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SHARĪ‘AH GOVERNANCE AND MARKET TRUST IN ṢUKŪK ISSUANCE: A DOCUMENT ANALYSIS APPROACH

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Abstract: *This study aims to explore the primary issues related to adherence to Sharīʿah compliance in ṣukūk issuances, including asset-based versus asset-backed structures, purchase undertakings, and varying Sharīʿah interpretations, while assessing how these challenges impact investor confidence and the market's sustainability. Improved transparency, standardisation, and innovative ṣukūk models are essential for enhancing ethical investment appeal and sustaining growth. This study uses document analysis to examine Sharīʿah compliance challenges in ṣukūk issuances by reviewing regulatory frameworks, financial reports, and academic studies. This approach, commonly used in social sciences, provides valuable insights into compliance practices while addressing challenges such as potential biases and limited access to documents. The findings reveal significant concerns, including the resemblance of some ṣukūk structures to conventional debt instruments, inconsistencies in Sharīʿah rulings, and the use of controversial structures such as Tawarruq. This writing combines established document analysis methods with a focused examination of Sharīʿah compliance in ṣukūk issuance, presenting original insights into the specific challenges faced by Islamic finance. By linking theoretical principles with practical steps in document analysis, it offers a unique application of these methods to the evolving ṣukūk market. The study is limited by its geographic focus on Malaysia and its reliance on expert opinions from within a specific cultural and religious context. Consequently, the findings may not be generalisable to other countries or contexts with different socio-economic or religious frameworks. It highlights the necessity of fostering strong partnerships between* *key stakeholders to successfully implement this model, potentially serving as a framework for similar initiatives in other regions.*

Keywords: *Ribā prohibition, Risk-sharing, Sharīʿah compliance, Ṣukūk issuance, Tawarruq structure*

Introduction

Ṣukūk, unlike traditional bonds, are designed to adhere to Islamic finance principles, which include prohibitions on *ribā* (interest), *gharar* (uncertainty), and *maysir* (speculation). The task of ensuring compliance with these principles has become increasingly complex due to the globalization and growth of the *ṣukūk* market, resulting in structural variations that can obscure the distinctions between Islamic and conventional financial practices.

This study explores the challenges of achieving Sharīʿah compliance—adherence to Islamic law—in *ṣukūk* issuances by analysing regulatory frameworks, financial reports, and academic literature through a document analysis method. The analysis is guided by key research questions:

- What specific compliance issues arise during *ṣukūk* issuances?
- How do these issues impact investor confidence and the perceived authenticity of *ṣukūk* as Islamic financial products?

The importance of this study lies in its detailed examination of Sharīʿah compliance issues in *ṣukūk* issuances, contributing to the existing body of literature by addressing the unique challenges faced by *ṣukūk* issuers in maintaining compliance across various legal and financial systems. Unlike broader studies on Islamic finance, this research specifically delves into the complexities of *ṣukūk* compliance, identifying common challenges and providing insights into potential regulatory and structural enhancements. These insights are valuable for regulators, financial institutions, and investors looking for ethical investment opportunities, as they offer recommendations for ensuring Sharīʿah compliance and boosting investor confidence in *ṣukūk* markets.

The paper is composed of various sections. It begins with a literature overview on Sharīʿah compliance in the issuance of *ṣukūk*, examining the challenges and recent developments in the area. The research methodology section thereafter follows, which discusses the document analysis method adopted for systematic assessment of Sharīʿah compliance challenges in *ṣukūk* issuances. The findings section discusses specific compliance issues identified in the analysis. Finally, the conclusion section ensues, including recommendations on how to better promote and infuse Sharīʿah compliance into practices so as to provide sustainable growth in the *ṣukūk* market.

