

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

**APPLYING SHARIAH PRINCIPLES TO ISLAMIC CAPITAL MARKET**

<sup>1</sup>Muhammad Rafi Siregar, <sup>2</sup>Ahmad Rifai, <sup>3</sup>Mariana, <sup>4</sup>Achmad Manarul

<sup>1</sup>Institut Bisnis Muhammadiyah Bekasi, <sup>2,3</sup>UIN Sunan Gunung Djati

Bandung, <sup>4</sup>Universitas Al-Azhar Mesir

*mrsiregar@ibm.ac.id, rifai395@gmail.com, anajepang07121997@gmail.com,*  
*manarulhida@gmail.com*

**Abstract**

*Over the past few decades, the financial markets have experienced many long-term crises, causing them to lose the protection of investors' rights. Many parts of the world are looking for ways to trade and communicate with all parties considered, so that their interests are guaranteed to be protected. Muslim people have a hard time investing in the stock market as they feel it does not fit with Sharia law. This paper details three criteria that, if met, would allow Sharia law to invest in the stock market. In this main discussion, the principles outlined provide a better alternative to traditional stock market practices. It was a descriptive study that reviewed the literature, and Sharia law was committed because it is not relevant to the main topic. This article reviews the basic Islamic principles of investing in stock markets and the practices of Islamic tribes worldwide. It looks at Markets and Indices and is intended to guide investors and market authorities looking to learn about the original Sharia judgments regarding investments and benchmark judgments regarding index and mutual fund building.*

**Keywords:** *Capital market, Islamic stock exchange, Sharia law.*

**INTRODUCTION**

The first stock exchange concept was introduced in France in the 13th century. The Islamic concept of mudrabah is similar, although the modern version of the stock market started in the days of Prophet Muhammad (PBUH) in the 6th century (Osmani and Abdullah 2009). It is believed that medieval Muslim merchants originated the stock market. Muslims are known for their early involvement in profit-and-loss investment ventures. However, the current incarnation of the stock market (which has rules regarding Sharia law compliance) would not allow devout Muslims to profit from trading if they fail to honor their agreements or multiple parts of Sharia law. This has caused many Muslim traders to be unable to participate in traditional stock market trading fully. Naughton and Tahir noted in 1988 that the Islamic stock market was still in its early stages of development. Label El-Din wrote in 2002 that most Muslim stock markets have Western-style practices, despite many being against Islamic principles. Aluminum Hearn et al. work. Although there are only a handful of stock markets in the world (such as the B. Khartoum Stock Exchange in Sudan, the Kuala Lumpur Stock Exchange in Malaysia, and the Tehran Stock Exchange in Iran), there is not much information about Islamic finance compliant market. There have been attempts to

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

establish Shariah-compliant stock markets, but they have not proven successful thus far. There is also not much information about the principles and role of an Islamic finance-compliant stock market in the available literature.

Capital markets under traditional capitalism cannot protect investors' interests. As the stock market has repeatedly crashed, and financial crisis and economic depression ensued, the interests of traditional shareholders have been frustrated many times (Aziz 2019, Skinner 1987, Naughton, and Naughton 2000, Rofi'i 1829). Market efficiency theory states that no one can earn abnormal profits (the Efficient Market Hypothesis, or EMH) using any public or private information in the market. Therefore, investors and regulators are looking for an alternative model to protect their interests in the capital market.

Values-based Islamic investing and business practices are increasingly being used in the stock market by devout Muslims, according to Sharia law. These principles have only been practiced briefly but can still be utilized by non-Muslims. Researchers have begun using these values-based principles in their business and investing, which can benefit investors and academics (Balli, Chowdhury, and de Bruin 2022).

## **RESEARCH METHODS**

This study looks at the differences between current global practices of Islamic tribes and the norms established by Sharia in investing in the stock market. It is a review of what already exists in the market and Indices and different portfolios generated from various Islamic stock screening criteria. The study is based on a literature review and examines the basic Islamic principles of investing in the stock market. The Indonesian stock market was also considered in this study. We examined nine sectors and 78 industry groups in the Indonesian Stock Exchange Fact Sheet 2016. Different indices apply to different industry categories. We got vital financial information for each Stock from the annual reports that DataStream, Bloomberg, and the Indonesia Stock Exchange had. The dataset includes 377 stocks in the Indonesia Composite Index (Naughton and Naughton 2000).

## **RESULTS AND DISCUSSION**

### **A. Islamic law and legal methods**

Muslim jurists use Islamic legal methods to develop other laws, relying on sources that can be found in public. The Quran and Apocalyptic knowledge are the primary sources of Islamic rules and principles and the sayings of Prophet Muhammad (PBUH) (known as Hadith). The agreement and similarities of Muslim scholars in the community are considered established methods for developing law. In their 2014 paper, Kharouf, Lund, and Sekhon describe how Qiyas works. Judges consider the case at hand and use their judgment in that case as an example for other cases. They use the same reasons from the Qur'an and Hadith texts in those new cases. (Kharouf, Lund, and Sekhon 2014).

