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# The Sharia Capital Market System in Indonesia

**Ahmad Zikri Dwiatmaja[1], Mustamin[2], Rahmawati Muin[3]**
**[123]UIN Alauddin Makassar, Indonesia**
Correspondent: ahmadzikridwiatmaja17@gmail.com[1]

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**ABSTRACT**: Currently, the development of the Sharia capital market in Indonesia encounters several fundamental issues. The primary challenge is the lack of understanding and knowledge among Indonesians regarding investments in Sharia-based capital markets. Additionally, there is an absence of adequate regulations to support Sharia investments within the Indonesian capital market, and there is a perception that investing in Sharia capital markets involves higher costs compared to other financial sectors. This article employs a library research method, utilizing resources such as books, journals, documents, and previous research reports available in libraries. The study concludes that the Sharia capital market holds substantial potential for sustainable economic growth. Although many challenges persist, concrete measures to improve regulatory clarity, support product innovation, and raise public awareness can help strengthen the Sharia capital market globally. Comprehensive understanding and strong support from governments and regulators are essential to maximize the economic and financial benefits of Sharia capital markets.

**Keywords**: Markets, Capital, Sharia Principles.



## INTRODUCTION

Over the past two decades, Indonesia's sharia capital market has seen remarkable growth, beginning with the introduction of the first sharia mutual fund in 1997. By the close of 2016, a range of sharia-compliant capital market products had emerged, including sharia stocks, sukuk, sharia mutual funds, and exchange-traded funds (ETFs). Among these, stocks have become the most widely recognized by the public due to their accessibility across all demographic groups. As a result, in November 2016, the Indonesian Stock Exchange, in partnership with capital market supporting institutions such as securities companies, KPEI, KSEI, and investment galleries throughout various regions, launched the "Yuk Nabung Saham" campaign to boost the number of retail investors in the capital market.(Prasetia, 2017).

A capital market is a platform for trading various long-term financial instruments, such as debt and equity. Sharia capital markets, however, function based on Islamic principles, steering clear of activities like usury, gambling, and speculation. The legal basis for sharia capital markets is founded on the Al-Qur'an and Hadith, supplemented by fatwas from the National Sharia Council (DSN). In contrast, conventional capital markets are regulated by the Capital Markets Law, specifically Law No. 8 of 1995.(Fadilla, 2018). The primary challenge facing the Islamic capital market in Indonesia is the absence of specific regulations or laws tailored to it. Legally, the sharia capital market still falls under the jurisdiction of conventional capital market laws. While the Qur'an and Hadith do not explicitly address the capital market, the transaction principles in the sharia capital market align with Islamic law. However, there is still public skepticism about whether trading and transactions in the sharia capital market are truly free from elements of usury, maysir, gharar, and other practices contrary to sharia. This skepticism leads many to hesitate when considering investments in the Islamic capital market. The current legal framework enforced by Bapepam is driven by the demand and interest of market participants in the sharia capital market.(Toha et al., 2020).

The sharia capital market was established to mitigate skepticism among certain individuals and was officially recognized in 2003. This market has played a pivotal role in rejuvenating the Islamic economy by enabling transactions and economic activities that conform to sharia principles. The legal basis for the sharia capital market originates from fatwas issued by the National Sharia Council-Indonesian Ulema Council (DSN-MUI) and is regulated under Law No. 8 of 1995 concerning Capital Markets, which permits both sharia and conventional-based activities. Although the Islamic capital market is expanding rapidly, it continues to encounter several challenges.(Toha et al., 2020) To expedite its development, various measures have been taken, including the implementation of structured and measurable strategies. This study aims to examine the sharia capital market system in Indonesia. The Islamic capital market is an economic activity focused on trading securities that comply with sharia law. This includes muamalah economic activities, where securities such as stocks, bonds, and sharia mutual funds are traded according to sharia investment principles. The development of the Islamic capital market aims to cater to the needs of Muslims in Indonesia who seek to invest in products that align with the foundational principles of sharia. The incorporation of sharia principles in the capital market is seen as an act of muamalah worship, providing a solution for those who wish to invest their money without involving elements of usury and injustice(Peristiwo, 2016).

Despite the fact that the majority of Indonesia's population is Muslim, the development of the sharia-based capital market has lagged significantly, especially when compared to Malaysia, which is considered the global center of sharia-based investment. Malaysia has implemented various Islamic financial instruments for its capital market industry, positioning itself as a leader in this sector. In contrast, Indonesia's Islamic capital market faces the challenge of attracting a sufficient number of investors. The number of investors in the Islamic capital market remains relatively low, particularly when compared to the higher number of investors in the banking sector(Syifa Destya Salsabila et al., 2024). On the other hand, it must be acknowledged that several fundamental issues hinder the development of the Islamic capital market in Indonesia. These challenges include the uneven understanding and knowledge among Indonesians regarding investment in sharia-based capital markets. Additionally, the regulatory framework supporting sharia investment in the Indonesian capital market is inadequate. Furthermore, there is a perception that investing in the sharia capital market incurs relatively higher costs compared to investments in other financial sectors(Syifa Destya Salsabila et al., 2024).

## METHOD

In writing this article, the library research method was used, which is a type of research that uses literature sources available in libraries such as books, journals, documents and reports of previous research results. The main aim of library research is to collect data and information from various sources in the library, including books, magazines, documents, historical records, or library research that are relevant to the research topic.

