

Crypto currency and Shariah Compliant Aspects: An Overview

By

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Abstract

Many countries have seen growth in the use of crypto currency. However, it was not widely recognized as a legal tender or currency and Shariah scholars have different views on the permissibility of crypto currencies. The main problem is unclear which Islamic commercial contracts should be applied in crypto currency and block chain technology. This research's primary goal is to investigate contemporary Shariah scholar's opinion and fatwa on this area. In this study, the qualitative research method was applied. The information will be obtained through library research. The content analysis method was used to analyses this data. This study found that, while bit coin is not entirely legal tender in Malaysia, it is a digital asset that must closely adhere to the Shariah Resolution issued by the Malaysian Securities Commission.

Keywords: Crypto currency, Shariah Aspects, Overview

Introduction and Background

Crypto currency and Islamic Finance

Crypto currency capitalization is directly and logically linked to bank deposits. The deposit in the checking account reduces due to the increase in crypto currency investment. The bank's only option for removing this threat is to propose crypto currencies as another venture opportunity to investors. Financial Institutions are forced to embrace crypto currencies as an investment portfolio alternative or accept the Block chain option to offer their consumers a low-cost, highly secure, and simple-to-use investment (Othman, Alhabshi, Kassim & Sharofiddin, 2019).

Crypto currency is electronic money that can be used instead of paper currency as a medium of exchange. It uses block chain technology, which offers a secure, traceable, and unchangeable underpinning for economic transactions. The generation of new units is likewise governed by block chain technology (Reuters, 2020). This block chain technology also is used in letters of credit (Al-Amaren, Ismail & Nor, 2020).

Whether are Shariah-compliant is a point of contention among Muslim jurists. Some well-known experts, such as Egypt's Mufti Shaikh Shaki Alam, have categorically denounced , claiming that they contradict fundamental Islamic precepts and have thus been pronounced haram. It must follow the maqasid al-Shariah to be considered halal. There are around 2800 , which are referred to as crypto assets because they are not currencies. A crypto currency isn't the only sort of digital asset. Crypto assets must be a store of value, a unit of account and a medium of exchange to be categorised as a currency (Yakubowski, 2020). Both haram and halal aspects can be found in crypto currency. As such, it is necessary to determine whether a crypto currency is haram or halal transaction by transaction. Due to its nature, it isn't easy to declare that Bitcoin is haram (Asif, 2020).

There is the potential to build digital money that is well-matched with Islam via block chain technology. It will be a tremendous revolution in cutting-edge the realm of finance and technology development if we are willing to build a digital currency that adheres to the ethos and principles of Shariah. Scholars and jurists should reconsider declaring block chain and haram because they are financial breakthroughs that can improve Muslims' lives (Abojeib & Habib, 2019). This paper aims to examine the contemporary Shariah scholars' views and the Shariah's aspects regarding crypto currency utilization in the economy.

Literature Review

Shariah and Crypto currency

The study on Shariah's aspects of crypto currency is relatively abundant due to the recent intense usage of digital money in the economy, which led to the question of Shariah's legality about its utilization. Among the earliest attempts that include the discussion of Shariah is Engle (2015), which explains how the Islamic extremists perceive crypto currency's usage in their operation in general. However, the fiqh adaptation is not detailly specified. The study on this matter is more prevalent post-2017 as more Islamic finance practitioners and academicians became attracted to the digital currency potential and the Block chain's core technology of its exchange. Oziev and Yandiev (2017) and Lacasse, Lambert, and Khan (2017) are among the earlier studies that endeavor to understand crypto currency and explore the opportunity block chain provides in enhancing the complex yet flexible Islamic financial

system. Noted at this point, Muslim scholars are still cautious about the issue due to the lack of comprehension regarding its form and actual utilization in the economy.

The scholars started immensely discussing the crypto currency issues in 2018, when a surge in related studies could be observed. Due to the event of the 2019 crypto currency bubble, which involves Bitcoin as its benchmark, several studies focused on the digital coin. [Abu Bakar \(2018\)](#) and [Abubakar, Ogundabo, and Saidi \(2018\)](#) are among the studies which examine Bitcoin as the main subject. While the first explained the currency through primary sources of Shariah, the latter compiled the scholars' views using a doctrinal approach. In the meantime, a lot more is looking into the issues through broader crypto currency discussion. [Asif \(2018\)](#) analyses the crypto currency's ecosystem from the initial coin offering (ICO) to the proof of stake protocol. Thus, it concludes that the crypto currency is tangled with financial instruments, such as derivatives, that affect its legality from Shariah's point of view.

