

## **Islamic Hedging: Concept Analysis and Implementation in the Islamic Financial System**

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### **ABSTRACT**

*Islamic hedging is one of the instruments in financial management used to reduce risks associated with price and currency movements. Muslim economists, in offering mainstream hedging reform by removing the elements of shari'ah violation and incorporating shari'ah contracts into it. However, have the elements that cause hedging to be prohibited been thoroughly eliminated. This noble cause of Islamic hedging has been misunderstood for profit only. Therefore, the concept of Islamic hedging needs further discussion due to various interpretations of the meaning of Islamic hedging. To obtain answers to this research, the author uses qualitative research with the type of inferential library research. The results of this study, in simple terms, can be concluded that the application of Islamic hedging that has been implemented in the Islamic financial system is in accordance with the provisions, both the provisions of the Fatwa DSN-MUI, PBI and DPS.*

**Keywords:** *Islamic Hedging, Islamic Financial System*

### **ABSTRAK**

*Islamic hedging adalah salah satu instrumen dalam pengelolaan keuangan yang digunakan untuk mengurangi risiko yang terkait dengan pergerakan harga dan mata uang. Para ekonom Muslim, dalam menawarkan reformasi lindung nilai arus utama dengan menghilangkan unsur-unsur pelanggaran syariah dan memasukkan kontrak syariah ke dalamnya. Namun, apakah unsur-unsur yang menyebabkan lindung nilai dilarang telah dihilangkan secara menyeluruh. Tujuan mulia lindung nilai Islam ini telah disalahpahami hanya untuk keuntungan. Oleh karena itu, konsep hedging Islam perlu dibahas lebih lanjut karena berbagai interpretasi tentang makna hedging Islam. Untuk mendapatkan jawaban atas penelitian ini, penulis menggunakan penelitian kualitatif dengan jenis penelitian perpustakaan inferensial. Hasil penelitian ini, secara sederhana, dapat disimpulkan bahwa penerapan lindung nilai syariah yang telah diterapkan dalam sistem keuangan syariah sesuai dengan ketentuan, baik ketentuan Fatwa DSN-MUI, PBI maupun DPS.*

**Kata Kunci:** *Islamic Hedging, Sistem Keuangan Islam*

### **INTRODUCTION**

In carrying out a business and investment activity, it is very potential to get various risks that need to be faced before getting a profit or success from a business carried out. The bigger a business and investment we try, the bigger the risks we need to face. (Zahra, 2020). In the face of these risks, everyone who runs a business or investment activity certainly does not want to incur a large loss due to failure to overcome the risk (Basyaib, 2007). For us to be able and ready to overcome risks, we

must be wise in doing management so that things that happen in the future can be controlled calmly.

One way to mitigate this uncertainty risk is by hedging. Hedging is one of the most important risk management mechanisms. With this risk management, a company can avoid losses that may occur in the future. (Suryani and Fathoni, 2017). However, without proper risk management, even if a company makes a profit, there is a potential for losses due to foreign exchange risk or portfolio risk. (Deyoung, 2015).

Since the introduction of the hedging system, economic actors, especially economic actors at the international level, have great hopes to save their finances, especially when the currency exchange rate drops. Hedging is a form of strategy in addressing various forms of financial loss risks (Pelaksanaan and APBN, 2014). According to al-Suwailem, Hedging is used in general to limit and reduce a risk (Al-Suwailem, 2006). Hedging is necessary to provide protection to existing assets from price changes that occur. For example, for investment activities involving exports and imports using foreign currencies, which are transactions that really need value protection because in foreign currencies there are unstable fluctuations in foreign currency levels that will give advantages or disadvantages to importers or exporters, then the existence of value protection can reduce the uncertainty of foreign currency exchange rates (Suryani and Fathoni, 2017).