The library research process involves several steps, such as determining the type of research and approach to be used, collecting various library materials, evaluating and selecting relevant sources of information, and analyzing the collected data. Library research methods are generally included in the qualitative research approach because the data obtained is descriptive and not measured quantitatively (Sugiyono, 2015).

The collected data were analyzed using thematic analysis. Thematic analysis was conducted by identifying the main themes that emerged from the interview data and literature review. This analysis process includes the following stages:

1. Initial Coding: Identifying initial codes based on the collected data.
2. Theme Identification: Grouping initial codes into larger themes.
3. Theme Organization: Organizing themes into a coherent and meaningful narrative.
4. Findings Validation: In this study, research was conducted by utilizing studies that have similarities or links.

## RESULT AND DISCUSSION

### Basic Concepts and Principles of Sharia Capital Markets

In a narrow sense, a market refers to a physical location where sellers and buyers meet directly to conduct transactions. At this place, transactions occur with the physical presence of both parties. However, in a broader sense, a market is a concept where transactions can take place without the need for direct meetings between sellers and buyers. In this context, transactions can be facilitated through various information media such as the internet, cell phones, or other communication tools. Generally, the capital market is a venue where sellers and buyers of shares meet to conduct transactions with the goal of obtaining capital. In the capital market, sellers are companies that need capital (issuers) and sell their securities. Buyers, or investors, are parties interested in purchasing shares of a company they believe will be profitable. The capital market is also commonly referred to as the stock exchange (Faozan, 2013).

Common terms used for markets include exchanges, exchange, and market. Similarly, terms frequently associated with capital include securities, stocks, and shares. According to Article 1, Paragraph (12) of Law No. 8 of 1995 concerning Capital Markets, capital markets encompass activities related to public offerings and trading of securities, public companies related to the securities they issue, as well as institutions and professions associated with securities. Furthermore, securities, as defined in Article 1, Paragraph (5), include various financial instruments such as debt acknowledgment letters, commercial securities, shares, bonds, proof of debt, participation units in collective investment contracts, futures contracts on securities, and various derivatives of securities (Syifa Destya Salsabila et al., 2024).

Meanwhile, a sharia capital market is defined as a capital market that operates in accordance with Islamic sharia principles. The instruments and mechanisms utilized in this market must adhere to sharia principles, which prohibit practices such as riba (usury), gharar (excessive uncertainty), and maysir (gambling) (Saputra, 2014). The legal basis for sharia capital markets stems from the Quranic verse QS. Al-Baqarah/2:275, which reads:

اَلَّذِيْنَ يَأْكُلُوْنَ الرِّبٰوا لَا يَقُوْمُوْنَ اِلَّا كَمَا يَقُوْمُ الَّذِيْ يَتَخَبَّطُهُ الشَّيْطٰنُ مِنَ الْمَسِّۗ ذٰلِكَ بِاَنَّهُمْ قَالُوْٓا اِنَّمَا الْبَيْعُ مِثْلُ الرِّبٰواۘ وَاَحَلَّ اللّٰهُ الْبَيْعَ وَحَرَّمَ الرِّبٰواۗ فَمَنْ جَاۤءَهٗ مَوْعِظَةٌ مِّنْ رَّبِّهٖ فَانْتَهٰى فَلَهٗ مَا سَلَفَۗ وَاَمْرُهٗٓ اِلَى اللّٰهِۗ وَمَنْ عَادَ فَاُولٰۤىِٕكَ اَصْحٰبُ النَّارِۚ هُمْ فِيْهَا خٰلِدُوْنَ

It means:

Those who consume (engage in) usury cannot stand except like those standing who are possessed by Satan. This is because they say that buying and selling is the same as usury. However, Allah has permitted buying and selling and prohibited usury. Whoever receives a warning from his Lord and then stops, what he previously took is his and his affair is with Allah. But whoever returns (to usury), they are the inhabitants of Hell; they will remain there forever.

Sharia capital markets are supervised and regulated by financial authorities issuing specific guidelines and regulations to ensure compliance with Sharia principles. Authorities such as the National Sharia Council (DSN) and the Financial Services Authority (OJK) in Indonesia play a crucial role in overseeing Sharia capital markets to ensure fairness, transparency, and compliance with Sharia principles. Sharia capital markets continue to grow globally as part of the rapidly expanding Islamic economy. They not only provide investment alternatives for Muslims seeking to adhere to their religious principles but also appeal to international investors looking for socially and environmentally responsible investments. With increasingly mature regulations and ongoing product innovations, Sharia capital markets are expected to make significant contributions to sustainable and inclusive economic growth.

Transactions in the capital market are permitted as long as they comply with sharia principles, which include prohibitions against *Riba*, gambling *(maysir),* unclear contract, quality, quantity and price *(gharaar),* as well as prohibited items such as certain foods and drinks. Syed Othman Alhabshi, in his book *"Development of Capital Market Under Islamic Principles",* analytically explains the existence of a capital market that complies with sharia principles and its contribution to economic growth.

According to him, the application of sharia principles in economic and financial activities, including sharia capital markets, can realize sharia goals. *(maqashidu al-syari'ah)* in economic life, such as fair distribution of income and the creation of justice and a new economic balance. The underlying sharia principles are based on the principles of Islamic jurisprudence, such as :(Mawardi et al., 2019).

