

# Critical Shariah Assessment of P2P Digital Platforms and Investment Notes in Malaysia

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## ABSTRACT

The rapid expansion of digital financial platforms has accelerated the use of Peer-to-Peer (P2P) financing as an alternative mechanism for investment and funding. Within Islamic finance, Islamic P2P platforms and Islamic investment notes have emerged as Shariah-compliant instruments aimed at promoting ethical capital mobilisation, financial inclusion, and micro, small, and medium enterprise (MSME) financing without reliance on interest-based lending. Despite increasing regulatory recognition and market adoption, concerns persist regarding their Shariah legitimacy, particularly with respect to contractual substance, risk-sharing authenticity, governance adequacy, and post-disbursement utilisation of funds. This study undertakes a qualitative doctrinal Shariah assessment grounded in *fiqh al-mu'āmalāt* and *maqāṣid* Shariah. Using Islamic P2P platforms approved by the Securities Commission Malaysia as a case study, the analysis examines *Mushārahah*, *Muḍārabah*, *Wakālah*, and *Commodity Murābahah* (Tawarruq) structures. The study identifies critical implementation level Shariah risks, including deceptive disclosure, negligent default, and non-Shariah use of proceeds. It argues that regulatory approval alone is insufficient to ensure Shariah compliance in substance and proposes a contract-centric, lifecycle-based Shariah governance framework for Islamic digital platform.

**Keywords:** Digital platforms, Islamic P2P financing; Islamic investment notes; Tawarruq; Islamic FinTech.

## INTRODUCTION

Digitalisation has fundamentally reshaped contemporary financial intermediation, transforming how capital is sourced, allocated, and supervised across global markets. One of the most prominent manifestations of this transformation is Peer-to-Peer (P2P) financing, whereby digital platforms directly connect investors with fund seekers, thereby reducing reliance on traditional financial intermediaries such as banks (Belleflamme et al., 2014; Mollick, 2014; IFSB, 2023). In parallel with global fintech expansion, Islamic finance has increasingly engaged with P2P models as potential mechanisms for Shariah-compliant financing that avoid *ribā* while supporting real-economy activity and financial inclusion (Obaidullah, 2005; Hassan et al., 2022).

Islamic P2P platforms and Islamic investment notes are frequently promoted as instruments capable of reconciling technological efficiency with Islamic legal and ethical principles, particularly transparency, partnership, and risk-sharing (Abduh & Chowdhury, 2021; Mirakhor & Hamid, 2009). These platforms facilitate direct contractual relationships between capital providers and entrepreneurs, aligning with the Shariah principle that profit entitlement must be linked to risk exposure (*al-ghunm bi al-ghurm*) (Siddiqi, 2001). Several jurisdictions have incorporated Islamic P2P financing into their regulatory frameworks, with Malaysia emerging as a leading example. Under the oversight of the Securities Commission Malaysia (SC), P2P platforms are regulated as Recognised Market Operators (RMOs) and may issue Islamic investment notes within the capital-market architecture, reflecting a deliberate integration of Islamic finance and digital capital markets (Securities Commission Malaysia, 2016, 2024; IFSB, 2023).

However, Shariah legitimacy in Islamic finance cannot be reduced to regulatory approval or contractual labels alone. Shariah emphasises that permissibility depends on substance, intent, and outcomes (*maqāṣid al-Shariah*), rather than legal form (*ḥilāh avoidance*), particularly in commercial transactions (Ibn al-Qayyim, 2000; Kamali,

2008). This concern is especially critical in digital P2P environments characterised by decentralised execution, remote onboarding, algorithmic risk assessment, and limited post-disbursement supervision. Such features heighten exposure to Shariah-critical risks, including fraudulent misrepresentation (*tadlīs*), negligent management (*taqṣīr*), agency problems, and diversion of funds to non-Shariah-compliant uses (Hasan, 2012; Dusuki & Abozaid, 2007; IFSB, 2023).

While existing studies on Islamic FinTech have examined regulatory architecture, adoption behaviour, and financial inclusion outcomes (Abduh & Chowdhury, 2021; Hassan et al., 2022), fewer works provide a systematic Shariah test that extends beyond ex-ante contract approval to examine governance and implementation across the investment lifecycle. Islamic investment notes issued through digital P2P platforms remain under-analysed from a jurisprudential perspective attentive to risk allocation, liability attribution, and post-disbursement Shariah compliance (El-Gamal, 2006; Laldin & Furqani, 2013). Against this background, this study asks: to what extent are Islamic P2P digital platforms and Islamic investment notes Shariah-compliant in substance when assessed throughout the investment lifecycle? This critical question will be answered throughout the discussion.

## LITERATURE REVIEW

### Islamic FinTech and Peer-to-Peer Financing

Islamic FinTech scholarship generally conceptualises technology as value-neutral, asserting that Shariah compliance depends on the underlying contracts, governance structures, and risk allocation, rather than the technological medium itself (Kamali, 2008; Obaidullah, 2005). From this perspective, Peer-to-Peer (P2P) financing has been viewed as a potentially suitable model for Islamic finance due to its decentralised structure, direct investor–issuer linkage, and proximity to real-economy transactions (Abduh & Chowdhury, 2021; Hassan et al., 2022).

Nevertheless, recent empirical and conceptual studies reveal growing Shariah concerns in Islamic P2P practice. Many Islamic P2P platforms prioritise operational efficiency, scalability, and predictable returns, leading to extensive reliance on sale-based and debt-like structures rather than genuine profit and loss sharing (Firmansyah & Anwar, 2019; El-Gamal, 2006). This development raises questions about whether Islamic P2P platforms are advancing risk-sharing in substance or merely replicating conventional lending outcomes through Shariah-compliant documentation a concern repeatedly raised in Islamic finance literature (Khan, 2010; Dusuki & Abozaid, 2007).

### Shariah Contracts in Islamic P2P Platforms

Classical Islamic jurisprudence identifies *Mushārah* and *Muḍārah* as foundational investment contracts reflecting the principle of *al-ghunm bi al-ghurm*, whereby entitlement to profit is intrinsically linked to exposure to risk (Chapra, 2000; Mirakhor & Hamid, 2009). In theory, these contracts align closely with P2P investment models, as both involve direct participation between capital providers and entrepreneurs.

However, contemporary studies highlight practical Shariah challenges in applying these contracts within digital P2P environments. These challenges include severe information asymmetry, limited monitoring capability, difficulty in proving negligence (*taqṣīr*), and heightened moral hazard, particularly where issuers operate remotely from investors (Usmani, 2002; Hasan, 2012). As a result, many platforms avoid equity-based contracts in favour of more controllable sale-based arrangements.