Hedging instruments have become a concern of scholars, especially Indonesian scholars as a legal state with the largest Muslim majority. Whether the concept of hedging is in accordance with Islamic law and is allowed or prohibited to be done. So to avoid various speculations popping up that cause misleading arguments or laws, The Indonesian clerical institution, the National Shari'ah Council-Majlis Ulama Indonesia (DSN-MUI) issued a fatwa on hedging transactions based on the principles of shari'ah in the Qur'an and Hadith. (Rianto, 2016).

The purpose of writing this article is to find out Islamic hedging in its concept and implementation in the system of Islamic financial institutions in Indonesia. In addition, the author will also present a comparative analysis of the practice of using the concept of Islamic hedging in Islamic financial institutions in Indonesia.

## **LITERATURE REVIEW**

### **Basic Concept of Hedging**

Hedging is a practical trading action by purchasing offsets against the sale of futures market contracts, with the aim of anticipating losses as a consequence of price volatility. Hedging not only fulfills the contract smoothly, but also can earn additional profits from the combination of trading in the spot market against the futures market (Suryani and Fathoni, 2017). Hedging is an investment made to minimize the risk of another investment. It is used to minimize a business's risk exposure while at the same time allowing the business to benefit from investment activities (Mauizotun Hasanah, 2022). Hedging is closely related to the use of derivatives as financial

instruments to reduce the risk of loss from an investment or business. A derivative is simply a financial instrument or asset that derives its value from the value of the underlying asset. The most common instruments are futures, futures and options. (Tabatabaei 2008).

Hedging in the financial world can be understood as an investment made specifically to eliminate the risk of other investments while providing a return on the investment. Hedging agents or underwriters will generally invest in securities that they believe are worth less than their fair market value and combine them with other related securities (Fadillah and Nurlita, 2023). Hedging activities can be used by using derivative instruments such as forwards, swaps, futures or options is one way to reduce risk (Sunaryo, 2009). A derivative is a contract between two parties to buy or sell an item (financial asset or commodity) at an agreed future date at an agreed current price. Derivatives help manage risk. In other words, it can be used for hedging purposes, transferring risk to another party, so that it can be an advantage for the company if what the company predicts actually happens (Chan *et al.*, i 2019). Items that can be hedged are assets, liabilities, commitments, transactions that are assumed to be large or net investments in foreign operations (Utomo, 2000).

Hedge transactions are often said to give investors the best of both worlds with expected returns similar to equities combined with risks similar to bonds. If past returns are all that is possible and risk is defined as the standard deviation of fund returns, this is indeed true. recent research has shown that the risk characteristics and dependence of hedges are lower than those of stocks and bonds (Niansyah *et al.*, 2019). For example, it shows that while including hedge funds in a traditional investment portfolio can significantly improve the portfolio mix, it can also be expected to produce a significantly lower slope (Fauzi and Fahreza, 2018).

From a sharia perspective, hedging products are still controversial because they contain prohibited elements, namely usury, maysir and gharar. Interest (riba) in financial transactions can be clearly seen in the hedging business process. Then, derivative products are called gharar if the underline transaction/real product is not clear. Finally, speculative behavior or fortune-telling in hedging activities may lead to maysir. These are the reasons why people who want to comply with sharia law avoid using derivative products (Muhtadi, 2023). The National Sharia Council (DSN) has finally formalized a fatwa on hedging the Rupiah exchange rate for Islamic financial institutions. This fatwa is only intended for the market in spot transactions. Ma'ruf Amin as Chairman of DSN said that this has been discussed for a long time and is needed by Islamic financial institutions. Moreover, in line with the development of the Dollar exchange rate which continues to strengthen against the Rupiah exchange rate, making hedging or hedging unavoidable (Mauizotun Hasanah, 2022).