1) The principle that all muamalah activities must be accompanied by a clear contract.
2) The principle that basically all forms of riddles are allowed, unless there is evidence that prohibits them. Prohibitions in the transaction include *Riba,* gambling *(maysir),* ambiguity in contract, quality, quantity and price *(gharaar),* as well as prohibited transaction objects such as certain foods and drinks.

These regulations will form the cornerstone of operations in the Islamic capital market. Consequently, investments in the Sharia capital market must adhere to relevant Sharia provisions. This adherence serves as the primary catalyst for advancing the Sharia capital market industry. Achieving compliance with Sharia principles in the capital market involves the following steps:

1) Encourage issuers (companies) to issue securities in accordance with sharia principles, and prioritize fairness, prudence and transparency.
2) Provide understanding to market players regarding muamalah provisions, as well as the benefits and risks of transactions in the sharia capital market.
3) Develop infrastructure and market mechanisms that are fair, honest, transparent and timely.
4) Carry out supervision and law enforcement by the capital market authorities in a fair, efficient, effective and economical manner.

The basic concepts of Sharia capital markets revolve around principles derived from Islamic law (Sharia) and ethical standards. Here are the fundamental concepts:

1) Sharia Compliance: All transactions, products, and activities within the Sharia capital market must adhere to Islamic principles outlined in the Quran and Hadith, as interpreted by Islamic scholars. This includes avoiding prohibited elements such as riba (interest), gharar (excessive uncertainty), maysir (gambling), and non-halal activities.
2) Ethical Investing: Sharia capital markets prioritize ethical and socially responsible investments. Companies and financial instruments involved must align with Islamic values, promoting fairness, justice, and accountability.
3) Profit-Sharing (Mudharabah): Unlike conventional interest-based finance, Sharia capital markets emphasize profit-sharing arrangements (mudharabah), where investors share in the profits generated by investments according to agreed terms.
4) Asset-Backed Financing: Transactions in the Sharia capital market often involve asset-backed financing (ijara, murabaha), where assets and commodities underpin financial transactions to ensure tangible value and reduce speculative practices.
5) Risk-Sharing: There is an emphasis on risk-sharing (mudarabah), where both profits and losses are shared between parties involved in financial transactions. This promotes fairness and discourages excessive risk-taking.
6) Islamic Indices: Sharia capital markets may have specific indices (like the Jakarta Islamic Index) that screen and select companies based on their adherence to Sharia principles, offering investors a benchmark for Sharia-compliant investments.
7) Regulatory Framework: A robust regulatory framework oversees Sharia capital markets to

ensure compliance with Sharia principles and to maintain market integrity and transparency. These basic concepts form the foundation of Sharia capital markets, distinguishing them from conventional financial markets by their adherence to Islamic law and principles, ethical considerations, and risk-sharing.

## History of the Sharia Capital Market in Indonesia

The history of Indonesia's conventional capital market traces back to 1912, when shares and bonds of Dutch companies and the Dutch East Indies Government were first traded as securities. However, market activities halted during World War II. Following Indonesia's independence in 1950, the capital market revived with the issuance of government bonds, initially governed by Emergency Law on Stock Exchanges No. 13 of 1951 and later regulated by Law No. 15 of 1952. On March 14, 2003, the sharia capital market was officially launched by Finance Minister Boediono and Bapepam Chairman Herwidayatmo, alongside representatives from the MUI, National Sharia Council, SRO, directors of securities firms, and industry organizations in Indonesia. Originally planned for November 2002, its delayed launch was due to perceived readiness issues acknowledged by Bapepam and the National Sharia Council, who conducted extensive studies and sent delegations to learn from other countries' sharia market mechanisms (Fadilah et al., 2022).

The advent of the sharia capital market is expected to mark a significant historical milestone, akin to the establishment of Bank Muamalat Indonesia (BMI) a decade ago. Although activities in the Islamic capital market are relatively recent, the journey began with the introduction of Islamic mutual funds in 1997, followed by the launch of the Jakarta Islamic Index (JII) in 2000. Finance Minister Boediono himself envisages that the presence of the sharia capital market will spur tangible advancements and the expansion of other sharia-compliant instruments, mirroring initiatives seen in developed countries like the creation of the Dow Jones Islamic Index (DJII) in their own capital markets (Prasetyo, 2019).

The history of the Sharia capital market in Indonesia traces back to significant developments over the past few decades:

1) Emergence and Early Developments: The Sharia capital market in Indonesia began to take shape with the introduction of Sharia-compliant financial products, such as Islamic mutual funds, in the late 1990s. This period saw the initial steps towards establishing a framework for Sharia-compliant investments.
2) Formal Inauguration in 2003: The formal inauguration of the Sharia capital market in Indonesia took place on March 14, 2003. This milestone event was marked by the launch ceremony officiated by the Minister of Finance at that time, accompanied by key stakeholders from regulatory bodies, Islamic scholars, and financial institutions. The establishment aimed to provide a platform for Sharia-compliant investments and cater to the growing demand among Muslim investors.
3) Regulatory Framework Development: Following the inauguration, efforts were made to develop a robust regulatory framework to govern the Sharia capital market. This framework included the issuance of regulations and guidelines by the Financial Services Authority (OJK)

and the National Sharia Council (DSN) to ensure compliance with Sharia principles and market integrity.

