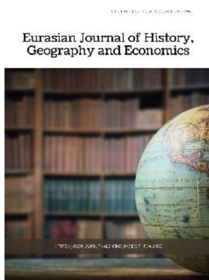

Modern financial investment tools, future contracts as a model

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ABSTRACT

Futures contracts are among the modern contracts that are widely traded in the global financial markets. They are the most important contemporary intellectual products in the field of financial management. The main objective of futures contracts is to reduce risks due to changes in prices according to supply and demand factors and to achieve capital gains through speculation in the prices of these contracts. Futures contracts are standard contracts in the sense that they are all subject to specific provisions set by the organized market, and the organized market is the guarantor of their implementation, through settlement houses that meet the seller and buyer a specific financial margin, which is followed up and down until the term of the contract.

Keywords: Investment Tools, Future Contracts, Model

First: the introduction

Money markets are of great importance in financing and investment, but they have been associated with risks that have intensified since the 1970s crisis, represented by fluctuations in interest rates, exchange rates, and stock prices. These risks have exacerbated since the 1990s with the increasing resort to financing through financial markets. The interdependence between these markets helped to transfer the imbalance from one market to the markets of other countries very quickly, which is what happened with the collapse of the Asian financial markets in 1998.

Because financial market risks are considered systematic risks that affect all market participants, diversification as a traditional risk management method has failed to eliminate them. Because it is certain to happen at one time or another, it cannot be covered by insurance. In the face of the failure of traditional methods to cover the risks of the financial market, new financial instruments, called financial derivative contracts, were resorted to. Dealing in it began in the early seventies and escalated during the eighties and nineties due to the increasing market risks.

The growth of dealing in derivatives is due to the increasing demand of banks to deal in them in a desire to diversify their financial services so that their activities and business results are not limited to the margins of traditional banking brokerage. The first appearance of derivative contracts was in the form of futures contracts, which are typical agreements between two parties aimed at fixing exchange terms that will occur at a later date in the future.

Thus, it provides a great service to the contractors, avoiding them from future market fluctuations. However, it has some defects, mainly that it cannot be canceled without the agreement of the two parties to the contract, and the obligations of the two parties may not be transferred to a third party, in addition, it is not highly liquid and cannot be easily settled.

With the tremendous development and growth witnessed by the financial markets during the past decades, the market witnessed the provision of a set of financial tools and means, providing more flexibility, liquidity, and coverage for market dealers. These tools were represented in futures contracts, options contracts, and other contracts.

Keywords: futures contracts, settlement house, financial derivatives, initial margin.

The importance of research

The importance of futures contracts appears in devising new ways to manage risks resulting from price fluctuations, and knowing ways to help investors find strategies to face risks related to price fluctuations. As well as enhancing the revenue and profit opportunities resulting from diversifying the portfolios of financial institutions from instruments derived from investment returns

The problem of research

The research problem lies in the fact that most companies and investors are exposed to the risks of price fluctuations in the stock market, and rely on traditional tools in dealing within the market.

The hypothesis of the research

The research stems from the hypothesis that future contracts contribute to managing the risks arising from price fluctuations through hedging operations, in addition to being means of profit in the future through speculation in those contracts.

Second: previous studies

1- Samira Hassan, (Financial Derivatives and their Role in Covering Financial Market Risks): This study aimed to cover the risks that occur in the financial market by means of financial derivatives and to show the role of these derivatives in covering risks using the descriptive and analytical approach, and the study found a mechanism to cover the risks of stock price, interest rate, and exchange rate fluctuations by derivative contracts.

2- Zahira Younis Muhammad, (Regulating Choice Contracts in the Financial Markets from the Legal, Technical, Tax and Legitimacy Perspectives): This study aimed to clarify the new investment tools created by financial engineers to meet the needs and desires of investors by creating financial derivative contracts with the aim of financial hedging. Alternatives to these contracts (financial derivatives) that are compatible with Islamic assets in order to fill the void left by not trading in these contracts.