## Sharia Principles in Islamic Finance

### 1. Prohibition of Usury

Usury in the interpretation of Mafatih al-Ghaib is defined as addition, excess, growth, height, and increase. Riba, according to Shara', is a contract that occurs in the exchange of goods that are not known to be equal or not according to Shara', or the exchange is conditioned on receiving one of the two goods (Suradi, 2023). The usury system predates the advent of Islam, known as "Jahiliyyah period" in Islamic history. During the Jahiliyyah era, usury was favored by the Arabs and became part of their economic activities (Pipit Mulyah, 2020). The definition of usury is conveyed by the majority of scholars from various fiqh madhhabs, including:

- 1) Imam Nawawi of the Shafi'i school of thought stated that usury is a form of basic wealth because of the time element. In the world of banking or finance, this is known as credit interest according to the length of the loan.
- 2) Imam Sarakhsi of the Hanafi school of thought defines usury as an addition required in a business transaction with no iwad (equivalent) justified by sharia for the addition.
- 3) Badruddin al-Ayni in the book Umdatul Qâri' Syarah Shahih al-Bukhari, gives the definition of usury as follows "The main principle in usury is addition. Usury according to sharia means the addition of basic assets without any real business transactions" (Al-Ayni, 1995).
- 4) Imam Ahmad ibn Hanbal, the founder of the Hanbali school of thought, stated that usury is when a person has a debt, and he is told to either pay it off or pay more. If he is unable to repay, he must add funds (in the form of interest) for the additional time given (Al-Jauziyyah, 1996).

There are several opinions of the jumhur ulama in explaining usury, but in general there is a common thread that emphasizes that usury is an addition, both in buying and selling transactions and lending and borrowing in an unlawful manner or contrary to the principles of muamalat in Islam. Regarding this matter, Allah swt warns in His word:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ وَلَا تَقْتُلُوا أَنْفُسَكُمْ  
إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا

*"You who believe, do not eat each other's wealth by unlawful means, except by way of mutual trade between you. And do not kill yourselves; surely Allah is Most Merciful to you"* (QS. An-Nisaa': 29).

The meaning of batil from the verse above, Ibn al-Arabial-Maliki in his book Ahkam al-Qur'an, explains that usury in language is additional (ziyadah), but the meaning of usury in the verse of the Qur'an is any addition that is taken without a replacement transaction that is justified by sharia. What is meant by a

substitute or balancing transaction is a business transaction that legitimizes the addition in a fair manner. Such as buying and selling, pawning, leasing, and so on.

Usury is categorized into two, namely usury on debts and usury on buying and selling. Usury of debt is further divided into usury of qardh and usury of jahiliyyah, while usury of sale and purchase is divided into usury of fadhl and usury of nasi'ah (Budiantoro, 2018).

- 1) Qard usury is usury caused by debts where benefits are required of the debtor.
- 2) Usury of Jahiliyah is usury caused by debts paid more than the amount borrowed because the borrower is unable to pay at the promised time or date.
- 3) Usury of fadl is usury caused by the exchange of similar goods with different measures or sizes.
- 4) Usury of Nasiah is usury caused by the delay that occurs when the same goods are delivered or received in exchange for other goods (Alifah, 2023).

## **2. Prohibition of Gharar**

According to Wahbah Al-Zuhayli (2004) gharar is translated as al-khatr and altaghrir, which is defined as an appearance that causes damage or something that is pleasant, but in reality it causes hatred (Mughtar, 2017). While the meaning of the term gharar has three definitions. First, gharar specifically applies to something whose outcome is unclear, as Ibn Abidin said, Gharar is doubt or uncertainty as to whether the commodity exists or does not exist. Second, gharar is specific to commodities whose specifications are unknown. Ibn Hazm said that gharar in business is something where the buyer does not know what he is buying, or the trader does not know what he is selling. Thirdly, gharar contains the two meanings mentioned above. As-Sarhsh said: Gharar is something whose consequences are not clear. This is the view held by the majority of scholars (Rudiasyah, 2020).