4) Expansion and Market Growth: Over the years, the Sharia capital market in Indonesia has expanded significantly. It encompasses a wide range of Sharia-compliant financial products, including sukuk (Islamic bonds), Sharia stocks, Islamic mutual funds, and Sharia-compliant ETFs. The market has attracted both domestic and international investors interested in ethical and socially responsible investments aligned with Islamic values.
5) Role in Economic Development: The Sharia capital market plays a vital role in Indonesia's economy by promoting financial inclusion and supporting sustainable economic development. It provides avenues for raising capital for Sharia-compliant projects and businesses, contributing to the overall growth and stability of the economy.
6) Continued Evolution and Innovation: The Sharia capital market continues to evolve with ongoing innovations in product offerings and market infrastructure. Efforts are also underway to enhance education and awareness among investors and market participants about Sharia-compliant finance and its benefits.

Overall, the history of the Sharia capital market in Indonesia reflects a journey of development, regulatory establishment, market expansion, and its growing significance in the broader financial landscape of the country.

**Sharia Products in the Capital Market**

Sharia products in the capital market refer to financial instruments that comply with Islamic sharia principles. The main principle in the Islamic capital market is the prohibition against *Riba* (flower), *gharar* (excessive uncertainty), *maysir* (gambling), and products that conflict with the principles of justice and economic sustainability according to Islamic views. The following are several examples of sharia products that are commonly traded on the capital market:(Lestari & Kurniawati, 2023)

1) Sharia Stocks

Shares represent proof of participation or ownership in a company, offering variable investment returns based on the investor's ability to manage them. Sharia-compliant shares are those that adhere to Islamic principles. Conceptually, shares signify capital participation in a company, and investors or capital owners are entitled to profit. This concept aligns with Sharia principles and is recognized in muamalah as musyarakah or syirkah activities(Hartati, 2021).

Shares from companies that adhere to Sharia principles. Sharia principles prohibit involvement in sectors such as alcohol, tobacco, gambling, and conventional banking. These stocks are typically part of indices like the Jakarta Islamic Index (JII) in Indonesia. Sharia stocks, also known as Islamic stocks, are shares of companies that operate in compliance with Islamic law (Sharia). These stocks must adhere to certain principles and criteria derived from Islamic jurisprudence *(fiqh),* ensuring that the company's business activities and financial practices align with the ethical guidelines and prohibitions outlined in Islamic teachings. Here are the key aspects of Sharia stocks: Business activities sharia compliant companies must not engage in activities considered haram (forbidden) under Islamic law. These prohibited activities typically include: Alcohol production and sale, Gambling and betting, Production and sale of pork and pork products, Pornography and adult entertainment, Interest-based financial services (such as conventional banking and insurance), Tobacco production and sale, Weapons and defense manufacturing(Huda, 2023).

2) Sukuk

Sukuk are Sharia-compliant bonds representing ownership in specific assets or projects. They are designed to avoid interest and follow profit-sharing or asset ownership principles. As an alternative to conventional bonds, sukuk offer ownership in tangible assets or services, generating returns from these assets. Sukuk must adhere to Sharia principles, which prohibit riba (interest), gharar (excessive uncertainty), and haram activities. There are several types of sukuk, such as Sukuk al-Ijarah (lease-based), Sukuk al-Murabaha (cost-plus financing), Sukuk al-Mudarabah (profit-sharing), Sukuk al-Musharakah (joint venture), Sukuk al-Salam (advance purchase), and Sukuk al-Istisna (project financing).

3) Sharia Mutual Funds

Sharia mutual funds are investment vehicles that pool money from multiple investors to invest in assets that comply with Islamic law. These funds invest in Sharia-compliant stocks, sukuk, or money market instruments and adhere to ethical guidelines, avoiding interest, excessive uncertainty, and haram activities like alcohol, gambling, and tobacco. Sharia mutual funds undergo rigorous screening, ensuring companies meet specific financial criteria and do not engage in prohibited activities. Any non-permissible income earned is purified by donating it to charity, ensuring investors benefit only from halal sources.

4) Sharia Exchange-Traded Funds (ETF)

Sharia Exchange-Traded Funds (ETFs) are investment funds that comply with Islamic law and trade on stock exchanges like regular stocks. These ETFs provide exposure to a diversified portfolio of Sharia-compliant stocks while adhering to Islamic principles, such as prohibiting investments in interest-bearing instruments, excessive uncertainty, and haram activities like alcohol, gambling, and weapons manufacturing. Sharia ETFs undergo a rigorous screening process to ensure compliance, including business activity and financial ratio screening. Any non-permissible income earned is purified by donating it to charity to ensure that investors only benefit from halal sources.

5) Mudharabah Bonds

Mudharabah bonds are Sharia-compliant financial instruments based on profit-sharing principles. Investors provide capital to bond issuers, who manage it to generate profits shared according to agreed terms. Key aspects include:

a. Contractual Structure: Investors provide funds, and profits are shared between the issuer and investors based on a pre-agreed ratio.
b. Sharia Compliance: These bonds avoid fixed interest, emphasize profit-sharing, and ensure

transparency in fund usage.

c. Risk and Returns: Investors share both profits and losses, with potential for higher returns based on project success.
d. Redemption and Maturity: Bonds have a maturity date, with the principal repaid and returns linked to project profitability.