Consequently, *Murābahah*-based financing, frequently implemented through Commodity *Murābahah* (*Tawarruq*), has become dominant in Islamic P2P financing. While *Tawarruq* is permitted by contemporary Shariah standards under strict conditions of genuine ownership, possession, and transactional separation (AAOIFI, 2021), scholars caution that its widespread and routine use risks transforming Islamic finance into a debt-replication system that undermines the spirit of risk-sharing (Dusuki & Abozaid, 2007; El-Gamal, 2006). In digital P2P contexts, this risk is amplified by limited post-disbursement monitoring of fund utilisation.

## Islamic Investment Notes, Transparency and Fairness

Islamic investment notes facilitated by digital platforms occupy an ambiguous Shariah position between partnership and debt. Although formally structured as Shariah-compliant instruments, several studies argue that many Islamic investment notes closely resemble conventional fixed-income securities in economic substance, particularly when returns are pre-determined and principal repayment is effectively insulated from business performance (Siddiqi, 2001; Jobst, 2007).

Islamic jurisprudence addresses this concern through the doctrine that substance prevails over form (*al-‘ibrah fī al-mu‘āmalāt lil-maqāṣid wa al-ma‘ānī*), which requires scrutiny of economic reality rather than contractual labelling (Ibn al-Qayyim, 2000). Failure to observe this principle risks legitimising prohibited outcomes through legal stratagem (*ḥiyal*), a practice strongly criticised by classical and contemporary scholars alike (Kamali, 2008; El-Gamal, 2006).

From a Shariah perspective, Islamic P2P platforms emphasise transparency, mutual consent (*tarādī*), and equitable distribution of returns, distinguishing them structurally from conventional banking intermediation, which often prioritises institutional and shareholder profits (Chapra, 2000; Siddiqi, 2001). These features align with Qur’ānic principles of justice (*‘adl*), prohibition of unjust wealth consumption (Qur’ān 4:29), and prevention of excessive wealth concentration (Qur’ān 59:7). However, transparency in digital P2P platforms remains fragile when automated disclosures are not matched by meaningful investor understanding and effective Shariah supervision (Hasan, 2012).

## Shariah Governance and Implementation-Level Risks

Shariah governance has been widely recognised as a critical determinant of legitimacy in Islamic financial institutions (Hasan, 2012; Laldin & Furqani, 2013). In Islamic P2P platforms, governance challenges are intensified by digital execution, decentralised control, and automation, where Shariah oversight is frequently limited to ex-ante contract certification rather than continuous supervision.

Recent regulatory and policy analyses indicate that many Shariah non-compliance risks materialise at the implementation stage, including fraudulent issuer behaviour, negligent default (*taqṣīr* and *ta‘addī*), misuse of funds, and weak recovery practices (IFSB, 2023; Muneeza & Mustapha, 2019). These risks directly threaten *maqāṣid* Shariah, particularly the protection of wealth (*ḥifẓ al-māl*) and preservation of justice in market transactions.

Accordingly, scholars increasingly argue for a lifecycle-based Shariah governance framework, where compliance is assessed from contract design through post-disbursement monitoring and exit mechanisms (Hasan, 2012; IFSB, 2023). This shift is especially critical in Islamic P2P platforms, where digital efficiency can otherwise obscure substantive Shariah violations.

## Shariah Justification for Islamic P2P Digital Platforms and Islamic Investment Notes

The Shariah justification of Islamic Peer-to-Peer (P2P) digital platforms and Islamic investment notes is grounded in the principles of *fiqh al-mu‘āmalāt*, which govern commercial and financial transactions in Islamic law. Islamic jurisprudence evaluates permissibility not based on technological form, but on the substance (*ḥaqīqah*), effective legal cause (*‘illah*), and outcomes in light of Shariah objectives (Al-Zuhayli, 2003; Ibn al-Qayyim, 2000). Accordingly, digital P2P platforms are not treated as independent Shariah contracts, but as contemporary mechanisms facilitating classical Shariah-recognised contracts such as *Mushārahah*, *Muḍārahah*, *Murābahah*, and *Wakālah* (Nyazee, 2002).

A foundational maxim in Islamic commercial law affirms that permissibility is the default rule in commercial dealings (*al-aṣl fī al-mu‘āmalāt al-ibāḥah*), unless there is clear evidence of prohibition (Al-Zuhayli, 2003). This principle allows the adoption of technological innovations, including P2P platforms, provided they do not violate core prohibitions such as *ribā*, *gharar*, or *maysir* (Kamali, 2011). Thus, Islamic P2P platforms are Shariah-permissible in principle when their underlying transactions comply with Shariah norms.

The categorical prohibition of ribā provides a central justification for Islamic P2P platforms and Islamic investment notes. Ribā encompasses guaranteed, time linked returns on debt, which dominate both conventional banking and conventional P2P lending models (Siddiqi, 2001; Usmani, 2002). Islamic P2P arrangements are Shariah-justified when returns are not fixed or guaranteed, profit is not linked to the mere passage of time, and investment notes represent risk-bearing participation rather than capital-guaranteed debt (El-Gamal, 2006). Where investors are exposed to genuine commercial risk, Islamic investment notes fall outside the scope of ribā-based loans (Mirakhor & Hamid, 2009).

A core Shariah justification is the principle of risk sharing, encapsulated in the maxim al-ghunm bi al-ghurm (entitlement to gain accompanies exposure to risk). This principle underpins legitimate profit in Islamic law and rejects risk-free returns (Chapra, 2000). Mushārah and Muḍārah based investment notes are Shariah-permissible when profits are shared by agreed ratios and losses are borne in accordance with capital contribution or fault, without capital guarantees (AAOIFI, 2021; Usmani, 2002). Islamic P2P platforms are further justified through the legitimacy of agency (wakālah) in financial transactions. Shariah permits agency, including agency with fee (wakālah bi al-ujrah), provided the agent does not guarantee outcomes and acts within clearly defined authority (Hammad, 2014; AAOIFI, 2021). In digital P2P contexts, platforms typically act as agents facilitating investments, conducting due diligence, and administering payments. Automation and algorithms are regarded as tools of execution rather than independent contracting parties and therefore do not negate the underlying Wakālah relationship (Kamali, 2008).