Literature Review

Understanding Sharīʿah Compliance in *Ṣukūk*

A key role in *ṣukūk* issuance is its requirement to adhere to Sharīʿah principles, making it different from conventional bonds. The general principles of Islamic finance emphasise ethical, fair, and transparent financial transactions that do away with *ribā*, *gharar*, and *maysir*. It is imperative that the process of issuance of any *ṣukūk* follows the specific key principles of

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Sharīʿah with reference to the structuring of the transaction and the management of the underlying assets. These principles include, but are not limited to, the following:

i. Prohibition of *ribā*: Sharīʿah compliance in ṣukūk ensures that investor returns are derived from profit-sharing arrangements rather than interest (ribā). This prohibition distinguishes ṣukūk from conventional bonds, where fixed interest payments are made regardless of the performance of the underlying assets. In ṣukūk, income is generated from the cash flows or profits of tangible assets or specific projects. Nevertheless, certain structures—such as murābaḥah ṣukūk—have attracted scholarly debate for their tendency to mimic debt-like transactions rather than embodying the risk-sharing ethos central to Islamic finance. In a murābaḥah ṣukūk, the purchase price and a disclosed profit margin are agreed upon in advance, with proceeds used to acquire goods that are subsequently sold at a marked-up price. While technically compliant in form, this mechanism can resemble conventional interest payments, thereby raising questions regarding its substantive adherence to Sharīʿah principles (AAOIFI, 2025; Financial Times, 2025a).

ii. Asset-backed financing: In essence, the *sukuk's* investment scheme also requires the backing of assets that the financing needs. This ensures that *ṣukūk* holders would have ownership rights to real, asset-generating returns. Meanwhile, most recent *ṣukūk* follow an asset-based structure rather than an asset-backed structure, meaning that investors do not have direct ownership rights of the underlying asset and that the risk-sharing principle is degraded. This distinction has the tendency to undermine investor confidence, especially from those investors who seek ethical and Sharīʿah-compliant investments. AAOIFI's latest Draft Shari'ah Standard No. 62 (2025) introduces stricter requirements for asset-backed sukuk, aiming to resolve ambiguity in ownership rights and strengthen compliance mechanisms (AAOIFI, 2025).

iii. Risk-sharing: Risk-sharing is an important concept in Islamic finance. *Ṣukūk* investors should share the profits and risks that they assume, rather than receive predetermined interest as in bond issuances. Clearly, *ijarāh ṣukūk* and *mushārakah ṣukūk* are more closely in line with the risk-sharing principle because they are backed by an underlying real asset or actual economic activity. Some structures, such as *istiṣnāʿ ṣukūk* that are primarily associated with project finance, have been criticised for sometimes too closely resembling debt certificates rather than true equity investments in nature (IFN, 2022).

iv. Prohibition of *gharar*: *Ṣukūk* transactions must be compliant with Sharīʿah principles, necessitating that they be devoid of excess *gharar*. The terms, conditions, and information with respect to the underlying assets must be fully disclosed and clearly stated. Certain *ṣukūk* structures, such as hybrid *ṣukūk*, are technically more complex because they combine multiple contracts and thereby lead to a degree of ambiguity that raises questions over their compliance. The Islamic Financial Services Board (IFSB) has consistently called for greater transparency and for standardised documentation on matters that will lessen the amount of uncertainty and, most importantly, ensure that *ṣukūk* issuances remain within the bounds of Islamic law (IFSB, 2023).

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Current Challenges in Sharīʿah Compliance

Recent developments underscore ongoing attempts at enhancing Sharīʿah compliance within *ṣukūk* structures. The updated AAOIFI standards (2023) seem to highlight better governance, transparency, and asset ownership, all aimed at clarifying the issues of asset-based versus asset-backed *ṣukūk*. In addition, the expansion of green *ṣukūk* (sustainability-linked *ṣukūk*) and hybrid *ṣukūk* structures is a further demonstration of innovation in *ṣukūk* markets, yet full Sharīʿah compliance continues to be a challenge (IFN, 2022). By improving regulation and transparency, as well as structuring techniques for assets, *ṣukūk* can find itself potentially maturing as a popular global Sharīʿah-compliant investment tool that will provide assurance to investors seeking ethical financial products (Nasdaq Dubai, 2023). In fact, there are many Sharīʿah compliance challenges that the global *ṣukūk* market is confronted with that represent major hurdles yet to be crossed, as discussed below:

i. *Asset-Based vs. Asset-Backed Ṣukūk*

A significant compliance problem with the delineation between an asset-backed *ṣukūk* and an asset-based *ṣukūk* is that, when investors hold an asset-backed *ṣukūk*, they have actual ownership of the underlying assets, unlike in the case of an asset-based *ṣukūk,* where the issuer undertakes to repay investors irrespective of actual asset performance. For example, in the issuance of DanaInfra Nasional Berhad's *Ṣukūk* in Malaysia for the Mass Rapid Transit (MRT) financing, the *ṣukūk* was asset-backed; in this case, the investors had a claim to the asset. If the project went into default, the investors would have a claim to the underlying assets, which is in full consonance with Sharīʿah principles. On the other hand, the asset-based ones, implied in the domains of corporate *ṣukūk* issuances in the Gulf Cooperation Council (GCC), are ones that do not essentially demonstrate that the investor really owns the asset; they are dependent on the issuer's ability to meet debt obligations. In this sense, the nature of the *ṣukūk* resembles that of a conventional bond. Such regulatory tightening has sparked debate, with analysts warning of potential disruptions to the $1 trillion sukuk market (Financial Times, 2025).

ii. Use of Purchase Undertaking

A purchase undertaking grants the issuer the unilateral right to buy back the ṣukūk at maturity, effectively guaranteeing the return of the principal regardless of the underlying asset's performance. This arrangement runs counter to the Sharīʿah principle of risk-sharing, as it shifts investment outcomes away from profit-and-loss sharing toward a fixed repayment model. Recent industry observations highlight that such mechanisms remain prevalent in corporate and sovereign issuances, with significant implications for structuring practices under emerging Sharīʿah standards. While this feature provides investors with a sense of security, it aligns more closely with the characteristics of conventional bonds than with equity-based Islamic finance. Consequently, the practice continues to attract scholarly scrutiny, particularly considering the Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) ongoing efforts to tighten asset ownership requirements under Draft Shari'ah Standard No. 62 (AAOIFI, 2025; Financial Times, 2025a, 2025b).

A. Lack of Standardisation in Sharīʿah Rulings

Variations in Sharīʿah interpretations across jurisdictions continue to pose significant challenges for cross-border ṣukūk issuance. A structure deemed Sharīʿah-compliant in one country may fail to meet the compliance requirements of another. For example, ṣukūk approved by Malaysian Sharīʿah boards have, in certain cases, faced scrutiny from Middle Eastern scholars due to differences in asset ownership frameworks and structural arrangements. Jurisdictions in the Gulf Cooperation Council (GCC) often impose stricter requirements for

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tangible asset ownership and risk-sharing, whereas Southeast Asian markets typically adopt more flexible interpretations. This divergence creates uncertainty for global investors and complicates the harmonisation of issuance standards, highlighting the urgent need for greater cross-border standardisation efforts spearheaded by regulatory bodies such as AAOIFI and IFSB (AAOIFI, 2025; LSEG, 2024).

B. Tawarruq and Controversial Structures

Tawarruq, or commodity murābaḥah, remains one of the most debated structures in Islamic finance due to its close resemblance to conventional interest-based lending. Although compliant in contractual form, it is often criticized for lacking substantive economic activity, as the commodity transactions are primarily executed to generate predetermined profits. A notable case is the Arcapita Bank murābaḥah ṣukūk, which used commodity murābaḥah to meet short-term liquidity needs. In this arrangement, the bank purchased commodities and sold them to investors at a marked-up price, effectively fixing the return regardless of asset performance. This raised concerns over the absence of genuine trade or investment activity and the minimal risk borne by either party. Such practices have been flagged in recent regulatory discussions as potential substitutes for interest, with growing calls for alternative structures that better align with Sharīʿah objectives (AAOIFI, 2025; Financial Times, 2025a, 2025b).

