

The Policy Responses towards Contemporary Islamic Capital Market in Indonesia: The Dynamics and Challenges

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Abstract

Islamic capital market has been developed to anticipate the need for capital management in the Islamic industry that grows rapidly. This paper will study the dynamics and the contemporary challenges of capital market industry products. The research utilizes a qualitative approach by searching data and information from relevant literatures, specific data, and information from regulators. The researcher conducts analytical studies literature after collecting and compiling data from relevant literatures. This study shows that Islamic capital markets have attempted to reach certain standards based on the criteria of Islamic teaching. However, this study found that globally and nationally the development of Islamic capital markets is still struggling with regulatory, products, and practices problems. This study indicates that the Islamic capital market regulator in Indonesia still needs wider socialization and more efforts to increase the low level of literacy and inclusion.

Keywords : Islamic Capital Market, Islamic capital market, investment, regulation, product, practice, policy.

Abstrak

Pasar modal syariah dikembangkan untuk mengantisipasi kebutuhan pengelolaan modal di industri syariah yang tumbuh pesat. Tulisan ini mengkaji dinamika dan tantangan kontemporer produk industri pasar modal. Penelitian ini menggunakan pendekatan kualitatif dengan mencari data dan informasi dari literatur yang relevan dan data dan informasi spesifik dari regulator. Peneliti melakukan studi analitik literatur setelah mengumpulkan dan menyusun data dari literatur yang relevan. Studi ini menunjukkan bahwa pasar modal syariah telah berusaha mencapai standar tertentu berdasarkan kriteria ajaran Islam. Namun, penelitian ini menemukan bahwa secara global dan nasional perkembangan pasar modal syariah masih berkutat dengan masalah regulasi, produk dan praktik. Hasil penelitian ini menunjukkan bahwa regulator pasar modal syariah di Indonesia masih membutuhkan usaha-usaha sosialisasi yang lebih luas untuk meningkatkan literasi dan inklusi pasar modal syariah yang masih rendah di Indonesia.

Kata Kunci: Pasar Modal Syariah, investasi, regulasi, produk, praktik, kebijakan.

Introduction

The Islamic financial industry nowadays has entered the development era. It is felt quite remarkable considering the widespread pessimism at the beginning of the idea of reviving the financial system based on sharia values. Since the idea to return to practice the Islam teachings for Muslims who have been deliberated from the Western colonialism under their secular systems, the

Muslim lives in the economic sector also experience the same symptoms. Criticism of the use of the Western secular system that does not take religion as basic consideration in making economic decisions increases the urge to revise economic behavior and institutions of Muslims.

The effort to establish a sharia financial institution was conducted in Egypt through the Myt-Ghamr Bank in 1963 which was considered successful in combining

German banking management with the principle of muamalah Islam by translating it into bank products that were in line with the products of rural areas, most of which were agricultural industries. The success of Myt-Ghamr Bank has inspired many parties including Islamic countries which are members of the Organization of the Islamic Conference (OIC) so that in 1976 the Islamic Development Bank was established as a result of the proposed financial system proposal based on the demand that interest based system must be replaced by a cooperation system through profit and loss sharing schemes (Profit and Loss Sharing). Then at the end of the 1970s until the early 1980s, Islamic banks sprang up in Egypt, Sudan, Gulf States, Pakistan, Iran, Malaysia, Bangladesh, Turkey, Indonesia and other countries. The type of Islamic bankings that were established generally consists of two types, namely commercial banks and investment banks.¹

The Islamic finance industry then began to show an increasingly diversified development. The Islamic financial industry sector began to develop not only Islamic banking, but then spread to the sharia insurance sector, sharia pawn shops, Islamic finance, sharia microfinance institutions, as well as in the Islamic capital market sector. There are quite high dynamics in the Islamic financial industry sector institutionally ranging from the

financial sector of the banking sector to the Islamic capital market sector. This paper will focus on the study of Islamic finance industry in the capital market sector. It is well known that the Islamic banking financial industry sector is a pioneer sharia financial industry that opens the mind of the world that Islamic finance is a concept that can be applied in the financial institution. Along with the growth of the Islamic banking industry, excess funds collected in the banking sector require investment channels in a wider spectrum.

Capital market is an investment vehicle that has been known for a long time to be a medium for channeling excess capital in the banking, insurance and other financial services sectors. The capital market plays a role in intermediate parties who have excess funds, both investors from the government, companies, and companies with parties who need funds, namely issuers who are likely to need funds for business capital, business expansion, or for other purposes in accordance with the needs of the company.²

Currently, in the trend of the global and Indonesian financial industry, the Islamic capital market began to enter the growing industry stage as the answer to the compliant financial system and practices for Muslims. Several studies show how the dynamics of various countries in the world establish and develop Islamic capital markets. Ahmad (2016)³

¹ Muneeza, A. (2018), "Establishment of Islamic capital market in jurisdictions with limited Islamic financial services: Case study of Maldives", *International Journal of Law and Management*, Vol. 60 No. 2, pp. 373-385. <https://doi.org/10.1108/IJLMA-12-2016-0146> and *Finance*, June, Vol. 3, No. 1, pp. 12-25. Online accessed at http://jibfnet.com/journals/jibf/Vol_3_No_1_June_2015/2.pdf. Ajagbe T. S. and Brimah A. N, (2013) "Islamic Banking development and evolution: current issues and future prospects," *Journal of Research in International Business and Management* (ISSN: 2251-0028) Vol. 3(2) pp. 73-79, February. Online accessed <https://www.interestjournals.org/articles/islamic-banking-development-and-evolution-current-issues-and-future-prospects.pdf>. Mohammad Taqiuddin Mohamad et.al., (2013) "The historical development of

modern Islamic banking: A study in South-east Asia countries," *African Journal of Business Management*. Accessed at https://umexpert.um.edu.my/file/publication/00008863_98913.pdf.

² Ahmad Audu Maiyaki, (2013) "Principles of Islamic Capital Market", *International Journal of Academic Research in Accounting, Finance and Management Sciences*, Vol. 3 (4), pp.278-283.