The management of uncertainty (gharar) constitutes another key Shariah dimension. While Shariah prohibits excessive uncertainty (gharar fāḥish), it tolerates minor and unavoidable uncertainty (gharar yasīr) inherent in commercial and partnership ventures (Al-Zuhayli, 2003). Islamic P2P platforms mitigate gharar through transparency, disclosure of risks and profit-sharing ratios, standardised documentation, and continuous information access. Such practices uphold the Qur’ānic requirement of mutual consent (tarāḍī) and reduce informational asymmetry (Maali & Atmeh, 2015; Dusuki, 2008). Beyond contractual validity, Islamic P2P platforms and investment notes are justified by maqāsid Shariah, particularly the protection of wealth (ḥifz al-māl), promotion of justice (‘adl), and prevention of harm (Chapra, 2000; Laldin & Furqani, 2013). By facilitating financing for MSMEs, widening access to Shariah-compliant investment opportunities, and reducing excessive intermediary dominance, Islamic P2P platforms advance public interest (maṣlaḥah).

Table 1: Concise Shariah Justification Framework for Islamic P2P Platforms and Investment Notes

Shariah Basis	Core Justification	Application to Islamic P2P & Investment Notes	Key References
Permissibility & Substance	Permissibility assessed by substance (ḥaqīqah), not technology or form	Digital platforms treated as mechanisms facilitating recognised Shariah contracts	Al-Zuhayli (2003); Ibn al-Qayyim (2000); Kamali (2008)
Ribā Prohibition & Risk-Sharing	Profit must be linked to risk (al-ghunm bi al-ghurm); no guaranteed returns	Investment notes structured as Mushārah/Muḍārah, Murabahah, Tawarruq not debt	Siddiqi (2001); Usmani (2002); AAOIFI (2021)
Agency & Gharar Management	Wakālah permitted with disclosure; excessive uncertainty prohibited	P2P platform acts as agent; transparency mitigates gharar	Hammad (2014); Al-Zuhayli (2003); Maali & Atmeh (2015)
Maqāsid & Governance	Protection of wealth and justice require ongoing compliance	MSME financing, fairness, need for lifecycle Shariah governance	Chapra (2000); Laldin & Furqani (2013); Hasan (2012)

**Note:** Islamic P2P digital platforms and investment notes are Shariah-justified when they eliminate ribā-based debt, uphold genuine risk-sharing, correctly apply Murabahah-Tawarruq, Mushārah, Muḍārah, and

Wakālah, manage gharar through transparency, advance maqāṣid Shariah, and operate under robust, lifecycle-based Shariah governance.

Finally, Islamic law accommodates financial innovation through ijtihād and permits structured product and composite contracts (‘uqūd murakkabah) where each constituent contract is valid and the combination does not produce a prohibited outcome (IIFA, 2019; Ibn Taymiyyah, 1995). The doctrine of substance over form (al-‘ibrah fī al-mu‘āmalāt lil-maqāṣid wa al-ma‘ānī) ensures that Islamic P2P platforms and investment notes are assessed by their economic reality rather than contractual labels (Ibn al-Qayyim, 2000). However, Islamic P2P digital platforms and Islamic investment notes are Shariah-justified when they eliminate ribā-based debt, uphold genuine risk sharing, correctly apply Mushārakah, Muḍārabah, and Wakālah, manage gharar through transparency, serve maqāṣid Shariah, and operate under robust Shariah governance (Hasan, 2012). Based on the above discussion, it seems that P2P platform can be adopted any Islamic commercial contract as long it complies to shariah standards.

## RESEARCH METHODOLOGY

This study employs a qualitative doctrinal research methodology grounded in fiqh al-mu‘āmalāt and informed by maqāṣid Shariah, which is appropriate for examining normative Shariah validity, contractual substance, and governance sufficiency, rather than measuring financial or behavioural outcomes (Kamali, 2008; Laldin & Furqani, 2013). The analysis relies on secondary qualitative sources, including classical Shariah texts and juristic maxims governing commercial transactions, contemporary Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), policy guidance published by the Islamic Financial Services Board (IFSB), and regulatory instruments issued by the Securities Commission Malaysia (SC) and Shariah Resolution in Islamic finance issued by Bank Negara Malaysia. Malaysia is adopted as the case-study jurisdiction due to its advanced Islamic capital-market infrastructure and formal regulatory framework for P2P financing under the Guidelines on Recognised Markets. The study focuses on SC-approved Islamic P2P platforms that either operate fully Shariah-compliant models or issue Islamic investment notes through segregated Islamic windows. A contract-centric, lifecycle-based analytical framework is applied to Mushārakah, Muḍārabah, Wakālah, Ujrah and Commodity Murābahah (Tawarruq), assessing Shariah compliance at both the contractual design stage and the post-disbursement implementation stage (AAOIFI, 2021; Hasan, 2012; IFSB, 2023).

Despite the growing body of recent literature, three gaps persist. First, many studies focus on adoption, regulation, or performance while under-theorising Shariah jurisprudential implications. Second, Islamic investment notes within P2P platforms remain insufficiently examined from a substance-over-form perspective. Third, recent risks related to scams, negligent default, and non-Shariah use of funds have not been systematically analysed within a Shariah-based risk-mitigation framework. This study addresses these gaps by integrating classical fiqh analysis with contemporary Islamic FinTech scholarship and regulatory discourse.

## FINDING AND DISCUSSION

### Case Study of P2P Digital Platform in Malaysia: Issues and Solutions

SC-Approved Islamic P2P Platforms in Malaysia as of early 2026, several Peer-to-Peer (P2P) financing platforms approved by the Securities Commission Malaysia (SC) either operate fully Shariah-compliant models or offer Islamic Investment Notes (IINs) through segregated Islamic windows. These platforms are registered as Recognised Market Operators (RMOs) under the Guidelines on Recognised Markets, which govern P2P financing within Malaysia’s capital-market framework. Malaysia was the first ASEAN jurisdiction to formally regulate P2P financing in 2016, and Islamic P2P financing has since emerged as a significant financing channel supporting MSMEs. SC-Approved Islamic P2P Platforms (2026) as table 2 below.

Table 2 presents SC-approved P2P platforms that offer Islamic Investment Notes or operate fully Shariah-compliant P2P models. Platforms are categorised based on Islamic status (fully Islamic versus Islamic window) and core Shariah contractual structures, including Murābahah, Tawarruq, Wakālah, and asset-backed financing.

