

Shariah Perspective on Legal Framework and Practice of Margin Financing in Pakistan

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Abstract : Margin financing plays a significant role in Pakistan's stock market (PSX), offering investors the opportunity to maximize profits by borrowing funds from financiers to purchase marginable stocks. However, this financial practice raises several Shariah-related concerns. The study follows legal doctrinal research methodology. It explains and analyzes the law of margin financing prevailing in PSX and compares it with the principles of Shariah. It also examines and investigates the practices of margin financing from the perspective of Shariah. As part of the study, the researcher has conducted structured interviews with the Shariah advisors of the finance industry, academicians, market practitioners, and regulators. Thus, the study analyzes the findings of interviews. This article explores the legal framework and practice of margin financing in Pakistan from a Shariah perspective. The article investigates various issues relating to margin financing, including the fundamental concern of interest-based lending, which contravenes Islamic principles. It also highlights the problematic subject matter of margin financing, often involving non-Shariah compliant securities. Additionally, the article addresses the restriction on proprietary rights and the problematic element of speculation associated with margin financing. To provide a Shariah-compliant alternative, the Securities and Exchange Commission of Pakistan (SECP) introduced Murabahah Shares Financing (MSF) in 2019. However, the focus of the market is still on conventional margin financing. In the opinion of the researcher, the effective implementation of MSF is imperative because in the absence of such an alternative, the faith sensitive investor will remain deprived of a level playing field, and he is unable to get required financing opportunities through a halal and Shariah-compliant manner. This article argues that margin financing in its current form is incompatible with Shariah principles and should be discontinued. It is recommended that the SECP should gradually phase out the use of margin financing and increase reliance on MSF to provide faith-sensitive and committed investors with Shariah-compliant financing options.

Keywords : margin financing, marginable stocks, faith sensitive investor, Murabahah shares financing

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