³ Ahmad, A.U.F. (2016), "Regulation, Performance and Future Challenges of Sukuk: The Evidence from Asian Markets", Mutum, D.S., Butt, M.M. and Rashid, M. (Ed.) *Advances in Islamic Finance, Marketing, and Management*, Emerald Group Publishing Limited, Bingley, pp. 27-48. <https://doi.org/10.1108/978-1-78635-899-820161003>

expected that the Islamic capital market to add value to regulation, standardization and performance of *sukuk* in the Asian market, and it deals with the obstacles in the growth of *sukuk*, which were not extensively covered earlier by the researchers and the Islamic finance industry practitioners. Azmi, Non, and Ab Aziz (2017)⁴ showed that despite the

differences in the regulatory environment, companies still make Islamic-related disclosures on a voluntary basis. However, the lack of Islamic-related disclosures presents various challenges for *Shariah* screeners, particularly when identifying the operations that constitute the main activity of the company in screening for prohibited activities. Anjum (2018)⁵ asserted that financial globalization is an evolving reality. Because of its atheistic, materialistic, undemocratic, non-universal, and interest-based world view and character, financial globalization has been posing a serious challenge to the contemporary Islamic countries' agenda of economically empowering and developing themselves through the integration of their economies along the universal Islamic lines exhibited in the form of

one Islamic Ummah. Muneeza (2018a)⁶ found that to establish an Islamic Capital Market, the first step would be to have a strong Islamic finance industry with numerous institutions offering Islamic financial services. Muneeza portrayed the establishment of Islamic capital market in Maldives, a small island nation where the establishment of Islamic capital market happened when at a time there was only one takaful company and one Islamic bank established. El Maknouzi, and Jadalhaq (2020)⁷ made a case for viewing Islamic finance indices on international capital markets as capacity-building experiments for the regulation of transnational Islamic financial flows.

Literature review

The positive role of Islamic financial development in economic growth has been shown in some researches such as Furqani and Mulyany (2009),⁸ Majid and Yusof (2009),⁹ Goaid and Sassi (2011),¹⁰ Kassim (2016),¹¹ Zarrouk (2017),¹² Naz, SA and Gulzar, S. (2020).¹³ The world today has witnessed the development of the Islamic economy in various sectors such as banking, money market, insurance, and financial companies which have

⁴ Azmi, A., Non, N. and Ab Aziz, N. (2017), "Challenges to *Shariah* equity screening, from *Shariah* scholars' perspective", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 No. 2, pp. 229-242. <https://doi.org/10.1108/IMEFM-11-2016-0165>

⁵ Iqbal Anjum, M. (2008), "Islamic world's development policy responses to the challenges of financial globalization", *Humanomics*, Vol. 24 No. 1, pp. 5-16. <https://doi.org/10.1108/08288660810851432>

⁶ Muneeza, A. (2018), "Establishment of Islamic capital market in jurisdictions with limited Islamic financial services: Case study of Maldives", *International Journal of Law and Management*, Vol. 60 No. 2, pp. 373-385. <https://doi.org/10.1108/IJLMA-12-2016-0146>

⁷ El Maknouzi, M.E.H. and Jadalhaq, I.M. (2020), "Where are Islamic finance indices pointing towards? Lessons from experimental 'pockets' of Islamic financial regulation on international stock markets", *Journal of Financial Regulation and Compliance*, Vol. 28 No. 2, pp. 267-281. <https://doi.org/10.1108/JFRC-03-2019-0040>

⁸ Furqani, H., & Mulyany, R. (2009). Islamic banking and economic growth: Empirical evidence from

Malaysia. *Journal of Economic Cooperation & Development* 30 (2): 38-51

⁹ Shabri Majid, A.M. and Yusof, R.M. (2009), "Long-run relationship between Islamic stock returns and macroeconomic variables", *Humanomics*, Vol. 25, pp. 127-141

¹⁰ Goaid, M. and Sassi, S. (2011), "Financial development, Islamic banking and economic growth evidence from MENA region", *International Journal of Business and Management Science*, Vol. 4 No. 2, pp. 105-128.

¹¹ Kassim, S. (2016), "Islamic finance and economic growth: the Malaysian experience", *Global Finance Journal*, Vol. 30, pp. 66-76.

¹² Zarrouk, H., El Ghak, T. and Abu Al Haija, E. (2017), "Financial development, Islamic finance and economic growth: evidence of the UAE", *Journal of Islamic Accounting and Business Research*, Vol. 8 No. 1, pp. 2-22,

¹³ Naz, S.A. and Gulzar, S. (2020), "Impact of Islamic finance on economic growth: an empirical analysis of Muslim countries", *Singapore Economic Review*.

also contributed to the need for the presence of the capital market as an investment destination that operates in accordance with Islamic principles Walkshausl and Lobe (2012),¹⁴ Canepa, A. and Ibnrubbian, A. (2014).¹⁵ Since the success of the Islamic financial system in facing the global financial crisis in 1998 and 2008, the presence of the Islamic capital market has also become an alternative in presenting a more stable capital market.¹⁶ There is even a belief that a capital market based on Islamic values can be a better alternative (Alam and Akbar, 2015).¹⁷ A number of countries then adopted a policy for accommodating the implementation of Islamic capital market as part of financial industry development program in their respective countries (Hassan, Sanchez, and Yu, 2011),¹⁸ (Lai, Chen (2016)¹⁹, Muneeza, 2018b).²⁰ However, it must be admitted that until now, the Islamic capital market still has to improve and is still developing.

According to Gassner (2007)²¹, there are two policy models for developing Islamic capital markets in various countries in the world. First, some countries that develop separate capital markets in which the Islamic capital market application is developed

separately from the conventional capital market (separation model). Second, there are also countries that develop their Islamic capital markets in parallel with their conventional capital market (integration) where the Islamic capital market coexists and simultaneously competes with their conventional capital markets. However, these two models have something in common, namely the Islamic capital market is simply a capital market that meets the requisites of the shariah. Both the instruments and trading processes are in line with shariah requirements for transactions both in a separate capital market model and in a parallel capital market model.

There are quite a number of literature studies have been carried out by researchers related to the Islamic stock exchange as compiled in the literature survey Masih, Kamil and Bacha (2018).²² Among the common research themes explored by these articles are comparative performances of Islamic equities visà-vis their conventional counterparts, comparisons of Islamic portfolios with SRI funds, and empirically articulating portfolio diversification benefits associated with Islamic equities. In addition, numerous articles discuss

¹⁴ Walkshausl, C. and Lobe, S. (2012), "Islamic investing", *Review of Financial Economics*, Vol. 21, pp. 53-62.

¹⁵ Canepa, A. and Ibnrubbian, A. (2014), "Does faith move stock markets? Evidence from Saudi Arabia", *The Quarterly Review of Economics and Finance*, Vol. 54, pp. 538-550.