Table 2 SC-Approved Peer-to-Peer (P2P) Platforms Offering Islamic Investment Notes in Malaysia

Platform	RMO (Operator)	Islamic Status	Core Shariah Structure(s)
SME Funding-i	DBS Solutions (M) Sdn. Bhd.	Fully Islamic	Commodity Murābahah (Tawarruq), Wakālah
Capsphere	Capsphere Services Sdn. Bhd.	Fully Islamic (asset-based)	Asset-backed Murābahah, Wakālah
Funding Societies-i	Funding Societies Malaysia Sdn. Bhd.	Islamic window	Murābahah, Wakālah
Fundaztic-i	Fundaztic Sdn. Bhd.	Islamic window	Murābahah-based financing
CapBay Islamic	CapBay Sdn. Bhd.	Islamic window	Murābahah, Wakālah
microLEAP-i	microLEAP PLT	Islamic window	Murābahah / deferred sale
B2B FinPal-i	B2B FinPal Sdn. Bhd.	Islamic window	Murābahah-based invoice financing
Nusa Kapital-i	Nusa Kapital Sdn. Bhd.	Islamic window	Murābahah, Wakālah
QuickKash-i	QuickKash Sdn. Bhd.	Islamic window	Murābahah
Alixco Islamic	Alixco Capital Sdn. Bhd.	Islamic window	Murābahah-based working capital

Notes: All platforms are RMOs registered with the Securities Commission Malaysia (SC, 2016/2025). Fully Islamic denotes end-to-end Shariah-compliant operations; Islamic window denotes segregated Islamic Investment Notes alongside conventional products. List reflects public SC and industry disclosures as at early 2026, subject to change.

### Mapping Shariah Contracts to Risk Exposure

Islamic P2P platforms employ diverse Shariah contracts, each carrying distinctive governance and risk implications. Partnership-based contracts (Mushārahah and Muḍārahah) embody genuine risk-sharing but expose investors to information asymmetry and monitoring challenges. Trade-based contracts (Murābahah and Tawarruq) offer predictability but raise concerns of debt substitution and post-disbursement misuse of proceeds, particularly where liquidity is generated through Tawarruq. Wakālah or Wakālah bil Ujrah while jurisprudentially permissible, concentrates operational responsibility within platforms and heightens governance dependence as table 3 below.

Table 3 Shariah Contract Structures and Key Risk Profiles in Islamic P2P Platforms

Shariah Contract	Typical Use in P2P	Shariah Strength	Key Risk Exposure
Mushārahah	Equity-like business funding	Genuine risk-sharing	Information asymmetry; monitoring difficulty

Mudārabah	Entrepreneurial financing	Classical Shariah legitimacy	Negligent default (taqṣīr); moral hazard
Wakālah bil Ujrah	Platform intermediation	Permissible agency	Over-delegation; weak supervision
Murābahah	Working capital	Cost-plus transparency	Debt substitution risk
Tawarruq	Liquidity generation	Permissible under necessity	Highest misuse risk of proceeds

**Notes:** Platforms dominated by Tawarruq-based financing present heightened post-disbursement Shariah governance sensitivity, particularly in monitoring use of proceeds.

### Regulatory Sufficiency versus Shariah Sufficiency

SC regulations emphasise market integrity, disclosure, and investor protection. However, compliance with regulatory obligations—such as disclosure, trust-account segregation, and risk scoring does not, ensure Shariah compliance in substance. Critical Shariah concerns remain at the post-disbursement stage, including attribution of negligent default and monitoring of fund utilisation.

Table 4 Regulatory Compliance and Shariah Sufficiency: A Comparative Mapping

SC Regulatory Requirement	Regulatory Objective	Residual Shariah Gap
RMO registration & capital adequacy	Market stability	Does not evaluate contractual substance
Disclosure & risk scoring	Investor awareness	Disclosure Shariah permissibility
Trust account segregation	Safeguarding funds	No control over Shariah use of proceeds
Appointment of Shariah adviser	Formal compliance	Often limited to ex-ante review
Default management policy	Investor protection	No Shariah attribution of negligence

Table 4 discovers that SC regulation ensures market integrity and investor protection, but Shariah compliance in substance depends on internal platform governance, not regulatory approval alone.

### Shariah Risk Concentration by Platform Typology

Shariah risk is unevenly distributed across platform types. Asset-backed Islamic platforms face valuation and collateral sufficiency risks, while Tawarruq-based platforms are more exposed to misuse of cash proceeds. Islamic windows offering mixed products face governance dilution risks due to operational overlap with conventional offerings.

Table 5 Platform Typology and Dominant Shariah Risks

Platform Type	Example	Dominant Shariah Risk
Fully Islamic, asset-backed	Capsphere	Valuation and collateral adequacy
Fully Islamic, Tawarruq-based	SME Funding-i	Misuse of cash proceeds
Islamic window (invoice financing)	B2B FinPal-i	Debt replication risk
Islamic window (mixed offerings)	Funding Societies-i	Governance dilution

While Islamic Peer-to-Peer financing platforms in Malaysia operate within a robust regulatory framework administered by the Securities Commission Malaysia, regulatory approval alone does not guarantee Shariah compliance in substance. Shariah legitimacy in Islamic P2P platforms is contingent upon lifecycle governance, effective post-disbursement monitoring, and mitigation of implementation-level risks.

The Regulatory approval is a necessary condition for Islamic P2P financing, but Shariah legitimacy in substance depends on lifecycle governance and post-disbursement controls, not regulatory compliance alone.

**Murābahah-Based Tawarruq in P2P Platforms and Investment Notes: Shariah Issues**

Commodity Murābahah, commonly operationalised through Tawarruq, is among the most frequently applied Shariah-compliant contracts in Islamic Peer-to-Peer (P2P) platforms and Islamic investment notes. Structurally, Tawarruq involves a sequence of independent sale transactions in which a Shariah-compliant commodity is purchased on deferred Murābahah terms and subsequently sold to a third party for immediate liquidity. Its permissibility is grounded in bay‘ (sale) rather than qarḍ (loan), thereby avoiding ribā through asset-based trading rather than time-based money exchange (Al-Zuhayli, 2003; Usmani, 2002).

In Islamic P2P platforms, Murābahah-based Tawarruq is primarily used for working-capital and short-term liquidity financing, where partnership-based risk-sharing contracts may be commercially or operationally impractical. Investors, often acting through the platform under Wakālah, fund the acquisition of commodities that are sold to recipients at a disclosed markup, with investor returns derived from the deferred sale price. Contemporary Shariah scholars recognise this application under the concept of ḥājah ‘āmmah (general need), particularly for MSME financing (AAOIFI, 2021; Dewayana, 2024).