6) Sharia Derivatives

Sharia derivatives are financial instruments designed to comply with Islamic law by avoiding prohibited elements such as interest *(riba)* and excessive uncertainty (*gharar*). They derive value from underlying assets like commodities, currencies, or stocks, and are structured using Islamic finance principles. Key aspects include:

a. Sharia Compliance Principles:
   1) Prohibition of Riba: No interest-based transactions.
   2) Prohibition of Gharar: Avoidance of excessive uncertainty in terms of the contract.
b. Structures:
   1) Salam: Forward sale contracts for future delivery.
   2) Istisna: Contracts for manufacturing or construction of goods.
   3) Mudarabah: Profit-sharing partnerships.
c. Risk Management:
   1) Used to hedge against price fluctuations or financial risks while adhering to Sharia principles.
d. Applications:
   1) Currency Derivatives: Hedging currency risk without interest.
   2) Commodity Derivatives: Hedging price fluctuations in commodities.
   3) Equity Derivatives: Based on Sharia-compliant stocks or indexes.

**Legal Entities/Laws/Regulations Related to Sharia Capital Markets**

The legal basis for capital markets in Indonesia is regulated in Law no. 8 of 1995. This law aims to support fair and prosperous national development in accordance with the 1945 Constitution. The capital market plays a crucial role in financing the business world and as a forum for investment for the community. Apart from that, this regulation also aims to protect investors from detrimental practices and provide legal certainty to all parties involved in the capital market. The capital markets law is also intended to anticipate challenges from economic globalization which has changed the dynamics of the global economy. Previous laws, such as the Emergency Law on Exchanges of 1952, were deemed no longer relevant to current conditions and required adjustments. The regulations or regulatory basis that regulate the sharia capital market are Fatwa No. 20/DSN MUI/IV/2001 concerning Investment Implementation Guidelines for Sharia Mutual Funds (Uliyatul Mu'awwanah, Ghoni Rizky Ridho, 2023).

Legal entities, laws, and regulations related to Sharia capital markets are crucial for their operation and oversight. In Indonesia, the framework includes several key components:

1) National Sharia Council (DSN-MUI): Provides fatwas (Islamic legal opinions) on Sharia-compliant financial products and activities, guiding the principles and practices of the Sharia capital market.
2) Capital Market Supervisory Agency (Bapepam-LK): Regulates and supervises the overall capital markets, including Sharia capital markets, ensuring compliance with applicable laws and regulations.
3) Law No. 8 of 1995 concerning Capital Markets: This foundational law governs the capital markets in Indonesia, providing the overarching legal framework within which both conventional and Sharia capital markets operate.
4) Islamic Securities: Defined under Indonesian law, including shares, sukuk (Islamic bonds), and other Sharia-compliant financial instruments issued by companies and financial institutions.
5) Sharia Mutual Funds: Regulated under specific guidelines issued by Bapepam-LK, allowing investors to participate in collective investments that comply with Sharia principles.
6) Islamic Financial Institutions: Entities such as Islamic banks and insurance companies that operate under Sharia principles, contributing to the infrastructure and liquidity of the Sharia capital market.
7) Fatwas and Guidelines: Issued by the DSN-MUI and Bapepam-LK, these provide detailed rules and standards for Sharia-compliant transactions, ensuring consistency and adherence to Islamic principles.

These entities, laws, and regulations collectively form the framework for the Sharia capital market in Indonesia, aiming to foster transparency, fairness, and adherence to Islamic principles in financial transactions and investments.

The National Sharia Council fatwa related to shares is:(Ibrahim, 2013)

1) National Sharia Council Fatwa Number: 20/DSN-MUI/IV/2001 concerning Investment Implementation Guidelines for Sharia Mutual Funds.
2) National Sharia Council Fatwa No: 40/DSN-MUI/X/2003 concerning Capital Markets and General Guidelines for the Application of Sharia Principles in the Capital Market Sector.
3) National Sharia Council Fatwa Number: 65/DSN-MUI/III/2008 concerning Sharia Warrants.
4) National Sharia Council Fatwa Number: 66/DSN-MUI/III/2008 Concerning Pre-emptive Rights.
5) National Sharia Council Fatwa Number: 80/DSN-MUI/III/2011 concerning the Application of Sharia Principles in Equity Securities Trading Mechanisms on the Regular Market of the Stock Exchange.

Bapepam LK regulations regarding the application of sharia principles in the capital market:
1) Regulation Number IX.A.13 (Kep-181/BL/2009).
2) Regulation Number IX.A.14 (Kep-131/BL/2006) Concerning Contracts used in the Issuance of Sharia Securities.

3) Regulation Number II.K.1 (Kep-180/BL/2009) Concerning Criteria and Issuance of Sharia

Securities List Concerning Sharia Securities Issuance.

Regulations governing the Indonesian Sharia capital market are issued by the government in the form of laws and supporting regulations, as well as by the OJK through Regulations and Circular Letters. Currently, OJK has enacted 11 specific regulations pertaining to the Sharia capital market, which include: (IDX, 2024)

1) POJK No. 15/POJK.04/2015 concerning the Application of Sharia Principles.
2) POJK No. 17/POJK.04/2015 concerning the Issuance and Requirements for Sharia Securities in the Form of Shares by Sharia Issuers or Sharia Public Companies.
3) POJK No. 18/POJK.04/2015 concerning Sukuk Issuance and Requirements.
4) POJK No. 20/POJK.04/2015 concerning Issuance and Requirements for Sharia Asset-Backed Securities.
5) POJK No. 53/POJK.04/2015 concerning Contracts Used in Issuing Sharia Securities in the Capital Market.
6) POJK No. 30/POJK.04/2016 concerning Sharia Real Estate Investment Funds in the Form of Collective Investment Contracts.
7) POJK No. 35/POJK.04/2017 concerning Criteria and Issuance of Sharia Securities List.
8) POJK No. 3/POJK.04/2018 concerning Amendments to Financial Services Authority Regulation no. 18/POJK.04/2015 concerning Sukuk Issuance and Requirements.
9) POJK No. 33/POJK.04/2019 concerning Issuance and Requirements for Sharia Mutual Funds.
10) POJK No. 3/POJK.04/2022 concerning Mechanisms and Procedures for Determining Equity Securities as Sharia Securities in Information Technology-Based Crowdfunding Services.