¹⁶ Alam, N., and M. S. Rajjaque. 2010. Shariah-compliant equities: Empirical evaluation of performance in the European market during credit crunch. *Journal of Financial Services Marketing* 15 (3):228-40. Kenourgios, D., Naifar, N. and Dimitriou, D. (2016), "Islamic financial markets and global crises: contagion or decoupling?", *Economic Model*, Vol. 57, pp. 36-46. Erragragui, E., Hassan, M.K., Peillex, J. and Khan, A.N.F. (2018), "Does ethics improve stock market resilience in times of instability?", *Economic Systems*, Vol. 42 No. 3, pp. 450-469. Abdul Karim, B., Kassim, A.M.N. and Arip, A.M. (2010), "The subprime crisis and Islamic stock markets integration", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 3, pp. 363-371

¹⁷ Alam, M.M. and Akbar, C.S. (2015) 'Rationality of the capital market: capitalistic system vs. Islamic system', *Int. J. Behavioural Accounting and Finance*, Vol. 5, Nos. 3/4, pp.279-297.

¹⁸ Hassan, M.K., Sanchez, B. and Yu, J.S. (2011), "Financial development and economic growth in the organization of Islamic conference countries", *Journal of King Abdulaziz University – Islamic Economics*, Vol. 24 No. 1, pp. 145-172

¹⁹ Jikon Lai (2014): "Industrial Policy and Islamic Finance", *New Political Economy*.

²⁰ Muneeza, Aishath. (2018). How far has the Maldives progressed in achieving its Islamic capital market objectives? *Islamic Finance News*, (July 2018), pp. 19.

²¹ Michael Saleh Gassner (2007), "Exchanges and Islamic Finance", *The Handbook of World Stock, Derivative and Commodity Exchanges*.

²² Mansur Masih, Nazrol K. M. Kamil & Obiyathulla I. Bacha (2018) *Issues in Islamic Equities: A Literature Survey*, *Emerging Markets Finance and Trade*, 54:1, 1-26,

idiosyncrasies of Shari'ah-compliant stocks and portfolios under sub-themes such as volatility, risk factors, and performance attributes. This survey also includes articles addressing efficiency perspectives, calendar anomalies, and issues in Shari'ah stock screening norms.

In order to maintain the consistency of the Islamic capital market in providing products that are in line with sharia requirements, various indices are also prepared from the list of securities which are deemed in accordance with Islamic provisions.²³ Some studies have found that there are many index providers that have been considered as sharia-compliant indices, namely, the Dow-Jones Islamic World Index (DJIM), the Morgan-Stanly Compliance Islamic Index (MSCI), the Financial-Times Stock Exchange Shariah Index (FTSE-SI), the Standard & Poor Shariah Index (S & P-SI), FTSE Bursa Malaysia Emas Shariah Index, and Indonesian Shariah Stock Index that use unique Shariah screening methodology.²⁴ According to El Maknoui and Jadalhaq (2020) it needs efforts to prepare an international index that is uniform and meets the criteria of sharia universally.

²³ Dusuki, A.W. (2009), Challenges of Realizing Maqasid al-Shariah (Objectives of Shari'ah) in Islamic Capital Market: Special Focus on Equity-Based Sukuk. 3rd USM-ISDEV International Islamic Management Conference on Islamic Capital Market, 28th and 29th October 2009, USM, Penang. Jamal, J., Hambali, N., & Ali, H. M. (2010). Islamic Capital Market and Shari'ah Screening in Malaysia. *International Research Symposium in Service Management*.

²⁴ Rahman, A. A., Yahya, M. A., & Nasir, M. H. M. (2010, August). Islamic Norms For Stock Screening: A Comparison Between The Kuala Lumpur Stock Exchange Islamic Index And The Dow Jones Islamic Market Index, *International Journal of Islamic and Middle Eastern and Management*, 3, 228-240. Pok, W. C. (2012) Analysis of Syariah Quantitative Screening Norms Among Malaysia Syariah-Compliant Stocks. *Investment Management and Financial Innovations*, 9(2), 69-80. Albaity, M., & Ahmad, R. (2008). Performance of Syariah and Composite Indices: Evidence from Bursa Malaysia. *Asian Academy of Management Journal of Accounting and Finance*, 4(1), 23-43. Abbes, M.B. (2012), "Risk and return of Islamic and conventional indices", *International Journal of Euro-Mediterranean Studies*, Vol. 5, pp. 1-23

Besides, in order to maintain a conducive ecosystem for the development of the Islamic capital market, positive government policies are needed. According to some studies the government policies in supporting the development of Islamic finance are strongly needed in order to support the economic development.²⁵ According to Abduh and Sukmana (2013)²⁶ there is a bi-directional relationship between Islamic securities markets development and economic growth in the long run while there is no evidence for conventional markets. The research of Musa, Bahari, and Aziz (2020)²⁷ findings imply that the Islamic capital market effectively channels and pooled funds for productive investment activities. It further proves the notion that in general, Islamic finance is more inclined towards real sector growth as compared to conventional counterpart due to the emphasis on equity-based financing as opposed to debt-based financing.

In Indonesian context, some researchers have studied several aspects of the Islamic capital market related to the regulation.

²⁵ Abbes, M.B. and Trichilli, Y. (2015), "Islamic stock markets and potential diversification benefits", *Borsa Istanbul Review*, Vol. 15, pp. 93-105. Abduh, M. and Omar, M.A. (2012), "Islamic banking and economic growth: The Indonesian experience", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 5 No. 1, pp. 35-47. Abduh, M., Brahim, S. and Omar, M.A. (2012), "A study on finance-growth nexus in dual financial system countries: evidence from Bahrain", *World Applied Sciences Journal*, Vol. 20 No. 8, pp. 1166-1174. Al Fathan, R. and Arundina, T. (2019), "Finance-growth nexus: Islamic finance development in Indonesia", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 12 No. 5, pp. 698-711.

²⁶ Muhamad Abduh, Raditya Sukmana, "The Role of Stock Markets in Promoting Economic Growth in Malaysia: Islamic vis-à-vis Conventional", *Global Review of Islamic Economics and Business*, Vol. 1, No.1 (2013) 001-010.

²⁷ Gani Ibrahim Musa, Zakaria Bahari, Azreen Hamiza Abdul Aziz, (2020) The Impact of Islamic Capital Market on Malaysian Real Economy: (*Impak Pasaran Modal Islam ke atas Ekonomi Benar Rakyat Malaysia*), *Jurnal Ekonomi Malaysia* 54(2).