However, Tawarruq presents a direct Shariah issue in Islamic P2P ecosystems when its use becomes dominant rather than complementary. In fact, instead of applying Commodity Murabahah transaction, P2P platform can be transacted directly using Murabahah Purchase Order whereby the issuers of Islamic investment note can utilise the fund received from the investors via P2P platform to fund the working capital including to purchase the goods, equipment of the intended projects. Scholars caution that excessive reliance on Tawarruq risks replicating debt-based financing in substance, thereby diluting the principle of al-ghunm bi al-ghurm and weakening risk-sharing objectives central to Islamic finance (Dusuki & Abozaid, 2007; El-Gamal, 2006). Recent studies (2023–2026) further highlight that digital automation may undermine Shariah substance if ownership (qabḍ), broker independence, and use of proceeds monitoring are inadequately enforced (Ghazali et al., 2023; IFSB, 2023).

Accordingly, Shariah legitimacy of Tawarruq-based investment notes in P2P platforms is conditional rather than absolute. It is accepted as a secondary mechanism not a substitute for Mushārahah or Muḍārahah provided it is proportionately used, strictly governed, and subjected to continuous Shariah oversight. When structured and supervised substantively, Murābahah via Tawarruq can enhance contractual flexibility without undermining maqāṣid Shariah, particularly the protection of wealth (ḥifẓ al-māl) and justice (‘adl).

Table 6 Comparative Analysis of Shariah Contracts in Islamic P2P Platforms

Aspect	Commodity Murābahah (Tawarruq)	Mushārahah	Muḍārahah	Wakālah Ujrah
Shariah Contract Nature	Asset-based sale with deferred payment	Partnership (joint capital)	Partnership (capital–labour)	Agency arrangement
Legal Classification	Bay‘ (sale)	Sharikah (partnership)	Sharikah (trust-based)	Wakālah (agency)
Return Profile	Predetermined via deferred sale price	Variable; based on actual profits	Variable; based on actual profits	Fixed fee (ujrah), not profit

Risk Allocation	Limited commercial risk after sale	Shared among partners	Capital risk borne by investor	No investment risk (agent only)
Shariah Maxim Applied	Avoidance of ribā through asset sale	Al-ghunm bi al-ghurm	Al-ghunm bi al-ghurm	Al-wakīl amīn (agent as trustee)
Typical Use in P2P	Working capital and liquidity financing	Business growth / equity funding	Entrepreneurial projects	Platform facilitation & administration
Investor Exposure	Credit risk of deferred payment	Profit and loss sharing	Loss of capital except in negligence	No exposure to business risk
Shariah Strength	Permissible but secondary mechanism	Strong (preferred contract)	Strong (preferred contract)	Supportive, not primary financing
Key Shariah Risk	Debt replication if substance weakened	Moral hazard; monitoring difficulty	Information asymmetry; negligence	Over-delegation; governance weakness
Governance Requirement	Proof of asset ownership (qabḍ) and use-of-proceeds monitoring	Continuous performance monitoring	Strong disclosure and fault-based liability	Clear mandate and fee disclosure

Shariah notion does not treat Commodity Murābahah (Tawarruq) as a substitute for risk-sharing contracts. Rather, it serves as a complementary mechanism within Islamic P2P platforms, particularly where partnership-based financing is impractical. Mushārah and Muḍārah remain the preferred Shariah structures, while Wakālah facilitates platform operations without transferring investment risk.

### Critical Shariah Analysis of Islamic P2P Financing in Malaysia: Issues and Solutions

Malaysia represents one of the most advanced jurisdictions for Islamic Peer-to-Peer (P2P) financing. The regulatory framework administered by the Securities Commission Malaysia (SC) under the Capital Markets and Services Act 2007 and the Guidelines on Recognised Markets has enabled the growth of both conventional and Islamic P2P platforms. Regulation of P2P operators as Recognised Market Operators (RMOs) has strengthened governance, disclosure standards, and investor protection. However, from a Shariah perspective, several critical issues arise when assessing whether this framework ensures compliance in substance rather than mere form.

#### Issue 1: Regulatory Sufficiency versus Shariah Sufficiency

SC regulation primarily emphasises capital-market integrity and investor protection, focusing on ex-ante requirements such as disclosure, credit assessment, and structural compliance. While Islamic P2P platforms are required to appoint Shariah advisers, regulatory approval does not extend to assessing post-disbursement conduct, issuer behaviour, or Shariah outcomes. In Islamic jurisprudence, permissibility is determined by actual conduct and consequences, not merely procedural or documentary compliance. Classical jurists emphasise that contracts valid in form may be defective in substance if outcomes contradict Shariah objectives (Ibn al-Qayyim, 2000; Kamali, 2008).

This creates a fundamental gap between regulatory sufficiency, which ensures procedural legality, and Shariah sufficiency, which requires substantive justice and fairness. The gap is particularly acute in decentralised digital environments, where automation and limited supervision amplify the risk of Shariah non-compliance after contract execution.

Shariah based solution recommended to establish a comprehensive a lifecycle based Shariah governance framework should be implemented, extending Shariah supervision beyond contract approval to include post-disbursement monitoring, ongoing compliance audits, and outcome based Shariah review.

Such an approach aligns with maqāsid Shariah, particularly the protection of wealth (ḥifẓ al-māl) and the establishment of justice (ʿadl) in commercial transactions (Chapra, 2000; Hasan, 2012).

## Issue 2: Over-Reliance on Murābahah via Tawarruq Structures

Malaysian Islamic P2P platforms predominantly rely on Commodity Murābahah via organized Tawarruq structures, particularly for working capital and invoice financing. While Tawarruq is technically permitted under AAOIFI Shariah Standards subject to stringent conditions, extensive scholarly critique has cautioned that routine and large-scale reliance on this structure risks replicating conventional debt-based financing, thereby eroding the foundational Islamic finance principle of al-ghunm bi al-ghurm (entitlement to profit only with risk sharing) (Dusuki & Abozaid, 2007; El-Gamal, 2006). This concern is magnified in digital P2P environments where automation and transactional speed may obscure whether Shariah conditions such as genuine ownership, possession (qabḍ), and independent transfer of assets are satisfied in substance rather than merely documented in form.

Over-concentration on commodity Murābahah also results in a systemic imbalance of Shariah contracts, crowding out partnership-based and asset-productive alternatives such as Mushārahah, Muḍārabah, and Istiṣnāʿ. These contracts better reflect the maqāsid of Islamic finance through shared risk, entrepreneurial participation, and real economic value creation. Scholars and regulators have repeatedly emphasised that Islamic P2P models are structurally suited to such participatory contracts, yet in practice continue to default to Tawarruq due to its operational simplicity and predictable returns, at the cost of innovation and Shariah depth (Islamic Finance News, 2013; IFSB, 2023).

