

Shariah and Legal Considerations in Digital Gold Investment: A Case Study of Quantum Metal

Muhammad Saffuan Mohamad Asri, Nadhirah Nordin,
Faculty of Islamic Contemporary Studies, Universiti Sultan Zainal Abidin, 21300 Kuala Nerus,
Terengganu, Malaysia
Corresponding Author Email: nadhirahnordin@unisza.edu.my

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Abstract

Online gold investment is gaining increasing attention among the Muslim community looking for alternative shariah compliant investments. With that said, Quantum Metal Sdn. Bhd. (QMSB) is one of the digital gold investment platforms that offers various products that claim to comply with Shariah principles and Malaysian legislation. However, Islamic scholars contest on the shariah compliant status of this investment, particularly in terms of compliance with trading principles and *taqabudh* (possession) parameters, as well as the issue of non-registration with regulatory bodies such as Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC). In this regard, the study will identify the major concerns in the structure and operations of QMSB gold investments that may result in noncompliance with shariah principles and Malaysian legislation. This study employs a qualitative technique and a case study design. Data collection was carried out through document analysis and interviews. The data was then analysed using content analysis. The results of the study showed that QMSB gold investments do not fully comply with shariah principles and national legal regulations. Late payments and a lack of registration with BNM and SC are among the most serious flaws uncovered, calling the operation's legitimacy into question. This study emphasises the importance of improving the shariah and legal parts of the platform to ensure compliance with both concepts. The findings of this study make significant additions to the Islamic finance literature and provide advice to investors and financial institutions on how to ensure that their investments are shariah compliant and legally acceptable. These findings also stimulate the creation of Islamic financial products that are more transparent, competitive, and in line with shariah principles and the law.

Keywords: Gold, Law, Shariah compliant, Quantum Metal

Introduction

Islam, as a comprehensive religion, provides comprehensive guidance for every aspect of life, including in the economic and financial fields. The Al-Quran and Hadith, as the main sources of Islamic law, offer fair and holistic solutions to address the various challenges faced by

humanity. In the economic space, Islamic law establishes explicit and stringent restrictions, particularly for the purchase and sale of *ribawi* products such as gold, in order to avoid *riba* (usury) and *gharar* (fraud). According to the Prophet SAW's hadith, gold transactions must be conducted in cash and without delay (Narrated by Muslim).

As technology advances, gold investment has evolved into a modern form of investment that is conducted digitally. In Malaysia, companies such as Quantum Metal Sdn. Bhd. (QMSB) provide digital gold investment platforms by leveraging the latest technological facilities. However, questions arise as to the extent to which these companies' operations comply with shariah principles. Among the issues of concern are the validity of the contracts used, such as *al-sarf* and *al-qard*, as well as the aspect of physical gold ownership. Having a valid license has increased public doubts about the shariah compliant status of the investments offered.

As a result, the objective of this study is to delve deeply into these topics, with a focus on shariah and legal aspects. This study will specifically analyse the concept of gold investment through the lens of *fuqaha*, including adherence to Islamic *muamalat* norms such as the pillars of buying and selling, and *taqabudh*. At the same time, this study will evaluate the compliance of digital gold investments with the national regulatory framework, including registration requirements with Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC). This technique is critical for determining the extent to which digital gold investments are not only Shariah-compliant but also legally acceptable, thereby offering more complete guidance to investors and industry participants.

Gold investment is an important financial instrument because it is recognised as an inflation-proof asset and has proven to be stable, especially in uncertain economic situations such as those experienced during the COVID-19 pandemic (Abdullah, 2023). Although gold investment has the potential to generate long-term returns, ensuring conformity with Shariah principles and the law remains a top responsibility that must not be overlooked (Nordin et al., 2015).

Literature Review

Gold investment has long been the main choice of investors to protect the value of wealth and avoid losses due to inflation. The Quran in Surah Al-Imran verse 14 states that gold is one of the forms of wealth that attracts people's attention, but its use must be based on shariah principles. In Islam, gold investment must meet certain conditions such as *taqabudh* and be free from *riba* (usury) and *gharar* (fraud) elements to ensure it is valid and considered a proper blessing. For a *ribawi* products, gold transactions must involve immediate delivery, without delay or excessive speculation (World Gold Council, n.d.). Scholars such as Ibn Taymiyyah (1995), emphasised that ownership of gold must be transferred directly to the buyer without any delay.

