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Title of research article

The Legal Issues of Conventional Financial Derivatives and Their Alternatives According to the Standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI): An Analytical Comparative Jurisprudential StudyConcept of Electronic Consumer Protection and Means of Safeguarding It Amid Artificial Intelligence Applications

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Abstract

This article addresses the issue of Sharia-related problems in conventional financial derivatives and presents their alternatives according to the Sharia standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). It is one of the pressing issues in the Islamic finance industry due to the increasing need for legitimate hedging instruments that maintain a balance between economic efficiency and Sharia compliance.

The article begins by presenting the conceptual framework of conventional financial derivatives, discussing their concept and characteristics, objectives, and types. It then reviews the most prominent Sharia problems surrounding these instruments, before moving on to present their Sharia-compliant alternatives, concluding with a comparison between them and these alternatives in terms of contractual structure, economic efficiency, and applicability.

The study concluded that these instruments, in their conventional form, are not permissible under Sharia, and according to AAOIFI standards, they can only be used within alternative formulations that adhere to Sharia contracts such as Salam, Istisna, Murabaha, and others. It also pointed to important recommendations, most notably the necessity of developing Sharia-compliant markets that support these instruments, enhancing human capacities, and strengthening institutional infrastructure.

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INTRODUCTION:

The subject of financial derivatives constitutes one of the central issues in modern economics and finance due to their active role in risk management and market volatility. They are a core component of contemporary financial transactions. However, in their conventional form, these derivatives raise a fundamental Sharia problem, making it necessary to reconsider them from the perspective of Islamic law.

The importance of this research lies in addressing one of the jurisprudential challenges in Islamic finance, as Islamic financial institutions seek to find hedging instruments that comply with Sharia. Hence, the significance of providing Sharia-compliant alternatives to conventional derivatives arises, enabling these institutions to achieve their financial objectives within a legitimate framework. This is precisely what the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has sought to achieve by issuing Sharia standards regulating such transactions.

Accordingly, this study falls within the scope of analytical comparative Sharia studies, aiming to answer the central question: What are the Sharia problems in conventional financial derivatives, and what are the available alternatives according to AAOIFI standards? It answers this through the following subsidiary questions:

1. What are conventional financial derivatives, what are their types, and what are their objectives and purposes?
2. What Sharia violations are involved in these instruments, and what is the position of AAOIFI as a Sharia supervisory body?
3. What Islamic financial instruments can replace these derivatives?
4. To what extent are these alternatives effective in financial risk management?

To address these questions, the study employs the descriptive method to clarify the nature of conventional financial derivatives in terms of concept, types, characteristics, and objectives; the analytical method to examine conventional derivatives and identify the Sharia objections they entail; the inductive method to extract rulings from the standards issued by AAOIFI and to trace their Sharia-compliant alternatives in line with the objectives of Islamic law; and finally, the comparative method to contrast the effectiveness of conventional derivatives and Sharia-based alternatives in terms of contractual structure, economic efficiency, and other aspects.

FIRST: THE CONCEPTUAL FRAMEWORK OF CONVENTIONAL FINANCIAL DERIVATIVES

Understanding the conceptual framework of conventional financial derivatives is a scientific necessity for comprehending the nature of the jurisprudential and economic debate regarding their legitimacy, the possibility of adapting them in accordance with Sharia, or innovating suitable alternatives. Given their importance in financial risk management, hedging, and dealing with market fluctuations, these instruments have become the subject of wide-ranging jurisprudential discussions.

This section addresses the fundamental concepts of conventional derivatives, their objectives, characteristics, and types, in preparation for examining them from the Sharia perspective in the subsequent sections.

1. The Concept of Conventional Financial Derivatives

Financial derivatives are financial instruments derived from other assets, called the underlying asset (such as stocks, bonds, commodities, foreign currencies, indices, and others). They can be bought, sold, and traded in a manner similar to stocks and other financial instruments (Kandouz, 2022, p. 5).

