
CRYPTOCURRENCY AND ISLAMIC ETHICS: A SCHOLARLY APPRAISAL OF OPPORTUNITIES AND CHALLENGES

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ABSTRACT

Over the last few years, debates regarding cryptocurrency have become extremely popular among both scholars and ethicists, but most notably, in the area of Islamic Finance. This research will examine how these conversations are evolving, by combining the perspectives developed from a Multi-Expert Forum held by the International Open University (IOU) with responses received from academics and practitioners who work in the area of cryptocurrency, through an open-ended questionnaire. It also provides evidence of a diverse set of views, as opposed to a singular position. There are a number of respondents who see great promise in blockchain and other distributed ledger technologies, primarily because of the potential for decentralized systems, and in developing asset-based crypto models. In contrast, a large number of participants felt a sense of instability from the nature of speculative gharar (speculation) in digital currencies, in addition to the absence of tangible or intrinsic value in digital currency. Additionally, an ethical dilemma arose when discussing digital currency usage in unregulated marketplaces or when engaged in illegal activities. Regardless of their viewpoint on the issue, all of the participants agreed that engaging in digital currencies should be done with extreme care and with caution; and that digital currency engagement should be regulated. A large number of the participants suggested the need for increased regulation of digital currency and greater collaboration among scholars so that the

Islamic ruling process regarding digital currency will be both credible and proactive rather than reactive. This research has also demonstrated the need for educational opportunities to enable communities to be aware of the digital economy and have the knowledge and confidence to engage with it while maintaining the ethical and moral principles of Islamic finance.

Keywords: *Ethical investment; Blockchain; Cryptocurrency; Digital currency; Financial Technology (FinTech); Islamic Finance.*

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1. INTRODUCTION

Cryptocurrencies and digital currencies made possible through technological advancements such as blockchain and platforms like bitcoin and Ethereum are changing how we see money and finance today. It is now a new trend across the globe. At the start of 2025, the total value of the cryptocurrency marketplace was expected to be around \$3.91 trillion (CoinGecko, 2025). This is an indication of the growing global footprint of this asset class.

The transparency of cryptocurrency; the decentralized nature of cryptocurrency; and peer-to-peer transactions (P2P), while appearing to correspond with the ethical tenets of Islamic finance (equity, accountability, and the removal of intermediaries and *riba*); however, are difficult to reconcile with some of the other aspects of cryptocurrency. Academics and regulatory agencies are challenged in their evaluation of the ethical and legal implications of digital assets due to the volatility and uncertainty associated with these digital assets

and the speculation referred to as *gharar*, which is associated with these types of digital assets. Additionally, the fact that digital assets do not possess inherent or physical value raises a significant question regarding the legitimacy of digital assets as a type of wealth in Islamic law.

The number of people using cryptocurrency has increased dramatically in both developing and developed countries. By the end of 2023, there were approximately 580 million people who had used a type of cryptocurrency at one point (Crypto.com, 2024). Despite this growing user population, there is a great deal of controversy among Muslim scholars on whether or not cryptocurrency is permissible under Islam. Advocates for cryptocurrency state that it meets the criteria of money (*māl*) by operation, as well as providing transparent and easily accessible transactions in a decentralized financial system. Many others advocate referencing the concept of customary acceptance (*al-'urf al-khāṣṣ*), which indicates that if society accepts an item as having value, then that item should also be accepted as valid under Islamic Law (Hassan et al., 2022).

On the other hand, critics of cryptocurrency are concerned about its speculative nature, its uncertainty of the intrinsic value, and the lack of stable regulatory frameworks. These issues provide a foundation for ethical dilemmas, thus continuing to fuel a debate as to whether cryptocurrency can be used in compliance with the tenets of Islamic finance, and yet allow for innovation to take place.

Most contemporary research focuses on the fatwa aspect of cryptocurrencies, on technological elements of them, and on

their economics independence. For instance, Ahmad (2019) noted that speculation may be viewed as haram for bitcoin; on the other hand, some argue that stable coins – especially ones linked to assets, can fit within Shariah principles (Muneeza & Mustapha, 2019). Additionally, studies of the wider economic impacts show there was a negative relationship between the returns on cryptocurrency and the values of Islamic stock indexes in the Gulf Cooperation Council (GCC), indicating possibly significant market instability (Rashid et al., 2024). Further to say that the entry of large institutional players (e.g., Fiserv, who will issue a stable coin for banks), along with large global companies investing in blockchain, should further enhance the relevance of cryptocurrencies in both traditional and Islamic finance.

Due to the paramount importance of this issue, the International Open University (IOU) hosted a scholarly dialogue of lawyers, experts in Islamic Finance, educators and technologists in May 2025. There were several different perspectives and nuances were evident during this event: some participants focused on the ethical implications of blockchain technology and offered support to cryptocurrencies conditionally, while the others voiced their concern about the price volatility of cryptocurrency and its possible misuse as well as the inadequate regulatory measures in place to protect users. In conclusion all of the attendees agreed that additional research and institutional oversight would be beneficial.

The aim of this study is to fulfill the need for an even more complete and inclusive academic exploration of cryptocurrencies as evidenced by the scholars' participation in

the IOU discussion. The methodology used in this study uses a mixed-methods approach that combines: i) qualitative data collected during the IOU panel, ii) new data collected from the responses to open-ended questionnaire distributed to experts, and the thematic analysis of relevant academic, regulatory, and jurisprudential sources. Through the integration of these three types of data, the study attempts to develop a mapping of the various views held by scholars regarding the issue of cryptocurrency; establish a balance between the ethical and financial aspects of the debate; and generate feasible recommendations for Islamic academic institutions and policy organizations to utilize in engaging with digital currencies in Muslim contexts.

