The global financial turmoil saw several ban of short selling on all stocks in major stock exchanges. Under the new measure, the government will ban investors from borrowing stocks of all listed companies. The short-selling ban is to maintain normal market operations. It help prevents further deterioration of the stock market.

What really is short-selling? Most textbooks will say that short-selling involves the sale of a security (e.g. common stocks) not owned by the investor at the time of sale. In other words, short-selling is about selling what one does not own. But how does it work and what good will it do investors?

To understand the Islamic position on short-selling would first require a sound knowledge about the practical operation of the stock market and investors profit-maximising behaviour. It boils down to the principle of buying cheap and selling high. But what really happens in short-selling is that investors do not own the stocks they sell when prices are high or over-priced.

Let us take an example of how this is done in the stock market. Suppose Encik Ameen made a study of Renong Steel Sdn Bhd common stocks and found it is over-priced at $20 per share. He wants to be in a position to benefit if his assessment is correct. So he calls his broker, Ariff, indicating that he wants to sell 100 shares of Renong (which he does not own). Ariff will do two things. First, he will sell 100 shares of Renong on behalf of Ameen, Secondly, he will arrange to borrow 100 shares of that stock to deliver to the buyer.

Let us look at the second option. Ariff is able to sell the stocks for $20 and borrows the stocks from Mr. Tan. The shares will be delivered to the buyer. This borrowing and lending activity is now allowed in the Malaysian stock market under the SBL guidelines. Whether this will lead to abuse will depend
on how much Ameen can make; and perhaps it will violate the Quranic verse “Woe betide those who take more than they give”. (83:1) and “Do not curtail or diminish what is due to other people: (11:85).

The proceeds from the above sale will be $2,000. However, the proceeds do not go to Ameen because he has not given his broker the 100 shares. Thus, Ameen is said to be “short 100 shares” - hence the term short-selling. Now, suppose three days later the price of Renong Steel declines to $15 per share. Ameen may instruct his broker Ariff to buy 100 share of Renong Steel costing him $1,500.

These shares are then delivered to Tan, who has initially lent out the 100 shares. So, he no longer has any obligation to his broker or to Tan, i.e. Ameen has covered his short position. He is now entitled to the funds in the account generated from the selling and buying activities.

He sold the stock for $2,000 and bought it for $1,500 and therefore made a profit of $500. Of course, he will have to pay some fees such as commissions, fees charged by the lender of the stock and dividends paid by Renong Steel. But when the share price increases to, say, $27, Ameen will lose $700 when he is forced to cover his short position.

The position of short-selling in Islam is still not clear and requires a commendable response from the Securities Commission as the transaction is said to be in conflict with one Prophetic hadith.

The hadith says; “Ja’far b. Abi Wahshiyah reported from Yusuf b. Mahak from Hakim b. Hizan (who said): I asked the Prophet PBUH: O Messenger of Allah! A man comes to me and asks me to sell him what is not with me, so I sell him (what he wants) and then buy the goods for him in the market (and deliver). And the Prophet said: sell not what is not with you”. 
The last statement: *sell not what is not yours* on the surface may imply that Ameen cannot instruct his broker to sell Renong Steel stocks since Ameen does not own the stocks. But really what is the message in the statement? It is about uncertainty over Ameen’s ability to deliver the stocks to Tan. Certainly, it is not about the issue of ownership in its literal sense because Islam allows *salam* sale which does not require ownership of the asset.