

Criptomonedas y el entorno jurídico islámico: el caso de Onegram

Cryptocurrencies regulation in the Islamic environment: OneGram case study

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Resumen: El concepto legal y político de la separación iglesia-estado es una de las medidas que se establecen en los estados de carácter laico, incluyendo la economía. La separación no existe en los países que se rigen por la ley islámica, denominada sharía. Un aspecto de actualidad es la aparición de las criptomonedas y su cuestionamiento debido a su carácter especulativo: ¿halal o haram? Es un aspecto de actualidad entre reguladores, bancos centrales y autoridades. Una posible solución con el cumplimiento de los preceptos musulmanes es OneGram (OGC), la cual fue reconocida como el mejor producto financiero islámico del 2018 en los Global Islamic Finance Awards.

Palabras clave: Criptomonedas; blockchain; islam; Onegram; sharia; halal; haram; divisas; finanzas.

Abstract: The legal and political concept of church-state separation is one of the measures established in secular states, including the economy. The separation does not exist in countries governed by Islamic law, called sharia. An aspect of current affairs is the appearance of cryptocurrencies and their questioning due to their speculative nature: halal or haram? It is an aspect of current affairs among regulators, central banks and authorities. One possible solution with compliance with muslim precepts is the OneGram (OGC), which was recognized as the best Islamic financial product of 2018 at the Global Islamic Finance Awards.

Keywords: Cryptocurrencies; blockchain; islam; Onegram; sharia; halal; haram; currencies; finance

1. Introduction

The legal and regulatory encirclement towards cryptocurrencies is increasingly narrowing due to their opacity, especially in Muslim countries. (Nafis, Lokesh, Gupta&Zameni, 2019). The population growth of Muslims (currently 35% of the world's population) will affect the cryptocurrency and blockchain scenario and its development within the financial industry. Islamic countries (only 1% of world's GDP) are governed by sharia. According to it and based on the financial literature and the Fatawa (Muslim legal jurisprudence issued by a religious legal expert), they have two trends of opinion.

2. Arguments, theory and religion

On the one hand, those who think that cryptocurrencies are Haram, that is, forbidden by shariah. This trend has been adopted by the “Grand Mufti” (Islamic jurist authorized to issue opinions of a non-binding nature, or fatwa, on the Sharia) of Egypt, the Turkish government and the Fatwa authority of Palestine. The United Arab Emirates and Saudi Arabia have not officially banned cryptocurrencies as of now. However, both governments have issued strict warnings regarding the procurement of bitcoin.

¿Why do they make this decision?

There are several reasons. First, the shariah considers it essential that the asset be legal tender, which must be regulated by the government. This does not happen with cryptocurrencies. (Virgana, Parlindungan, Tezza, 2018).

Second, cryptocurrencies lack an issuer or central authority to monitor or secure them. Cryptocurrency advocates argue that legal certainty and security comes from the regulations accepted by users and that cryptography and blockchain technology makes manipulation impossible, which has happened in the SWIFT network used for interbank operations. In addition, the preservation of value and wealth is extremely important for the Shariah. Monetary authorities have destroyed value on numerous

occasions through inflation (as currently in Venezuela due to a wrong monetary policy and intervention on exchange rates where many Venezuelans prefer cryptocurrencies as a unit of exchange account and reserve of value than the official currency Bolivar).

Third, the haram argues the volatility of cryptocurrencies. Others consider that speculation is an external factor that should not serve as a basis for the determination of an asset as a currency. In addition, volatility also exists in other fiat currencies, financial assets and commodities.

Finally, opposing Islamists argue that cryptocurrencies are used for money laundering and financing of illegal activities. The use for illegal activities should not outlaw the good itself, it is again an external element.

On the other hand, those who think that cryptocurrencies are halal, or fit to be allowed by Islamic law. This trend is based on the fact that every financial transaction must be admitted and allowed unless we find evidence contrary to Shariah law. According to this idea, cryptocurrencies must be admitted as a currency. Any asset could be admitted as a currency fulfilling the following attributes:

- The population considers it an element of value
- Accepted as a medium of exchange by a considerable percentage of the population.
- It is a measure or unit of value and store of value.
- Subject to be considered as unit of account.