They have also been defined as financial instruments linked to a specific instrument, index, or commodity, through which financial risks can be bought or sold in financial markets. The value of the derivative instrument depends on the price of the underlying asset or indices under contract. Unlike debt instruments, there is no upfront payment to be reimbursed and no return due on investment. Derivatives are used for several purposes, including risk management, hedging against risks, arbitrage between markets, and speculation (Radwan, 2005, p. 61).

Thus, derivatives are not genuine sales contracts requiring the transfer of ownership of the underlying asset or cash flows. Rather, they are contractual arrangements aimed at generating profits from changes in asset prices their essence being a wager between the two parties on mere price movements.

2. Objectives of Derivatives in Financial Markets

Deriving from the aforementioned concepts of financial derivatives, the main objectives of trading these instruments can be summarized as follows (Kandouz, 2022, pp. 14-15; Hamad, 2001, p. 34; Hindi, 2003, pp. 12-24; Shafia & Dhehiba , n.d, pp. 383-384; Radwan, 2005, p. 238):

- **Hedging:** Used to hedge against the risks of expected changes in asset prices by reducing uncertainty and minimizing risk exposure as much as possible, even if it requires sacrificing part of the expected returns.
- **Price Forecasting:** Serving as a tool adopted by companies in their financial planning, derivatives provide market participants with information on asset prices in the present market for a specified delivery date.
- **Speculation:** Offering opportunities to generate profits from price fluctuations without the need to own the underlying asset. Derivatives are also used to obtain additional financial leverage.
- **Risk Management:** Facilitating the transfer of risks from one party to another more capable of bearing them, without the need for prior ownership of the underlying asset.

3. Characteristics of Conventional Derivatives (Hindi, 2003, pp. 12-24; Shafia & Dhehiba , n.d, pp. 383–384):

- **Dependence on an Underlying Asset:** Their value is not determined independently but depends on the underlying asset to which they are linked.
- **Leverage:** They enable investors to control large amounts and achieve significant gains with limited capital.
- **Tradability:** They can be quickly bought and sold in secondary markets due to their flexibility and high liquidity.
- **Non-symmetry:** They do not require the exchanged values to be equal.

- **Cash Settlement:** In most cases, settlement occurs in cash rather than through actual exchange of the commodity.

SECOND: TYPES OF CONVENTIONAL FINANCIAL DERIVATIVES

1. Forward Contracts (Forwards)

a. Definition:

A forward contract is "an agreement to buy or sell an asset at a specified future time for a specified price" (Hamad, 2001, p. 12).

It can also be defined as "an agreement between two parties to buy a certain asset (a real asset, currency, securities, etc.) at a future date for a price agreed upon at the time of contracting" (Kandouz, 2022, pp. 11-12).

In forward contracts, the contracting parties usually have prior dealings and knowledge of each other. Prices, quantities, and maturity dates are clearly defined through negotiation and direct communication. The contract is executed according to its conditions, and the actual delivery and receipt of the subject matter take place. These contracts are usually concluded over-the-counter (OTC), outside formal exchanges.

b. Characteristics (Hamad, 2001, pp. 12-18; Kandouz, 2022, p. 12):

- Simple derivatives that are usually not traded on exchanges.
- Their main purpose is to hedge against fluctuations in commodity and currency prices.
- The holder is obligated to buy or sell the underlying asset at a specified price and date.
- Entering into the contract has no upfront cost.
- They involve very high credit risk due to the absence of a guarantor, relying solely on the financial solvency of the two parties.
- Difficult to resell since they are privately negotiated for specific purposes between two parties, which results in high liquidity risk.

2. Futures Contracts (Futures)

a. Definition:

A futures contract is "an agreement between two parties to buy or sell a specific asset in the future at a specified price" (Hamad, 2001, p. 16).

Another definition is: "an agreement between two parties whereby one party commits to deliver a specified asset at a fixed price, with the time and place of delivery determined. The contracts are executed and settled by a third party—the clearinghouse" (Kandouz, 2022, p. 12).

Futures contracts involve both deferred price and deferred subject matter. They are standardized contracts organized by global exchanges, requiring a small margin paid to clearinghouses. Futures cover commodities, stocks, bonds, options, interest rates, and indices.