Transactions that contain elements of gharar are seen as improper transactions, and therefore forbidden to be carried out. The uncertainty inherent in gharar transactions will have the possibility of profit or loss, no profit and no loss, even only profit for one party and loss for the other (Tona, 2022). The view of the majority of fiqh scholars on gharar is as follows:

- 1) Imam al-Qarafi, from the Maliki school, stated that gharar is something that is not known whether it will be obtained or not.
- 2) Imam Shirazi, from the Shafi'i school of thought, said gharar is something whose affairs are unknown and whose consequences are hidden.
- 3) Imam as-Sarakhsi, from the Hanafi school of thought, stated that gharar is something that is hidden as a result of which.

- 4) Ibn al-Qoyyim said that gharar is something that cannot be measured in terms of whether it exists or not, such as selling a wild horse that may not be caught even if it exists and is visible (Al-Suwailem, 2000).
- 5) Ibn Taymiyyah stated that gharar has no known consequences (Al-Suwailem, 2000).

According to Ibn Taymiyyah, the prohibition of gharar transactions is based on the prohibition of Allah SWT on taking other people's property/rights in a way that is not justified. Ibn Taymiyyah argued that in gharar, there is an element of consuming other people's wealth in an improper way. In this case Ibn Taymiyyah relied on the words of Allah SWT, as follows:

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْخِلُوا بِهَا إِلَى الْحُكَّامِ لِيَأْكُلُوا فَرِيقًا مِّنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ ﴿١٨٨﴾

“And let not some of you eat of the wealth of others among yourselves by means of unlawful means, and let not your property be brought before a judge, that you may eat of the wealth of others by way of sin, knowing that you have no right to it” (QS. al-Baqarah: 188).

Likewise, in his hadith, the Prophet prohibited buying and selling al-hashah and buying and selling gharar. According to Imam As-Sa'adi, buying and selling gharar is included in the category of gambling, which is clearly prohibited in the text of the Qur'an (Widiyawati and Zen, 2024). In terms of content, the forms of gharar transactions according to Abdullah Muslih are divided into three as follows:

- a. A ma'dum sale, in which the seller is unable to deliver the object of the contract at the time of the contract, whether the object of the contract already exists or not. For example, selling a camel calf that is still in the womb, or selling the milk of an animal that is still in its body.
- b. Majhul sale, which is the sale of goods whose quality, type, specifications or quantity are not known with certainty. For example, buying and selling a cellphone that is not described as to its type or buying and selling a motorcycle that is not described as to its brand.
- c. Sale and purchase of ma'juzi at-Taslim, which is a sale and purchase in which the goods are difficult to deliver. For example, buying and selling a motorcycle that has been lost and is still being searched for, buying and selling property that has not yet been acquired, or buying and selling pigeons that may return to their nest (Hosen 2019).

### 3. Prohibition of Maysir

Etymologically, maysir in Arabic means getting something easily without working hard or making a profit without working. Another term used in the Qur'an is the word 'azlam' which means the practice of gambling (Saratian *et al.*, 2019). In gambling we rely on profits on luck alone, there are even some people involved in cheating, we get what we should not get (Taufik and Masjono, 2014). According to Atika & Basri (2023) maysir is a type of game of chance where one

party is obliged to carry the burden of the other party and rely on the results of the game. This practice is a cooperation that harms one of the parties.

Maysir can be interpreted in various ways: Rich, simple, and necessary. In jargon, Maysir is any Mu'amalah where one can win or lose. Buying and selling Muamalat also uses the expression "may lose and may gain" because the trader can gain or lose. Maysir, on the other hand, is spending money in order to obtain goods as well as muamalat in order to make a profit even if one loses; buying and selling muamalat, on the other hand, is spending money in order to obtain goods as well as muamalat in order to make a profit even if one loses (Rudiansyah, 2020).