A further Shariah concern arises where commodity Tawarruq is employed despite a clearly defined asset-purchase objective, such as financing solar panels or renewable energy equipment. In such scenarios, Shariah-preferred contracts namely Murābahah Purchase Orderer (MPO), Istiṣnāʿ, or Ijārah would allow financing to be directly linked to the identified asset, preserving taʿayyun al-ʿayn and causal linkage between funds and real economic activity. Introducing a Tawarruq transaction solely to generate liquidity creates a form over substance gap, which has been widely criticised in jurisprudential literature as unnecessary and weaker in fulfilling maqāsid when asset-based financing is feasible (Ahmed & Aleshaikh, 2014; Akbar, 2025).

Commodity Murābahah conducted via trading platforms often relying on crude palm oil (CPO) also introduces significant operational and governance risks, including mismatch between commodity suppliers, issuers, and P2P platforms, agency conflicts, and questions surrounding the reality of possession (qabḍ ḥaqīqī). Empirical examinations of organised Tawarruq in Malaysia highlight persistent concerns that platform-based execution may result in synthetic cash financing, where commodities function merely as legal intermediaries rather than genuine economic inputs (Saeed et al., 2024). Risks are especially salient in P2P settings, where investor confidence depends heavily on transparency and demonstrable linkage to productive use.

Finally, from a broader Shariah and economic perspective, excessive reliance on commodity Tawarruq weakens the connection between Islamic finance and the real economy, even when investor intent is explicitly project-driven. When commodity transactions precede and remain detached from actual business activities, capital is temporarily absorbed into non-productive cycles before reaching the intended project, undermining efficiency and the maqṣad of wealth protection (ḥifẓ al-māl). Shariah based solutions therefore call for a rebalancing of Islamic P2P financing, encouraging greater use of partnership and asset-based contracts where commercially viable, and mandating enhanced Shariah verification both contractual and operational whenever Tawarruq is utilised. This approach aligns with AAOIFI guidance and preserves the spirit and objectives of Islamic finance in the digital era (AAOIFI, 2021; Mirakhor & Hamid, 2009).

### Issue 3: Post-Disbursement Misuse of Funds and Negligent Default

SC regulations place limited emphasis on post-disbursement Shariah compliance, leaving monitoring largely to platform-level governance. In Islamic jurisprudence, losses arising from negligence (taqṣīr) or misconduct (taʿaddī) are categorically distinct from losses arising from genuine business risk and must be borne by the wrongdoer rather than investors (Usmani, 2002). In practice, weak monitoring mechanisms in Islamic P2P platforms expose investors to losses that are unjustly framed as risk sharing.

Such outcomes contradict fundamental Shariah principles of accountability, trust (amānah), and liability allocation, and undermine investor confidence in the Shariah legitimacy of Islamic P2P financing.

Shariah aligned post-disbursement controls should be mandated, including use of proceeds verification, milestone-based disbursement, and fault-based liability clauses distinguishing commercial loss from negligence. These mechanisms reflect Shariah’s emphasis on accountability and prevent unjust transfer of loss to investors (Hasan, 2012; IFSB, 2023).

Beyond structuring concerns, post-disbursement risks present a more profound challenge. Monitoring the actual utilisation of proceeds or investor funds in P2P settings is inherently difficult due to dispersed investors, information asymmetry, and reliance on issuer integrity. Weak controls heighten the risk of proceeds being diverted from their disclosed purpose, misused, or subjected to intentional default or negligent bankruptcy, with losses unfairly portrayed as normal investment risk. This directly contradicts Shariah principles that clearly distinguish commercial loss from losses arising due to negligence or misconduct, which must be borne by the wrongdoer and not investors

### Issue 4: Absence of a Dedicated Shariah Standard for P2P Financing

Unlike Islamic banking which is governed by Bank Negara Malaysia (BNM) and supported by detailed Shariah standards issued by SAC-BNM, Islamic P2P financing falls within the Islamic capital market under the jurisdiction of SAC-SC. However, no dedicated Shariah standard exists for P2P financing, either at the national or international level. Current practices rely on adaptative application of general Shariah standards, leading to fragmented and inconsistent Shariah implementation (AAOIFI, 2021; IFSB, 2023).

The absence of a tailored Shariah standard is particularly problematic given the distinct operational risks introduced by digital intermediation, including platform accountability, composite contracts, post-disbursement control, and investor protection from Shariah non-compliance.

A dedicated Shariah standard for Islamic P2P financing should be developed, addressing platform governance, digital agency (wakālah), composite contractual arrangements, post-disbursement obligations, and Shariah non-compliance risk management. This can be achieved through coordinated efforts between SAC-SC, BNM, and international standard-setting bodies such as AAOIFI and IFSB.

The Malaysian case study demonstrates that while the regulatory framework for Islamic P2P financing is advanced and necessary, formal regulatory approval and institutional Shariah endorsement are insufficient to ensure Shariah compliance in substance. Effective Islamic P2P financing requires jurisprudentially informed, lifecycle-based governance aligned with maqāṣid Shariah and specifically adapted to the operational realities of digital platforms. Below is Problem Solution Summary Table 7.

Table 7 Critical Shariah Issues in Islamic P2P Financing in Malaysia

Shariah Issue	Critical Analysis (Problem)	Shariah-Based Solution	Key References
1. Regulatory Sufficiency vs	SC regulation emphasises ex-ante disclosure and investor protection but does not assess post-disbursement conduct or Shariah outcomes. Shariah	Implement a lifecycle-based Shariah governance framework covering pre- and post-disbursement stages,	Ibn al-Qayyim (2000); Kamali (2008); Chapra

Shariah Sufficiency	requires evaluation based on substance, consequences, and justice not procedural approval alone. This creates a gap between formal legality and substantive Shariah compliance.	continuous Shariah review, and outcome-based compliance assessment.	(2000); Hasan (2012)
2. Over-Reliance on Murābahah via Tawarruq	Extensive use of Murābahah/Tawarruq risks debt replication and weakens genuine risk-sharing (al-ghunm bi al-ghurm). Digital automation may unclear real asset ownership (qabḍ) and substantive transfer. Trigger real economy issue.	Encourage greater use of Mushārahah and Muḍārahah; impose enhanced Shariah verification for Tawarruq (proof of ownership, possession, and transactional separation).	Dusuki & Abozaid (2007); El-Gamal (2006); AAOIFI (2021); Mirakhor & Hamid (2009)
3. Post-Disbursement Misuse of Funds & Negligent Default	Weak monitoring allows losses caused by negligence (taqṣīr) or misconduct (taʿaddī) to be transferred unjustly to investors, contrary to Shariah principles of liability (ḍamān) and trust (amānah).	Mandate use of proceeds monitoring, milestone based disbursement, and fault based liability clauses distinguishing genuine business loss from negligence.	Usmani (2002); Hasan (2012); IFSB (2023)
4. Absence of a Dedicated Shariah Standard for P2P	Islamic P2P is governed indirectly under capital-market rules with no P2P specific Shariah standard, leading to fragmented practices and inconsistent Shariah application.	Develop a dedicated Shariah standard for Islamic P2P financing addressing platform accountability, digital wakālah, composite contracts, and post-disbursement Shariah risk.	AAOIFI (2021); IFSB (2023); BNM (2019)