They are similar to forwards in that both are executed in the future. However, they differ in that futures occur between parties with no prior knowledge or dealings; they are traded on formal exchanges; they are standardized with fixed, non-negotiable terms; and settlement often occurs by paying the difference rather than delivering the underlying asset.

b. Characteristics (Hamad, 2001, pp. 16-18; Kandouz, 2022, p. 12):

- Standardized and regulated contracts traded on exchanges.
- The holder is obligated to buy or sell the underlying asset at a specified price and date.
- Used for both hedging and speculation.
- No cost for entering into the contract.
- Highly liquid instruments.

3. Options Contracts (Options)

a. Definition:

An option is "the right to buy a particular stock at a specified price during a specific period of time. The value of the option derives from the underlying security, which the option grants the right to buy or sell. Hence, options are considered derivative securities. They take various forms, including call options, put options, and warrants" (Hamad, 2001, p. 40).

Another definition: "A contract under which one party (the seller) grants the other party (the buyer) the right (but not the obligation) to purchase a specific asset (which may be a real commodity, currency, security, etc.) at an agreed-upon price, called the exercise price, within a specified period (the contract duration). In return, the buyer pays the seller a premium (option price) at the time of contract" (Kandouz, 2022, p. 10).

Types of Options (by different considerations):

- **By the issuing entity:**
  1. Options granted by companies to senior employees as incentives, giving them merely the right (not the actual ownership) to buy or sell shares.
  2. Options issued by companies to attract new investors, often at below-market prices.
  3. Options granted by central authorities (stock exchange authorities or brokers) on shares.
  4. Options granted by companies to shareholders.
- **By the underlying instrument:** 1) Foreign currencies, 2) Indices, 3) Combined index-currency-stock options.
- **By contract nature:** Covered or uncovered options.
- **By type of option:** 1) Call option, 2) Put option, 3) Combined call and put option.

b. Characteristics (Hamad, 2001, pp. 16–18, 105; Kandouz, 2022, pp. 10–11):

- Traded in over-the-counter (OTC) markets.
- Used for hedging or speculation.
- Grant the right (but not the obligation) to buy or sell the underlying asset at a specified price and date. They are rights, not ownership or utility.

- Entering an option requires a premium.
- Require smaller amounts of capital compared to direct trading in stocks.
- Allow investors to limit losses since the maximum loss is known in advance.
- Provide greater financial leverage.
- Offer a wide range of opportunities for investors.
- Compared to other financial instruments, options are among the most widely traded.

4. Swap Contracts (Swaps)

a. Definition:

A swap is "an agreement between two parties whereby each agrees to pay a series of cash flows to the other over a specified future period. The agreement includes the payment dates and the method of calculation of these cash flows" (Al-Rubaie, 2011, p. 363).

Another definition: "A derivative contract in which two parties exchange cash flows from two different financial instruments (e.g., two loans in different currencies with different interest rates)" (Kandouz, 2022, p. 13).

They are also defined as: "the exchange of payments between two parties for the purpose of transferring risk from one party to another, either for hedging or speculative purposes" (Radwan, 2005, p. 238).

The most common types are currency swaps and interest rate swaps.

b. Characteristics (Kandouz, 2022, p. 257):

- Bilateral agreements traded in OTC markets.
- Involve the exchange of cash flows such as interest rates or currencies.
- Used for hedging against price or interest rate fluctuations.
- Highly flexible: for example, a company issuing floating-rate bonds can convert them into fixed-rate bonds if it anticipates rate volatility.
- Customized to meet the needs of contracting parties.
- Low-cost instruments.

THIRD: SHARIA ISSUES OF CONVENTIONAL DERIVATIVES ACCORDING TO THE STANDARDS OF THE ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

Despite the active role conventional financial derivatives play in risk management and in reducing losses in financial markets, they carry profound Sharia problems. Contemporary Sharia boards, foremost among them the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), have confirmed that these instruments, in their current forms, involve several Sharia prohibitions, including the following:

1. Sharia Issues of Forward Contracts

AAOIFI, in Sharia Standard No. 20, which addresses the sale of commodities in organized markets, discussed derivatives and declared it impermissible to deal in them, whether by creating or trading them. The reasons given for the prohibition of forward contracts include ((AAOIFI), 2015, pp. 554–559):

- Both counter-values are deferred, resulting in two liabilities without settlement.
- The condition contradicts the essence of the contract.
- They involve the sale of what one does not own.