In the context of the above discussion, the present study focuses on:

- i) To document and explore scholarly viewpoints on the acceptability, ethical implications, and risks associated with cryptocurrencies in the context of Islamic finance.
- ii) To analyze both primary (expert dialogue and survey) and secondary data (literature review) to identify common themes.
- iii) To suggest strategies for higher education institutions to establish responsible positions on new financial technologies.
- iv) To attempt bridging the gaps between Islamic jurisprudence, financial innovations, and practical applications for educators and students.

2. REVIEW OF LITERATURE

2.1 Islamic Rulings on Cryptocurrency

At an international level, the OIC's International Islamic Fiqh Academy (IIFA) provided general guidelines for electronic currencies, emphasizing the need to distinguish between two main categories of electronic currencies (asset backed tokens and decentralized coins) and the requirement for all electronic currencies to be governed by both state regulations and Shariah conditions. Therefore, regardless of whether an electronic currency is decentralized or not, there is no removal of the ruler's authority over the currency system (IIFA, 2018). Similar to IIFA, Egypt's Dār al-Iftā' provided guidelines for the electronic currency known as Bitcoin and similar currencies which were found to be problematic primarily because of their high degree of volatility, speculative nature (*gharar* and *maisir*) and potential for being used for unlawful purposes. Due to these concerns, Egyptian jurists tend to prohibit the use of cryptocurrencies as money (Dar al-Ifta Egypt, 2018).

Majelis Ulama Indonesia (MUI) also prohibited the use of cryptocurrencies as money based on the grounds of *gharar* and damage, however, they did indicate a willingness to permit the use of cryptocurrencies as commodities under certain conditions (MUI, 2021). In contrast, Malaysia has taken a more regulated approach than either Indonesia or Egypt. Although Malaysia's Shariah Advisory Council of the Securities Commission does not provide a blanket ruling on the permissibility of cryptocurrencies, it does permit regulated digital asset exchanges and examines each product on a case-

by-case basis (Securities Commission Malaysia, 2019). Other organizations such as ISRA and INCEIF have also conducted research into potential Shariah compliant structures for the use of cryptocurrencies, including asset backed tokens and using blockchains for zakat and waqf (ISRA, 2021; Ali et al., 2019).

Additionally, private fatwa boards have also released rulings on the permissibility of cryptocurrencies. Some of these fatwa boards, such as Darul Uloom Zakariyya and Shariyah Review Bureau, have argued that Bitcoin can be treated as *māl* (property) and, therefore, permissible as long as the cryptocurrency is lawfully used, in accordance with regulatory requirements and not used for speculation, even though it may not meet the criteria of money in the *fiqh* sense (Habib & Adekunle, 2019). As an aside, AAOIFI has discussed the topic of cryptocurrency but has not issued a formal standard.

Some commonalities can be seen among the rulings of the different fatwa bodies, councils and institutions. First, most scholars agree that volatility and speculation pose a significant Shariah risk, as the primary motivation for traders to buy and sell cryptocurrencies is for profit without the regard to the underlying assets or future use of the asset. Secondly, there is broad agreement that the absence of proper governance and the ability of cryptocurrencies to be used for unlawful purposes increases the likelihood of harm associated with cryptocurrencies. Thirdly, there is a universal acknowledgment of the importance of regulatory recognition, as many scholars who have allowed some form of permissibility, do so only under the condition that cryptocurrencies are subject to both legal and Shariah governance regimes (Yussof & Al-Harthy, 2018).

Despite the differences in opinion among fatwa bodies, councils and institutions, several different areas of disagreement exist as well. The first and possibly most significant area of disagreement exists concerning whether or not cryptocurrency constitutes “money” or “property” (*māl*). There are a variety of opinions concerning this issue. For instance, several scholars believe that it would be difficult to classify cryptocurrencies as “money” because of the absence of an intrinsic value for cryptocurrencies and the fact that no sovereign government has ever guaranteed the value of any cryptocurrency. In contrast, other scholars have allowed the classification of cryptocurrencies as *māl* provided that the usage meets very specific and limited conditions. A second area of disagreement is what types of usage of Shariah compliant cryptocurrencies are permissible. Some researchers have explored the potential for utilizing cryptocurrencies in Islamic finance, zakat, waqf and sukuk while others have noted that the vast majority of current usage of cryptocurrencies is speculative in nature and therefore is prohibited. A third area of disagreement is methodology itself. Fatwa bodies and councils such as Al-Azhar and the General Authority for Zakat and Waqfs have taken a blanket prohibitionist position toward cryptocurrencies; whereas, other fatwa bodies and councils such as AAOIFI and the Accounting and Auditing Organization for Islamic Financial Institutions have adopted a more nuanced and differentiated approach toward evaluating stablecoins, asset-backed tokens and decentralized coins separately (Mohamed & Ali, 2019).

2.2 Risk and Volatility in Cryptocurrency - An Islamic Perspective

The discussion about the potential risks associated with using cryptocurrencies within an Islamic financial context has generated much debate among scholars. Two of the most popular forms of cryptocurrency, Bitcoin and Ethereum, have experienced the largest price fluctuations on record; due to factors including speculation, market news and regulatory changes, they create some serious concerns among many Islamic scholars related to *gharar*. *Gharar* is used to describe the high degree of uncertainty which exists in all or part of a contractual agreement between parties. Uncertainty creates issues with fairness, transparency and predictability in contracts (Elasrag, 2019).

More recent empirical studies are supportive of the claims of scholars of Islamic finance as it relates to the issues of *gharar* that have been expressed for many years. Rashid et al. (2024), for example, researched volatility spillover impacts from conventional to Islamic Cryptocurrencies and found the overall effect of negative volatility shocks on Islamic Cryptocurrency values which were larger than those of positive volatility shocks. In other words, when there are market downtrends, the overall level of systemic risk will be increased. Alqahtani and Selmi (2024) also researched how cryptocurrency price fluctuations would negatively impact Islamic equity indexes during a period of global economic uncertainty. The findings from these studies illustrate the degree of risk associated with the high levels of price volatility of cryptocurrencies relative to the stability and predictability of an Islamic financial product.