Therefore, any cryptocurrency that meets these conditions should be considered as a substitute for money. The fatwa islamic seminary center in South Africa has adopted the view that Bitcoin meets the conditions of being “mal” (property in Arabic) and therefore can be used for commercial exchanges (like gold for example). However, they warn that to be considered a currency, it must be authorized by the relevant government and regulation authorities.

3. Onegram cryptocurrency, characteristics.

Onegram is a start-up based in Dubai that launched the cryptocurrency in May 2017 with an ICO (initial coin offering) where 12,400,786 OGC tokens were issued and more than USD 500 million were collected.

Onegram is a cryptocurrency that uses blockchain technology and has the characteristic and requirement that each unit has at least one gram of physical gold as collateral at the time of issuance, which gives the cryptoasset with a stable floor price. It is a unique feature since it combines a traditional asset (a commodity like gold) with an emerging asset (cryptocurrency). In 2017 the quote trade of bitcoin reached parity with gold (by ounce) which captured the attention of gold investors around the world. With cryptocurrency going mainstream there has been a big increase in interest with the concept of gold-backed cryptocurrencies.

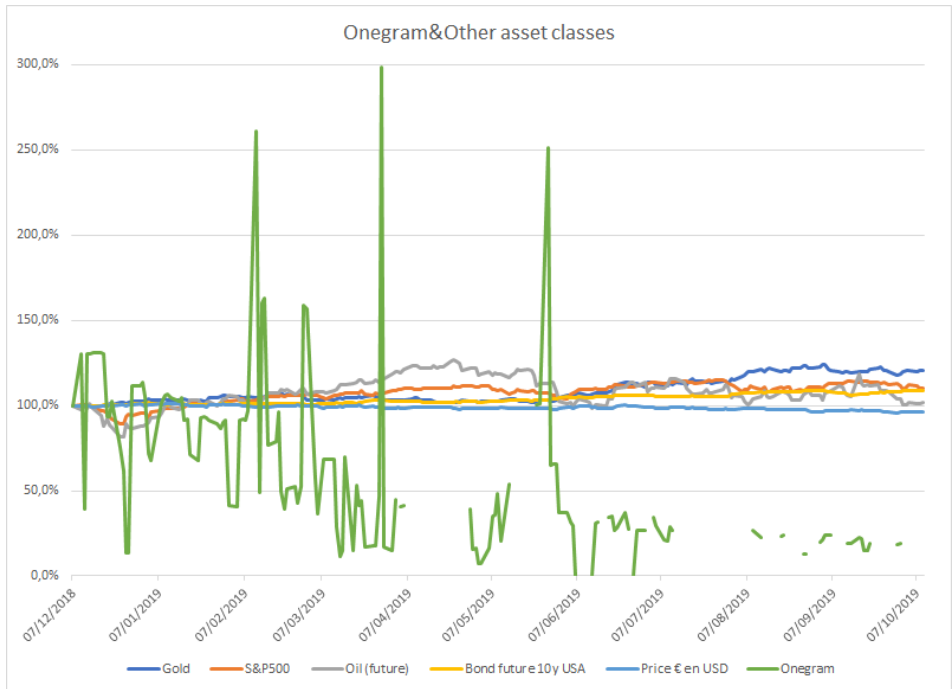
In addition, Onegram is the first cryptocurrency that has been certified in compliance with Islamic regulation. The cryptocurrency charges a fee of 1% for each transaction, whose 70% goes to the purchase of gold as a reserve of the Onegram community and collateral of the money supply. In addition, cryptocurrency is rated as ecological by using PoS (Proof of Stake) blockchain technology that uses 10 times less energy than the PoW (proof of work) protocol in addition to the speed of transactions. 2.5% of the 1% transaction commission goes to the foundation (principles of Islamic Zakat donations).

