)

- 1- The company gives the shareholder the right to obtain fixed profit, irrespective of whether the company was profiting or losing **and that comprises usury(Riba)**.
- 2- Not treating shareholders equally **contradict with the justice mandated by Islam.**

Second Classification: Shares are classified based on recouping or not recouping their nominal value prior to the company's dissolution into the following:

1. **Capital shares:** which do not allow their holders to recoup their nominal values from the company, as long as the company is still operational, because this may lead to decreasing the capital. And this Includes both preferred and common shares.
2. **Enjoyment shares:** These are shares that a **company pays back (redeems) to the investor before the business officially shuts down**. Even after getting their initial money back, the investor supposedly keeps their ownership status, voting power, and right to ongoing profits.
This operation is called "**Shares Consumption**", example: petroleum drilling companies.
Certain businesses—like oil exploration companies—use up their physical assets and equipment over time. Because a depleting business might not have enough money left to pay back shareholders when it finally closes, it pays them back gradually while the company is still running, and these payouts are refunded annually and gradually via lottery method.

The Ruling of Enjoyment Shares:

This type of share is not permissible to issue, because the partner after recovering the value of their shares is no longer considered a partner in the capital nor the work, and is not entitled to a share in the profits. And any profit gained is illegitimate money. The process of lottery also contains manipulation and uncertainty, And this makes enjoyment shares prohibited because they entail **consuming one another's wealth unjustly, and also gharar and uncertainty**.

Third Classification: Shares are classified based on the nature of the share itself into two types:

1. **In-Kind Shares (الأسهم العينية)**
 - In-kind shares are issued in exchange for **non-cash assets** rather than cash. These assets can include property, equipment, intellectual property, or any other tangible or intangible assets.
2. **Cash Shares (الأسهم النقدية)**
 - Cash shares are acquired by shareholders who provide **cash** as their contribution to the company. This is the most common way for companies to issue shares.

Ruling of Transacting Shares in Islamic Legislation (Sharia)

Dealing with shares is permissible under these conditions:

- 1- The shares must be issued by a company with **lawful, halal objectives**. Its core business activity must be completely permissible (halal). If a company's activity is forbidden—such as manufacturing alcohol or establishing usurious banks—it is impermissible to own, buy, or trade its shares, and its profits are strictly unlawful. Buying shares in such an entity counts as partnering in sin and transgression.
- 2- The shares should be issued by companies **that do not deal with usury (Riba)** or involves usury in some of their transactions.
- 3- The shares must be issued by **a known and transparent company** whose integrity and financial health are clear to the public.
- 4- The shares must not be **preference shares**. (why?)
- 5- The shares must not be **enjoyment shares**. (why?)

Rules Regarding the Trading and Circulation of shares:

- **No Usurious Loans:** Buying shares using a loan that involves interest (riba) is strictly prohibited.
- **Must Own to Sell:** Short selling—or selling a share that you do not yet officially own—is forbidden.
- **Shares are fully negotiable:** meaning they can be sold, transferred, or used as collateral for a mortgage.
- **Installment Payments:** It is legally permissible to pay for the value of a share through installments over time.

How to Give Zakat on shares?

- **Long-Term Investment:** If the shareholder is an investor—meaning they bought or subscribed to shares and left them to benefit from their periodic dividends—then no zakat is due directly from the shareholder, provided that the companies (such as those in Saudi Arabia) pay zakat on behalf of their shareholders.
- **Active Trading / Speculation:** If the shareholder is a speculator or active trader (frequently buying and selling shares), they must evaluate the total market value of their stock portfolio at the end of the lunar year and pay zakat on that value.

Watch the video below for more on zakat:

https://youtu.be/KqH3P5K83mM?si=feGI4G_qO5hGmQaE