2.3 Ethical Concerns and Illicit Use of Cryptocurrencies

A major ethical consideration in financial and Islamic literature relating to the usage of cryptocurrencies is the ethics of using them as they are inherently volatile and fluctuating in value which leads to an unstable and unpredictable environment for cryptocurrency trading. The blockchain technology allows for a transparent, verifiable and permanent record. Cryptocurrency has also been used for illegal purposes such as money laundering, terrorist financing, fraud and to buy illegal items.

These types of illicit uses of cryptocurrencies can be viewed from an ethical standpoint when considering the principles of Islamic finance and the goals of Islamic law. The principle of Islamic law states that wealth can only be earned by halal means, and it is then to be used in ways that are productive and for the benefit of society. Therefore, the speculative use of cryptocurrencies, and/or for the purpose of illegal activities, goes against the five goals of Islamic law (*Maqāsid Al-Shariah*) that includes the protection of wealth (*Hifz Al-Māl*) and the preservation of public interests (*Masalahah*). In response to these ethical concerns many Fatwa bodies, and Islamic scholars have issued statements regarding the questionable ethics of using cryptocurrencies until there are regulations in place to prevent such unethical uses (Al-Salem, 2023).

However, some scholars believe that utilizing blockchain technology with crypto currencies can potentially increase the ethical nature of financial practices; such as better managing *Zakāt* distributions, *Waqf* management, and tracking charitable donations (Mohd Yusof & Rahman, 2022). Thus, while the illicit use of cryptocurrencies presents significant legal and moral

dilemmas, they have the potential to aid in furthering ethical financial practices provided they are appropriately implemented. As a result, the duality regarding the ethics of crypto currency utilization is the reason for conducting balanced academic research and developing Sharia compliant structures to prohibit illicit uses of cryptocurrencies while encouraging their social utility.

2.4 Applications of Blockchain Technology and Cryptocurrency to Islamic Banking and Finance

In addition to focusing on financial risk and ethics of cryptocurrency, some researches have also been researching the practical and technological uses of blockchain and other innovations for Islamic banking and finance. One of the main areas of application for the blockchain technology is its ability to create a transparent, immutable and decentralized ledger that can be used for applications beyond speculative use of cryptocurrencies.

One of the most promising areas of application for blockchain technology is in the collection and distribution of *Zakāt*, a compulsory charity in Islam. Blockchain technology allows *Zakāt* contributors to be recorded securely and transparently on a ledger allowing Islamic institutions to track contributions and demonstrate accountability and efficiency in the distribution of *Zakāt* funds, addressing long-standing concerns about the inefficient or even corrupt administration of zakat funds. Pilot *Zakāt* projects using blockchain technology have shown an increase in public trust and participation in *Zakāt* programs in both Indonesia and Malaysia (Omar & Abdullah, 2022).

Blockchain technology may also improve the management of *Waqfs* (endowments). *Waqfs* are long-term investments made in perpetuity that provide income for various purposes (Najeeb & Aziz, 2021). In addition, the blockchain technology can be used to issue digital sukuk (Islamic bonds) in a more efficient and transparent manner than traditional sukuk. These digital sukuk can be tokenized and traded electronically, increasing the number of investors who can participate in sukuk, while at the same time enabling the sukuk to meet Shariah requirements by embedding the contractual rules of the sukuk directly into the digital framework (Alam et al., 2022 & Shaharuddin, 2023). This discussion reflects that the technology itself is not necessarily prohibited, but rather the permissibility of the technology depends on the structure, governance and utilization of the technology.

2.5 Regulatory Landscape in Muslim and Global Contexts

Country-to-country differences in the ways governments regulate cryptocurrency are influenced by many different elements, including each country's respective economic objectives, their respective risk tolerances and their respective regulatory systems. In this regard, some of the most developed economies in the world (e.g., US and the EU) have put into place restrictive but somewhat permissive regulatory environments that define cryptocurrencies as taxable digital assets and create guidelines for protecting consumers and ensuring Anti-Money Laundering (AML) compliance. Conversely, the Chinese government has effectively banned the practice of crypto trading due to perceived risks of destabilizing its economy,

exacerbating capital flight and increasing illegal activities (FATF, 2021).

Additionally, there are similar country-to-country differences in the way that countries around the world respond to crypto from a regulatory standpoint; the same is true when considering how countries in the Muslim world have responded to crypto regulation and have been shaped by two main factors: financial policy concerns and Shariah-based concerns. For example, Malaysia has a structured regulatory environment in place for cryptocurrencies, with the Securities Commission regulating digital asset offerings and Bank Negara Malaysia overseeing AML compliance. Furthermore, ISRA (International Shariah Research Academy for Islamic Finance) has created several guidance papers that advocate for the balancing of crypto assets against the backdrop of a blanket prohibition (ISRA, 2021). Similarly, Indonesia's MUI (National Ulema Council) concluded that crypto was haram to use as a medium of exchange based on the principle of *Gharar*, excessive uncertainty, however crypto may be viewed as an investment commodity if it is strictly regulated and subject to all relevant laws and regulations (MUI, 2021).

On the other hand, several Gulf countries including Saudi Arabia have expressed significant cautionary views toward crypto. SAMA (Saudi Arabian Monetary Authority) has warned Saudi citizens from engaging in crypto transactions stating they are unregulated, despite several Saudi banks exploring the use of blockchain technology for remittances and cross border payments (Alotaibi, 2022). The UAE has taken a different approach by establishing specific free trade zones that include

the Dubai Virtual Assets Regulatory Authority (VARA) that allows for the licensing of crypto exchanges and VARA has considered the implementation of Shariah compliant financial technologies (VARA, 2023).