Onegram was awarded in 2017 as the best Islamic cryptocurrency by the IRBA (Islamic Retail Banking Awards) and in 2018 as the best Islamic Fintech product by the GIFA (Global Islamic Finance Awards).

4. Financial analysis of the Onegram cryptocurrency.

In order to assess the financial profile for Onegram (on an absolute and relative basis) we have analyzed the performance for this cryptocurrency and other asset classes for the period 7th December 2018 (start of available quoted data, obtained from <https://www.coingecko.com/>) to 9th October 2019. The relative comparison was done to commodities (gold and oil), equities (S&P500), fixed income (10y US Treasury future) and currencies (€, in USD terms and Onegram of course).

Onegram had the worst performance, as we can see in the next normalized analysis of its performance:



Source: prepared by the author. Data: <https://www.coingecko.com/>

During the time horizon period (not long, we acknowledge, for statistical significance) Onegram had the worst performance by far (-81,17%) and huge volatility, much higher than the rest of asset classes:

	Profitability	Volatility	Sharpe Ratio
Gold	20,27%	11,69%	1,74
S&P500	9,87%	15,03%	0,66
Oil	1,48%	35,96%	0,04
Bond 10y US	8,95%	4,40%	2,03
€	-3,52%	5,25%	-0,67
Onegram	-81,17%	1581,75%	-0,05

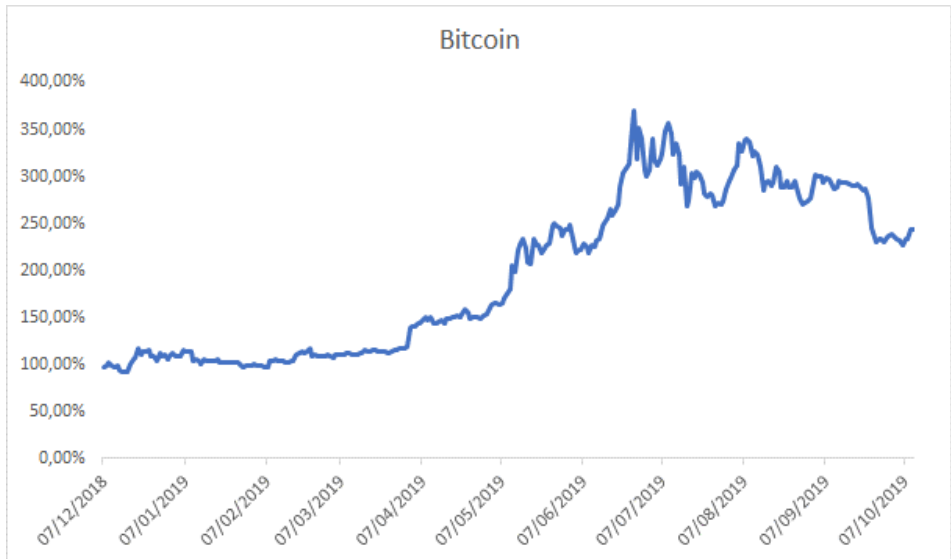
Source: prepared by the author

On an absolute and relative basis (risk adjusted performance measured by the Sharpe ratio, considering 0% the riskfree rate, something accurate in the current scenario), gold obtained the best performance and financial assets (equities and bonds) had a very positive year and currencies, mostly

Onegram, negative (both Onegram and euro quote in units of USD). Surprisingly, during this period, Onegram and gold daily profitability had a negative correlation of $-0,45$. With these statistics, hardly we can consider Onegram an appropriate store of value mechanism and the high volatility (over 1.500% yearly) would drive us to the first trend, considering Onegram against the Islamic law.

This is against the initial idea of Onegram trying to solve the inherent problem of most crypto assets, the lack of intrinsic worth, being backed by gold (used thousands of years as money and store of wealth). The problem is shared with fiat currencies, but are backed by a government.

