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Shariah Compliance and Efficiency of Islamic Financial Derivative Instruments: A Comparative Analysis of the Implementation of Islamic Economic Principles

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Abstract

This study explores the application of Islamic economic principles in the use of derivative instruments within the development of Islamic finance in Indonesia. Derivatives play a key role in managing financial risks, yet their utilization must align with sharia principles, which prohibit elements such as gharar (uncertainty), maisir (gambling), and riba (usury). The research identifies several major challenges, including regulatory constraints, low levels of Islamic financial literacy, and insufficient market infrastructure. Using a literature review approach, the study concludes that despite these obstacles, strengthening regulatory frameworks, encouraging product innovation, and improving financial literacy can support the optimal use of sharia-compliant derivatives. Therefore, collaboration among regulators, academics, and industry practitioners is essential to foster the development of derivative instruments that adhere to Islamic principles and contribute to the stability of the Islamic financial system in Indonesia.

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INTRODUCTION

Islamic economics is a system based on sharia values, emphasizing the principles of fairness, transparency, and balance between the monetary and real sectors (Dhiyaudin et al., 2025). These principles serve as the primary foundation for the development of a sharia financial system, which aims to create more ethical and stable financial governance (Nazori et al., 2024). Unlike conventional economic systems, which tend to focus on profit, Islamic economics prioritizes balance in every economic transaction, at the individual, social, and environmental levels (Bisnis & Humainora, n.d.).

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One of the instruments developing in the Islamic financial system is derivatives. Derivatives are financial instruments used to manage financial risks, such as fluctuations in exchange rates and commodity prices. In the context of conventional finance, derivatives are often associated with speculation that can cause economic instability. Therefore, in Islamic finance, derivative instruments must comply with Islamic principles and avoid prohibited elements, such as riba (interest), maysir (speculation), and gharar (uncertainty). In Indonesia, the development of Islamic finance has progressed rapidly with the presence of various justice institutions, Islamic financial institutions, such as Islamic banks, Islamic insurance, and Islamic capital markets. Furthermore, the National Sharia Council (DSN) issued Fatwa No. 82 of 2011, which regulates the use of derivative instruments in Islamic transactions. However, the implementation of derivative instruments in Islamic finance still faces various challenges, such as the limited economic potential of available Islamic derivative products, a lack of understanding of derivative mechanisms from a sharia perspective, and regulatory challenges that still need to be strengthened.

Previous studies have shown that the use of derivative instruments in the Islamic financial system has the potential to provide significant benefits in financial risk management, provided their implementation is carried out in accordance with Islamic principles. However, many Islamic financial institutions are still reluctant to adopt these instruments due to perceived complexity and concerns that they may not be in line with Islamic principles. Therefore, a more comprehensive understanding of how to adapt derivatives so that they can continue to be used in the Islamic financial system without violating prevailing Islamic values is needed.

Furthermore, regulations and policies regarding derivative instruments in the Islamic financial system are still under development. The role of supervisory institutions such as the Financial Services Authority (OJK) and Bank Indonesia (BI) is crucial in ensuring that derivative practices remain within the boundaries of Islamic principles and values (Rofifati et al., 2025). Furthermore, increasing Islamic financial literacy among the public and financial industry players is also a crucial element in strengthening the foundation and accelerating the growth of Islamic derivative instruments in Indonesia. Against this backdrop, this study aims to analyze the application of Islamic economic principles in the use of derivative instruments in the development of Islamic finance in Indonesia. Furthermore, this study will also identify various challenges faced in the implementation of Islamic derivative instruments and seek solutions to overcome these obstacles.

The Application of Islamic Economic Principles in the Use of Derivative Instruments Islamic economics is based on sharia principles that emphasize fairness, transparency, and balance between the financial and real sectors. These principles serve as a reference for Islamic financial institutions in designing products and services in accordance with Islamic teachings (Dhiyaudin et al., 2025). Therefore, derivative instruments used in the Islamic financial system must be structured in such a way that they do not contain elements of riba (interest), maysir (excessive speculation), or gharar (uncertainty), thus remaining in line with sharia values.