Third: the concept of future contracts

They are a type of financial instrument traded in the stock market, and they cannot be considered stocks or bonds because they combine their qualities and characteristics together. These contracts are tradable in the market and are called derivatives. Derivatives are defined as a type of financial contract whose value is derived from the value of another asset called the primary or related asset such as stocks or bonds, and the most prominent forms of it are future contracts, futures contracts, and options contracts. What concerns us in our current topic is the futures contracts. [1]

Future contracts are among the modern tools in the field of financial investment, and they are defined as a contract between two parties, one of whom is a seller and the other is a buyer, for the purpose of delivering the commodity or the asset at an agreed-upon later date. Others believe that futures contracts are a contract that obliges the contracting parties to deliver or receive a commodity, a foreign currency, or security at an agreed price on a specific date. The futures contract is a negotiable security that has high liquidity and is used for both speculative and hedging purposes. The investor can sell the contract at any time at the prevailing market price, and in this case, the new buyer will be bound by the content of the contract, of course.

[1] **Zahira Younis Muhammad, Regulating Choice Contracts in the Financial Markets (Legal, Technical, Tax and Legitimacy), PhD thesis, College of Graduate Studies / An-Najah National University, Palestine, 2006, p. 48.**

The term future contracts are applied to future contracts that are dealt with through organized markets, and the futures contract is defined as a mutual obligation between two parties that imposes on one of them to deliver the other and receive from him through a third party (intermediary) a specific quantity of a specific asset or commodity at a specific place and time at a specific price. These contracts are often dealt with in real commodities, agricultural commodities, oil, precious metals such as gold and silver, or financially such as bonds, shares, deposits, and foreign currencies. Some define them as contracts that give the right to buy or sell a quantity of a specific asset at a pre-determined price, provided that delivery will take place at a later date in the future. A financial copy for the purpose of protecting each party from the problems that may result from the inability of the other party to fulfill its obligations. [1]

Fourth: The characteristics of future contracts

There are a number of characteristics that distinguish future contracts and that distinguish them from other contracts, and these characteristics are: [2]

1. In future contracts, the purchase is made at a pre-agreed specific price on the date of the contract, provided that delivery takes place at a specified later date, thus avoiding or reducing the risks of price fluctuation and change, as the price in the current market is not seen upon execution, which may be high.
2. Dealing in the futures markets is done by the method of open public auction, through brokers or clearinghouses that are usually entrusted with organizing the settlements that take place on a daily basis between the two parties to the contract.
3. To ensure the implementation of the mutual obligations between the two parties to the futures contract (the seller and the buyer), each of them is usually required to hand over to the broker on the date of the contract a certain margin, the value of which usually ranges between 5% - 15% of the total value of the contract and is not refunded except upon settlement or liquidation of the contract. The broker usually conducts a daily settlement between the two parties to the contract that reflects the price changes that occur on the contract price, and then this affects the balance of each of them in their records. It is worth noting that there is no way to deal in the futures market except through brokerage houses.
4. If it is possible to liberate future contracts on any commodity, then few commodities have the conditions that suit the organized markets for future contracts and the commodities that have the ability to be stored.

Fifth: Terms of the futures contract [3]

1. Dealing unit

It is the quantity and unit under which the contract is concluded, that is, the number of units included in the contract.

2. Delivery terms

Within the terms of delivery subject to profiling, the date or dates on which the delivery will take place, the specifications or quality of the asset subject to the contract, the place of delivery, and the method of delivery. That is, it includes the months in which the contract is dealt, which should be delivered according to the specifications that must be met by the commodity subject of the transaction in terms of quality and quality, and the delivery method by which the original is delivered.

3. Limits of price fluctuations

Contract markets impose a maximum of changes that occur during one day, and if the price rises to the maximum or decreases to the minimum at some point during the day, the price cannot exceed those limits as this price remains prevailing until the end of the day.

[1] **Methaq Hatef Abdul-Sada, Using futures contracts in hedging: An applied study in the Baghdad Stock Exchange, a master's thesis at Karbala University, 2004, p. 18.**

[2] **Methaq Hatef Abdul-Sada, op. cit., p. 32.**

[3] **Fatima Abdel Qader, Financial Futures and Financial Crises, Hathmir for Publishing and Distribution, Cairo, 2017, p. 30.**

Today, and on the next day, the deal begins with the highest price reached by the contract on the previous day, and the price may rise or fall on the next day, provided that it does not exceed the specified maximum. Perhaps the reason for setting a ceiling for price changes is to reduce the effects of violent price fluctuations caused by an excessive response to information that may come to the market. In addition, it contributes to making the initial margin relatively small.

