

## 258305 - RSU (Restricted Stock Unit)

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### the question

I would like to enquire about RSU (Restricted Stock Unit). I am working in a company whereby employees are granted RSUs when they are hired.

A Restricted Stock Unit ("RSU") is the right to receive a share of the company common stock in the future, provided that the employee meets certain conditions. After the conditions (also called the vesting requirement) are met, The company distributes the shares. The vesting requirement is time-based, meaning the shares are issued after a set period of time from the hire or award date.

The default method is that, on the vesting date, stock will be sold automatically to cover our tax that month, so that we receive the full salary without tax-withholding. For the remaining shares, we can choose to sell any time. The second option is that, on the vesting date, all stocks will be sold to cover the tax. The remaining, will be deposited as cash to employee's account.

Is that a source of income that we can take?

We do not have any obligation to pay the company in case the company makes losses. We have the option to just sell all of the shares that vest on the vesting date, so that we do not make any effort to gain extra profit by considering the market value of the stock and delay to sell until the value is high. We also did not buy the stocks in the first place. Instead, we get the stocks as a package of being hired by the company.

### Detailed answer

First: There is no harm for the employee to accept these restricted shares. When the time comes for their entitlement, if they are pure shares: he may choose the first option, which is to keep the remaining shares. If they are mixed shares, he must sell all of them.

A pure share: is one that belongs to a company whose activity is permissible and does not engage in prohibited transactions, such as borrowing or depositing with interest (Riba).

A mixed share: is one that belongs to a company whose activity is permissible, but it borrows with interest or deposits its money and receives interest on it.

A prohibited share: is one that belongs to a company or entity whose activity is prohibited, such as shares of usurious banks, casinos, brothels, and the like.

The International Islamic Fiqh Council, belonging to the Organization of the Islamic Conference, in its seventh conference session in Jeddah, stated:

"The basic principle is that it is prohibited to own shares in companies that sometimes deal with prohibited things, such as Riba and the like, despite their main activities being legitimate." (End quote from the Council's magazine, seventh issue, part 1, page 73)

In the resolution of the Islamic Fiqh Council of the Muslim World League in Makkah Al-Mukarramah in its fourteenth session:

"1- Since the basic principle in transactions is permissibility, establishing a joint-stock company with permissible purposes and activities is legally permissible.

2- There is no disagreement on the prohibition of owning shares in companies whose main purpose is prohibited, such as dealing with Riba or manufacturing and trading in prohibited items.

3- It is not permissible for a Muslim to buy shares of companies and banks if some of their transactions involve Riba, and the buyer knows this.

4- If a person buys without knowing that the company deals with Riba, then learns about it: he must sell the shares.

The prohibition in this is clear due to the general evidence from the Quran and Sunnah in prohibiting Riba; and because buying shares of companies that deal with Riba, with the buyer's knowledge of this: means the buyer's participation in dealing with Riba, because the share

represents a common part of the company's capital, and the shareholder owns a common share in the company's assets. So for any money the company lends with interest, or borrows with interest: the shareholder has a share in it, because those who directly lend and borrow with interest: do this work on his behalf, and with his authorization, and authorizing a prohibited act: is not permissible.

May Allah's peace and blessings be upon our master Muhammad, his family, and his Companions, and praise be to Allah, Lord of the worlds." (End quote from the League's website: <http://www.themwl.org/Fatwa/default.aspx?d=1&cidi=138&l=AR&cid=10>)

Second: If the share is mixed, and does not enter the employee's ownership until the time of entitlement, he should sell it immediately, and he is not obligated to purify it, meaning getting rid of the prohibited amount; because the share did not result in any interest.

If it entered his ownership since he was employed, but he was prevented from disposing of it, he must get rid of the prohibited percentage when selling it. This percentage is known by referring to the company and determining the percentage of the usurious loan or usurious interest from its shares.

Please see the answer to question number (198281) for more information.

And Allah knows best.