In this regard, (Haikal & Efendi, 2024) explain that the Sharia Banking Law emphasizes three main principles: justice (al-'adl), transparency, and the prohibition of usury, as the

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foundation for implementing Sharia financial transactions. These principles serve as the legal basis that reinforces the importance of developing financial instruments, including derivatives, to remain within Islamic values and provide legal and moral protection for all parties involved.

In the context of Islamic finance in Indonesia, the implementation of Islamic derivative instruments is expected to balance the monetary and real sectors, by creating business opportunities that apply Islamic economic values and ethics so that the welfare of the people can be achieved.

Challenges in Integrating Sharia-Compliant Derivative Instruments into the Islamic Financial System in Indonesia. Although Sharia-compliant derivative instruments have significant potential for the development of Islamic finance in Indonesia, several challenges remain in the integration process. One such challenge is the lack of understanding and literacy of Islamic finance among financial practitioners and the public. Furthermore, the limited availability of Sharia-compliant derivative products compared to conventional derivative instruments also poses a barrier to the development of Islamic finance.

Sharia regulation and compliance also pose challenges to the implementation of Sharia derivative instruments. Although the National Sharia Council (DSN) has issued a fatwa regarding Sharia derivatives, its implementation and oversight still need to be improved. Furthermore, the lack of Sharia financial market infrastructure in Indonesia also hinders the development of Sharia derivative instruments.

By understanding these challenges, it is hoped that appropriate solutions can be found to integrate derivative instruments in accordance with sharia principles in the sharia financial system in Indonesia.

Islamic financial institutions apply Sharia principles (Amalia, 2020), explaining how Sharia principles are applied in several banks in Indonesia. The application of the principle of justice (Al-Adl) in Sharia banking is realized through the provision of comprehensive and transparent information regarding products and services, including potential risks and benefits. This is also achieved through the fair distribution of profits between the bank and the customer in the mudharabah contract, based on an agreed-upon ratio.

The application of the principle of (Hurriyyah), or freedom, within the Islamic economic system allows customers to choose the financial products and services that best suit their needs. This principle is realized through the provision of a variety of flexible Islamic banking products, such as savings, financing, and investments, that can be tailored to individual customer circumstances. Furthermore, customers have the full right to accept or reject the terms and conditions stipulated in the Islamic contract.

The principle of (Mas'uliyyah), or responsibility in Islamic economics, emphasizes the importance of trustworthiness in the management of customer funds by Islamic financial institutions. The implementation of this principle is evident in the careful management of funds while adhering to Sharia values. Furthermore, financial institutions are obligated to submit regular and transparent financial reports to customers and related parties.

The principle of cooperation (Ta'awun) emphasizes the importance of mutually beneficial relationships between financial institutions and customers. Its implementation includes the use

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of partnership-based financing products, such as musyarakah and mudharabah, where profits and risks are shared. It also includes providing guidance and support to customers in developing their businesses.

The prohibition of usury is a core principle of Islamic economics, which prohibits profit-making through interest. Implementation of this principle includes the use of interest-free financing schemes, such as murabahah, ijarah, and istishna. Profits are determined through a pre-agreed margin or fee, rather than through interest.

Analyze the application of Islamic economic principles in the use of derivative instruments in the development of Islamic finance in Indonesia and identify the challenges faced in integrating derivative instruments in accordance with Islamic principles in the Islamic financial system in Indonesia.

This research provides a deeper understanding of how derivative instruments can be integrated into the Islamic financial system. Given that derivatives are often considered controversial in the Islamic context due to the potential for gharar (uncertainty), maisir (speculation), and riba (interest), this research is crucial for identifying ways in which derivatives can be used in accordance with Islamic principles. This research uncovers various challenges faced in the implementation of Islamic derivatives, such as the lack of uniform regulations, limited understanding among industry players, and inadequate market infrastructure. By identifying these obstacles, this research provides an important contribution to regulators, academics, and financial practitioners in developing appropriate solutions. Some of the recommendations put forward include strengthening regulations, increasing literacy, product innovation, and developing supporting infrastructure. All of this input aims to help create more optimal Islamic derivative instruments that remain consistent with Islamic principles.