2. Sharia Issues of Futures Contracts

AAOIFI addressed the Sharia problems of futures in Sharia Standard No. 20 (as above), Standard No. 21 on securities (stocks and bonds), and Standard No. 45 on capital protection and investments. All of these explicitly prohibit futures contracts due to the following Sharia violations ((AAOIFI), 2015, pp. 559, 562, 572, 582, 583, 1128):

- They are binding promises that transform into a sales contract in the future without offer (ijab) and acceptance (qabul).
- They require deferred delivery of a specified asset, such as stocks.
- The seller often sells what he does not own.
- They are settled in cash between the contracting parties, which constitutes gambling (qimar) or a form of it, whether or not stipulated in the contract.
- Actual delivery of the underlying asset is not intended by the parties.
- They create obligations and debts without benefit, serving only as speculation and exposing one party inevitably to loss.

3. Sharia Issues of Options Contracts

AAOIFI, in Standards Nos. 20, 21, and 45, declared options contracts impermissible, as they contain the following Sharia prohibitions ((AAOIFI), 2015, pp. 559, 572, 583):

- The subject matter of the contract (the option right) is not permissible to be exchanged for consideration in Sharia, since it does not initially exist for the seller but is created merely by contract.
- The subject matter does not pertain to property but to an intangible right (the right to buy or sell).
- They involve gharar (excessive uncertainty).
- They often end with cash settlement between the parties, which is gambling (maysir).
- They involve selling what one does not own, since the option writer (call option seller) does not possess the shares or commodities he undertakes to sell.

4. Sharia Issues of Swap Contracts

Swap contracts also involve several Sharia violations identified by AAOIFI in Standards Nos. 20, 21, and 45, including ((AAOIFI), 2015, pp. 559, 572, 583):

- Involvement of interest (riba), or forms of ‘inah, and deferral of both counter-values.

- Both payments are deferred, making it a debt-for-debt transaction (bay al-kali bi al-kali).
- They involve gharar due to ignorance of the amount of money at the time of contracting.
- They involve gambling (qimar), whereby one-party gains at the expense of the other without actual exchange, as the contract merely settles differences in return rates on stocks.

5. Sharia Issues Related to Trading in Derivatives

Trading in these instruments is accompanied by additional Sharia concerns, including:

a. Contradiction with the essence of the contract:

Most conditional contracts are fictitious, involving no actual transfer of ownership, whereas Sharia contracts are intended to achieve transfer of ownership.

b. Contradiction with the objective of Sharia in establishing justice:

The philosophy underlying these derivatives inevitably results in one party's profit being realized through the other's loss. This contradicts the Sharia objective of fairness. Examples include speculators monopolizing certain securities to manipulate markets, exploiting participants' needs through unfair pricing not based on supply and demand, or through unilateral control of decisions within issuing firms.

c. Unethical practices leading to fraud (ghubn):

This occurs when traders deceive others in the market by creating artificial activity in stagnant stocks through agreements to sell and repurchase the same shares at the same or slightly different prices on the same day to create the illusion of genuine price movements. This constitutes prohibited deception.

Each of these Sharia prohibitions whether riba in all its forms, gharar, maysir and gambling, the sale of what one does not own, contradiction with the essence of contracts (ownership), violation of Sharia objectives of contracts (justice), or their association with fraud (ghubn) is, on its own, sufficient to prohibit these instruments. How much more when they are combined? These issues have driven the search for Sharia-compliant alternatives that achieve the same objectives without contravening Sharia rules, which will be addressed in the following section.