Sharia compliance regulations in the capital market are a collection of rules, policies, and guidelines implemented by the government or regulatory authorities to ensure that business practices and investments in the capital market adhere to Islamic sharia principles(Fitri, 2023). It includes a broad array of elements, such as guidelines for sharia investment instruments, sharia audits, financial reporting, and the protection of investors(Ihsan, 2022).

Ensuring regulations for Sharia investment instruments, such as Sharia stocks, bonds, and mutual funds, is essential to define the requirements, criteria, and procedures that guarantee these instruments comply with Sharia principles. Additionally, these regulations establish standards and procedures for Sharia audits to confirm that companies or financial institutions participating in Sharia capital market activities adhere to Sharia principles in their operations and financial practices(Hermansyah et al., 2024).

According to Mokhtar Muhammad Metwally, the function of the existence of the sharia capital market is as follows:(Mujiatun, Siti ; Wathan, 2019)

1) Enables the public to participate in business activities by sharing in the profits and risks.
2) Allows shareholders to sell their shares to gain liquidity.
3) Allows companies to raise capital from outside to build and develop their production lines
4) Separates the operation of business activities from short-term fluctuations in share prices, which are a common feature of conventional capital markets.
5) Allows investment in the economy to be determined by the performance of business activities,

as reflected in share prices.

Therefore, the capital market has many benefits, including:

1) Providing sources of funding or long-term financing for the business world and enabling optimal allocation of these funding sources.
2) Providing an investment vehicle for investors and enabling diversification efforts (diversification, such as business diversification to avoid dependence on one type of activity, product, service or investment).
3) Provide key indicators (leading indicator) for the country's economic trends.
4) Enables the spread of company ownership to the middle levels of society.
5) Create attractive jobs or professions.
6) Provides the opportunity to have a healthy company with good prospects.
7) Providing investment alternatives that offer potential profits with risks that can be calculated through openness, liquidity and investment diversification.
8) Fostering a climate of openness for the business world and providing access to social control.
9) Encourage company management with an open climate, the use of professional management, and the creation of a healthy business climate.

The Sharia capital market serves several key functions and exhibits distinct characteristics compared to conventional capital markets. Here are the functions and characteristics of the Sharia capital market:

Functions:
1) Facilitating Sharia-Compliant Investments: The primary function is to provide a platform for investments that adhere to Islamic principles, such as the prohibition of interest (riba), uncertainty (gharar), and gambling (maysir).
2) Raising Capital: Similar to conventional markets, it allows entities to raise funds through the issuance of Sharia-compliant securities like sukuk (Islamic bonds) and equity instruments.
3) Enhancing Financial Inclusion: Encourages broader participation in the economy by adhering to ethical and moral standards, thereby attracting investors who prioritize Sharia compliance.
4) Supporting Economic Growth: Promotes investment in sectors and projects aligned with Sharia principles, contributing to sustainable economic development.
5) Creating Financial Stability: Fosters stability by promoting risk-sharing mechanisms and ethical financial practices, reducing speculative activities.

Characteristics:
1) Adherence to Sharia Principles: All activities, instruments, and transactions must comply with Islamic jurisprudence as interpreted by scholars, ensuring they are free from prohibited elements.
2) Ethical Screening: Rigorous screening processes exclude companies involved in sectors deemed non-compliant with Sharia principles, such as alcohol, gambling, and conventional finance.
3) Profit-Sharing and Loss-Sharing: Emphasizes profit-sharing (mudharabah) and loss-sharing (mudarabah) arrangements to align investor returns with business outcomes, promoting risk-

sharing.

4) Transparency and Disclosure: Requires transparency in financial transactions and disclosures to ensure clarity for investors regarding the underlying assets and risks involved.
5) Regulatory Oversight: Governed by specific regulations and oversight bodies (such as the National Sharia Council and financial regulators) to ensure compliance and market integrity.
6) Innovative Sharia-Compliant Products: Constant development of new financial instruments and products tailored to meet the needs of Sharia-compliant investors, such as Islamic mutual funds and Sharia ETFs.

These functions and characteristics distinguish the Sharia capital market as a specialized segment within the broader financial landscape, catering to investors seeking ethical and socially responsible investment opportunities aligned with Islamic values. According to Metwally quoted by Agustianto, in order to form a sharia capital market, several characteristics are needed as follows:(Faozan, 2013).