This research has the potential to encourage the development of more inclusive and efficient Islamic finance. With appropriate Islamic derivative instruments, Islamic financial institutions can better manage financial risks, thereby enhancing the stability and competitiveness of the Islamic financial system. Furthermore, this research can also increase public trust in Islamic financial products, providing assurance that they comply with Islamic principles.

METHOD

This research uses a qualitative approach with library research. This approach was chosen to understand the concept, theory, and implementation of sharia derivative instruments in the Islamic financial system in Indonesia.

This study uses primary data obtained from several official documents, such as the DSN-MUI Fatwa on Sharia derivatives, regulations from the Financial Services Authority (OJK), and reports from Bank Indonesia discussing the Sharia financial system. Meanwhile, secondary data was collected from various sources, including scientific journals, reference books, and academic articles relevant to the topic of Islamic economics and the use of derivative instruments in Sharia finance.

The data collection technique used in this study was the documentation method, which involved collecting and reviewing various documents relevant to Islamic derivative instruments. The initial stage involved reviewing various scientific literature on Islamic economics and the

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Islamic financial system, followed by identifying provisions or regulations governing the use of Islamic derivatives, and analyzing the results of previous studies addressing the implementation of derivatives in the context of Islamic finance in Indonesia.

The data obtained was analyzed using content analysis, which aims to identify patterns, relationships, and challenges in the implementation of Islamic derivatives. The steps in data analysis included classifying the data based on key themes: Islamic economic principles, the application of Islamic derivatives, and implementation challenges. Next, previous research findings were compared with existing theories and regulations. Finally, conclusions were drawn based on a synthesis of the analyzed data.

RESULTS AND DISCUSSION

Islamic economics is based on the values of justice, openness, and blessings in conducting economic transactions. These principles form the basis for the implementation of derivative instruments in the Islamic financial system in Indonesia, with the goal of ensuring that all financial activities remain within the framework of Sharia and provide tangible benefits to all parties involved.

Due to the prohibition of gharar (excessive uncertainty), conventional derivative instruments are often associated with a high degree of uncertainty. In Islamic finance, derivative instruments may only be used if they have a clear transaction basis and are not speculative in nature. Prohibition of Maisir (Gambling): Derivative instruments in the conventional system are often used to speculate on future asset prices, which resembles gambling. Therefore, Islamic derivatives must be based on real needs and used for hedging in legitimate business transactions.

This is in line with the opinion(Shabri, 2022)which states that derivative transactions in the conventional financial system generally contain elements of gharar and maysir, which are prohibited in Islam. Therefore, their use in Islamic finance is only justified if based on real needs and for legitimate hedging purposes.

The principles of justice and welfare in the use of Sharia-compliant derivative instruments emphasize the importance of equitable benefits for all parties involved in the transaction. Therefore, the contracts used must be free from exploitation and injustice. Derivative instruments in Sharia finance must be based on valid contracts in accordance with Sharia principles, such as salam, istishna', murabahah, or wakalah, to provide legal certainty and support economic stability.

In this case,(Novianto1 et al., nd)explains that the application of Islamic economic principles such as justice, transparency, and the prohibition of usury has an important role in forming a banking system that is not only legitimate under Islamic law, but also able to increase the trust and financial performance of Islamic institutions.

In practice, several Sharia-compliant derivative instruments have been developed, such as the Islamic Profit Rate Swap (IPRS), which allows mitigation of interest rate risk using mechanisms that comply with Islamic law. Despite efforts to develop Sharia-compliant derivative instruments, various challenges remain in their implementation. This includes the lack of regulatory standardization, which is still under development and lacks uniform standards at both the global and national levels. This creates uncertainty in the application of Sharia-compliant derivative instruments.