FOURTH: SHARIA STANDARDS GOVERNING ALTERNATIVE HEDGING INSTRUMENTS TO CONVENTIONAL DERIVATIVES AND THEIR REGULATIONS ACCORDING TO AAOIFI

Given the prohibition of conventional financial derivatives in Islamic law due to their inclusion of Sharia violations such as riba, gharar, maysir (gambling), the sale of what one does not own, and others, there arose a need to devise parallel financial alternatives that achieve the objectives of hedging and risk management without violating Sharia rules. From this standpoint, AAOIFI exerted precise jurisprudential effort to propose such alternatives, embodied in the formulation of clear Sharia standards that reinforce the principles of sound Islamic finance. Among these standards are the following:

1. Sharia Standard No. 10 (Salam):

Its content is "Salam," whereby an institution sells goods through a Salam contract, receives payment in advance, then procures the goods required by purchasing them from the market upon maturity. It is permissible to obtain a promise to sell in order to reduce the risk between the selling price and the purchase price ((AAOIFI), 2015, p. 862).

The standard states that Salam is a hedging tool against commodity price fluctuations. Its purpose is to clarify the Sharia rules and requirements that Islamic financial institutions must observe in such transactions, covering the contract, its subject matter, subsequent actions upon delivery or default, as well as the issuance of Salam Sukuk ((AAOIFI), 2015, pp. 272–281).

2. Sharia Standard No. 11 (Istisna):

Its content is Istisna: an institution concludes a manufacturing sale contract (bay al-Istisna) with a condition of upfront payment although not obligatory—and simultaneously concludes a parallel Istisna contract with deferred or installment payments ((AAOIFI), 2015, p. 862).

The standard defines Istisna and parallel Istisna as hedging instruments against price fluctuations in manufacturing. It aims to clarify the rules and Sharia requirements governing such contracts, covering their conclusion, subject matter, performance, supervision, warranties, amendments, additional claims, and delivery of the manufactured goods ((AAOIFI), 2015, pp. 293–307).

3. Sharia Standard No. 8 (Murabaha):

Its content is Murabaha: whereby the institution sells to its client (the orderer to purchase) a commodity at a markup over cost or purchase price. This markup (Murabaha profit) is pre-determined in the promise, and the transaction is often deferred payment, distinguishing "banking Murabaha" from ordinary Murabaha ((AAOIFI), 2015, p. 182).

The standard specifies Murabaha as a hedging instrument, clarifying the Sharia principles and requirements, from the initial promise through the client's ownership of the asset, as well as procedures for Murabaha guarantees and debt management ((AAOIFI), 2015, pp. 199–217).

4. Sharia Standard No. 9 (Ijarah Muntahia bi-Tamlik – Lease Ending with Ownership):

This is a lease contract coupled with a promise to transfer ownership of the leased asset to the lessee at the end of the lease term or during it ((AAOIFI), 2015, p. 208).

The standard defines it as a hedging instrument and clarifies its Sharia requirements, from the initial leasing promise (if any), through operational leasing, and finally to ownership transfer in Ijarah Muntahia bi-Tamlik. It details the conditions, procedures, and obligations for institutions whether acting as lessors or lessees ((AAOIFI), 2015, pp. 184–208).

5. Sharia Standard No. 45 (Capital and Investment Protection):

This standard explains the main Sharia-compliant means of protecting capital and investments within Islamic financial institutions. It addresses what is permissible and impermissible, with detailed rules. It emphasizes legitimate methods of mitigating risks, such as diversifying investments across real assets (e.g., real estate, commodities) and financial assets (e.g., stocks, Sukuk), or combining assets denominated in different currencies.

It also allows combinations such as Murabaha and Musharaka, or Murabaha and bay' al-'urbun (earnest money sale), dividing capital into two parts: one placed in secure Murabaha contracts and the other in riskier Musharaka or 'urbun contracts, thereby preserving capital while allowing profit opportunities. Safeguards such as collateral, guarantees, and options (khiyar al-naqd) are also included ((AAOIFI), 2015, pp. 1119–1127).

6. Sharia Standard No. 49 (Promises and Promissory Agreements):

This standard clarifies the nature of promises (wa'd) and promissory agreements (muw'ada), their binding force, Sharia rulings, and contemporary applications in Islamic financial institutions. It differentiates permissible from impermissible uses of promises and promissory agreements ((AAOIFI), 2015, pp. 1184–1193).