4. Margins System

It is a strict system to ensure the success of the futures market by ensuring that all dealers in the futures market fulfill their obligations. The contract market, given the risks of inability to fulfill the contracts, imposes an initial margin deposited by the contracting parties with the brokerage house they deal with, and it is in the form of cash, treasury tools, or government bonds. The stages of margin submission are divided into two stages:

The first stage

The margin provided by both the buyer and seller of the futures contract: because both the buyer and seller in the forward or futures contract have reciprocal obligations and any price changes are in the interest of one party at the expense of the other party, and the guarantor, in this case, are the brokers who are exposed to the risk of the failure of one of the parties to the contract to fulfill its obligations, and as a result of this fear, brokers ask their clients (an initial margin) determined by the settlement house, which is a cash amount or its equivalent is highly liquid securities such as treasury bills, deposited by each party with the broker that deals with it.

He must be a member of the market, in order to use it to cover the losses that he may be exposed to. In addition to (the maintenance margin), it represents the minimum that the initial margin should not be less than, and it represents 70% to 80% of the initial margin.

The second stage

Just as brokers obtain an initial margin from contract clients to secure clearing operations (settlement house) and fulfill obligations, the clearinghouse, in turn, obtains a margin to secure brokers' fulfillment of their obligations, and this margin is determined in light of the initial margins and the number of contracts that the broker has.

5. Price settlement today

Futures contracts are characterized by a daily settlement of the positions of the contracting parties with each change in the price of the new contract. In fact, the settlement house itself replaces the contract with a new contract, and the price of the new contract is determined on the basis of settlement, which is published in the money newspapers about similar contracts.

6. Position limits

It is the maximum number of contracts that the speculator can keep, and hedgers are not affected by the position limits because the goal of the limits is to prevent speculators from exercising undue influence or influence on the market.

Sixth: The parties involved in the futures market [1]

1. Brokers

Agent brokers carry out the orders they receive from their clients. Brokers and agents may work as agents for one of the brokerage houses, or they may be independent, that is, they deal directly with clients. The brokerage houses in the futures markets are called futures commission dealers, and the commission represents the return that futures commission dealers get.

2. The locals

They are also called lounge dealers and they execute orders for their own accounts. Accordingly, they seek to buy contracts at low prices and sell them at higher prices, and thus the return is achieved for them through the difference between buying and selling prices. Accordingly, this category represents the category of speculators, and in this regard, speculators can be divided according to the

[1] **Masoud Nasbah, Modern Transaction Contracts (Dealing Procedures, Transactions Legitimacy) in the Islamic Capital Market, Amman, Majdalawi Publishing and Distribution House, 2018, p. 142.**

period of the retention of their positions on the contract.

There is the hook, which is trying to seize the opportunity and liquidate its position in hours or a few moments and threatens to maintain its position for the next day. Also, speculators are called day traders, who usually liquidate their position at the end of the day. And finally, the position trader, which is the speculator who may remain in his position - without liquidation - for a period that may extend for a few months.

3. Freelancers

This category executes clients' orders issued by brokerage houses, and it also has the right to trade for its own account, meaning that the freelancers combine the functions of an agent broker and a hall dealer. This situation may lead to a conflict between the tasks that the freelancers perform.

To clarify this, we assume that one of the independent members received orders from one of the brokerage houses. If the independent member has information that the implementation of those orders will lead to an increase in prices, then he will buy contracts for his own account and then implement the clients' orders, which result in a high price and then sell the contracts that He had previously bought it for himself.

4. The daredevils

Those who do not intend to buy and sell commodities to obtain the sale or price, but rather mean to obtain profits that consist of the differences in buying and selling prices, and they are confident of their experience with price fluctuations, buy the futures in the hope that they will sell them at a higher price, and get a profit from this process, without going into the receipt and delivery of the sale. Perhaps their hopes will succeed in one decade and fail in another.

5. Settlement House

The mission of the Settlement House is to achieve streamlining and facilitate dealing with futures contracts. Perhaps the tasks it undertakes, which are related to the margin system and the accompanying daily settlement, laid the strong foundation for the so-called regularity of the market. It is impersonal, and the position of the settlement house in this way makes it a guarantor of the buyer against the seller, and a guarantor of the seller against the buyer, and accordingly the risks of non-fulfillment are theoretically transferred to the settlement house.