Countries like Pakistan demonstrate regulatory uncertainty. Although the State Bank of Pakistan banned crypto in 2018, it now indicates a possibility of considering digital assets in light of remittances and financial inclusion (SBP, 2022) in addition to its previous prohibition on crypto. However, Bahrain is rapidly becoming one of the most forward-thinking regulators in the Muslim world. The Central Bank of Bahrain has established a regulatory sandbox for crypto and blockchain startups, and has encouraged Islamic Banks to design and provide tokenized products (Bahrain CBB, 2023). This situation reflects a clear divide in the Muslim World. While a number of Muslim countries are choosing to be Risk-Averse, and thus are adopting policies that prohibit digital assets, the others see this an opportunity for innovation in developing Shariah compliant crypto platforms.

3. RESEARCH METHODOLOGY

For this study, a mixed-method research strategy has been selected to combine qualitative insights generated through an assessment of secondary data along with the scholarly views of participants in the IOU Dialogue on Cryptocurrency at the 6th IOU Conference on Research and Integrated Sciences (IOUCRIS) held in 2025. A mixed-methods strategy was chosen based upon the fact that the subject matter of cryptocurrencies in the context of Islamic finance and ethics is relatively new,

complex and multi-faceted. Therefore, relying on a single methodological approach either exclusively quantitative or doctrinally would fail to capture the full scope of academic viewpoints, juristic deliberations, and ethical concerns characteristic of this developing area of scholarship.

The qualitative element of the research was generated in the IOUCRIS - 2025. The IOU Dialogue included contributions from leading academics and specialists in Islamic finance, Shariah and economics. This led to keynote presentations, panel sessions and an open discussion session where all participants could share their views and reasoning. Primary data was collected during this conference. To extend the range of different academic viewpoints, further qualitative input was obtained through open-ended surveys and expert feedback to reflect the viewpoints of other specialist academics.

The secondary part of the research included a full review of all literature relevant to the subject matter, which comprised of fatwas, juristic decisions and reports produced by bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Shariah Research Academy (ISRA), and the Dār al-Ifta' institutions. Documenting the literature reviewed provided the context to findings from the IOU Dialogue on Cryptocurrency, identifying any common themes and areas of consensus or divergence between the contributors to the dialogue.

This made a mixed-methods design appropriate to explore the main focuses of this research particularly in scholarly and ethical perspectives of cryptocurrency in Islamic finance. The combination of direct dialogue with experts, along with

documentation of rulings and studies, provided the opportunity to consider the opinions and theory behind the opinions of the scholars contributing to the IOU Dialogue. Additionally, a mixed-methods methodology allowed for a balanced analytical framework to evaluate the feasibility, ethical risk, financial implications and institutional approaches of the subject of study, thus, allowing for a fuller and more inclusive comprehension of the subject.

The primary and secondary data were to obtain an overall credible and comprehensive amount of information to fulfill the research objectives. Primary Data Primary data were collected mainly via IOUCRIS - 2025. Additional primary data were collected using an expert opinion survey sent via Google Forms. The survey contains open-ended questions to collect the thoughts of academics, practitioners and Shariah scholars on topics such as permissibility, ethical issues, financial implications and institutional responsibility associated with cryptocurrency. Secondary data sources included a wide variety of published material, such as fatwas and juristic opinions published by major Islamic institutions, peer-reviewed journal articles concerning, various reports and working papers, publications of different central banks, international organizations and financial authorities in Muslim-majority countries about the regulation of cryptocurrencies.

Using both primary and secondary data enabled the researchers to triangulate their data; therefore, the researchers can ensure that their conclusions are based on the scholarly community's direct input and also supported and placed into context by the existing academic and institutional dialogue. Therefore, this

dual approach provided the opportunity for the researchers to place current debates within the larger landscape of Islamic finance and global regulatory trends.

This study used thematic qualitative analysis methods, which provided researchers with an opportunity to identify and categorize common themes within their data. Thematic categories were identified from the IOU dialogue and survey results. These categories included: permissibility, ethical risks, financial implications and regulatory considerations. It also allowed to see areas of agreement/disagreement among scholars, and to see how those agreements/disagreements are reflective of the broader Islamic financial framework.

No research can claim perfection and the same is also true of this project. This study has a limitation of scope based upon the fact that it is focused upon expert opinions, specifically those of scholars and academics who took part in the IOU dialogue and also those who participated in the expert survey. It did not include broader community-based opinions, specifically those of everyday Muslim investors/practitioners, so the applications of the findings can only be considered applicable to an academic/juristic audience.

3.1 Scholarly Opinions from IOU Dialogue

This and the coming sections present summarized results of the study through the synthesis of findings from the IOU Cryptocurrency Dialogue, additional expert responses obtained via surveys and outreach, and emerging themes from both primary and secondary data sources.

Six scholars and experts participated in the IOU dialogue with diverse professional experience in Islamic finance, Shariah, economics and related fields. Keynote speakers provided an initial foundation for understanding views on cryptocurrency. Nissar Ahmad Yattoo outlined the financial advantages of cryptocurrency along with risks associated with price volatility and lack of inherent worth. In the same context, Anwar Sahib presented the Islamic concept of money and questioned whether cryptocurrency can serve as a medium of exchange and store of value in accordance with the classic definitions.