7. Sharia Standard No. 1 (Trading in Currencies):

This standard regulates currency trading, clarifying its Sharia conditions and what is permissible or not. It addresses actual and constructive possession, the use of modern communication means in foreign exchange transactions, the rules of deferred exchange, and practical cases in Islamic financial institutions ((AAOIFI), 2015, pp. 51–60).

8. General Regulations for the Use of Hedging Instruments According to AAOIFI:

AAOIFI also permits the use of other legitimate tools and procedures, with investor consent, to protect capital from risks of all types, whether arising from asset destruction, depreciation, inflation, exchange rate volatility, or otherwise ((AAOIFI), 2015, p. 876). The application of these instruments is conditioned by several Sharia requirements, including ((AAOIFI), 2015, pp. 565–566):

- **Legitimate hedging intention:** The purpose must be protective, not speculative.
- **Existence of a real asset (or a liability described in the contract):** The instrument must be tied to a tangible asset or legitimate commercial transaction.
- **Non-tradability of promises or contracts for speculative purposes.**
- **Compliance with Islamic contract conditions:** Regarding ownership, possession, price, and subject matter. Islam differentiates between contracts on gold, silver, food, and currency requiring immediate exchange—and contracts on other goods, where some flexibility exists regarding deferment.

From the above, it is clear that AAOIFI has worked to formulate comprehensive Sharia-compliant alternatives to replace conventional derivatives. These alternatives achieve hedging and risk management objectives within strict jurisprudential rules, including Salam, binding promises, Istisna, Murabaha, and others. These alternatives do not only fulfill financial purposes but also contribute to financial stability and Sharia compliance. The challenge remains to further classify other possible alternatives such as Istijrar contracts, supply contracts, and Islamic options (32 types), and to develop and streamline their application in ways that align with the needs of modern markets.

FIFTH: A COMPARATIVE STUDY BETWEEN CONVENTIONAL DERIVATIVES AND ISLAMIC ALTERNATIVES

Despite the wide spread of conventional financial derivatives in global markets as instruments for hedging and speculation, their use in Islamic finance remains rejected due to their contradiction with the principles and rules of Sharia. Within a comparative framework, Islamic financial institutions have adopted Sharia-compliant alternative instruments structured in accordance with AAOIFI standards. To provide a complete picture and assess the efficiency of these alternatives, it is necessary to conduct a systematic comparison between them and conventional derivatives, drawing upon the preceding discussions. The focus of this comparison is on the key differences in terms of the contractual Sharia structure, economic efficiency, and practical applicability.

1. Comparison in Terms of the Sharia Structure of Contracts (Bouchra & Omar , 2022, pp. 187–188):

Standard	Conventional Derivatives	Islamic Alternatives
Legal Structure	Abstract financial contracts not involving actual ownership of the underlying asset.	Based on recognized Sharia contracts (Salam, Istisna', Murabaha, and others).
Subject Matter of the Contract	Often nonexistent or not owned at the time of contracting.	Requires the existence and ownership of the subject matter or the ability to deliver it.
Execution Mechanism	Based on the exchange of price differentials or promises without an underlying asset.	Actual execution involving the delivery of goods or currencies in accordance with the contract.
Jurisprudential Aspects	Involve *gharar* (excessive uncertainty), *riba* (usury), *maysir* (gambling), *qimar*, and the sale of what one does not own.	Compliant with the contractual regulations in Islamic jurisprudence.

Note: Most Western authors acknowledge that derivatives are essentially a form of betting and gambling; they have caused numerous financial crises for many companies. Among them: *Procter and Gamble*, which lost **1.2 million USD** in 1994 due to speculation on interest rate movements; *Air Products and Chemicals*, which lost **60 million USD** as a result of dealing in derivatives; *Paine Webber*, which incurred losses of **268 million USD** within just four months of 1994 due to supporting one of its commercial funds in derivatives trading; and many others. In addition, there was the well-known crisis of *Berlin Bank* and the Great Recession of 2008 (El-Baz, 2003, pp. 38–39).

Islamic alternatives surpass conventional derivatives in terms of ethical safety and Sharia compliance; however, they require further technical and institutional development to enhance their efficiency.