Antonio, Hafidhoh, Fauzi (2013)²⁸ showed that in the long-term, all selected macroeconomic variables except Dow Jones Index variable have significantly affect in both Islamic stock market FHSI (Malaysia) and JII (Indonesia), while in the short-term there is no any selected macroeconomic variables that significantly affect FHSI and only inflation, exchange rate and crude oil price variables seem to significantly affect JII. Qoyum; Milzamilhaq, Sakti (2018)²⁹ evaluated the efficiency of both Islamic and conventional stock markets, particularly in the case of Indonesia. Capital market efficiency is one of the most important part in finance theory, which assumes the price of stock will fully reflect the information available in the market, hence the price will adjust directly and quickly. The result shows that from abnormal return perspectives both Islamic and conventional capital markets are efficient. Renie, Luth, and Hamidah. (2019)³⁰ concluded that regulations regarding Islamic capital market since its operations in the Indonesian capital market have developed. But higher norms that govern Islamic capital market are needed so that the existence of the Islamic capital market in Indonesia can be maintained, and justice and legal certainty for Islamic capital market players can be achieved. These studies show that there needs to be a strengthening of Islamic capital market regulations so that the Islamic capital market in Indonesia is not too volatile and operates efficiently, fairly, and highly regulated.

In terms of product and practice issues, it is still necessary to develop sharia capital

market products that are able to meet sharia principles on the one hand and are also able to meet investment needs in the financial sector. Ginanjar (2014)³¹ provides a discussion Islamic Financial Engineering which practice between Indonesian Capital Market and Malaysian capital market. found that Islamic Capital Market in KLSE (Malaysian Capital Market) higher growth than IDX (Indonesia Capital Market) because of Islamic Capital Regulatory in KLSE much easier to improve Islamic Financial Engineering from conventional schemes. Sari, Syamsurijal, and Widiyanti (2018),³² showed that Islamic capital market products, including Sukuk and mutual funds, have a positive impact on Indonesia's economic growth.

Method

The research on the dynamics and challenges of Islamic capital market in Indonesia is conducted by emphasizing qualitative research method and descriptive research approach as both are appropriate to look into the research issue in this study. This research utilizes qualitative approach by searching data and information from relevant literatures and specific data and information from regulators. Researcher conducts analytical studies literature after collecting and compiling data from relevant literatures. Scrutiny on relevant documentation with reasonable broad and in-depth study of the subject matter has been carried out to ensure coverage on the locus and focus of the issue under-studied respectively.

²⁸ Muhammad Syafii Antonio, Hafidhoh Hafidhoh, Hilman Fauzi, "The Islamic Capital Market Volatility: A Comparative Study Between In Indonesia And Malaysia", *Buletin Ekonomi Moneter Dan Perbankan*, Vol 15 No 4 (2013).

²⁹ Qoyum, Abdul; mardiya, Milzamilhaq; sakti, Muhammad Rizky Prima (2018). "Indonesian Capital Market Efficiency: Islamic vis-a-vis Conventional." *Shirkah: Journal of Economics and Business*, [S.l.], v. 2, n. 3, jan. 2018. ISSN 2503-4243. doi:<http://dx.doi.org/10.22515/shirkah.v2i3.171>.

³⁰ Renie, E., Luth, T., & Hamidah, S. (2019). "The Legal Construction of Sharia Capital Market in Indonesia." *JL Pol'y & Globalization*, 82, 32.

³¹ Ginanjar, A. (2014). Islamic Financial Engineering: Comparative Study Agreements in Islamic Capital Market in Malaysia and Indonesia. *Tazkia Islamic Finance and Business Review*, 8(1).

³² Novita Sari, Syamsurijal AK, Marlina Widiyanti, "The Impact Of Islamic Capital Market Development On Economic Growth: The Case Of Indonesia," *Journal of Smart Economic Growth*, Vol 3 No 2 (2018): 3-2-2018.

The collection of research data mainly comes from secondary data consisting of journals, books, scientific publications, online news devoted to the Islamic capital market. A number of regulations and policies issued by the OJK (Indonesian Financial Services Authority) related to the Islamic capital market in Indonesia are also becomes the secondary sources for this research. Because this research focuses on qualitative research, this research conducts analysis by collecting, reviewing, and analyzing secondary data related to Islamic capital market. The data collected then be presented critically and accordingly to the descriptive research approach.

Result and Discussion

Globally the capital market industry is operating in a number of countries including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates including America, a number of European and Asian countries. Each year the global capital market industry grows between 12-15%. In total, the estimated global capital market industry assets reach 1 trillion US Dollar or it can be said that 25% of global capital market assets come from the Islamic capital market industry. Islamic capital market products are traded on various world leading exchanges including Dubai NASDAQ, Malaysia Stock Exchange, London Stock Exchange, Labuan International Financial Exchange, Luxembourg Stock Exchange, and Tadawul (Saudi Arabia Stock Exchange).

At the national scale in Indonesia, the data shows that there are 203 thousand investors in sharia shareholders, an increase of

100 percent compared to only around 100 thousand investors in 2015. While the number of mutual fund securities unit holders is 72 thousand investors, compared to 2015 only around 50 thousand investors. In terms of products, there are already 362 shares that are categorized as sharia shares. Currently there are 172 sharia mutual funds, growing 192 percent compared to the previous five years of only 58 mutual funds. Assets under mutual funds management also increased 182 percent to Rp 22 trillion from the previous five years of around Rp 8 trillion.³³

At present, the issue of literacy is a major problem faced in the global and national capital markets. Therefore, it takes a number of appropriate steps to increase literacy rates in the national capital market. A number of things have been done to improve community literacy. However, it must be admitted that there are a number of challenges faced by the Indonesian Islamic capital market industry as well as globally.³⁴

Regulator Responses on Regulation Issues

Regulations that protect investor rights and efficient problem solving mechanisms will eventually build investor confidence. The Islamic economists mentioned a number of issues as main problems at the regulation of Islamic capital markets, namely regulations that still rely on conventional rules and various regulations due to different interpretations related to various sharia issues in the capital market.³⁵

Sudin Haron and Wan Nursofiza mentioned that the only problem with the

³³ <https://republika.co.id/berita/ekonomi/syariah-ekonomi/17/11/13/ozcigv-ojk-sebut-perkembangan-pasar-modal-syariah-semakin-baik>.