The panel consisted of Mufti Yousuf Sultan, Najeeb Zada, Mansha Rafiq, Mufti Asad Gul, and Naji Mansour. The panel members offered varying yet complementary views on cryptocurrency. Some panel members stated that cryptocurrency is speculative and may violate some Shariah principles including *Gharār* and *Maisir*. While other panel members suggested possible advantages of cryptocurrency such as increasing financial access for Muslims and as an innovative way to increase transactional options provided that cryptocurrency is regulated and properly controlled. Overall, the panelists did not agree on the merit of cryptocurrency. Instead, they unanimously agreed that caution, additional research and development of Shariah compliant alternatives to cryptocurrency would have to be completed before cryptocurrency could be evaluated. Key points that were addressed through the discussion include:

- Conditional Acceptance: Most of the participants expressed hesitation to either declare cryptocurrency Halāl or Harām, instead their majority proposed a more

balanced assessment based upon the uses of cryptocurrency and regulatory environment in which it will be utilized.

- **Technology vs Application:** It was widely accepted that Blockchain Technology is viewed positively and speculation related to the buying/selling of cryptocurrency is viewed negatively.
- **Regulation:** All of the participants acknowledged that effective regulation and established governance frameworks will be necessary for any form of acceptance of cryptocurrency.
- **Education:** There was a universal call for education and awareness within Muslim communities regarding both the potential benefits and risks of cryptocurrency.

3.2 Survey and Additional Expert Insights

Through the Google Form and LinkedIn outreach, we were able to get feedback which gave us a lot of additional information and helped expand upon our previous conversations. Our intended target audience for this outreach was comprised of academics, professionals and Shariah scholars; therefore, the outreach was done by way of both a Google Form and LinkedIn message. We received twenty-three responses from international experts located in Malaysia, United Arab Emirates, Pakistan, Turkey and Nigeria.

Similar to the variety in views as related to IOUs, there were a wide range of views as it relates to the responses to the survey.

Some respondents stated that cryptocurrencies have the ability to be game changing as a financial tool and may provide new options for halāl-based applications, including cross-border transactions and new fintech innovations. In contrast, others stated that they have concerns regarding the speculative nature of cryptocurrencies and how they are associated with unethical/illegal activity.

The majority of participants (67%) stated that they would prefer to evaluate the permissibility of cryptocurrency by its individual merits, as opposed to evaluating it under a single unified standard. A vast majority of participants (78%) indicated that before cryptocurrencies could be determined to be permissible, there would have to be regulatory standards developed for their use within an Islamic framework. The vast majority of participants (89%) emphasized that differentiations should be made among various categories of digital assets (e.g., utility tokens, stablecoins and asset-backed tokens) when determining whether or not they would be permissible according to Shariah. While 45 percent of participants expressed concerns regarding the current speculative nature of the cryptocurrency marketplace; 34 percent felt that if cryptocurrencies were appropriately regulated, there is the possibility for Shariah compliant applications.

Several survey participants expressed their belief that there could be no one size fits all for determining if certain types of cryptocurrencies would be permissible. Many participants felt that since cryptocurrency has evolved into a wide variety of different types (e.g., Bitcoin, stablecoins, asset-backed tokens, etc.) that the rules need to be applied on an individual basis for

each type of cryptocurrency based upon its unique characteristics and potential uses. In addition, several participants also believed that more research needs to be done before issuing any definitive rulings about cryptocurrency.

3.3 Recurring Themes

3.3.1 *Dialogue and Surveys: Insights of Common Themes*

In general terms, there were some common themes to both the dialogue and the survey questions. There was an overall consensus by many of the participants that it is unfair to label all cryptocurrency as either entirely Halal or entirely Haram. The participants also agreed on the need for a case-by-case evaluation of each cryptocurrency based on various factors including:

- **Technology:** Is the technology used to support the cryptocurrency in compliance with Islamic values?
- **Use:** What is the ultimate use of the cryptocurrency?
- **Governance:** Are there any regulatory or governmental entities overseeing the cryptocurrency?
- **Trading Practices -** Are the trading practices (i.e., levels and types) compliant with Shariah Law?
- **Value:** Does the cryptocurrency have any real value?

3.3.2 *Religio-Ethical Concerns*

Participants also highlighted a number of ethical and religious concerns regarding cryptocurrency. A few of these include:

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- Excessive uncertainty that occurs with almost every cryptocurrency due to wild price fluctuations (gharar).
 - The speculative and gamble-like nature of most cryptocurrency transactions (*maisir*).
 - Potential for cryptocurrency use in illicit transactions such as money laundering.
 - The lack of an inherent or intrinsic value for the majority of digital currencies.
 - High amounts of energy used in mining cryptocurrency,

3.3.3 Potential Benefits

Participants recognized that there are significant disadvantages regarding cryptocurrency but they also recognized the benefits to the underlying technology such as:

- Enhanced Financial Inclusion: Providing a greater ability to access financial markets through digital assets.
- Lower Transaction Costs: Especially on an international basis.
- Simpler & Faster Transfer of Funds: Middlemen's elimination.
- New Innovative Methods in Islamic finance: Such as asset tokenization, etc.
- Shariah Compliant Stable Coin: Backed by tangible assets.

3.3.4 Need for Regulatory Frameworks and Institutionalization

A number of professionals have stated that Islamic banking and finance organizations can participate in the cryptocurrency market in a responsible manner, if they have institutional backing and regulatory clarity. They say that in order for these conditions to exist; professional regulators need to develop regulatory frameworks that will outline how Shariah compliant practices and traditional banking regulations will be used with regards to cryptocurrencies. Furthermore, they suggest that Islamic banking and finance organizations develop industry-wide guides on the subject of cryptocurrencies, and that there needs to be collaborative efforts between technologists, Sharia's scholars, and regulatory agencies. They also suggest that there should be educational programs to increase awareness and knowledge of the Sharia implications of cryptocurrencies. Examples include, developing sharia compliant alternatives to cryptocurrencies, and practical frameworks to utilize them; as well as distinguishing between legitimate uses of blockchain technology and speculative trading of cryptocurrencies.