Why did Onegram had this negative performance? We cannot approach the valuation based in Metcalfe's law ($N*(n-1)/2$) due to the fixed number of units issued (the value of a network is proportional to the square of the number of users on the network based on Metcalfe's law) so we could say investors preferred alternative investments achieving strong performance. But, during 2019, Bitcoin prices have more than doubled in 2019, the best asset class this year with a Sharpe ratio of 2,4. According to this, why is Bitcoin haram and Onegram halal? (Abu-Bakar, 2017).



Source: prepared by the author. Data: <https://www.investing.com/>

No currency can guarantee absolute stability, but OneGram (as a bridge between commodities and cryptos) idea is to limit your exposure to downside risk. Since the base price of a OneGram coin/token is always at least equal to the spot price of gold, it has a floor price. But negative empirical correlation is hard to understand with the limited yet available data, needless to say. Gold collateral makes Onegram sharia compliant, but still (to date) useless as a price stability method.

5. Analysis of the Islamic regulation in finance.

So, sharia rules and associated regulations are compatible with modern digital blockchain technology? Quran and Sunnah, in common with other religious texts, contain statements on wide ranges of behavioural misconduct. Islamic economics forbids: borrowing and lending transactions containing payments of interest (riba or usury) and prohibition of transactions involving excessive uncertainty, risk, asymmetric information and moral hazard (gharar or risk). Is this strong relationship between economy, state and religion incompatible with a truly free-market or modern society and helps explain why the Arab world's per-capita income is one-tenth America's or Europe's?

Islam does not deny the market forces and market economy (Akhter Uddin, 2015). Even the profit motivation is accepted to a reasonable extent. Private ownership is not totally forbidden. Yet, the basic difference between capitalist and Islamic economy is that in secular capitalism, the profit motivation or private ownership are given unconstrained power to make economic decisions. Muslims think that this practice has allowed a number of behaviours which cause imbalances in the society. Interest, gambling, speculative transactions tend to concentrate wealth in the hands of the few. Islam establishes some "divine" restrictions in the economic regulation.

Criticize the interest rate system is more questionable. With negative interest rates spreading around developed and capitalist world, such low interest rate scenario does not fulfil the aim to incentivize savings. As Deutsche Bank's Jim Reid titled his research report last year, we might be witnessing "The Start of the End of Fiat Money." Therefore, our current fiat-based monetary system might need a transformation. Present

proponents of digital currencies are proposing a new method of supranational sound money “digital gold” for the globalized world.

We are still in the early stages of cryptos and we have little certainty how they will be playing out. In practice, only approximately 25% of banking in the Gulf and Southeast Asia follows Islamic doctrine; many Muslims use ordinary capitalism finance if it offers higher returns or more convenience.

But the issue of religious allowance is important (Aminu, Sum Billah, Ma, 2019), significant and could determine whether Islamic institutional investors, which are formally committed to the principles of Islamic law (Billah, 2019), deal in cryptocurrencies. The deal is complicated, there are thousands of cryptocurrencies with different features according to distribution, mining and trading and Islamic law scholars have difficulties understanding the intricacies of digital currencies. But scholars have yet to rule conclusively on whether cryptocurrencies are in fact currencies. This is important for Islamic tax payments called zakat (2,5% of wealth taxed, as Onegram), and for inheritances.

More evidence is needed to reach a consensus. Very important is the consideration of blockchain. Blockchain is not only a platform for cryptos, it is a broad decentralized digital ledger technology. In this respect, Blockchain could be considered a solution to the Islamic requirement of transparency and serve to boost the trust in trading and economic transactions. (Housseem, Aroua, 2019).

6. Conclusions.

Still is early to take a definite view and we will need to see the development of cryptocurrencies and regulation. Initially, I would consider Onegram and cryptocurrencies abide by the law. They are treated as valuable in exchanges (bitcoin futures trade in CME), accepted for payment by an increasing number of businesses and, as long as Onegram is concerned, the most problematic is as a measure and store of value due to its high volatility. It is true that volatility is higher than in fiat currencies. I would say speculation is an external factor which has no concern regarding the consideration of currency, but cryptocurrency trading definitely is not recommended for people who lack professional

experience. Cryptos cannot be declared haram for speculative use because there is speculation in every asset, either financial or real.

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