The Malaysian case study demonstrates that formal regulatory approval and institutional Shariah endorsement are necessary but not sufficient. Substantive Shariah compliance in Islamic P2P financing requires jurisprudentially informed, lifecycle-based governance aligned with maqāṣid Shariah.

### Implications for Regulators of Islamic P2P Financing

Policy Implications for Regulators on this study indicates that effective regulation of Islamic Peer-to-Peer (P2P) financing requires a shift from an exclusive focus on ex-ante compliance toward substantive Shariah outcome oversight. While the Securities Commission Malaysia (SC) has established a robust framework for market integrity and investor protection, Shariah legitimacy in Islamic P2P platforms depends on lifecycle governance, particularly at the post-disbursement stage. Regulators should therefore ensure that Islamic P2P operators demonstrate effective controls over utilisation of proceeds, attribution of negligent default (taqṣīr and taʿaddī), and segregation of Islamic windows.

The Shariah Advisory Council of the SC (SAC-SC) may strengthen its role by clarifying that Shariah compliance extends beyond contract structuring to encompass implementation and outcomes, consistent with the doctrine that substance prevails over form (al-ʿibrah fī al-muʿāmalāt lil-maqāṣid wa al-maʿānī). Furthermore, the absence of a P2P-specific Shariah standard suggests the need for coordinated standard-setting efforts domestically between SC and Bank Negara Malaysia (BNM), and internationally with AAOIFI and IFSB.

Such refinements would align regulatory practice with maqāṣid Shariah, particularly justice (ʿadl) and protection of wealth (ḥifẓ al-māl), while preserving Malaysia’s leadership in Islamic fintech governance.

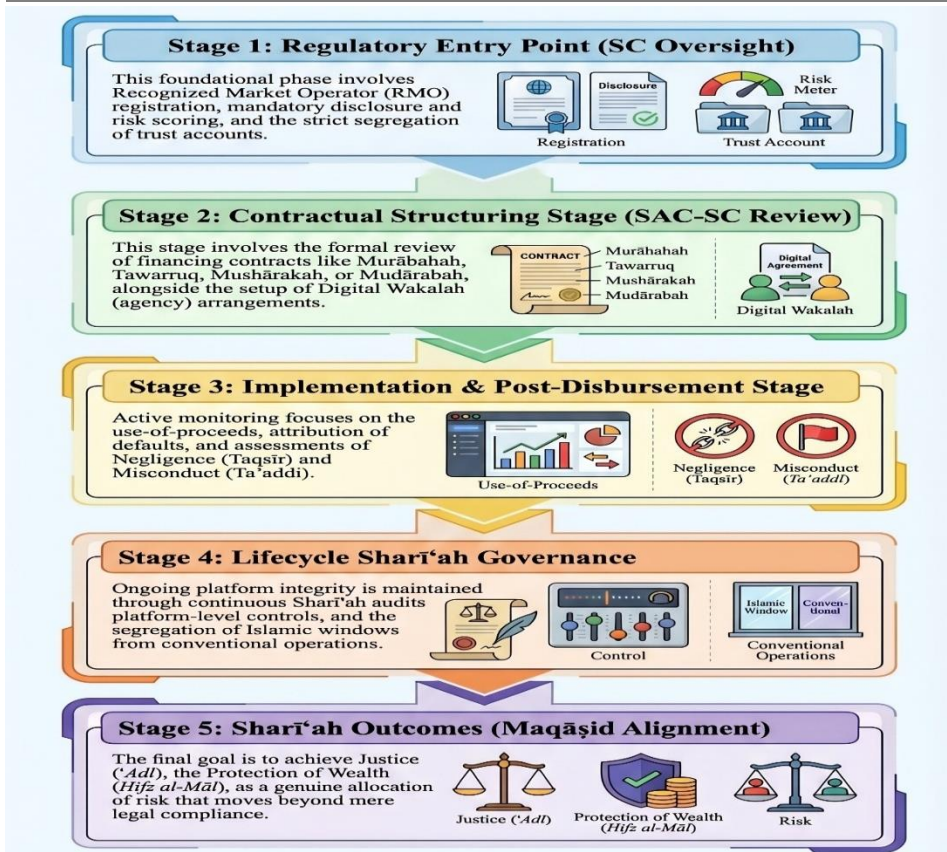


Figure 1. Adaptation by M Zubir (2026) From regulatory sufficiency to Shariah sufficiency in Islamic Peer-to-Peer (P2P) financing, illustrating the need for lifecycle-based Shariah governance beyond ex-ante regulatory approval (Chapra, 2000; Hasan, 2012; Kamali, 2011; IFSB, 2023)

Regulatory Roadmap for Substantive Shariah Compliance in Islamic P2P Platforms from figure 1 illustrates the conceptual progression from regulatory sufficiency to Shariah sufficiency in Islamic Peer-to-Peer (P2P) financing. The diagram is structured as a top-down lifecycle roadmap, demonstrating that while regulatory approval is a necessary gateway, Shariah compliance in substance materialises only through continuous governance across the full investment lifecycle.

The first layer, Regulatory Entry Point (SC Oversight), represents the institutional threshold for Islamic P2P platforms operating in Malaysia. At this stage, platforms are regulated as Recognised Market Operators (RMOs) and are required to comply with capital-market obligations such as registration, disclosure, risk scoring, and segregation of trust accounts. This layer is concerned primarily with market integrity and investor protection and establishes regulatory legality rather than Shariah sufficiency.

The second layer, Contractual Structuring Stage (SAC-SC Review), reflects ex-ante Shariah validation of financing structures. Here, Islamic P2P platforms design investment notes using recognised Shariah contracts such as Murābahah, Tawarruq, Mushārahah, and Muḍārahah often implemented through digital Wakālah arrangements. While Shariah endorsement at this stage confirms the formal permissibility of contractual structures, it remains structural rather than outcome-oriented.