1) All shares must be traded on a stock exchange.
2) Exchanges must provide post-trading facilities where shares can be traded through brokers.
3) Every three months, all companies whose shares are traded on the stock exchange must submit profit and loss calculations, as well as profit balance sheets, to the stock exchange management committee.
4) The management committee must set the highest share price (HSP) for each company every three months or less.
5) Shares cannot be traded at a price higher than the HSP.
6) Saham Shares can be sold at a price below HSP. HSP is set with the following formula.

$$HSP = \frac{Total\ Company\ Net\ Worth}{Number\ of\ Shares\ Issued}$$

7) It is the responsibility of the management committee to ensure that all companies engaged in the stock exchange comply with Sharia accounting standards.
8) Trading of stocks must commence within one week subsequent to the determination of the HSP during the trading period.
9) The issuance of new shares by the company is restricted to the trading period and must occur at the HSP (Highest Selling Price).

**Performance and Statistics of The Sharia Capital Market**

The Sharia Capital Market has grown significantly with an increase in the value of assets in Sharia-compliant financial instruments such as sukuk and Sharia stocks. Sukuk has become the driving force for project financing according to Sharia principles, creating sustainable funding sources and an ethical business climate. Sharia stocks are also popular, selected based on Sharia criteria, demonstrating investors' awareness of Sharia values(Mudriqoh, 2023). This growth is not limited to a national scale but has gained global attention. International cooperation in the development of

Sharia-compliant financial products has increased, creating an inclusive and sustainable ecosystem. Challenges such as consistent regulations, Sharia financial literacy, and product innovation must be addressed to ensure sustainable growth(Atikah & Sayudin, 2024).

The Sharia capital market also serves as a global bridge to strengthen economic relations between countries and diversify investment portfolios. The integration of Sharia principles into global finance is becoming a pillar of sustainable economic development. By continuously promoting innovation, adequate regulation, and public awareness, the Sharia capital market has the potential to grow and make a significant contribution to the global economy. The integration of Sharia principles into global finance is becoming a pillar of sustainable economic development. By continuously promoting innovation, adequate regulation, and public awareness, the Sharia capital market has the potential to grow and make a significant contribution to the global economy(Atikah & Sayudin, 2024).

The growth of the Sharia capital market is evident not only in the increase in managed asset value but also through ongoing product innovation. The industry is witnessing the development of more complex financial instruments and diversification, providing broader investment opportunities for Sharia-oriented market participants. Two key innovations are Sharia Exchange-Traded Funds (ETFs) and sustainable sukuk. Sharia ETFs, as a popular investment solution, reflect a Sharia-based investment portfolio, offering high flexibility and liquidity. Meanwhile, sustainable sukuk, as another innovation, are designed to support projects with positive environmental and social impacts, offering an investment pathway focused on social and environmental responsibility(Taliani, 2021).

These innovations not only expand investment choices but also enhance the global appeal of the Sharia capital market. Financial instruments that combine Sharia principles with a focus on sustainability can become a top choice for global investors concerned with ecological and social aspects. The importance of these innovations also highlights the role of regulators and governments in providing support and incentives for the development of Sharia-compliant and sustainable products. With innovations like Sharia ETFs and sustainable sukuk, the Sharia capital market not only creates diverse investment opportunities but also supports the vision of becoming a driving force for sustainable, inclusive, and responsible economic growth. As a leader in formulating a new investment paradigm, the Sharia capital market can significantly contribute to the global economy, particularly in terms of financial value, ethics, and sustainability.

### Challenges And Opportunities of The Sharia Capital Market

#### 1) Challenges

Clear regulations play a crucial role in shaping a healthy and thriving Sharia capital market ecosystem. The main challenge faced is the lack of clarity in the regulations governing the Sharia capital market in various countries. This gap not only creates legal uncertainty but also becomes a major obstacle for market participants, both investors and financial institutions, in accessing and managing Sharia-compliant investments. Clear regulations are essential to provide accurate and adequate guidance for all stakeholders in the Sharia capital market. Regulatory ambiguity can create doubts among investors, hinder market growth, and even lead to a decline in confidence. Therefore, efforts to harmonize and clarify regulations at various levels, from national to international, are imperative(Afrizaldi, Indah Kartika Sari, 2023).

Governments and regulators need to update Sharia capital market regulations to create a clear and consistent legal foundation. These steps include reviewing and refining existing regulations, as well as formulating new policies that align with market dynamics and developments in the Sharia financial industry. This process must involve collaboration between the public and private sectors, engaging Islamic law experts, economists, and market participants to ensure that regulations accurately and relevantly reflect Sharia principles. Moreover, international cooperation in unifying Sharia capital market regulations can play a crucial role. Harmonizing rules at the regional or even international level can help create a more predictable and attractive investment environment for global investors. Such initiatives can enhance market integrity and encourage cross-border capital flows, thereby increasing the bargaining power and liquidity of the Sharia capital market as a whole(Susanto, 2023).

In addressing regulatory clarity challenges, governments and regulators should also consider an inclusive approach by involving stakeholders such as Sharia financial institutions, academics, and civil society organizations. Intensive consultation and dialogue processes can help capture diverse perspectives and ensure that the resulting regulations reflect the needs and aspirations of the entire Sharia capital market ecosystem. With increased regulatory clarity, it is expected that the Sharia capital market will become more transparent, stable, and reliable. Investor confidence will rise, and the potential for the Sharia capital market to become a sustainable economic force can be realized. Therefore, ongoing efforts to enhance regulatory clarity should be a primary focus in strengthening and advancing the Sharia capital market globally.

According to research conducted by Zikri, the challenges faced by securities companies in increasing the number of investors in the Sharia capital market include both internal and external factors(Dwiatmaja, 2022).