6. Buyers and sellers

The buyer of the contract is called the investor who takes a long position, meaning that he buys the contract and keeps it for a period of time in the hope that its value will rise and sell it at a high price, making some profit. Contract sellers are those investors who take a short position on the contract, meaning that they create the contract during a time when they may not own the underlying asset. It is unusual for sellers and buyers to deliver the asset (commodity and money) subject to the contract, and the reason for this is due to the scarcity of delivery in future contracts on securities, as the purpose of the process is either to speculate or to cover an investment position in the present market.

Seventh: Types of future contracts

Future contracts vary into the following types: [1]

1. Futures contracts on commodities

In the seventies of the last century, most futures exchanges started dealing in the execution of contracts on agricultural and mineral commodities.

2. Future contracts on exchange rates

In 1971, the advanced Western economies began to allow their governments to float their currencies, which means allowing exchange rates to fluctuate, which opened the way for the establishment of the international monetary market and specialization in future contracts, which were called the future financial futures contracts.

3. Future contracts on interest rates

These include future contracts on mortgages, and these contracts are among the most active futures contracts in the stock market.

4. Future contracts on the stock price index

This contract is that the contract on the stock index is, in fact, an obligation between the two

[1] **Masoud Nusbah, op. cit., p. 143.**

parties to the contract to pay one of them to the other a sum of money represented by the value of the index on the agreed date, which is the day called the delivery day, and the agreed amount, which is The amount called the purchase price paid by the seller if the index value is higher than the purchase price, and paid by the buyer if the purchase price is higher than the index value.

5. Future contracts

They are similar contracts to buy or sell commodities or financial assets that are received or delivered at a specific time in the future and whose price is determined at the time the contract is established in a regular financial market.

6. Currency futures

The forward contract is the transaction that provides for the delivery of a certain amount of one of the currencies on a specific date in the future and according to a price determined in advance and the contract is signed on the day of its conclusion. However, delivery and receipt will take place in the future according to the specified price.

As for the currency future contract, it is a standard contract to buy or sell a fixed amount of foreign currency at a fixed price and on a specific date in the future. Futures contracts are available for a small number of currencies, but they cover all the major currencies in the world and the most traded contracts are the US dollar, the German Marc, the Swedish franc, and the British pound

The pillars of future contracts are divided into five sections:

1. Future price

It is the price agreed upon by the two parties in future contracts to complete the exchange of the transaction subject to the contract in the future.

2. The date of delivery or settlement

It is the date agreed upon by the two parties to the contract to complete the exchange process.

3. The subject of the contract

The subject of the contract means the thing agreed to be sold and bought between the two parties to the contract, which may be merchandise, securities, indices, or currencies.

4. Contract Buyer

It is the party obligated to receive the thing subject to the contract in return for paying the price agreed upon with the second party (the seller) on the specified date in the future.

5. The seller of the contract

It is the party obligated to pay the thing subject to the contract in return for obtaining the price agreed upon with the first party (the buyer) on the specified date in the future.

Eighth: Pricing futures contracts

The pricing of futures contracts depends on two components: [1]

1. The relationship between the price of the futures contract and the price in the present market: the future price usually fluctuates up and down with the fluctuation of the price of the asset in the present market. This does not mean that the two prices are equal but only means that there is a correlation between them and that the price in the future contract usually remains higher at an equivalent cost Keep the original until the date of delivery.

The cost of holding for storable goods is usually called a basis. The closer the delivery date stipulated in the contract, the lower the margin between the two prices, on the basis that by reaching the delivery, there will be no place for the cost of retention, and the margin will become equal to zero.

2. The principle of weighting: the basic principle is that the assets that have the same characteristics are traded at the same price. If this happened and this principle was not achieved, it would be possible for the dealer to sell the higher-priced asset and buy the lowest-priced asset, which is the principle of weighting. This asset may be a bond, futures contract, option, stock, or any other asset traded in two or more financial positions. Weighting operations contribute to modifying the equality

[1] **Atrous Sabrina and Suhaila Atrous, The Reality of Shariah Alternatives to Financial Derivatives in the Light of Islamic Financial Engineering Products, Milaf Journal of Research and Studies, 2015, p. 18.**

relationship between the two prices, because the arbitrageur raises the price of the valued asset at less than the value that it buys, and reduces the price of the valued asset greater than the value that sells it.