³⁴ Michael J. T. McMillen, "Islamic Capital Markets: Developments and Issues," *Capital Markets Law Journal*, Vol. 1, No. 2, p. 136. Syed Faiq Najeeb and Mirza Vejzagic, (2013) "Development, Growth and Challenges of Islamic Capital Markets: Comparative Insights from the Malaysian, Indonesian, United Arab Emirates and

See Brunei Markets," *Journal of Emerging Economies and Islamic Research*, Vol.1 No.3. Zamir Iqbal dan Abbas Mirakhor, (2007) *An Introduction to Islamic Finance: Theory and Practice*. Clementi Loop Singapore, John Wiley & Sons, 198-201.

³⁵ Rodney Wilson, "Regulatory challenges posed by Islamic capital market products and services", *IOSCO task force on Islamic capital market*, [https://www.sc.com.my/wp-content/uploads/eng/html/iaffairs/ioscoislamicpdf/Wilson Melbourne-final.pdf](https://www.sc.com.my/wp-content/uploads/eng/html/iaffairs/ioscoislamicpdf/Wilson%20Melbourne-final.pdf).

regulation of the Islamic capital market lies in the differences in the structure and framework of the global capital market with the Islamic capital market. It is necessary to review the current structure and framework related to the issuance of sharia-compliant capital market products. High costs of transactions are still considered as problem and this comes from differences in regulations and listing criteria, differences in trading platforms and trade rules, lack of supporting institutions for transactions between countries and different criteria in determining the suitability of sharia. Even if a strong regulatory structure is available, the challenge ahead lies in how to convergence in the structure of cross-border regulations.³⁶

Differences in the sharia issues interpretation in Islamic capital market also occur because Muslim countries adopt different practices related to a variety of capital market products and services derived from variations in interpretation of various sharia issues inter jurisdictions due to different schools of law among Islamic scholars. Sharia transactions that vary can affect the ability of law enforcement of sharia transactions for different interpretations will lead to differences in recognition of legal rights and obligations of the parties to the transaction, especially in transactions between countries and those listed on the stock exchange. Harmonization of sharia interpretation will encourage the creation of more uniform Islamic financial products and services that will increase investor demand and enlarge the overall growth of the Islamic capital market. Standardized practices among market participants will reduce transaction costs and risks.³⁷

Iqbal and Mirakhor also found regulation problems. In the Muslim majority

countries where there is demand for Islamic products, the legal and regulatory system still has problems. The solution they offer is first, standardization and harmonization of the sharia system into the legal framework of the country. Any countries that intend to develop Islamic capital market must review their legal system as a whole and take serious efforts to make their legal framework in accordance with sharia. Second, dispute resolution of the sharia system within the framework of resolving disputes. In a country, where Islamic capital market is developed in conjunction with conventional capital markets, the existence of a different legal system to deal with any problems related to Islamic instruments is not an ideal situation. Changes must be made to accommodate sharia instruments within the framework of existing dispute resolution procedures, in an effort to minimize the possible chaos. Third, strengthening the regulatory framework and enforcement of the sharia system within the existing capital market framework. The regulator must play a more active role in developing Islamic capital market by strengthening its regulatory framework and enforcement to build the credibility of regulatory institutions. Resilient and independent regulators and other supporting institutions must be built to further promote the Islamic capital market.³⁸

Salman Syed Ali said that the need for separate regulations was recognized in Islamic banking by many countries and many researches and development efforts were carried out in this direction. However, the same thing does not happen to capital market regulation. As a result, in many countries Islamic capital market products are regulated based on existing rules for conventional capital

³⁶ Sudin Haron dan Wan Nursofiza, (2008) "Creating A Dynamic Islamic Capital Market: The Essential Role of Innovation." in *Islamic Capital Market: Products, Regulation & Development*, Salman Syed Ali, ed. (Jeddah: Islamic Development Bank Islamic Research and Training Institute, 1.

³⁷ Sudin Haron dan Wan Nursofiza "Creating a Dynamic Islamic Capital Market: The Essential Role of Innovation." 1.

³⁸ Zamir Iqbal dan Abbas Mirakhor, *An Introduction to Islamic Finance*, 208-209.

markets. It is true that many of these regulatory objectives are in common for Islamic and conventional capital markets. In fact, the regulation of Islamic capital markets not only requires different infrastructure procedures and institutions, but also requires broader objectives. Salman Syed Ali proposed that a separate regulation be made that could accommodate the specificities of infrastructure procedures and institutions, as well as the broader objectives of the Islamic capital market.³⁹

In Indonesian context related to regulation the Islamic capital market is arranged in parallel with the national capital market. In Indonesian regulator perspective, the Islamic capital market is part of the Indonesian Capital Market Industry. In general, Islamic capital market activities are in line with the capital market in general. However, there are certain characteristics of Islamic capital market, among others that the product and transaction mechanism must not conflict with sharia principles in the capital market.⁴⁰

Indonesian Islamic capital market is regulated by the provisions of the Capital Market Law No. 8 of 1995 concerning the Capital Market as a general provision concerning Capital Market Law which contains the definition, understanding, and rules and provisions concerning activities in the capital market industry. There is no specific regulation on the shariah capital market in this Capital Market Law No. 8 of 1995. However, according to the regulator the Law does not differentiate between conventional and Islamic based capital markets. It means that Indonesian capital allows dual capital market system activities i.e. conventional as well as Islamic based capital market.

Indonesian financial regulator has also issued a number of specific regulations

related to the Islamic capital market issued by the Financial Services Authority Regulation i.e. POJK Number 15/POJK.04/2015 concerning Application of Sharia Principles in the Capital Market; POJK Number 16/POJK.04/2015 concerning Sharia Experts in the Capital Market; POJK Number 17/POJK.04 /2015 concerning Issuance and Requirements of Sharia Securities in the Form of Shares by Sharia Issuers or Sharia Public Companies; POJK Number 18/POJK.04/2015 concerning Issuance and Sukuk Requirements; POJK Number 19/POJK.04/2015 concerning Issuance and Requirements of Sharia Mutual Funds; POJK Number 20/POJK.04 /2015 concerning Issuance and Requirements of Sharia Asset Backed Securities; POJK Number 53/POJK.04 /2015 concerning Contracts used in issuance of sharia securities in the Capital Market; POJK Number 30 / POJK.04 / 2016 concerning Sharia Real Estate Investment Funds in the Form of Collective Investment Contracts; POJK Number 61/POJK.04/2016 concerning Application of Sharia Principles in the Capital Market in Investment Managers; POJK Number 35/POJK.04/2017 concerning Criticism and Issuance of List of Sharia Securities; POJK Number 3/POJK.04/2018 concerning Amendments to the Regulation of the Financial Services Authority Number 18/POJK.04/2015 concerning Issuance and Requirements for Sukuk.