The law of Maysir states that gambling is illegal, regardless of how many are involved, how few, or how little is done. Other than a few cheaters, we get what we shouldn't or miss out on opportunities. Taking shortcuts and betting are both considered forms of gambling. Islam prohibits all forms of betting, sweepstakes, and lotteries that are based on other forms of gambling, and the sale of lotteries (azlam) in particular. In accordance with Rudiansyah (2020), Rasulullah SAW did not allow any form of business that brings money from chance, speculation, prediction, or guesswork (such as gambling) and not from work.

Allah SWT shows the prohibition of Maysir in His word Q. S. Al-Maidah verses 90-91, namely (Puspa Dewi, 2023):

يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ وَالْأَنْصَابُ وَالْأَزْلَامُ رَجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ فَاجْتَنِبُوهُ لَعَلَّكُمْ  
إِنَّمَا يُرِيدُ الشَّيْطَانُ أَنْ يُوقِعَ بَيْنَكُمُ الْعَدَاوَةَ وَالْبَغْضَاءَ فِي الْخَمْرِ وَالْمَيْسِرِ وَيَصُدَّكُمْ عَنْ ذِكْرِ اللَّهِ تَفْلِحُونَ

*"O you who believe, verily (drinking) wine, gambling, (sacrificing to) idols, casting lots with arrows, are among the deeds of the devil. So, avoid these things so that you may have good fortune. Verily, the devil intends to stir up enmity and hatred among you by reason of drinking and gambling, and to prevent you from remembering God and praying; so, cease from such things"*

Allah SWT also says in Q. S. Al-Baqarah verse 219 as follows:

يَسْأَلُونَكَ عَنِ الْخَمْرِ وَالْمَيْسِرِ قُلْ فِيهِمَا إِثْمٌ كَبِيرٌ وَمَنَافِعُ لِلنَّاسِ وَإِثْمُهُمَا أَكْبَرُ مِنْ نَّفْعِهِمَا ۗ وَسَأَلُوكَ مَاذَا يُنْفِقُونَ ۗ قُلْ  
الْعَفْوُ كَذَلِكَ يُبَيِّنُ اللَّهُ لَكُمْ آيَاتِهِ لَعَلَّكُمْ تَتَفَكَّرُونَ

*"They asked you about alcohol and gambling. Say, "In both there is great sin and some benefit to man. (But their sins outweigh their benefits.)" They also ask you about what they spend. Say, "What is spent is the excess (of what is needed)." Thus Allah explains His verses to you that you may think"*

Their two questions and responses relate to the statement in this verse. Here is the first question, which deals with gambling and alcohol: They ask you about Hamar and Gambling... According to the Arabic language, the word "Khamr" means "covering", so the veil that women wear as hijab is called himar

(Hilyatin, 2021). As per Khamal Faqih Imani, alcoholic beverages are called Khamr in Arabic because they actually inhibit wisdom and cover the ability of privilege for those who consume them. The word Maysir is derived from the Arabic word yusr, which means pleasure, convenience and facilities. It is as if in gambling each of the two groups wants to scoop up the other's wealth easily. "In both there is a great sin as well as some benefits for humans," so reads the verse that was revealed to Rasulullah SAW answering the questions of some Muslims on gambling and liquor. This benefit probably refers to the profits made by liquor producers who grow grape vines or make raisins. Some people who set up entertainment venues may benefit from the profits by selling wine or the money they make, paying taxes, or paying for daily work. However, the harms and sins outweigh the benefits (Alaydrus, 2021).

#### **4. Risk and Profit-sharing Principle**

The concept of the relationship between risk and profit in investment is very close, in accordance with the principle of "al-ghumn al-ghurm" and the hadith, "al-kharaz bi al dhaman" there is no profit without risk" or in other words, the willingness to bear losses is balanced by the right to gain profits (Nuraini Rachmawati, 2020). Risk sharing and profit sharing is one of the fundamental principles in Islamic economics which is regulated in the Islamic Banking Law (Haikal and Efendi, 2024). This principle emphasizes the importance of fair risk sharing between parties involved in economic transactions as well as profit sharing in line with the contributions and responsibilities of each party (Pangaribuan, 2023). It aims to create a more inclusive, equitable and sustainable economic system.