4. DISCUSSION

4.1 Alignment with Islamic Finance Principles

Findings of the study show that scholars' views on cryptocurrency primarily revolve around three goals of the Sharia (*Maqāsīd*): protecting wealth (*ḥifẓ al-māl*), preventing harm (*daf' al-ḍarar*), and promoting fairness and transparency (*ʿadl, bayān*).

Wherever panelists identified benefits of the use of cryptocurrency (including its financial inclusion, programmability, and disintermediation), they framed these potential benefits as possibly serving the *ḥifẓ al-māl* objective and/or increasing the efficiency of the system, provided that the conduct of the market does not involve *ribā*, *gharar* or *maysir*.

Similar to the conditional optimism found in contemporary research concerning the possibility of using certain crypto-assets as “*māl*” (wealth) based on their lawful usage and proper disclosure, there are also examples of jurisdictions that have recognized the legitimacy of certain types of digital assets.

As an example, in Malaysia, the Securities Commission’s Shariah Advisory Council has determined specific digital assets that are traded on licensed exchanges, to be permissible for trade on these exchanges under Shariah law (Securities Commission Malaysia, 2019) – which indicates the classifications and regulation of digital assets which will be instrumental to determine whether they are permissible or not.

On the opposite side of this coin, were the concerns expressed by participants in the panel discussion regarding the extreme price volatility of cryptocurrencies, the speculative culture that has developed around cryptocurrency, the potential use of cryptocurrency in illicit transactions and the risks of holding onto custodial control of cryptocurrency; all of these concerns reflect the prohibition against *gharar/maysir* and the duty to avoid harm.

The concerns expressed during the panel discussion mirror the fatwas that have taken a very restrictive approach to cryptocurrency. For example, Egypt's Dār al-Iftā' issued a ruling in 2018 that deemed dealings in cryptocurrency ḥarām based on the high degree of uncertainty and social risk associated with using cryptocurrency; similarly, Indonesia's MUI issued a fatwa in 2017 that prohibited the use of cryptocurrency as a medium of exchange while permitting the use of asset-backed or regulated types of cryptocurrencies.

Another area of alignment between ethics and governance was noted by respondents as governance. Respondents stated that the presence of transparent rulebooks, licensing, and market surveillance reduce the capacity for unscrupulous actors to take advantage of consumers and create abuse.

Models of recent regulations, e.g., Dubai's VARA model, also show how consumer protections, disclosures, and prudential protections may be built into virtual asset markets.

For parties seeking a middle ground position, the incorporation of governance mechanisms can mitigate the very same risks (*gharar/maysir*) that motivate restrictive positions.

4.2 Theoretical Implications

- **Category-Sensitive Approach:** The evidence indicates that Islamic finance discourse would benefit from a category-sensitive approach, rather than an absolute approach.
- Not all tokens are functionally similar. Payment tokens, utility tokens, stablecoins, and asset-backed coins are

characterized by fundamentally distinct characteristics of economics substance and risk profile.

- Our findings support the idea of an “ascription by function and governance”: identify the type of crypto-asset, examine how the value of the token is created and transmitted, and determine whether the associated risks are controlled at Shariah acceptable levels.
- Governance-First Lens: The data demonstrates a governance-first lens in Islamic jurisprudence on modern finance: when credible regulation, disclosure, and supervision exist, many scholars are more likely to find limited uses of cryptocurrency permissible (*māl*), especially on licensed platforms and for clearly non-speculative purposes. Malaysia’s journey toward acknowledging that some digital assets can be recognized as tradable and its current debate regarding zakat illustrate an emerging theme. This theme presents the opportunity for developing a framework for “regulated permissibility” as a viable theoretical foundation for future debates.
- Development of Refinements on Volatility and Speculation in Fiqh *Al-Mu’amalat* for Digital Marketplaces: The need to expand the articulation of the definitions of “volatility” and “speculation” within the realm of Fiqh *Al-Mu’amalat* related to digital marketplaces was confirmed by the results from the panel discussion. While price volatility may suggest that there is *gharar* (uncertainty/risk) and/or *maysir*

(speculative) trading occurring; it is an oversimplification of what volatility means in the context to these concepts. Instead, we should be concerned with identifying whether or not the asset is utilized as a form of payment, remittance, or tokenized claim to a tangible good using prudent methods of managing risk.

- Development of Institutional Fatwa: The research also suggests that institutional fatwas may develop as regulatory capacity and technical knowledge of the industry. Juristic bodies that previously ruled to prohibit the use of cryptocurrency may revisit their previous rulings when classification schemes, custody standards, and compliance tooling develop – a trend that has been seen in jurisdictions developing comprehensive frameworks for virtual asset markets.

4.3 Practical Implications

- For Regulatory Bodies: This study supports the idea that customized regulatory bodies would provide an opportunity for the regulation of Virtual Assets: licensing of service providers, approval of listings of individual assets, disclosure of reserves backing stable coins, monitoring for potential violations of market abuse regulations, and testing of operators to ensure they are fit to operate. Regulatory bodies may also consider how to integrate Shariah governance standards (e.g., appointment of Shariah boards, development of screening criteria) to transform

concerns about ethics into enforceable regulatory measures.

- For Universities: Institutions including the international organizations engaged in the unification and harmonizing of laws should create formal processes for peer-reviewed scholarship that: (i) categorizes crypto-assets based upon their function, (ii) assesses the economic content of the crypto-assets and the associated risks, and (iii) states conditional decisions regarding the use of crypto-assets based on the quality of their governance. Educational programs can help close knowledge gaps regarding crypto-assets for faculty and students. Additionally, internal guidelines for institutions can discourage speculation in crypto-assets and encourage research on asset-backed or regulated uses of crypto-assets.
- For Islamic Banks and Fintech's: Given the current level of regulatory uncertainty, banks and fintech companies should adopt a conservative approach to the use of crypto-assets: prioritize regulated markets; do not utilize leverage or other high-risk derivatives; and, focus on utility cases (e.g., cross border payments, tokenized versions of real-world assets) where Sahirah goals (efficiency, transparency, inclusion) can be realized. Banks and fintech companies should create board approved crypto policies that include specification of which crypto-assets are acceptable (if any), and implement anti-money laundering/combating

the financing of terrorism and market conduct regulations.