However, the recent study on Shariah's aspects of crypto currency is shifted to the pandemic impacts, social impacts, maqasid al-Shariah, metaverse and Islamic gold-backed crypto currency. The discussion grew with the technological advancement, creativity of digital ecosystem progress, and time. [Wartoyo and Haerisma \(2022\)](#) measure the benefits and harms of the crypto currency through maqasidic perspectives, in which they found the currency possesses immense risk and volatility that harms the financial system. As volatility becomes the focal point for crypto currency prohibition, Katterbauer, [Syed, and Cleenewerck \(2022\)](#) raise a question about the prospects of algorithmic stablecoins that are pegged to other currencies involved in a complicated algorithmic framework. [Wasiuzzaman, Azwan, and Nordin \(2022\)](#) study the specific performance of Islamic gold-backed crypto currency during the bearish market of 2020.

Khan and Ullah (2022) debate the issues about the need for programs that enhance scholars' understanding as it assists them in identifying the underlying issues within the crypto currency system. With enhanced regulation, the plan of social finance could be pushed through the digital economy. The matter of digital Islamic wealth distribution is also discussed, particularly with the application of zakat and waqf in framework readiness, acceptance, and adequate operating system by many researchers. Among the many are [Rosele, Muneem, Rahman and Ali \(2022\)](#), [Bintarto, Setiawan, Alqarni and Hilmi \(2022\)](#) and [Yaakob, Nawi, Iskandar and Habibi \(2022\)](#). The diverse knowledge of the technological part of crypto currency could provide the Islamic economy with a better option for managing the collection, distribution, and records of such social practice.

Some study, such as [Noh \(2022\)](#), touches on a particular element of crypto currency, price volatility, and weights the matter on Shariah's understanding as the study found that prohibited details are insignificant. [Rosele, Muneem, Che Seman, Abdullah, Binti Abdul Rahman, Sukor, and Ali \(2022\)](#) observed the digital currency through the principle of property in Islam, as the categorization of the property determines the whole legal standards. Meanwhile, Shariah maxim approaches are also applied by [Ghoni, Syafei, and Ariza \(2022\)](#) while observing selected by measuring Treynor and Jensen Index. While crypto currency could bring profit to the economy, harmful elements such as price instability and prone to fraud hindered its usage to its full potential. Scholars have achieved no consensus about the Shariah issues due to vague harm assessment and immediate

furtherance of the crypto currency ecosystem that calls for more researchers from Shariah and Islamic finance backgrounds.

Data and Methodology

Crypto currency is now widely used in a variety of countries. However, it was not generally regarded as legal tender or currency. Shariah scholars are also debating whether crypto currency is permissible. This paper examined and their Shariah implications. While crypto currency is not legal tender in Malaysia, this paper determined that it is a digital asset that must abide by the Malaysian Securities Commission's Shariah Resolution. The crypto currency issuer must follow the Shariah resolutions strictly by the Securities Commission of Malaysia. There is no legal protection for the general public who bought the crypto currency not recognized by Securities Commissions in Malaysia. Further investigation by researchers for comprehensive and robust results and the need for the general public to enhance their knowledge of the modus operandi of crypto currency issuers before they decide to do the trading.

Results and Discussion

Shariah Aspects of Crypto currency and Block chain

DDKOIN is a community platform aiming to create economic opportunities through the scholars' attitudes on Bitcoin in Islamic jurisprudence are mixed and divided. Some deliberate it halal while others consider it prohibited haram. The opinions that preserve in the category of permitted state the principles and essence of crypto currency. An apparent inadequacy of Islamic regulations for the usage of Bitcoin in any form of transaction and an Islamic digital currency model and infrastructure are required. The justifications for defining crypto currency as illegal include violations of the national constitution and uncertainty in crypto currency implementation. Another reason crypto currency is considered unlawful is the volatility of its value, which can change due to various circumstances, such as system hacks or technological glitches. (Al-hussaini, Ibrahim, Fauzan & Mohadis, 2019).

In Islamic countries confront an additional Shariah compliance challenge. have been outlawed mainly in Islamic nations such as Morocco, Algeria, Pakistan, and Egypt. The compliance with Shariah and Islamic teachings numerous scholars dispute justifies a complete or partial ban on crypto currency. However, the aim of acquiring a crypto currency is a significant factor in evaluating whether it is legal or not.

It is worth noting that Shariah compliance has always been a significant concern for any new financial product development, particularly in Muslim countries. As a result, as previously stated, when the community and players are Muslim, the discussion among scholars for each new issuance of the crypto product will trigger the same, with no exception for DDKOIN Block chain.

Scholars have made statements about crypto currency all over the world, which can be summarised as follows.