Several other legal methods are also recognized to make new decisions for new and Emergency cases with no direct reference in the original text *maslahah mursalah* (Aziz 2019). The basics The application of this methodological tool is to

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

determine whether the primary objective of Islamic law is to promote well-being or To benefit humanity (maslahah) and prevent harm (mafsadah) (Oldham and Frank 2014). Sharia law has incorporated Maslahah into legal sources to accommodate natural development, social changes, and needs. Mursalah has been used since Maslahah as a methodological tool for deriving rules without explicit evidence in open sources; scholars have identified various conditions for applying the method in rulemaking to prevent its arbitrariness use. Some conditions that must be met to use this method require unique, recurring, broad benefits, and it was evident to rational and sensible people (Balli, Chowdhury, and de Bruin 2022).

While the benefits of decision-making considered in Maslahah Mursalah may be related to worldly life, other benefits such as serving the development of the human soul and the valorization of religion are also recognized (Laldin, 2006). Quoting al-Shatibi, Al-Raysuni (2005, p. 224) explained that worldly interests "include everything that supports human life and well-being and ensures that people have everything they need, both material and immaterial, so that they may be blessed on every level. "So, earn the Best returns on sustainable Shariah-compliant investments. Families can be seen as practical Maslahah pursuits.

A common feature of using Qiyas and maslahah is mursalah. They need the human mind to make decisions. Judgment Will Divide Interpretation Among Islamic Jurists may vary, especially about business matters (Sarwar et al. 2020). The difference in judgments may be due to the application of the underlying method and jurists' different understandings of the Qur'an and Hadith texts (Adam and Bakar 2014). However, the diversity of Sharia rules using Qiyas may be relatively less than in maslahah mursalah. Scholars can refer to a Sharia benchmark. Higher probability of making different choices in Maslahah Mursalah due to subjective understanding and perception of Maslahah (using) various scholars. The subjective evaluation of benefits is to evaluate and quantify them empirically a way of solving the problem.

It should be noted that there are qualitative differences in rulemaking Based on choosing between different options based on economic goals in qiyas and maslahah mursalah. How the former method derives the rules Links to Sharia sources, fatwa shopping, and Sharia Arbitrage has negative connotations because decisions are made through dilution. The substance and spirit of Sharia sources to meet specific financial requirements for profit. However, in the case of *Maslahah Mursalah*, there are no direct References in Sharia texts, and in Sharia mitigation issues, the principle does not appear. One of the primary purposes of using *Maslahah* is Mursalah is to choose options that increase utility and use empirical methods. The method of determining this is consistent, and it was recommended to use this method (Naughton and Naughton 2000).

## **B. Shariah Framework for Islamic Stock Market**

One area of disagreement in Islamic finance is the Criteria for identifying Islamic stocks and indices. Why Islamic scholars disagree on Shariah index screening stems from different interpretations of the sources of Sharia law when Applicable to the Complexity of Current Capital Markets Investment vehicles

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

(Claessens, Dooley, and Warner 1995) considered Sharia law Compliant stocks are subject to qualitative and quantitative screening. In qualitative screening, examine business activities by industry, excluding non-Sharia business activities under Islamic law. This screening focuses on the nature of the company's operations. Companies that do not follow Sharia law exclusion principle. Table 1 shows how various indices, including ISSI, differ in Shariah screening for specific industries. The indices screen businesses differently because their corporate Social Sins differ. For example, MSCI, S&P, FTSE, and DJIM do not allow hotel companies or music studios in their indices. While S&P considers advertising and media companies against Sharia principles, the other three global indices feel that weapons and defense businesses are unacceptable under Sharia law.

Although Interest transactions are prohibited and strictly enforced, the rules will exclude all stocks of Muslim investors (Derigs & Marzban, 2008). This is how Sharia scholars develop specific financial Screening Criteria for Determining Expanded, Tolerable Thresholds in Investable areas for Muslim investors. After qualitative screening eliminates prohibited sectors, companies that manufacture eligible products and services carry out quantitative financial screenings. Financial screening criteria do not include debt, liquidity, interest-bearing investments, and Shariah-compliant companies with unacceptable income levels (Mahfooz and Abdulaziz 2014; Adam and Bakar 2014; Osmani and Abdullah 2009). Since investments are interest-sensitive (Riba), the quantitative review aims to separate company earnings from earnings related to interest.