Gold investments can be divided into two main types, namely physical and digital investments. Physical gold investments involve the purchase of bars, coins, or jewellery that can be owned directly. These investments are often considered more stable because investors have full control over their assets (Hashim, 2015). On the other hand, digital gold investments entail the purchase and storage of gold online, with gold ownership recorded through an electronic account rather than physical storage. Platforms like Public Gold and

QMSB provide this convenience by giving clients simple access to the global gold market while also harnessing current technology (Saiman, 2023).

In the context of digital gold investment, QMSB provides a shariah compliant platform that uses blockchain technology. There are three main products, namely the Gold Storage Account (GSA), the Gold Conversion Account (GCA), and the Gold Asset Enhancement (GAE). The GSA acts similarly like a bank's cash savings account, except the price of gold varies regularly. The GSA allows clients to purchase, sell, and store actual gold under shariah supervision. The GSA enables investors to safely store actual gold at facilities such as Brinks Singapore, which is fully insured by Lloyd's of London and backed by pure physical gold approved by the London Bullion Market Association (LBMA). Meanwhile, the GCA account is a digital leasing system that enables investors to convert physical gold from the Gold Storage Account (GSA) to digital form within the GCA account. Through the GCA, investors can easily carry out transactions and purchases of gold digitally. In addition, the GCA allows investors to convert and increase the value of their gold assets. This product also provides convenience for investors to convert physical gold to obtain cash, with the conversion amount being up to 85% of the value of the physical gold owned (Quantum Metal Malaysia, 2024).

The next product is Gold Asset Enhancement (GAE) which uses the concept of *tawarruq* to allow investors to increase their profit potential without having to own gold directly. There are two product alternatives available, namely GAE5x and GAE10x, which provide investors with the possibility to generate earnings of up to five or ten times the original capital. Investors can take advantage of the increase in gold prices with additional capital provided by the company. The GAE work process begins with the purchase of a product using the investor's initial capital. QMSB then offers additional financing to increase the profit potential. After that, investors can sell gold at a set selling price, earning double profits depending on the product chosen. Investors are also given the option to cancel the purchase within three days of the transaction date by contacting customer service via phone or email. If the cancellation is confirmed, the physical gold that has been purchased will be resold by the company. GAE products provide investors with the opportunity to grow the value of their cash assets with higher profit potential (Wirda, 2023; Quantum Metal Malaysia, 2024). GAE products allow investors to increase their gold holdings through *tawarruq* transactions. To facilitate investment capital, a *wakalah* contract is used, in which investors appoint QMSB as their agent to acquire a specified product from Supplier A at a predetermined price via the Suq al-Sila' Exchange. QMSB then offers this commodity to the buyer at the original price plus a 3.5% annual management fees (*ujrah*), which is paid on delayed terms as mutually agreed. The investor then re-appoints QMSB as their agent to sell the commodity to Supplier B for the same price. The revenues of this sale are utilised to support QMSB's investors' investments in GAE products (Quantum Metal Malaysia, 2024; ISRA Consulting, 2020).

The main challenge in gold investment, whether physical or digital, is ensuring that each transaction is fully compliant with shariah requirements. The Muzakarah of The National Council of Malaysia's Fatwa Committee allowed the delivery of gold through digital accounts as a valid form of delivery, provided that the transfer of ownership occurs without delay (Hussain et al., 2012). This *fatwa* provides room for innovation in gold investment, but investors need to clearly understand how digital platforms store their gold and ensure the

validity of contracts and transaction processes. QMSB has also received shariah recognition from ISRA (International Shari'ah Research Academy for Islamic Finance) which is regulated by Bank Negara Malaysia (BNM). However, its contract with ISRA expired on 15 April 2023 and was not renewed. In this context, QMSB has also partnered with local financial institutions such as Bank Muamalat and Al-Rajhi Bank as well as shariah advisory bodies such as Tawafuq Consultancy and the Malaysian Islamic Trade Council (DPIM) to ensure that its products and services comply with shariah principles (Quantum Metal Malaysia, 2024). Tawafuq Consultancy is a licensed shariah advisor, certified as an External Shariah Advisor by the Cooperatives Commission of Malaysia (SKM) and a member of the Malaysia International Islamic Financial Centre (MIFC). Despite the controversy following the termination of QMSB's contract with ISRA in April 2023, the company continues to strive to improve transparency by partnering with new shariah advisors. Therefore, gold investment is a high-potential financial instrument, but compliance with shariah principles such as *taqabudh*, and contract clarity are important elements that must be met. With a transparent and shariah compliant approach, gold investment can provide legitimate economic benefits and blessings to investors.