Ninth: Covering risks using futures

Hedging using futures contracts is either by buying the contract, or by selling the contract, and the first case is in the dealer's purchase of a futures contract to hedge any potential increase in the value of the short sold asset, and the second case arises from the dealer selling a futures contract to hedge against any decrease in the value of the owned asset. The goal of both approaches is to find a parallel effect between the movement of the asset and the related future contract.

For example, if a dealer expects a decrease in the price of a particular asset or commodity, hedging by selling the related future contracts may be the most appropriate measure to protect the value of the assets owned in the portfolio, given the return achieved in this case from the value of those future contracts sold. Thus, it becomes clear to us the role of these contracts in eliminating or in the weakest case, mitigating the risks of price changes and their effects on the profitability of any organization. There are a number of reasons that lead to the failure of hedging using futures contracts, which are as follows:

- The asset to be protected may not be exactly the same as the subject of the futures contract.
- The hedger may not be sure when exactly the asset will be bought or sold.
- Hedging may require the termination of the futures contract sometime before its expiry date.

Hedging can be used in future contracts on stock indices, as it is known that investing in securities is subject to the so-called systemic risks and unsystematic risks. Unsystematic risks can be eliminated by diversification, while systemic risks cannot be faced with diversification.

Therefore, portfolio managers may find their destination in future contracts, which enables them to get rid of the regular risks involved in the portfolio, no matter how much it changes its components, but under one condition that the covered portfolio is well diversified. This is based on the fact that the ability of futures contracts to cover is limited to covering the systematic risks without the unsystematic ones. When a portfolio manager wants to hedge against the systematic risks to the portfolio he manages, he can sell an appropriate number of futures contracts on stock indices.

Under this coverage, the losses that the portfolio is exposed to in the current market will be compensated from the gains achieved by future contracts, and vice versa. This is mainly because the correlation coefficient between the change in the price of the futures contract on stock indices and the change in the value of the portfolio itself is usually high.

The more diversified the portfolio is, the more unsystematic risks can be eliminated, and the higher the correlation coefficient between the change in the price of the futures contract and the value of the portfolio itself, the better the chance to cover the portfolio against the systematic risks that have no effect on diversification.

Tenth: The mechanism of future contracts (illustrative examples)

The procedures for dealing with futures contracts in the capital market are carried out by following the following steps: [1]

1. The client issues an order to the registered representative of the brokerage house. The order includes information on the underlying asset, the type of the order if it is for sale or purchase, and the execution price.

2. The total cost of the order and the amount of the initial margin shall be agreed upon between the client and the registered representative.

[1] **Ahmed Mohi El-Din Ahmed, Stock Markets and their Positive Effects on Islamic Economy, Dallah Al-Baraka Group, Jeddah, 1995, p. 113.**

3. The registered representative shall report the matter to the department responsible for future contracts.

4. The person responsible for future contracts directly contacts by phone or electronically a representative between the brokerage in the stock exchange, which is one of the hall brokers, who records it in a special book that meets the terms of implementation, or goes directly to the dealing room designated for those contracts and goes up to the ring for immediate execution.

After that, a broker The hall informs the brokerage house from which the order was issued to confirm the actual implementation of the order, as the brokerage house informs the client.

5. The clerk of the hall collects the papers about the deals that have been concluded and delivers them to the representative of the settlement house, who announces the details of the latest deal on the notice board installed on the wall of the dealing room and sends media service telegrams to broadcast the data of the latest deal on the local and global scale.

Conditions of commodities for which future contracts can be issued [1]

1- The commodity should be subject to standardization in terms of quantity and quality, which would achieve sufficient liquidity for the contract.
2- The commodity should be storable.
3- The commodity should be of value compared to its size.

Illustrative examples of how futures contracts work

If we find a farmer who is aware that he will have 100 tons of wheat after nine months and wants to ensure that a buyer will find this quantity at the current price of wheat, and we have a merchant who needs 100 tons of wheat after seven months and wants to guarantee the purchase from now.

It is in the interests of both parties that each of them purchase a futures contract from the market authority, and the commodity is exchanged for money and not at the contract, so the buyer does not need to pay the price when contracting. But each of them may need to provide a guarantee or pay a sum of money to the market authority to ensure that they are able to fulfill their obligations.