Islamic finance prohibits usury and instead uses the profit and loss sharing (PLS) model. Parties involved in financial transactions should share the risks and rewards between lenders (financiers) and borrowers. The financial relationship between financiers and borrowers is not regulated in capital-based investments but based on profit and loss sharing (sharing business risks and profits) which is the legal provision of financial activities (halal) (Fadhillah, 2023). In general, PLS is an arrangement between two or more parties undertaking financial investment activities, which uses the basis of sharing profits and losses. Islamic economists argue that PLS is based on two financing models, namely mudharabah and musyarakah. The profit-sharing rewards are related to risk sharing between the business partner and the capital owner (Anjarsari, 2013).

#### **RESEARCH METHODOLOGY**

The method of writing this scientific article is a type of qualitative research with a library research approach that is inferential in nature. The purpose of this approach is a research approach to analyze actual problems that are happening in the life of the community (Engkus, 2018). The study design in this article is to find

references related to the concept and implementation of Islamic hedging in the Islamic financial system. So that the analysis and study in this article is documentative, where the documents come from academic sources that can be academically accounted for.

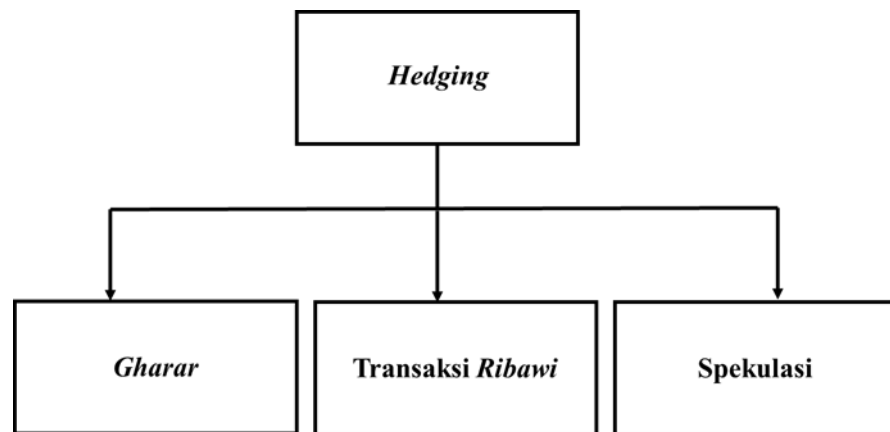
## **RESULT AND DISCUSSION**

### **1. Characteristics of Islamic Hedging**

According to DSN-MUI, sharia hedging (*al-tahawwut al-Islamiy*/Islamic Hedging) on exchange rates is a method or technique to reduce the risks that arise or are expected to arise due to exchange rate fluctuations based on sharia principles. Among the forms of hedging transactions that are authorized by the DSN MUI are Forward Agreement (*al-muwa'adat li 'aqd al-sarf al-fawri fi al-mustaqbal*), namely: mutual promises for spot foreign currency transactions in a certain amount in the future at an exchange rate or calculation of the exchange rate agreed upon at that time (DSN MUI No. 96, 2015).

Referring to the definition of hedging above, it can be understood that Islamic hedging is an effort to protect the value of currency due to exchange with foreign money with a contract scheme that does not violate sharia provisions (Suryani and Fathoni, 2017). The contract scheme used in sharia hedging can use *muwa'adal*/forwad agreement as used by DSN-MUI (Hasbi, 2016), or using *wa'ad*/unilateral promise/FX Forward instrument according to AAOIFI (Suryani and Fathoni, 2017).