Three indices use assets to determine Shariah-compliant financial ratios (FTSE, MSCI, and ISSI). Both DJIM and S&P use market capitalization in their formulas. An Indonesian Decree also establishes criteria for Islamic stock trading and screening. Since the decree, clear standards for stock screening and trading have been established. In 1997, the first Islamic investment fund in Indonesia was established. In their financial review, prohibited industry groups are not on their criteria list, and neither is cash compliance. Only the original revenue ratio is invalid (Ashraf and Khawaja 2016). While some prohibited activities (such as alcohol, pork, and gambling) are explicitly mentioned in these texts, the same is true for other industries, such as entertainment and firearms.

### **C. Shariah Compliant Share Eligibility Conditions**

Sharia law permeates every aspect of a person's life, Including economic, financial, legal, political, and government and its components, as well as social, ethical, and religious aspects, including values and social justice (Mahfooz and Abdulaziz 2014). Since Islam prescribes every aspect of the believer's public and private interests, the stock market guidelines have been introduced in principle by Sharia. As in other areas of Sharia law, the job of a qualified jurist is to infer principles from which relevant regulations are derived and applied in a market-specific manner scene.

Al-Kasani (1983) and Zaman (1986) suggest that jurists have agreed on Cooperative agreements and Mudarabah contracts prevalent in pre-Islamic times and among many companions of the Prophet Muhammad. Hayat (1989) The issue was further highlighted, mentioning that there is no prohibition in Sharia law

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

Form a company or partnership or selling the interest to anyone. Adapted from Al-Khaiyyat (1989), Fahd (2007), and Osmani & Abdullah (2009), Stock The market is entirely legal under Sharia law, and there is no prohibition in Islam on the establishment of capital markets. More recently, Khatkhatay & Nisar (2007) pointed this out again Investing in the stock market - convenient access to the principal investment routes Ordinary Muslims - Approaching the Islamic paradigm of profit and loss sharing. Although Islam generally allows investing in the stock market, This Sharia law sets out specific rules and regulations that distinguish Sharia law Exchanges from compatible with traditional exchanges—summed up these guidelines underly.

**Company Features**

Shares refer to ownership in a company, and shareholders refer to the people who own the company. Shareholders are the people who influence the long-term decisions of the company, such as branding and strategy. They are long-term investors in the company. Shorters are people who do not invest in the company but trade shares frequently in the secondary market. They have little influence on the daily operations of the company. While short-term investors have to consider the Shariah compliance of the company when they take positions, long-term investors have to consider the nature of the business and other strategic decisions that the company makes.

**The Nature of The Company's Business**

Sharia law does not explicitly dictate what type of business is acceptable. Its focus is on moral and social well-being. In the beginning, a business must be Halal (according to Islamic principles), meaning the company cannot produce, sell, or supply alcohol, pork, or any other prohibited meat. Additionally, businesses cannot provide immoral services like gambling, discotheques, prostitution, nightclubs, pornography, bars, Etc. Muslims are forbidden to invest in companies that operate these activities as their core source of income. Lastly, Islam prohibits riba (usury and interest) in any form. Allah (the divine authority) tells us that trade is permitted, but interest is not. The last Prophet Muhammad (peace be upon him) also cursed anyone who practiced interest in receiving or giving.

According to Islamic principles, shares cannot be purchased by Companies directly or indirectly affiliated with or involved in riba. Company Provide interest-bearing financial services, such as B. interest-based banks, insurance companies, and Financial and leasing companies, among others, also fall under this prohibition. The world is so complex and interconnected that, in many cases, in local or international business, it is impossible to avoid transactions for any benefit, Bank transactions, or any interested participation. Also, in the case of mixed types Multi-sector companies involved in Halal and Haram activities, Islamic jurists from the four primary schools of Islamic thought - Hanafi, Maliki, and Shafie Hanbali - agree to allow investment in such companies under certain conditions Conditions (Khatkhatay and Nisar, 2007; Jamal et al., 2010).

Classified by the Indonesian Financial Services Authority (Sarwar et al. 2020). Shares are Shariah compliant if the issuing company declares that it also

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

conducts business Because its management is based on Shariah principles, not Involving any of the following transactions:

- a) Gambling
- b) Transactions of undelivered goods or services
- c) False supply and demand transactions
- d) Traditional banks
- e) Traditional leasing companies
- f) Risky transactions involving uncertainty (gharar) and gambling (maisir), such as traditional insurance
- g) Manufacture, distribute, trade, and provide products or services prohibited for their content; products or services that are not prohibited because of their content but because they have been declared banned by the National Sharia Council, and potentially damaging and useless products or services.
- h) Conduct transactions that contain bribe substances

### **CONCLUSION**

The traditional efficient market theory focuses on investor rights, which is how it works. To guard against great financial crises or even the grand return of a group, In the current state of capitalist capital markets, there are no guarantees from the start system. The outcome of the protracted financial crisis suggests that the market should be driven by A system that ensures efficiency, fairness, equity, accountability, fair distribution, Investor interests, good corporate governance, and investor ethics. That the established form of capital markets in the West, including its efficiency theory, fails to ensure this Practical protection for small and less efficient investors.