This percentage usually does not exceed 5% - 15% of the contract value at the time of signing, then another percentage is required to be paid the next day for the purpose of covering the loss possible if any of them fails to fulfill these contracts and these contracts include two types of goods described very accurately, they are delivered to specific warehouses in a specific period and the seller delivers the entry document to the buyer and gets the price in return for it.

Features of futures contracts

Future contracts have the following features: [2]

1. These operations are not traded between banks, but rather in future markets whose specifications, trading times, receipt, and delivery dates have been determined.

2. The basic characteristic of these contracts is the obligation to implement in the future, but with conditions that take place at the present time. For example, if a person wants to buy treasury bonds in the amount of 1,000 dollars in the month of March and wants to receive them in the month of next June, he goes to the futures market and buys a futures contract through the broker, and the price of these contracts is currently determined but the settlement (a receipt of contracts and payment of money) will take place in the future next June.

3. Future contracts are homogeneous and identical, and dealing with them is done with typical goods, which makes it easy to understand and deal with them, and the demand for them is noticeably large, and this applies more to future contracts and options contracts.

4. Trading hours and days: Times are set for trading in the financial markets, as are working days.

[1] **Wahba Al-Zuhaili, Contemporary Financial Transactions, Dar Al-Fikr, Damascus, 2002, p. 133.**

[2] **Zahira Younis Muhammad, op. cit., pg. 50.**

5. Daily price limits: These are limits that are at the lowest and highest price, which are traded between them during the day and are indicated by the daily price bulletin.

Eleven: The Importance of Futures Contracts

One of the most important functions of the futures market is that it provides trading in futures contracts in the transfer of risks from parties that do not want to take high risks to parties that want to take this risk to achieve high profits if things go according to plan and prices trend in a favorable way. Sometimes the investor buys future contracts in order to reduce the risks arising from price fluctuations in the future and not to calculate the profit or loss.

This investor loads the risks to those who are willing to bear them, such as speculators who have a big role in this market, as they have a distinguished role in increasing the market liquidity. In addition to their role in taking risks in this area. Accordingly, the importance of future contracts can be summarized through the uses of these contracts. They are as follows: [1]

1. The speculator achieves the development of the market through:

- His acceptance of a specific risk through his contract with another party, thus providing business continuity in the market.
- The presence of speculators increases market liquidity (it is business volume), facilitating the covering process.
- The development of the market reaches the stage of sufficiency, and this is represented through pricing processes in the market, which lead to an agreement of opinion on the level of prices and their development.
- Speculators affect production processes so that their prediction of a deficit in the production of a particular product makes speculators buy this product later, which leads to an increase in its prices and improvement in production, thus avoiding the expected deficit.

2. Hedging aims to protect the securities portfolio, this unfavorable fluctuation in the prices of the assets formed in the portfolio, and the hedging process takes place by taking a reverse position in the future market for the current or immediate position.

3. Arbitrage and the purpose of which is an attempt to achieve profits through the imbalance in the market and in turn helps to restore balance in the market, and therefore the presence of these tools helps to reduce the risks from price changes that sellers and buyers are exposed to.

Twelve: Doctrinal adaptation of future contracts

Financial derivatives trading in the financial markets are legally rejected due to the suspicion of usury, gambling, and betting, and that they contradict the rule of law injustice because the benefit of one of the parties is considered a loss for the second party, [2]

In such contracts, in which one of the contracting parties obtains money without compensation, this increase is considered usury, given that usury is the increase without consideration in the compensation contracts. The dealers in these contracts are either hedgers for risks or speculators for prices. Those who hedge the risks from changing commodity prices in the future, for example, do this by gambling and betting on prices in the market, and here the interest of one party lapses at the expense of another.

The same is the case with speculators. They understand that they depend on the rise and fall of prices in the market. The profit of any party is at the expense of another party. This contradicts the Shari'a rule of inequality between the two parties as it is based on gambling and betting.