According to Chapra, the maqashid principle implies all preventive measures to protect current wealth and future wealth (Chapra, 2008). In his book Muhammad Umer Chapra explains three reasons for the permissibility of hedging. Firstly, the fact that hedging contains gharar is incorrect as it actually helps eliminate gharar by allowing importers to purchase commodities with foreign exchange at the current exchange rate. Secondly, the perfection of its validity is recognized. The reason for the element of interest in hedging can be overcome by Islamic banks. Third, it is not possible for Islamic businesses or banks to reduce risk exposure in foreign exchange. Very risky for those who do not hedge their foreign exchange and balance sheet assets. (Chapra, 2000). So, the explanation above can be explained in the scheme, as follows:



**Figure 1. Elements of Hedging Prohibition in Islam**

Source: Umer Chapra's thoughts on hedging

## 2. Implementation and Challenges

### Practices in Islamic Financial Institutions

In Islam itself, we are not prohibited from doing everything that can protect and protect ourselves from harm and bring benefits to our lives. (Mursal, 2017). In this fiqh rule explains that everything that causes harm or damage so as to cause oneself, others or the environment in a dangerous state is not justified and it is necessary to do things that can avoid that harm by eliminating it. (Dasuki, 2009). Contemporary scholars also argue that maqasid sharia can be used as a basis to explain the permissibility of hedging and it is also based on the verses of the Qur'an which explain about preparing for things that might happen in the future and humans are ordered to protect property.

Hedging with forex derivative instruments is very useful for companies that transact using foreign currencies. (Rae, 2008). This can reduce the possibility of bankruptcy, allow the company to obtain credit from creditors more easily, establish better cooperation with suppliers, and also allow the company to obtain loans at lower interest rates. Hedging can also enable companies to predict future cash expenditures and receipts more accurately, thereby improving the quality of cash budgeting decisions. (Hasbi, 2016).

Islamic financial institutions in Indonesia determine that there are two types of transactions in the implementation of hedging services carried out by Islamic financial institutions in Indonesia, namely simple hedging transactions (*'Aqd al Tahawwuth al-Basith*) and complex hedging transactions (*'Aqd al Tahawwuth al-Murakkab*). (Wajdi Dusuki and Shabnam, 2010). Sharia hedging regulations are needed to mitigate the risk of volatility in the financial market. This is especially so when based on the continued increase in the use of forex among national Islamic financial players. Moreover, now the performance of Islamic banking is also increasingly expansive, for example by starting to enter into export-import financing. (Karim, 2016).

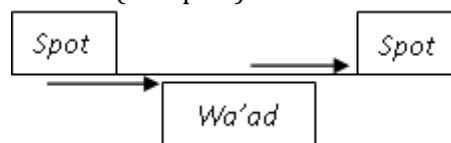
Islamic financial institutions that have this service are expected to carry out transactions with these two methods, but there are still not many who hold complex value transactions (*'Aqd al Tahawwuth al-Murakkab*) in the hedging services implemented, for example, BSI which uses the *Aqd'al-Tahaww al-basith* and *Al Sharf* contract methods. (Umar, 2020). Of course, it is interesting to discuss further the reasons for the lack of use of complex value transactions in hedging services in Islamic banking, considering that the requirements for obtaining hedging services are to be a regular customer of certain Islamic banks and a business entity / company, of course more complex transactions can occur between business entities or companies using services. (Mulyono, 2009). So that in the future it is necessary to conduct an in-depth analysis related to the *'Aqd al Tahawwuth al-Murakkab* transaction method in hedging services in Indonesian Islamic banking.

1) *At-Tahawwut al-Basith* (Simple)



**Figure 2. Simple hedging mechanism**

2) *At-Tahawwut al-Murakkab* (Complex)



**Figure 3. Complex hedging mechanism**

Description Sharia Hedging:

- a) Simple: Sharia Hedging transaction with al-Basith contract, which is a forward agreement scheme, when the maturity date is made a contract and currency handover in accordance with the agreement on a spot basis.
- b) Complex: Sharia Hedging Transaction with a scheme in the form of a series of spot transactions and forward agreements, the difference with point 1 is only located in the spot transaction before the forward agreement.