Besides being supported by POJK that were issued by Indonesian financial industry regulator, Indonesian Islamic capital market is also supported by a number of fatwas issued by the National Sharia Council relating to the Islamic capital market. In total there are around 17 DSN MUI fatwas issued. Three of them are fatwas which are the basis for the development of the Islamic capital market industry in Indonesia, namely the DSN-MUI

³⁹ Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 9.

⁴⁰ OJK, *SHARIA CAPITAL MARKET*, [HTTPS://WWW.OJK.GO.ID/EN/KANAL/SYARIAH/TENTANG-SYARIAH/PAGES/PASAR-MODAL-SYARIAH.ASPX](https://www.ojk.go.id/EN/KANAL/SYARIAH/TENTANG-SYARIAH/PAGES/PASAR-MODAL-SYARIAH.ASPX).

Fatwa No. 20/DSN-MUI/IV/2001 concerning Guidelines for Investment Implementation for Sharia Mutual Funds, DSN-MUI Fatwa No:40/DSN-MUI/X/2003 concerning Capital Market and General Guidelines for the Application of Sharia Principles in the Capital Market Sector, and Fatwa DSN-MUI No. 80/DSN-MUI/III/2011 concerning the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Market of the Stock Exchange.

Regulator Responses on Product Issues

Haron and Nursofiza said that Islamic financial products must be competitively independent investments, not relying solely on the religious spirit of the client as a driver of demand. Along with the increasing demand from non-Muslim investors, especially from Europe and America, there is more interest in Islamic financial products. Islamic financial instruments must be prepared so that they are able to offer products in which their return on investment is equivalent or better than conventional return.⁴¹

Salman Syed Ali also mentioned a number of problems in Islamic financial products in the capital market. Although new products are regularly presented in the market, the ability of these products to expand the availability of risk options and yields is very limited. Venture capital products disappear. Moreover, the existing products do not contribute to the soundness of the growth of the capital market, especially in the aspects of justice and equality in which sharia should ideally view this aspect. Syed Ali exemplifies many sukuk structures that are not in

accordance with the Islamic standards set by AAOIFI. In fact, these products are mostly aimed at attracting investment from banks which are less open to risk taking or innovation, and more comfortable in embedding product practices, procedures and structures. Individual investors and non-bank institutions looking for genuine sharia products and demanding a wider range of risks are not the targets of the product design because they are retail markets that are still considered not to be valuable targets or have not been seriously explored. Islamic capital market products are being considered generally mimic the features of conventional financial products while trying to stay within the boundaries of Islamic law. This resulted in complicated products that are difficult to understand and costly to be initiated and implemented, and combine many different contract structures that individually meet the criteria of sharia but there are possibilities conflict with the objectives of sharia (maqasid shariah) when arranged into one entity (hybrid contracts).⁴²

In addition to the problem of *strange* risk structures and allocations between different parties, there are also problems with pricing and the level of profit of Islamic capital market products. Often the profit level is taken from LIBOR (London Interbank Offered Rate) rather than based on the natural price factors of the business that is based on sukuk. The artificial price fixing depends on the future of investment and financial products with what happens in the money market. This also brings the same problem in conventional finance into Islamic finance. Yields and pricing mechanisms in Islamic point of view should be related to real factors that affect new products.⁴³

⁴¹ Sudin Haron dan Wan Nursofiza "Creating a Dynamic Islamic Capital Market: The Essential Role of Innovation." 1.

⁴² Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 10.

⁴³ Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 10. Michael J. T. McMillen, "Islamic Capital Markets: p. 136.

Anyone can see the sukuk rating obtained from the rating agency. It indicates only the rating of the legal entity that provides the promise of repurchase or includes default by the issuer. This also explicitly shows that in the sukuk rating, the methodology was carried out by reputable ratings such as S & P, Moody, Fitch, and so on. Therefore, the potential income obtained from the assets that form the basis of a sukuk is published with very little significance in the ranking of sukuk. This makes sukuk the same as conventional bonds and the rating methodology chosen by the rating proves this similarity.⁴⁴

Syed Ali also provides another example of sukuk based on the musharakah agreement. Investor preference for tradable fixed income Islamic products is the main driver behind the launch of ijarah products. The ijarah contract is more suitable for this purpose because most of the initial sukuk are based on the ijarah contract. However, lately there has been issuance of sukuk based on a musharakah agreement. However, instead of providing variable returns as a natural consequence of the Musharaka contract, investors are given fixed returns. This is done by setting the upper limit level (or a certain amount) where each income above the limit is given to the manager/obligor agent as an incentive payment. Conversely, in the case of low income, investors are protected by various forms of actions such as income smoothing reserves, loan facilities from the obligor, payments in advance that will be adjusted to future payments, and so on. All of this has given the wrong name in the Musharaka or Mudharabah contract to a fixed yield product and sharia violation in the name of products that meet sharia criteria.⁴⁵

Some hedging products and investment funds have also recently been launched into the market. These products are intended to provide an exchange of total returns swaps that meet sharia criteria or provide capital protected funds at a lower cost than before from a combination of murabahah and advances (*'arbun*) contracts in the fund portfolio. These new products are based on the structure of *wa'ad* (promises), where one party promises today to buy assets of another in the future, at a price referring to several indices that can be observed if certain circumstances occur. Other parties promise to sell the same assets at different prices referring to an index if other circumstances occur. This structure allows protection of capital, guarantees returns for sellers within certain limits, payment of returns based on asset or index references without the need to own these assets.⁴⁶ There are many more sharia and economic issues related to such products that change the incentives of the parties involved, open the door of interest (usury) and gambling, and eliminate the need for an Islamic system if there are observable conditions or indices that can be used as price references. However, this product is still being developed and marketed.

In the case of products in Indonesian Islamic capital market industry, a number of products are called sharia securities i.e. effects which are not contradictory to sharia principles in the capital market. The types of Sharia securities issued in Indonesia include Sharia Securities in the form of shares, Sukuk, Sharia Mutual Funds, Sharia Asset Backed Securities, Sharia Real Estate Investment Funds.

Islamic stocks that are listed into Sharia Securities List are shares issued by companies that explicitly declare as sharia

⁴⁴ Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 10.

⁴⁵ Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 10.