Ruling	Individual/Organisation
Permissible	Dar Uloom Zakariyya, South Africa Datuk Dr Mohd Daud Bakar Sheikh Nizam Yaakubi
Permissible with certain rulings	Dr. Zaharuddin Abd Rahman Dar Ifta'a Mesir Dar Ifta'a Palestine
Prohibited	The Institute for the Revival of Traditional Islamic Sciences dan Wifaq al-Ulama United Kingdom Directorate of Religious Affairs, Turkey Sheikh Ali Mahyuddin al-Qaradaghi Sheikh Sulayman Ruhaylee

Based on the data in the table above, it is possible to conclude that those who oppose crypto currency have two main reasons:

- a) Reasons related to the crypto currency itself, which does not meet the characteristics of 'currency,' particularly his habit of not having 'legal tender and is not guaranteed by the government, and does not meet the criteria as an asset that can be used or *mal mutaqaawwam*. Furthermore, in the public's eyes, are high risk and contain harmful elements such as *gharar*, value instability, etc.
- b) Reasons for using *Shariah*-compliant in criminal activities include drug trafficking, money laundering, terrorism, etc.

Those who agreed to it are divided into two groups:

- a) It is required because it meets the criteria of a trust-based currency (trust) between the contracting parties. It must be accepted by the community even though the crypto currency is not issued by an authority and does not have legal tender status. Price volatility does not affect the *thamaniyyah* value of, just as it does not in the case of volatile fiat currencies and stocks. Although the issuer of, specifically the Bitcoin Block chain network, is unknown, this has no legal ramifications because Bitcoin issuance procedures are public knowledge, and users can access them via the Bitcoin Block chain.
- b) It is necessary to deal with crypto currency because it is regarded as an asset, albeit a digital investment, rather than a currency.

There are many crypto currency issuers in the market, and one is DDKOIN Block chain. On this note, however, this article found that there is no *fatwa* pronouncement has been issued specifically for DDKOIN Block chain. In general, non-*Shariah* compliance status has been granted to them by any authorities or independent advisor.

It is important to note that the Securities Commission of Malaysia has already approved Bitcoin (BTC), Ethereum (ETH), Ripple (XRP), Litecoin (LTC), and Bitcoin Cash (BCH) as digital assets that can be bought and sold through authorised exchanges. The Shariah Advisory Committee (SAC) has also decided that investment and trading in Digital Assets that meet the above criteria and are traded on a Digital Asset Exchange (DAX) registered with the Security Commission (SC) are *Shariah*-compliant. This resolution does not apply to any Digital Assets that are not under the jurisdiction of the Supreme Court.

Fortunately, in Malaysia, there is a guideline that can be used to evaluate the Shariah-compliant status of each crypto currency, namely policies for crypto-currency from a Shariah perspective issued by the Islamic Department Development of Malaysia (JAKIM) and endorsed by the Islamic Affairs National Council (MKI), among other things: -

- i) Exchanges between and between and fiat currencies are carried out by meeting the requirements of currency trading (*sarf*). The character of crypto currency as a 'secondary and relative currency' is similar to that of fiat currency. As a result, it is appropriate to apply the law of usury (*ribawi*) for the same reason as price (*thamaniyat*). In this regard, all the transaction conditions for fiat currency as a *ribawi* item also apply to .
- ii) The user should be familiar with the major types and features of the crypto currency he wishes to deal with. Consumers should only deal with that a solid technological foundation supports.
- iii) Users must have sufficient technical knowledge on obtaining a crypto currency and where it should be stored to ensure its security. This includes information on how to select only government-regulated e-wallets and exchange platforms. Users should also know how to securely store their private keys and understand cybersecurity and privacy protocols.
- iv) Users should be aware of crypto currency exchange platforms' rules. It should be noted that some exchange platforms have limitations, such as the inability of consumers to withdraw large amounts of cash. The user must be aware of the rules.
- v) Users must be able to understand and evaluate the 'Crypto currency White Paper' issued if they participate in the Crypto currency White Paper (ICO). Those who lack this skill are easily manipulated and deceived.
- vi) Consumers should be aware that the value of can fluctuate dramatically in a short period. It is also possible that the deal will fall to zero.
- vii) Consumers should be aware that (so far) all are not guaranteed or backed by central banks or other regulators. In a loss, the consumer should be conscious that he is not covered as a consumer.

It should be noted that DDKOIN Block chain is considered a secondary level of crypto currency because it cannot be directly transacted with regular currency. As a result, the dependability of DDKOIN Block chain should be established in the crypto market. This is because over 2000 failed, mainly at the secondary level. The crucial part of DDKOIN Block chain is demonstrating its dependability, which will be part of its *Shariah* recognition ([Coinmarketcap, 2022](#)).

Conclusion

Malaysia's Securities Commission has issued a resolution approving crypto currency as a digital asset. If the SC supports the DDKOIN Block chain, it will be regarded as a digital currency based solely on technology, with no underlying. In this regard, DDKOIN Block chain must establish itself as one of the recognized by regulatory bodies before the Shariah-compliant status can be realized. Furthermore, it is suggested that DDKOIN Block chain consults the Shariah Advisory panel to get the Shariah opinion on its product features and modus operandi.

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The views, information, or opinions expressed in this article were solely based on the outcome of the research and not be liable for any loss of business or profits, nor did any direct, indirect, or consequential loss or damage resulting from any such irregularity, inaccuracy or use of the information.

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