The third and most critical layer is the Implementation and Post-Disbursement Stage, where Shariah risks crystallise. The diagram highlights key Shariah-sensitive issues at this stage, including monitoring of use of proceeds, assessment of negligence (taqsir) and misconduct (ta'addi), and attribution of default. This stage underscores the study's finding that Shariah non-compliance often arises after funds are disbursed, even where contracts are formally valid.

To address this gap, the diagram introduces Lifecycle Shariah Governance as a proposed enhancement. This layer represents continuous Shariah oversight through audits, platform-level governance controls, and

segregation of Islamic windows, ensuring that Shariah compliance extends beyond documentation to execution and outcomes.

The final layer, Shariah Outcomes (Maqāṣid Alignment), depicts the normative objectives that Islamic P2P financing ought to realise justice (‘adl), protection of wealth (ḥifẓ al-māl), and genuine risk allocation. The figure thus visualises the central argument of the study that Shariah sufficiency is achieved not at the point of regulatory approval, but through sustained governance that aligns contractual form with economic reality and Shariah objectives.

In summary, Figure 1 presents a lifecycle roadmap illustrating the progression from regulatory sufficiency to Shariah sufficiency in Islamic Peer-to-Peer (P2P) financing. The upper layer, Regulatory Entry Point, shows the threshold requirements imposed by the Securities Commission Malaysia, including RMO registration, disclosure, risk scoring, and trust-account segregation, which establish market integrity but do not ensure Shariah compliance in substance. The Contractual Structuring Stage reflects ex-ante Shariah validation by SAC-SC, where Islamic contracts such as Murābahah, Tawarruq, Mushārakah, and Muḍārabah are approved, typically through digital Wakālah arrangements.

The diagram emphasises that substantive Shariah risks crystallise at the Implementation and Post-Disbursement Stage, involving use of proceeds, negligence (taqṣīr), misconduct (ta‘addī), and default attribution. To address this gap, the roadmap introduces Lifecycle Shariah Governance as a necessary enhancement through continuous audit, platform-level controls, and Islamic window segregation. The final layer depicts alignment with maqāṣid Shariah, namely justice, protection of wealth, and genuine risk allocation, underscoring that Shariah compliance is realised through sustained governance rather than regulatory approval alone.

## CONCLUSION AND RECOMMENDATIONS

This study introduces novelty to the Shariah discourse on Islamic Peer-to-Peer (P2P) financing and Islamic investment notes by advancing a substance-based evaluative framework that explicitly distinguishes between regulatory sufficiency and Shariah sufficiency. Departing from dominant studies that emphasise regulation, technology, or financial inclusion, it demonstrates that regulatory approval while institutionally necessary cannot be treated as conclusive evidence of Shariah compliance in substance, particularly in digitally mediated financing environments (Hasan, 2012; Kamali, 2008). The study further contributes novelty by providing a comprehensive Shariah-focused mapping of SC-approved Islamic P2P platforms in Malaysia, categorising platforms by contractual structures such as Murābahah, Tawarruq, asset-based models, and Islamic windows and linking these structures directly to differentiated Shariah risk profiles rather than presenting them in purely descriptive terms.

This study advocates the adoption of Murābahah Purchase Orderer (MPO) structures in place of excessive reliance on organised Tawarruq, as this approach directly evidences the linkage between investor funds and real economic activities. By financing the identified asset or equipment at the outset, the need for intermediary liquidity-generating transactions is eliminated, thereby ensuring that investor funds are deployed directly into productive, real-economy uses.

In terms of contribution, the study reinforces at the doctrinal level the classical fiqh principle that Shariah validity in mu‘āmalāt is determined by substance and outcomes rather than contractual form (al-‘ibrah fī al-mu‘āmalāt lil-maqāṣid wa al-ma‘ānī). By applying this principle to Islamic P2P financing, it shows how outwardly compliant contracts may give rise to Shariah deficiencies at the implementation and post-disbursement stages (Ibn al-Qayyim, 2000; Kamali, 2011). At the governance level, the study advances a lifecycle-based Shariah governance lens, exposing structural gaps between capital-market regulatory requirements and Shariah governance expectations particularly in relation to use of proceeds, negligent default, and accountability in Islamic windows (Hasan, 2012; IFSB, 2023). Empirically, the Malaysian case study provides regulators, Shariah advisers, and platform operators with a diagnostic framework for identifying where Shariah vulnerabilities are most likely to arise.

A critical Shariah assessment of P2P digital platforms and investment notes in Malaysia reveals a rapidly evolving sector that bridges technological innovation with Islamic financial principles, primarily regulated by

the Securities Commission Malaysia (SC). While offering high potential for financial inclusion, the sector faces scrutiny regarding the elimination of *riba* (interest), *gharar* (uncertainty), and the strict adherence to Shariah governance in digital transactions. A critical issue is ensuring that investment notes are not merely interest-based loans disguised as Islamic products. They must be backed by tangible assets or genuine trade activities (e.g., using *Murabahah*, *Musharakah*, or *Wakalah* contracts).

**Riba and Gharar in Digital Contracts:** The transformation of traditional contracts into digital formats must eliminate excessive *gharar* (uncertainty in contract terms) and avoid any hidden *riba* (interest) in late payment charges or platform fees.

**Default Handling and Asset Recovery:** When a borrower defaults, the process for recovering funds must comply with Shariah. Penalties for late payments cannot be treated as income for the platform or investors but should be channelled to charitable causes (*ta'widh*).

**Halal Screening of Issuers:** Platforms must rigorously screen businesses (issuers) to ensure they do not operate in non-halal sectors (e.g., gambling, alcohol, conventional banking).

The study concludes that although Malaysia has successfully institutionalised Islamic P2P financing through the Securities Commission's RMO framework, regulatory approval alone is insufficient to ensure Shariah legitimacy in substance. Shariah risks concentrate at the implementation and post-disbursement stages, particularly in relation to misuse of proceeds, negligent default, and governance dilution in Islamic windows. Trade-based contracts especially *Murābahah*-based *Tawarruq* remain Shariah-permissible but are especially vulnerable to substance-over-form failures when governance controls are weak. Accordingly, the study recommends adoption of MBO, lifecycle-based Shariah governance, development of a dedicated Shariah standard for Islamic P2P financing, rebalancing contract usage toward partnership-based modes, and enhanced disclosure of Shariah-specific risks to preserve alignment with *maqāṣid* Shariah, particularly justice (*'adl*) and protection of wealth (*ḥifz al-māl*).

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