⁴⁶ Salman Syed Ali, "Introduction: Islamic Capital Markets: Current State and Development Challenges." 10.

companies, or shares issued by companies that do not declare the company's business activities is in accordance with sharia, but the company meets sharia criteria, so that its shares can be determined as securities sharia by the Financial Services Authority. Sharia Securities List is an investment guide for investors, such as investment managers, sharia mutual fund managers, Islamic insurance and other sharia investors. In addition, Sharia Securities List also becomes a reference for the Indonesia Stock Exchange and other parties who wish to issue a Sharia Stock Index. The last Sharia Securities List issued was the Financial Services Authority's Board of Commissioners Number: KEP-24 / D.04 / 2018 dated May 24, 2018 concerning the List of Sharia Securities Period I Year 2018 which became effective on June 1, 2018 containing 338 issuers listed in the Sharia Securities List.

Sharia products in the Indonesian capital market in quality based on the standards set by the MUI DSN are products that meet halal principles. All shares included in the List of Sharia Securities are shares of companies that meet two criteria, namely the screening of business types and screening of financial ratios. The company's main business must not conflict with sharia principles. Activities that are contrary to sharia principles mean whether in the production and distribution activities of the company there are goods that are illegitimate in substance or in nature, gambling, games classified as gambling, prohibited trading, usury financial services such as banks and conventional financing institutions, buying and selling risks such as conventional insurance or conduct transactions that contain elements of bribery. The company must also meet the standards of financial ratios that have been determined. Like, the ratio between interest total debt compared to total assets should not be more than 45% and the ratio between total interest income plus unlawful income

compared to total income should not be more than 10 percent.

In the case of sukuk (Islamic obligation) products, Indonesian regulators also ensure that the sukuk issued has certain underlying assets that meet the sharia criteria. Sukuk are sharia securities in the form of certificates or proof of ownership that have the same value and represent an inseparable part or are not divided into underlying assets (underlying assets) Underlying Asset is an asset that is used as an object or basis for sukuk issuance. Assets that are used as underlying can be tangible goods such as land, buildings, development projects, or intangible assets such as services, or benefits of assets.

In the case of Islamic mutual fund products the Indonesian regulator ensures that the funds are managed in accordance with the provisions of sharia in the capital market, among others, only managing products listed on the the List of Sharia Securities, having a Sharia Supervisory Board, and having a non-halal income cleansing mechanism. Sharia Mutual Funds are one of the collective investment facilities managed by Investment Managers by investing in managed funds into sharia securities in the form of Islamic stocks, sukuk, or other sharia instruments.

According to quantitative data starting from 2011 to August 2017 the benefits of Indonesian Islamic capital market products are quite competitive. In December 2011 the Indonesian Islamic Stock Index position was at 125.35 and as of October 23, 2017 was at the level of 184.96. So for almost 6 years there has been a growth of 47.5 percent or an average growth of 8 percent per year. In terms of stock market capitalization, the growth is even more significant. In 2011 the market cap of Indonesian Islamic Stock Index amounted to Rp1,968,091 trillion while at the end of August 2017 it had already reached Rp3,506,953 trillion. There was an increase of 78.19 percent.

Until October 23, 2017 Indonesian Islamic Stock Index consisted of 347 shares out of a total of 563 shares on the IDX and included in the calculation of the Composite Stock Price Index (CSPI). Jakarta Islamic Index until October 23, 2017 consists of 30 stocks. There were 731.85 levels on that date or an increase of 36.2 percent compared to December 2011. In terms of market cap, from the end of 2011 to August 2017 there was an increase of 56.9 percent. From Rp1,414,983 trillion to Rp.2,220.824 trillion.

In Islamic Mutual Fund products, one way to see the growth of mutual fund products is to calculate Net Asset Value (NAV). In general, the size of Islamic mutual funds is still little compared to conventional mutual funds. Even so, significant growth occurred. In 2010, for example, the new Sharia mutual fund NAV amounted to Rp. 5.225 trillion, equivalent to 3.51 percent of the total mutual fund industry. As of August 2017, the NAV of Islamic mutual funds has reached IDR 20.625 trillion or equivalent to 5.07 percent of the total mutual fund industry in Indonesia. So in the period of almost 7 years the NAV of Islamic mutual funds achieved an increase of 294.6 percent.

Sukuk products can also be reviewed in the Sharia Government Securities Investment (SBNS) or commonly called sukuk, either directly or through mutual funds. Especially for individual investors or retail investors, sukuk investment is prepared by the government in the form of Retail Sukuk and Savings Sukuk. On average, the investment profits of Sukuk are higher than the interest on deposits in banks. Even for example when banks offer deposit rates of up to 10 percent only in the era of high interest, Retail Sukuk profits can be up to 12 percent per year.

Therefore, it is clear that the low level of public inclusion investment in Islamic products in the capital market is more because the public does not know much that investing

in Islamic capital market products is an alternative that does not only provide quality benefits for holders of religious beliefs but also promises quantitative benefits. Literacy improvement on sharia products in the capital market is certainly one of the logical steps that need to be done given the quality and quantity benefits that are channeled by Islamic products in the Islamic capital market.

Regulator Responses on Practical Issues

Islamic capital markets in some Muslim countries do not have good reputation among domestic investors. This low level of trust comes from a number of practices that make investors vulnerable to various forms of market irregularities, such as price manipulation, front running, insider trading, and blank selling. The regulator must ensure that market credibility is restored and the execution and trading of securities are carried out transparently.

Moreover, the existing Indonesian Islamic capital market operations must be reviewed to comply with sharia requirements. For example, the practice of short selling and margin account maintenance are considered invalid by some Islamic scholars. A good procedural system must be made to standardize this practice. To encourage foreign borrowing and to access a liquid market in Muslim countries, regulators must promote Islamic securities listings issued by foreign countries.

On the actual trade practices that became a trend between stock traders and the methods followed in the issuance of initial offers to the public a number of problems were still a challenge. Some of these issues are a common problem for conventional capital markets and Islamic capital markets, but some typical problems exist in the Islamic capital market. Situations that arise from conflicts of interest such as brokers and investment agents relating to their own accounts as well as their client accounts, transactions with related

parties, situations related to inadequate information disclosure or misleading information, fraud, collusion and market manipulation. All of this exists in a variety of markets at varying levels, and can be reduced through improved morale, improved corporate governance, and better regulation and enforcement.