Methodology

This study employs a qualitative technique with a case study design in order to gather data regarding QMSB gold investment from the literature and authoritative sources. Data was gathered through document analysis from both primary and secondary sources (Lebar, 2017). In addition, interviews with experts in the field of gold investment were also conducted to complement the data obtained. The obtained data was analysed descriptively, including interview transcriptions to extract important information, with the goal of determining whether the QMSB gold investment concept complied with Shariah principles and the law. Additionally, content analysis is a research technique that uses data from documents to reach systematic and objective findings (Yusof, 2004).

Findings and Analysis

Gold investment is a popular choice for safeguarding assets due to its resistance to inflation and economic volatility. QMSB is one of the digital gold investment platforms that concentrates on quick access and virtual storage of gold. However, the implementation of this investment must be shariah compliant.

This analysis identified numerous critical difficulties affecting the shariah compliant status of QMSB's gold investments. One of the most significant issues is payment delays, which violate the principle of *taqabudh* (possession), which is essential when purchasing and selling gold. This delay not only has the potential to cause *riba al-nasiah*, but it also damages investor trust. Since the end of 2023, QMSB has been dealing with late payments to investors, which seriously weakens the principle of *taqabudh* and jeopardises the shariah-compliant status of the gold investments offered. Furthermore, the delay in the delivery of physical gold continues to raise questions about whether the transfer of ownership of gold to investors truly meets shariah standards (Abdullah, 2024).

Although QMSB claims that the transfer of ownership of the gold occurs automatically when it is deposited into the investor's digital account, the delay in the delivery of the physical gold remains a major issue. This situation shows that QMSB is not fully compliant with the shariah

guidelines set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), which require payments to investors without delay. This non-compliance has raised questions about the legitimacy of their operations from a legal and shariah perspective (Ali, 2024).

Furthermore, although QMSB's gold investment products comply with halal standards in terms of materials and processes, and are free from haram activities such as gambling or the sale of prohibited goods (Wirda, 2023), the issues of payment delays, gold delivery delays, and unclear contract combinations still require serious attention. Improvements in this aspect are very important to ensure that QMSB's gold investment truly meets the requirements of *maqasid shariah*.

Prior to the contract's termination on April 15, 2023, ISRA Consulting (IC) was recruited as a shariah consultant to evaluate the structure of three gold products offered by QMSB. The examination focused on two important points: the presence of gold held by the investors and the conformity of QMSB's gold stock reports with those issued by Brink's. Based on this examination, IC issued a shariah opinion on the GCA and GAE products in July 2020, which remained valid until July 2021. However, because IC was not appointed as QMSB's permanent Shariah Advisor, they were not in charge of the company's day-to-day operations, marketing materials, or the conduct of QMSB agents (ISRA, 2024).

The element of *tadlis* (fraud) in gold investments needs to be given serious attention. One of the issues identified is the action of QMSB which is still using the name ISRA as their shariah advisor, even though the shariah consulting contract has expired. If this action is not immediately corrected, it can be considered a *tadlis* practice, which not only taints investors' trust but can also affect the company's reputation as a whole (Faruk Abdullah, 2024). Emphasis on information transparency is important to ensure that investor's confidence in operations that comply with shariah principles remains preserved.

To ensure continuous shariah monitoring, the QMSB must take proactive steps to develop its logistics system, maintain adequate gold supplies, and optimise its payment and delivery operations. In addition to ensuring technical conformity with shariah principles, a concerted effort is required to align the company's operations with the core ideals of *maqasid shariah*. QMSB faces serious challenges in ensuring that their operations comply with legal regulations in Malaysia. Every company operating in the gold trading business is required to obtain a valid license and recognition from BNM. However, QMSB has never been registered, approved, or licensed by BNM, which is a key requirement to operate such a business in Malaysia. This means that their business activities are not regulated by BNM and do not meet the requirements of a Shariah-compliant gold business.