In addition, future contracts do not entail ownership of the assets subject to the contract, neither delivery nor Rather, the matter does not require in these contracts that the seller owns what he sells, nor does the buyer own the money with which he buys. Accordingly, many jurists have unanimously agreed that future contracts are not permissible because they are based on postponing the price and the

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[1] **Zahira Younis Muhammad, op. cit., p. 66.**

[2] **Masoud Nusbah, op. cit., pg. 60.**

appraiser, i.e. what is known as the sale of debt with debt that is agreed upon to be forbidden. [1]
In addition to that, in futures contracts, the delivery of shares is postponed, and shares, according to the consensus of scholars, are considered as a specific sale therefore it is not permissible to postpone their delivery, just as most sellers do not own the shares on which they have concluded contracts, and according to Islamic law, it is not permissible to sell what a person does not own. Futures works on selling what is owned by others, and therefore most future contracts end with a cash settlement between the contracting parties, which is clearly visible. [2]
In order to adapt these contracts in accordance with Islamic law, the Salam contract has been applied in Islamic banks, which is closer in terms of application to futures contracts, but the difference between it and futures contracts is that there is a delivery of the commodity at a specific time and at a known price, which is delayed when the commodity is delivered. [3]
The Salam contract is considered a term sale, and it is defined as (immediate purchase of deferred payment), [4] i.e. a term delivery of the commodity in return for a prompt settlement of its value. The sale of Salam has special conditions for each of its elements, namely the sale, price, term, and place. [5]
The nature of this contract allows for meeting the needs of individuals according to the development of modern banking transactions. Under the Salam contract, banks can finance companies by concluding contracts with them on the goods they produce during a specific period until the delivery of those goods.
Islamic banks can use the Salam contract to meet the needs of different and multiple segments of customers, whether they are agricultural or industrial producers, and at the same time realize the investment of their money with a specific profit margin, where the bank acts as the master of peace and the customer is delivered to it, and the commodity to be financed for its purchase. And under the Salam contract, the bank contracts with the customer and the latter gets the money from the bank sooner in return for delivering the agreed commodity at a later date. [6]
The practical reality of Islamic banks in their use of the Salam contract indicates that the annual financial reports in Dubai Islamic Bank indicate the use of this contract as a type of sale in some of the activities it is currently undertaking, and the Islamic Cooperative Development Bank of Sudan has mentioned in its annual financial reports the use of Salam sale when Distribution of his investments according to formulas. [7]

Conclusions

1. Futures contracts are contracts derived from the underlying contracts of certain investment instruments.

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[1] **Rahaf Musa Abu Farah, Sharia Alternatives to Derivatives in Islamic Financial Markets, College of Sharia / University of Jordan, 2020, 14.**

[2] **Masoud Nusbah, op. cit., p. 147.**

[3] **Abdul Karim Kunduz, Islamic Financial Engineering and its Role in Establishing and Developing the Islamic Financial Market and Supplying it with Sharia Financial Tools, Conference on Securities and Exchanges (Prospects and Challenges), United Arab Emirates University, 2006, p. 30.**

[4] **Aisha Al-Sharqawi Al-Malqi, Islamic Banks: The Experience between Jurisprudence, Law and Application, Arab Cultural Center, Casablanca, 2000, p. 431.**

[5] **Zakaria Muhammad Al-Falih Al-Qudah, Peace and Speculation - Among the Facilitating Factors in Islamic Law, Dar Al-Fikr for Publishing and Distribution, Amman, 1984, p. 39.**

[6] **Muhammad Ali Muhammad Ahmad al-Banna, The Banking Loan: A Comparative Historical Study between Islamic Sharia and Positive Law, Dar al-Kutub al-Ilmiyya, Beirut, 2006, p. 579.**

[7] **Aisha Al-Sharqawi Al-Malqi, op. cit., pg. 498.**

2. The non-permissibility of such contracts in Islamic Sharia because the consideration is not delivered at the time it is due.
3. The alternatives to Islamic finance, especially the Salam contract, should be legitimate alternatives to those contracts.
4. The Salam contract gives a great deal of flexibility in dealing with Islamic banks in a way that achieves the purpose of Islamic Sharia.

Recommendations

1. Emphasis on the necessity of using the Salam contract in financing operations, as it is the closest similarity to futures contracts.
2. The need to stay away from the application of future contracts and educate investors to stay away from these contracts because of their role in creating financial crises because they carry out the financing process without the existence of a commodity to be exchanged between the two parties.
3. Directing decision-makers to prevent these contracts from trading in the stock market because of their sanctity and conflict with the provisions of Islamic Sharia.
4. Emphasis on following up on developments in the stock market, reviewing modern financial products, and stating their rulings and their compatibility with the provisions of Islamic Sharia.

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