- For Muslim Communities: Because there is no global consensus on whether crypto-assets are permissible under Islam, members of Muslim communities should exercise caution: do not engage in speculative trading; confirm that local law permits trading; and, if permitted, use only licensed platforms that provide clear information. Zakat treatment of crypto-assets may be developed through evolving scholarly opinion on how to treat digital assets as “*māl*”, subject to specified conditions; and, educational efforts within communities which are necessary to minimize potential harm caused by scams and misinformation.

4.4 Alignment with Larger Fintech Trends

This study complements broader advancements in Islamic Fintech, which is seeing an increased focus on how blockchain technologies can be incorporated into Islamic Finance. Other studies have noted some promising use-cases for blockchain technology within Islamic finance which include:

- Tokenized Sukuk (Islamic Bond): Using blockchain to increase liquidity and investor access to digital Sukuk.
- Smart Contracts for Shariah Compliance: Contracts programmed to automate compliance with Shariah rules.

- Zakat systems based on Blockchain: A transparent system for collecting zakat through blockchain technology and distributing it efficiently.
- Cross-Border Payment Solutions: The ability of blockchain to facilitate low cost fast cross border payments.

These examples illustrate that while the underlying blockchain technology associated with cryptocurrencies has the potential to enhance Shariah-compliant financial practices, the technology itself will only be able to do so when appropriately designed and regulated.

Therefore, in the light of the above, the principal contribution of this research paper is to argue that whether or not crypto assets are permissible will be dependent upon the specific use, or the case(s) they will serve as well as their adherence to the precepts of Shariah, rather than completely dismissing the technology.

4.5 Challenges and Opportunities

4.5.1 Challenges Identified

The overall review of the whole situation identified the following major challenges:

- Regulatory Fragmentation: Inconsistencies in regulations between countries cause confusion and inconsistencies for international Islamic financial institutions that are interested in working with crypto-Assets.

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- **Scholarly Disagreement:** There are disagreements about whether or not it is permissible to have cryptocurrencies according to Islamic law. This creates uncertainty for market participants and limits the use of cryptocurrencies by limiting their ability to be widely adopted.
 - **Complexity:** Most stakeholders (including regulators and financial institutions) have difficulty understanding how blockchain and other digital asset technologies function.
 - **Volatility:** Large price swings experienced by most cryptocurrencies make them impractical to utilize as a medium of exchange or a store of value.
 - **Lack of Governance:** The lack of overall governance from Sahirah for digital assets causes a large barrier to compliance and confidence for investors.

4.5.2 Opportunities Recognized

Although there were many challenges identified during this course, there are also many new and promising opportunities, such as:

- **Access to Financial Services through Crypto-Assets:** Access to financial services is expected to increase for unbanked and underbanked people in the majority Muslim world.
- **A Driver of New Innovations:** Technology has the potential to be the driver of new Islamic financial products and services that are based on Sahirah principles.

- **Improving Transactional Efficiency:** Block-chain type systems may reduce the cost of transactions and enable faster, and more secure financial transactions.
- **Increased Trust Through Greater Transparency:** The permanent record and audit trail capabilities of block-chains may increase trust among participants in Islamic financial systems.
- **Internationalization of Islamic Finance:** The use of standard digital financial instruments (i.e., tokens) may assist in integrating Islamic finance into the international financial system.

The long-term sustainability of crypto-assets in Islamic finance will depend on finding an appropriate balance between challenges and opportunities. As indicated by this research, it is suggested that Islamic finance institutions develop a cautious but forward-thinking approach to using crypto-assets, and focus on establishing strong Sahirah governance, obtaining clear regulations regarding their use, and being technically literate so that innovations in the field of Islamic finance occur in a way that is both financially and ethically consistent with the values of Islamic finance.

5. CONCLUSION AND RECOMMENDATIONS

The study analyzed scholarly and ethical views regarding cryptocurrencies and their place in Islamic Finance. The data collected from the IOU Dialogue, Survey and other studies, indicated that there is no clear agreement amongst scholars as to the Sahirah ruling of cryptocurrencies.

There are two schools of thought; one school of thought see cryptocurrencies as being possibly compliant with the Sahirah – especially if they are appropriately regulated – and could be considered an acceptable means of exchange or store of value; the other school of thought have concerns regarding the volatility of cryptocurrencies, the speculative use of them, and their potential for being misused in illegal activities. Critics feel that these aspects represent some of the prohibited elements of *gharar* (excessive uncertainty) and *maysir* (gambling), which are both prohibited in Islam.

5.1 Key Findings

- Individual Assessments of Cryptocurrencies: Most of the respondents recommended evaluating individual cryptocurrencies separately, and according to their characteristics and objectives, rather than making a single decision for all types of cryptocurrencies.
- Distinction Between Technology and Trading: Many of the respondents agreed to separate the technological capabilities of blockchain from the speculative nature of cryptocurrency trading. They view blockchain as a technology that has the capability to be used to facilitate Sahirah compliant transactions, if appropriately employed.
- The Necessity of Implementing an All-encompassing Set of Regulations: The majority of participants agreed that it will be dependent upon the establishment of a comprehensive regulatory framework by regulatory

bodies, to safeguard investors, to provide clarity, to increase transparency, and to allow acceptance of cryptocurrency within the Islamic Finance industry.