Based on the series of Sharia Hedging transactions above, it can be simply understood that transactions through forward agreement instruments are a form of spot transactions that are postponed. Then, if further assessed, this instrument has a weakness, including the cancellation of the wa'ad to make a currency sale and purchase contract at a later date, then automatically the hedging transaction through a series of forward agreements is canceled. (Sholichah, 2020). Therefore, this is what is called the inherent harm (gharar) in hedging transactions that is difficult to avoid and eliminate. (DSN-MUI, 2016).

Based on previous research, the basis for the application of the LNS is using the hadith al-kharaj bil-dhaman and the principle of al-ghumu bil gurm,

which means that profit comes with risk, or the right to the results of the business arises because of the obligation to bear the risk. (Othman, 2014). Based on the risks that may arise in the hedging practice above, then the DSNMUI and several other parties to review the hedging instrument, until hedging is obtained with a new instrument that is considered to be less risky and more efficient. Therefore, DSN-MUI issued a fatwa relating to hedging with a mutual promise mechanism (muwa'adah) to carry out a currency sale and purchase contract in the future. (MUI, 2015). The reason DSN-MUI considers this instrument more efficient; this is because the bank does not have to make two transactions at one time, and if the customer fails to fulfill the wa'ad at maturity will not cause the failure of the bank's transactions with other customers.

Based on the discussion above, if examined further, the hedging system that will be implemented by Indonesian Islamic banking does not rule out the possibility of weaknesses, although previously it has been considered more efficient when compared to the hedging system in Malaysian Islamic banking, the hedging system still carries risks. (Suryani and Fathoni, 2017). The risk in question is the possibility of gharar which cannot be avoided. Gharar in question is the uncertainty of the customer in making a contract according to the agreement at the beginning of the transaction as previously discussed. In this regard, in accordance with the research conducted and the opinions of some previous jurists, if it can be sought to find other alternatives that are considered appropriate to be applied in Indonesian Islamic banking, it should be sought to be sought and discussed again, rather than having to adopt something that contains gharar. (Nordin, 2014).

### **Challenges and Constraints**

Challenges and constraints on Islamic hedging in Islamic financial institutions:

- 1) Doubts that still exist in Muslim scholars about Islamic hedging in Islamic financial institutions. Many scientists from OIC countries do not allow the types of contracts that exist in Islamic hedging such as IPRS to be applied in their countries and also in Indonesia. For example, the National Sharia Council does not allow these types of products to be used in Islamic banking. This can lead to the spread of negative perceptions in the Muslim community. Therefore, Muslim scholars should be able to reach a consensus on allowing this product to be sold.
- 2) How to combine the master agreements of Islamic derivative instruments that are only implemented in Islamic financial institutions with the so-called "*thahawwut*", so that they are more agreeable to Islamic derivative players around the world.
- 3) Comprehensive regulations to cover both legal and sharia aspects. Practically, sometimes market participants want to have Sharia products but the documentation is similar to conventional.

## CONCLUSIONS AND RECOMMENDATIONS

From the explanation above, it can be concluded that Islamic hedging is a method used in Islamic financial systems to minimize the risks that arise in the future. Rasulullah SAW gave an order to eliminate the *fury* can also strengthen the importance of managing potential risks that arise in the future. However, Islamic hedging requires that the concept of hedging be free from speculation, gambling, usury and so on that are not in accordance with the spirit of Islamic economics. The opinion of the mainstream group is that Islamic hedging is allowed in Islam and is a risk management solution to the problems that exist in the Islamic financial system.

The author suggests that all Islamic financial institutions can implement Islamic hedging properly because it can minimize risk because by implementing Islamic hedging it will be free from speculation, usury, and gambling. In addition, it is recommended that all Islamic financial institutions really focus on transparent and fair risk management and these financial institutions can conduct due diligence on each financial instrument used and ensure that each hedging transaction has a clear underlying asset.

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