

**CONTEMPORARY ISLAMIC FINANCE DEBATES: AN ANALYSIS OF THE
MECHANISM AND SHARI'AH PARADIGM OF CRYPTO CURRENCIES (AL-
'AMLAH AL-MUSHFIRAH)**

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ABSTRACT

The legality of Crypto currency (al-'Amlah al-Mushfirah) is a hot debate in the Shari'ah based finance system. The debate originates and evolves from a question of value and function of the money (al-Qimah al-Jawhariyah) from the Islamic perspective. Money, in the Islamic perspective, has specific characteristics and requirements, such as intrinsic value, stability and its asset based durability. Crypto currencies and digital tokens may not fulfil this as it has queries in Shari'ah with regard to its location, value and assertion. The Crypto currency developed to facilitate peer-to-peer transactions that operate independently from the central bank. Crypto currency is not physical; it can be a 'coin' that exists digitally. It also cannot be withdrawn or taken away physically. The owner can only transfer the funds to other parties without any physical possession. The application of crypto currency is an exciting issue of money and contributes to the financial market. The mechanism is based on a 'Block chain' that is out of the current modern financial system of fiat money. Meanwhile, fiat money is produced by the Central bank of each country; however, Crypto currency is based on a borderless system as it is not limited to any country, region or territory. No authority controls the money mechanism of Crypto currency. The value of Crypto currency is based on the block chain creation to store the data. The calculation is based on the algorithm, which is very much complicated. This is the mechanism of how the value of crypto currency is created. Then, the supply and demand of users can also lead to either the increase or decrease of the value of crypto currency. In the given context, Islamic finance debates the issue so far its legal position in Shari'ah is concerned. This paper evaluates the concept, mechanism, function and legality of the Crypto currencies and analyses its legal position in an Islamic perspective. The analysis envisions its 'speculative' nature together with a review of the reputed Islamic Finance Institutions and experts.

KEYWORDS: Gharar (Risk), Speculation, Mushfirah (Crypto) Intrinsic value, Token

INTRODUCTION

A basic component of Money in Shari'ah is its intrinsic value (al-Qimah al-Jawhariyah) that makes it a token for exchange and assign it the properties to qualify for marketing or the commercial purposes. The Islamic perspective on the function of money discursion can be flexibly arranged in specific conditions and times. The motives for holding money, which is suitable to Islamic teachings, are (a) the transaction motive and (b) the precautionary motive.¹ However, the speculation motive, or trading, is strictly prohibited as this activity can be categorized as hoarding or confusing, which is prohibited (Haram) in Islam.² Thus, money should be treated as a currency of transaction rather than for gaining profit from speculation activity.³ This concept would be the basic requirement of the money characteristic from the Islamic perspective.⁴ The history of money started when the Prophet Muhammad (S.A.W) performed as the leader of the community (Ummah) in the city of Medina in 625 AD. The unit of money was called the Dinar, which was made of 4.25 g of 22-carat gold (al-Dhahab) and Dirham, which was made of 3-grams of silver (al-Fizdah).⁵ Consequently, money was prepared of the skin of a camel, but then it was prohibited, as it can significantly reduce the camel population. The Dinar was actually copied from the golden money of the Byzantine Empire while the silver was copied from the Persian Empire, but, Muslims had their own coinage struck by the Umayyad Caliph, 'Abd al-Malik bin Marwān (65-84 A.H / 646-705 A.D).⁶ These two types of money had a stable ratio of 1:10 but then fluctuated to 1:15 in the long period of the Abbaside Empire (750-1258 A.D). Such a fluctuation occurred because of the hoarding and non-productive issues at that time. In other words, they minted the Dinar to gold because the Dinar was made of gold, which turned into the intrinsic value of Dinar throughout the Muslim lands. This phenomenon was observed by Al-Maqrizi (945-998 A.D) and Imam Abu Yusuf (d.187 A.H) who mentioned all these issues and its remedy. Then, the terminology known as bad money drove out good money making Dinar and Dirham as the prime currencies of the Muslim empires. From the Islamic perspective, money/currency is exclusively used for the exchange not for creating any speculation (Gharar) or such trading that would result in gaining the fraudulent profit (al-Najsh).⁷ Taking profit from money trading on purpose can be categorized as usury (al-Riba). On the other hand, referring to the phenomenon above, people would keep