During the financial crisis, the Islamic banking system proved its value-based principles for banking. Therefore, the stock market can be an excellent alternative to traditional switching systems to protect investors' rights. This article discusses some of the rules and regulations of the Sharia stock market that have been neglected based on the idea of traditional market efficiency. The stock market has grown in popularity among Muslim investors as more and more markets open their stocks to Shariah-compliant trading. This article looks at the current state of Islamic stock markets, indices, and mutual funds and explores the basic principles of Islamic investing.

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

**REFERENCES**

- Adam, Noor Latiffah, and Nordin Abu Bakar. 2014. "Shariah Screening Process In Malaysia." *Procedia - Social And Behavioral Sciences* 121 (September 2012): 113–23. <https://doi.org/10.1016/j.sbspro.2014.01.1113>.
- Al-'Alwani, Taha Jabir. 1990. "Usul Al Fiqh Al Islami Source Methodology In Islamic Jurisprudence: Methodology For Research And Knowledge." *Research Monographs No*, No. 1.
- Ashraf, Dawood, and Mohsin Khawaja. 2016. "Does The Shariah Screening Process Matter? Evidence From Shariah Compliant Portfolios." *Journal Of Economic Behavior And Organization* 132: 77–92. <https://doi.org/10.1016/j.jebo.2016.10.003>.
- Aziz, M. 2019. "Reconstruction Of Maqashid Shari'ah Perspective Muhammad Thahir Ibn'Assyria: Efforts To Re-Discuss Sharia With Reality." *Jurnal Hukum Islam* 249: 231–49. <http://e-journal.iainpekalongan.ac.id/index.php/jhi/article/view/2396>.
- Balli, Faruk, Md Iftekhar Hasan Chowdhury, and Anne De Bruin. 2022. "Transition To Islamic Equities: Systematic Risk And Shari'ah Compliance." *Global Finance Journal* 51: 100552. <https://doi.org/10.1016/j.gfj.2020.100552>.
- Claessens, Stijn, Michael P. Dooley, and Andrew Warner. 1995. "Portfolio Capital Flows Hot Or Cold?" *World Bank Economic Review* 9 (1): 153–74. <https://doi.org/10.1093/wber/9.1.153>.
- Kharouf, Husni, Donald J. Lund, and Harjit Sekhon. 2014. "Building Trust By Signaling Trustworthiness In Service Retail." *Journal Of Services Marketing* 28 (5): 361–73. <https://doi.org/10.1108/JSM-01-2013-0005>.
- Mahfooz, S Bin, and H Ahmed Abdulaziz. 2014. "Sharī'ah Investment Screening Criteria: A Critical Review." *Journal Of King Abdulaziz University: Islamic Economics* 362 (3853): 1–37. <https://platform.almanhal.com/files/2/94873>.
- Naughton, Shahnaz, and Tony Naughton. 2000. "Religion, Ethics And Stock." *Journal Of Business Ethics* 23 (2): 145–59.
- Oldham, Paul, And Miriam Anne Frank. 2014. "Have We Neglected The Shariah-Law Doctrine Of Maslahah?" 24 (2): 5–9.
- Osmani, Noor Mohammad, and Faruk Abdullah. 2009. "Towards An Islamic Stock Market: A Review Of Classical And Modern Literature." *International Review Of Business Research Papers* 5 (5): 121–30. <http://irep.iium.edu.my/4247/>.
- Rofi'i, A. 1829. "Istinbath Hukum Alauddin Al-Kasani Al-Hanafi Tentang Saksi Fasiq Dalam Pernikahan" 17: 133–55. <https://e->

**El-Iqtishady: Jurnal Hukum Ekonomi Syariah**  
**Volume 4 Nomor 2 Desember 2022**  
**Halaman 161-168**

Journal.Metrouniv.Ac.Id/Index.Php/Istinbath/Article/Download/2119/2  
123.

- Sarwar, Danish, Bilal Sarwar, Muhammad Asif Raz, Hadi Hassan Khan, Noor Muhammad, Usman Azhar, Nadeem Uz Zaman, And Mumraiz Khan Kasi. 2020. "Relationship Of The Big Five Personality Traits And Risk Aversion With Investment Intention Of Individual Investors." *Journal Of Asian Finance, Economics And Business* 7 (12): 819–30. <https://doi.org/10.13106/JAFEB.2020.VOL7.NO12.819>.
- Scott, Robert, New Edition, And Clarendon Press. 2015. "Book Reviews. 93," 93–94.
- Skinner, Jonathan. 1987. "Stock Market Prices Do Not Follow Random Walks: Evidence From A Simple Specification Test." *Nber Working Paper* 20 (August): 146–146. <http://www.nber.org/papers/W2983>.