2. Comparison in Terms of Economic Efficiency (Bouchra & Omar , 2022, p. 198; Supervision, 1996, p. 158):

Standard	Conventional Derivatives	Islamic Alternatives
Prevalence	Widely spread globally	Still limited in scope and sometimes conflict with domestic laws of certain countries
Liquidity	High, with immediate tradability	Lower, due to their linkage with actual assets
Speed of Execution	Rapid electronic execution	Require time to review contract compliance with Sharia
Hedging Efficiency	Ineffective	Effective but require precise structuring and strictness to ensure efficiency
Operational and Regulatory Risks	Pose significant operational and regulatory risks to banks	Do not pose significant risks

3. Comparison in Terms of Practical Use and Application (Bouchra & Omar , 2022, p. 186; Toumi, 2024, p. 493; El-Jouzi & Wahdou , 2016, pp. 81–83):

Standard	Conventional Derivatives	Islamic Alternatives
Applicability in Conventional Markets	High	Require Islamic institutional infrastructure
Ease of Promotion to Investors	Easy, globally understood	Require education and explanation of the product
Legislative and Regulatory Support	Recognized in capitalist systems	Require support from Sharia and regulatory authorities
Real Examples	Chicago Board of Trade, NYMEX, Euronext, Osaka Exchange, Singapore Exchange (SGX)	Central Bank of Bahrain, Al Baraka Islamic Bank (Bahrain), Al Baraka Bank Algeria, Bank Nizwa (Oman), Al Baraka Banking Group, Al Salam Bank Algeria, ...

It is evident from this comparison that conventional financial derivatives enjoy operational efficiency and wide global prevalence; however, they contravene the recognized Sharia regulations within the Islamic system. In contrast, Islamic alternatives provide a legitimate solution that balances the achievement of economic objectives with adherence to jurisprudential rulings, even though they still face practical and structural challenges. With continued support from Sharia boards and institutional development, the applicability of these alternatives is expected to expand globally.

CONCLUSION:

The study addressed the jurisprudential problems of conventional financial derivatives and their Sharia-compliant alternatives through an analytical comparative jurisprudential study between conventional derivatives as practiced in global markets and the Sharia-based alternatives approved by Sharia boards, particularly AAOIFI.

The research began by identifying the basic concepts of conventional financial derivatives, their characteristics, objectives, and types. It then moved on to discuss the Sharia problems inherent in these instruments, such as gharar (excessive uncertainty), riba (usury), maysir (gambling), and the sale of what one does not own. The position of AAOIFI regarding these instruments was reviewed, highlighting the main standards that addressed hedging and risk management, such as Salam, Istisna, Murabaha, Mudaraba, among others. Finally, a comparative study was presented between the two systems in terms of Sharia compliance, economic efficiency, and practical application.

The study arrived at the following findings:

1. Conventional derivatives contain fundamental Sharia violations, most notably excessive gharar, riba, maysir, and the sale of what is not owned, which renders them impermissible in Islamic jurisprudence in their current form.
2. AAOIFI, in its standards, confirmed the prohibition of using conventional derivatives for hedging and established legitimate and effective alternatives.

3. Sharia alternatives rely on contracts recognized in Islamic jurisprudence, such as Salam, Istisna, and Murabaha, among others, with the condition of genuine hedging intent rather than speculation.
4. Islamic alternatives excel in terms of Sharia compliance and the protection of wealth from prohibitions, but they still face practical challenges such as weak liquidity and complex institutional structures.
5. There is an urgent need for more innovation in Sharia-compliant structures to make hedging instruments more effective and suitable for Islamic financial institutions.

Main Recommendations:

1. The necessity of enhancing Sharia and technical awareness among professionals in the Islamic finance sector regarding legitimate hedging instruments and training them on their implementation.
2. Calling on regulatory and supervisory bodies to support Islamic financial markets that organize the trading of Sharia-compliant derivatives within a strict Sharia framework.
3. Guiding Islamic financial institutions toward using legitimate alternatives to protect themselves from risks and to achieve competitiveness within the global financial system.

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