Furthermore, while QMSB is subject to the Anti-Money Laundering, Anti-Terrorism Financing, and Proceeds of Unlawful Activities Act 2001 (AMLA), this clause does not include direct gold dealing or business activities (BNM, 2024). As a result, the AMLA cannot be used to determine the authenticity of their gold trading operations. Legal gold trading activities require registration with the BNM, which QMSB does not meet.

Additionally, QMSB offered shares to the general public without the Securities Commission Malaysia's (SC) mandatory recognition and registration documentation. This act breached Section 212(5) of the Capital Markets and Services Act 2007. The SC has also placed this company on the Investor Alert List to warn investors about the possibility of engaging in unlawful activities (Securities Commission Malaysia, 2024).

As a result, there are two major issues indicating a violation of the law by QMSB. First, there was a failure to secure a BNM license and recognition for gold trading. Second, there was a violation of SC norms by offering shares without authority. This issue calls into question both the legality of the company's operations and its shariah compliance status. Improvements in legal and regulatory issues are required to ensure that QMSB's operations are more transparent and in accordance with regulations and shariah. In terms of shariah, it is regarded wrong because it does not respect the government's regulations (Engku Ali, 2024), according to the verse of the Al-Quran, Surah An Nisa, verse 59:

Meaning

“O ye who believe! Obey Allah, and obey the Messenger, and those charged with authority among you. If ye differ in anything among yourselves, refer it to Allah and His Messenger, if ye do believe in Allah and the Last Day: That is best, and most suitable for final determination”.

QMSB gold investments have great potential in offering attractive investment alternatives. However, several key issues such as late payments, non-compliance with shariah principles, and failure to comply with legal regulations need to be addressed immediately. Improvement efforts, including strengthening the logistics system, clarifying contract documents, and ensuring full compliance with regulations set by authorities such as BNM and the SC are highly imperative. These measures will not only increase investors' confidence but also ensure that this gold investment is in line with *maqasid shariah* values, therefore allowing more sustainability and integrity.

Conclusion

Gold investing has traditionally been regarded as one of the most secure and reliable financial tools, offering protection from inflation and economic volatility. However, before making a decision, investors should carefully consider each gold investment platform or product. This study addressed significant QMSB issues, such as noncompliance with Shariah and the law, as well as the influence on confidence from investors.

From a shariah standpoint, QMSB's gold investment was found to have various flaws that called into question its adherence to Islamic *muamalat* norms. Among the most prominent is the delay in payments to investors, which breaches the idea of *taqabudh* (possession), which is crucial in gold transactions. These challenges raise concerns about whether the gold investment products available actually comply with the *maqasid shariah*, which is designed to ensure fairness and avoid oppression in financial transactions.

From a legal perspective, QMSB failed to meet essential requirements such as registration with BNM and the SC. This lack of registration not only violated the requirements set for the gold trading business in Malaysia, but also led to a cease-and-desist order by SC. This situation

undermined the legitimacy of the company's operations and raised concerns about the security of the investments offered to the public. This combination of shariah and legal weaknesses demonstrates the urgent need for comprehensive improvements in QMSB's operations to meet the required standards.

Despite these challenges, gold investment remains viable as a hedging tool. Investors should choose platforms that are Shariah-compliant and legally valid. There are several additional possibilities that are more transparent, adhere to the purity criteria of the London Bullion Market Association (LBMA), and are devoid of *riba* (usury), *gharar* (fraud), and contractual uncertainty.

This study also emphasises the importance of deepening the principles of shariah in gold investment, such as the requirement of *taqabudh* (rapid transaction), avoidance of *riba al-nasiah*, and clarity of contract. By ensuring that each transaction meets these requirements, investors can not only achieve their financial goals but also embrace the blessing in their investments.

In conclusion, gold investment offers potential profits and long-term stability if implemented in a manner that complies with Shariah and the law. With a careful approach and selection of a legitimate platform, gold investment can play an important role in developing a competitive and sustainable Islamic economy.

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