Internal challenges:

a) Lack of human resources: There is a shortage of qualified personnel at the Indonesia Stock Exchange with licenses as Underwriters and Investment Managers. As a result, securities companies in remote areas typically only engage in one type of business activity, namely as Securities Brokers.

External challenges:

a) Lack of public understanding: There is insufficient awareness among the public about the capital market and Sharia capital market.
b) Geographical distance: The vast distances between regions hinder access.
c) Limited information: The public has not widely accessed information about the Sharia capital market.

**2) Opportunities**

Sharia-compliant investments are a key driver of promising Sharia economic growth, particularly in emerging key sectors. Significant development is observed in the Sharia banking sector, which not only offers an alternative for customers who wish to avoid interest but also provides financial solutions aligned with Islamic ethical and justice principles. This growth is reflected in the increasing number of Sharia banking accounts and products, as well as the geographical expansion of Sharia financial institutions across various parts of the world(Silvia, 2023). In addition to Sharia banking, the Sharia insurance sector is also showing positive growth. By offering policies that comply with Sharia principles, this sector provides protection solutions for individuals and businesses that prioritize sustainability and ethics in risk management. The provision of more innovative and customer-relevant Sharia insurance products is expected to accelerate the growth of this sector.

The Sharia property sector is also a major attraction for Sharia-compliant investments. The concept of ownership and financing in accordance with Sharia principles offers promising investment opportunities. Sharia-compliant property projects, such as housing and business complexes adhering to Islamic law, are magnets for investors seeking sustainable economic growth(Suryosumirat, 2023). The importance of Sharia economic growth also drives governments and regulators to continuously develop supportive policies. This includes crafting clear regulations, providing tax incentives, and other supportive facilities that can create a conducive and attractive investment environment for Sharia market participants(Stefhani, 2017).

The Islamic capital market has the potential to expand its impact through the involvement of global investors who are increasingly aware of sustainable finance. Global investors who prioritize ethical and sustainable principles see the Islamic capital market as an attractive alternative that aligns with their values. Organizing roadshows and global promotions are key strategies to enhance the visibility of the Islamic capital market on the international stage. By communicating the advantages and benefits of Islamic investments, the Islamic capital market can attract more interest from investors around the world(Susanto, 2023).

The synergy between the Islamic capital market and global sustainable finance initiatives can create greater opportunities. Involvement in international forums, participation in initiatives such as the United Nations Principles for Responsible Investment (UN PRI), and adherence to sustainability standards can enhance the image of the Islamic capital market in the eyes of global investors who are concerned with environmental, social, and corporate governance issues(Mutiah & Lubis, 2023). Efforts to expand access to the Islamic capital market for global investors require continuous improvements in transparency, standardization, and market infrastructure. Product and service innovations, including financial instruments that integrate Shariah principles with sustainability, are key to bridging the understanding and interest of global investors in the Islamic capital market. By leveraging the involvement of global investors who are increasingly aware of sustainable finance, the Islamic capital market can drive sustainable economic growth that includes a wider range of global stakeholders. This involvement not only opens up new investment opportunities but also strengthens the image of the Islamic capital market as an ethical, sustainable, and reliable investment choice.

## CONCLUSION

According to Article 1 Paragraph (12) of Law No. 8 of 1995 on the Capital Market, Capital markets include activities related to public offerings and trading securities, public companies related to the securities they issue, as well as institutions and securities related professions. The definition of a sharia capital market is a capital market that operates in accordance with Islamic sharia principles. Instruments and mechanisms used in this market must comply with the principles of sharia, which prohibits the practice *riba, gharar,* and *maysir*. There are many Sharia products commonly traded in the capital market are: Sharia shares, sharia bonds, Sharia mutual funds, Sharia ETF (Exchange-Traded Fund), Sharia EBA (Asset Backed Securities Sharia). Sharia capital markets are founded on fundamental principles derived from Islamic law, aimed at promoting ethical and socially responsible investments. Key concepts include adherence to Sharia compliance, ethical investing, profit-sharing arrangements like mudharabah, asset-backed financing, risk-sharing practices, avoidance of prohibited activities, development of Islamic indices, and a robust regulatory framework. These principles distinguish Sharia capital markets by their commitment to Islamic values, transparency, fairness, and sustainable economic growth, offering investors opportunities that align with their ethical and religious beliefs while contributing to broader economic development.

This study reveals that the Sharia capital market in Indonesia has significant growth potential, driven by increasing investor interest in financial instruments that comply with Sharia principles. The main findings of this research are:

1) Rapid Growth: The Sharia capital market in Indonesia has shown rapid growth in recent years, supported by government policies and increased public awareness of Sharia-compliant financial products.

2) Regulatory Support: Supportive regulations, such as the issuance of sukuk and Sharia mutual funds, play a crucial role in promoting market growth. However, there is still a need for enhanced transparency and investor education.

3) Challenges Faced: The main challenges faced by the Sharia capital market include the lack of Sharia financial literacy among the general public and the limited availability of Sharia-compliant products in the market.

Based on these findings, several recommendations are proposed:

1) Enhancing Education: Increase public education about Sharia finance through campaigns and financial literacy programs.
2) Product Innovation: Develop more innovative Sharia-compliant financial products to attract investor interest.

3) Stakeholder Collaboration: Strengthen collaboration between regulators, market participants, and educational institutions to promote the growth of the Sharia capital market.

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