However, there are a number of problems that specifically affect the Islamic capital market. One example is traders who borrow money temporarily used to trade on the stock market. This loan is now available only in the form of interest. In many underdeveloped countries loans from the formal sector are not available for this purpose or if they are expensive. In places like this, traders rely on informal forms of mutually beneficial loans to suspend payments in stock purchases. This type of loan is not only on the basis of interest, but is also not limited and unregulated and therefore contains systemic risk. The conventional capital market response to this problem is by encouraging informal loans and regulating regulations. However, in the Islamic capital market this is not a solution if interest is still a key instrument for meeting liquidity and payment needs arising from securities trading. Some substitute institutions are needed to minimize the situation of unpredictable liquidity needs and also a number of mechanisms to solve problems that arise.

Margin trading is one of the issues in conventional capital market. Conventional financial markets allow, even if regulated, to trade stocks by only making margin payments and completing trading later based on the network. This increases the market liquidity by increasing the ability to trade traders and also increases price volatility and herding behavior among traders. It is also a trade without legal ownership that is not permitted by sharia. Reform and the elimination of practices like this are a challenge for the Islamic capital market.

Another typical problem in Islamic capital market practices relates to secondary market trading in companies in which their assets are still in cash. This is a problem in conventional markets where money and data debt are traded. Sharia rules do not allow money trading unless traded at the same price and cash. To avoid this type of secondary market trading, companies such as those need to disclosure some information and enforcement mechanisms in the process of initial bidding or temporary listing on the stock exchange. Appropriate listing rules and screening norms can help.

Other relevant issues to practice and product issues are benchmarking with LIBOR in making prices for tradable securities. Many products such as sukuk and others are increasingly promising payment of returns that refer to LIBOR (*London Inter Bank Offer Rate*) while the underlying asset behind the securities belongs to a group of assets that are somewhat different from money that not only has a different risk profile but also different economic behaviors. Experiments to link an asset in the future with others not only create inefficiencies at unequal prices, but also open the door to participate in activities that are not in accordance with sharia, even if indirectly done. In fact, this will revive and re-establish the interest-based mentality among investors and business people. For systematic changes to Islamic finance and the development of the Islamic capital market, it is necessary to develop a system that is more related to the dynamics of the real sector than to try to imitate the conventional financial sector.

The emergence of a number of problems that exposed Islamic capital markets both at the level of regulation, product, and in practice i.e. gap between the expected and the reality shows the need for the role of sharia boards and sharia scholars to be more proactive along with economists and financial experts. Sharia boards and Islamic scholars

re the parties who understand at best how the structure and direction of Islamic capital market development policy should be directed. Sharia boards and Islamic scholars must be able to ensure that Islamic capital market regulations, products and practices do not merely fulfill contract formalities but are also able to fulfill sharia objectives in the capital market.

Islamic capital market on the one hand must be able to ensure the protection of investors, transparency and disclosure of information, and avoid investors from systemic risk. On the other hand, Islamic capital market is required to eliminate usury and gharar. Islamic capital market must also be able to maintain a constant relationship between financial assets and real economic activity. Islamic capital market must ensure that the real sector and financial sector grow together.

In Indonesian Islamic capital market regulator perspective, capital market activities are included in the scope of Islamic muamalah. Therefore, basically any transactions in the capital market are permitted as long as there do not conflict with any prohibitions according to sharia. Muamalah activities that are prohibited are speculation and manipulation activities which contain elements of gharar (uncertainty), usury (riba), maisir (gambling), risywah (bribery), immorality and maltreatment in accordance with Sharia National Board-Indonesian Ulema Council fatwa Number: 80 / DSN-MUI / III / 2011 concerning Application of Sharia Principles in Securities Trading Mechanisms Equity in the Regular Stock Exchange Market.

To accommodate transactions in accordance with sharia principles, the regulator in Indonesia has also implemented an application-based transaction system. The regulator has set criteria related to the online transaction system. Shariah Online Trading System is an online sharia stock transaction system that meets sharia principles in the capital

market. Shariah Online Trading System is developed by stock exchange members as a facility or tool for investors who have intention to conduct sharia share transactions. Shariah Online Trading System is certified by Sharia National Board-Indonesian Ulema Council because it is an elaboration result of the Sharia National Board-Indonesian Ulema Council fatwa No. 80 of 2011 concerning the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Market of the Stock Exchange.

Currently in Indonesian capital market there are 13 Exchange Members who already have Shariah Online Trading System, i.e. Sharia IPOT, HOTS Sharia, e-Smart Sharia, iTrimegah Sharia, MOST Sharia, Sharia POST, Sharia PROFITS, SPOT Sharia, FAST Sharia, MNC Sharia Trade, HPX Sharia, POEM Sharia, and RHB TradeSmart.

Thus, it can be understood that the availability of an online transaction system based on sharia provisions can provide assurance that investors who choose only to transact on sharia products and fulfill the transaction mechanism that is in accordance with the provisions of sharia have been greatly facilitated.

Conclusion

Islamic capital market has evolved as one solution to the surplus fund flow in the sharia compliant financial industry which has also developed in a number of industries such as banking, insurance, and other business companies operating in accordance with sharia principles. However, the dynamic development of Islamic capital market industry is also accompanied by a number of challenges that need to get response. The data shows that the level of literacy and inclusion of Islamic capital market industry both on a global scale and internationally is still relatively low. This is partly due to the low level of public understanding of regulation, product

knowledge, and understanding of the transaction mechanism for sharia products in the capital market.

The regulator has carried out a number of solutions among others by preparing regulations to strengthen Islamic capital market industry. The industry has been set up to meet certain qualities and is able to provide the investors in Islamic capital market industry a sense of security and trust. Likewise, the development of Islamic products has been deemed capable of providing qualitative and quantitative benefits to the investors. One of Islamic capital market qualitative advantages is the fulfillment of sharia principles and criteria. Islamic capital market quantitative benefits are in the form of profit provided by Islamic products in the capital market industry. In relation to the practical aspects of the transaction mechanism for sharia products in the regulator's capital market industry, Indonesian Islamic capital market regulator has prepared sharia online transaction system that ensures that investors will only transaction on halal products included in the Sharia Securities List and use transaction mechanisms that are not contrary to sharia principles. The sharia online transaction system only allows cash transactions and does not allow using margin trading transactions and short selling.

This study emphasizes the need for more massive socialization and education to the public because the response provided by the regulator to prepare the environment and the certainty of the Islamic capital market industry is good enough. In addition, the products offered by the Islamic capital market industry have been screened in such a way both qualitatively and quantitatively and prepared in the List of Sharia Securities. The public also does not need to be confused about trade practices because Indonesian regulator has also prepared sharia online transaction system that can be accessed by the public as a transaction

medium in accordance with the demands of the Muslim investors.

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