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Furthermore, there are limitations in understanding and infrastructure, with many Islamic financial industry players still not fully understanding the concept and application of Islamic derivatives, necessitating further education and outreach. Furthermore, there is the potential for conflict with Islamic principles, as some derivative instruments commonly used in conventional markets are difficult to modify to comply with Islamic principles without compromising their effectiveness in risk mitigation.

Lack of internal oversight and inconsistency in the application of sharia principles are also factors slowing down the implementation of derivatives in Islamic finance. This is in line with the view(Trunojoyo et al., 2023)which emphasizes that the effectiveness of Islamic economic law in financial institutions is greatly influenced by the quality of supervision and commitment to sharia principles.

Furthermore, limited liquidity and market demand mean that the market for sharia-compliant derivative instruments is still underdeveloped in Indonesia. Low liquidity can make these instruments less attractive to investors and financial institutions. The complexity of the contract structure for shariah-compliant derivative instruments is often greater than for conventional instruments, as it requires ensuring compliance with sharia principles.(Yahdil et al., 2021).

As a solution, collaboration between regulators, academics, and the Islamic finance industry is needed to develop Sharia-compliant policies and derivative products. Furthermore, improving Sharia-compliant financial literacy and innovation in Sharia-based products are also key factors in increasing the use of derivative instruments in Indonesia.

The discussion in this article provides a more in-depth overview of the application of Islamic economic principles to the use of derivative instruments to support the development of Islamic finance in Indonesia. Furthermore, this article examines the various challenges that arise during the implementation process. These results and discussion form the basis for the interpretations explained further in the following sections:

This article emphasizes the importance of implementing derivative instruments that comply with Sharia values, particularly in avoiding elements of gharar (excessive uncertainty), maysir (gambling), and riba (interest). Therefore, Sharia derivative instruments must have a clear transaction basis, be free from speculation, and be able to provide fair benefits to all parties involved (Management et al., 2025).

The development of Sharia-compliant derivative instruments, such as the Islamic Profit Rate Swap (IPRS), demonstrates efforts to adapt derivative concepts to comply with Islamic law. This reflects a commitment to developing innovative Sharia finance while adhering to fundamental principles. This article identifies various challenges faced in the implementation of sharia derivatives in Indonesia, including the lack of regulatory standardization, limited market understanding and infrastructure, potential conflicts with sharia principles, limited liquidity and market demand, and the complexity of contract structures.

These challenges demonstrate that developing Sharia-compliant derivatives is not easy. Comprehensive efforts from various parties are required to overcome these obstacles so that Sharia-compliant derivatives can be implemented effectively. This article emphasizes the importance of collaboration between regulators, academics, and the Islamic finance industry to develop Sharia-compliant derivative policies and products. Improving Islamic financial literacy

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and Sharia-compliant product innovation are also considered key factors in increasing the use of Islamic derivative instruments in Indonesia. These proposed solutions demonstrate optimism that the challenges in implementing Islamic derivatives can be overcome (Buhari, 2024). With continued collaboration and efforts, Islamic derivatives can become an integral part of Islamic financial development in Indonesia.

Overall, the results and discussion in this article provide a comprehensive overview of the potential and challenges in the development of Islamic derivatives in Indonesia. This article not only identifies existing problems but also offers constructive solutions to address these challenges. Thus, this article makes a valuable contribution to the development of Islamic finance in Indonesia.

CONCLUSION

The application of Islamic economic principles in the use of derivative instruments is crucial to ensure their compliance with Sharia law. Derivative instruments that comply with Sharia principles can be used to mitigate risks in the Islamic financial system, provided they are designed based on valid contracts and avoid elements of gharar, maisir, and riba. However, various challenges remain in its implementation, such as a lack of standardized regulations, limited understanding, and low market liquidity. With regulatory improvements, increased literacy, and innovation in Sharia-compliant products, derivative instruments can become an integral part of the development of Islamic finance in Indonesia.

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