- **Lack of Institutional Directives:** Despite the existence of influential institutions in Islamic Financial Services (such as AAOIFI), none have provided directives or standards for the use of cryptocurrencies, creating ambiguity amongst the users of these technological advancements.
- **Knowledge and Awareness Voids:** The responses to this survey identified several voids in knowledge among scholars, regulators, and financial professionals. These findings illustrate the need for educational programs and awareness initiatives relating to digital assets in the Islamic financial system.

5.2 Recommendations

The prior studies provide a basis to create recommendations as an advisory document to the members of the Islamic finance ecosystem such as IOU's (Islamic Organizations) and educational institutions; these recommendations will support a constructive conversation between the members of the Islamic Finance Ecosystem about cryptocurrency and Blockchain Technology, and also to ensure that they follow the Shariah Principles.

5.2.1 Academic Institutions

- **Set Up Academic Evaluation Teams:** Set up teams of academics who are experts in Islamic studies; economics; technology; and finance to provide an academic evaluation of all new digital financial instruments coming into existence in the markets.
- **Develop Policy & Procedures:** Develop policies and procedures regarding acceptable use of digital assets by students and faculty to encourage appropriate use of digital assets and to discourage speculative behavior.
- **Education:** Develop education programs (workshops, etc.) to educate students, faculty, and others about Islamic Digital Finance to help create awareness of digital assets in the Islamic finance industry and to reduce false information.
- **Foster Collaborative Research Efforts:** Collaborate with other Islamic finance organizations, regulators and technology companies to develop and expand interdisciplinary research opportunities related to the development of Shariah compliant fintech innovations.
- **Develop Knowledge Bases:** Create online repositories or databases which document the views of scholars, the actions of regulators and best practices related to cryptocurrencies in the context of Islamic finance.

5.2.2 Regulatory Bodies

- **Maintain an Equitable Regulatory Framework:** Regulatory bodies such as the role of central banks is essential to create a legal environment which protects the consumer and maintains the integrity of the marketplace, at the same time allows Islamic financial institutions to meet their ethical and structural obligations.
- **Promote Shariah Compliant Alternatives:** Encourage asset backed stable coins, tokenized Islamic financial instruments and blockchain based systems for Zakat and Waqf.
- **Develop International Cooperation:** Muslim countries need to develop common regulatory approaches and standards to reduce inter-jurisdictional inconsistencies.
- **Develop Licensing Systems:** Develop regulatory avenues through which Islamic fintech companies and Cryptocurrency exchanges can obtain a license, which meets both conventional regulatory standards and Shariah compliant standards.
- **Develop Regulatory Sandboxes:** Develop sandbox environments where Islamic financial institutions can experiment with Blockchain technology, under regulated conditions.

5.2.3 Islamic Financial Institutions

- **Develop Institutional Policy for Islamic Financial Institution:** Develop Board approved Cryptocurrency policy that defines acceptable assets, permissible uses and risk management measures.
- **Educate Employees through Capacity Building:** Provide employees with education on blockchain basics, crypto asset mechanics, Sahirah compliance considerations etc.
- **Implement Controlled Pilot Projects:** Implement small scale-controlled pilot projects to test practical application of cross border payment or digital sukuk issuances etc.
- **Strengthen Governance Structures:** Enhance Sahirah governance framework to address issues related to digital asset and continuously monitor compliance.
- **Partner with Fintech Partners:** Work with reputable technology companies to jointly develop compliant solutions while providing stringent supervision.

5.2.4 Scholarly Bodies and Jurists

- **Develop Standards that Cover All of These Areas:** Speed up the development of comprehensive Shariah standards that govern cryptocurrency and blockchain technology.
- **Promote a Culture of Collaboration:** Organize conferences, workshops and collaborative research initiatives to move towards a scholarly consensus on key issues.
- **Support Scholars in Developing Technical Expertise:** Increase the ability of scholars to understand new technologies to better enable them to provide informed jurisprudential decisions.
- **Establish Evaluation Standards:** Establish standards for evaluating the Shariah compliance of different types of digital assets and blockchain based uses.
- **Increase Dialogue Internationally:** Actively engage with global standard setting bodies to promote Islamic finance participation in international conversations about governance of digital assets.

5.3 Review and Reflections

Despite the enormous potential of cryptocurrencies and countless prevailing challenges for the use of cryptocurrencies in the Muslim world, today there is a clear lack of consensus regarding whether or not cryptocurrencies are halal or haram within Islam. This situation highlights the need that Muslim scholars should continuously be engaged in this body of knowledge, develop thoughtful regulations to meet the requirements of this field, and encourage Muslims to ethically be active participants in the emerging and rapidly developing area of Islamic finance through the use of cryptocurrencies. Therefore, to move forward, Muslim scholars, policy makers and masses need to focus on:

- **Sustained Collaboration:** Building partnerships among academics, regulators, technologists, and members of the industry is the need of the day. It will foster continued collaboration, create a culture of partnership, and lead to enhanced relationships.
- **Balanced Approach:** Strategies that develop the full range of opportunities in cryptocurrency also create and implement effective means to mitigate the risks inherent in cryptocurrency to limit the exposure to those risks.
- **Commitment to Ongoing Learning:** The emergence of new technologies and markets will require continued learning to be able to adapt and continue to grow.

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- **Development of Robust Governance Models:** Establishing governance models to protect the integrity of financial innovations by ensuring they are consistent with Shariah principles.
 - **Educational Empowerment:** Providing financial education and raising financial awareness to help the Muslim community to make them informed decisions about their personal finances.

As the global crypto environment evolves, so too should the Islamic finance space evolve proactively, reflectively and on principles to help define their own place within the broader digital financial landscape. It is hoped that the present study's results will provide a solid foundation for relevant stakeholders to engage in the larger collaborations to develop scholarly consensus, create guidelines and to deliver operational solutions.

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