iii. Impact on Investor Confidence

Investor confidence in Sharīʿah-compliant ṣukūk is a critical factor influencing market participation, particularly among ethical and faith-based investors. Such investors expect strict adherence to fundamental Sharīʿah principles, including genuine risk-sharing, tangible asset ownership, and the absolute prohibition of ribā. When a ṣukūk structure diverges from these principles—such as through asset-based arrangements, purchase undertakings, or controversial mechanisms like tawarruq—it can erode perceptions of authenticity. This erosion of trust may translate into reduced demand and lower levels of participation in the ṣukūk market. Recent industry assessments emphasise that investor sentiment is highly sensitive to perceived compliance gaps, especially considering evolving regulatory standards such as AAOIFI's Draft Shari'ah Standard No. 62, which seeks to tighten asset ownership rules (AAOIFI, 2025; LSEG, 2024; Financial Times, 2025a, 2025b).

iv. Perception of Ṣukūk as 'Islamic Bonds'

A persistent challenge for the ṣukūk market is the perception among some investors that ṣukūk are merely Islamic-labelled versions of conventional bonds. This view is reinforced when structures closely mirror debt instruments, particularly in cases where there is no genuine transfer of ownership or when a purchase undertaking guarantees principal repayment—thereby insulating investors from risk. Such practices blur the essential distinctions between ṣukūk and conventional bonds, potentially diminishing their appeal to investors seeking authentic interest-free products. If this perception persists, demand for Sharīʿah-compliant alternatives may weaken, discouraging participation from ethically conscious investors (LSEG, 2024; Financial Times, 2025a).

v. Fragmentation in Sharīʿah Interpretation

Investor confidence is further undermined by the fragmentation of Sharīʿah rulings across jurisdictions. Differences in interpretation between regions such as the GCC, Southeast Asia, and Europe create inconsistencies in the application of compliance principles. A ṣukūk structure deemed compliant in Southeast Asia, for example, may not be acceptable to scholars in the GCC, where stricter requirements on asset ownership and risk-sharing prevail. This lack of

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harmonisation reduces predictability and increases investor hesitation, especially for cross-border transactions. Calls for greater global standardisation have intensified, with regulators and standard-setting bodies recognising the need to address interpretive divergence to support market stability (AAOIFI, 2025; LSEG, 2024).

vi. *Risk of Reputational Damage*

Beyond legal and structural considerations, Sharīʿah compliance plays a vital role in protecting the reputation of ṣukūk issuers. Adopting contentious structures—such as tawarruq, which some critics argue mimics interest-bearing loans—can alienate the ethical investor base and undermine long-term trust. Loss of credibility in this area not only reduces demand for an issuer's future offerings but can also damage the broader market's image among ethically motivated investors. In the current regulatory climate, where market scrutiny is increasing, compromising perceived ethical standards for short-term gains risks both reputational harm and diminished investor confidence (AAOIFI, 2025; OECD, 2025; Financial Times, 2025a, 2025b

Addressing Sharīʿah Compliance Issues

To be able to raise investor confidence and assure the longevity of the *ṣukūk* market, these compliance challenges need to be ironed out. Possible approaches may include:

i. Greater standardisation: One of the cores Sharīʿah compliance challenges in the global ṣukūk market is the fragmentation caused by differing interpretations of Islamic law across jurisdictions. Establishing a unified set of internationally recognised standards could help bridge these gaps. Globally, standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) have taken significant steps toward harmonising Sharīʿah governance. However, these standards require broader adoption to ensure consistent application in cross-border issuances. A harmonised regulatory framework would not only strengthen investor confidence in the uniformity of ṣukūk structures but also reduce hesitation among cross-border investors. Moreover, uniformity could help curb the widely criticised practice of "Sharīʿah fatwa shopping," in which issuers seek favourable opinions from individual scholars to approve a specific structure (AAOIFI, 2025; LSEG, 2024).

ii. Transparency and disclosure: The perception that ṣukūk resemble conventional debt instruments often stems from a lack of transparency in structuring and risk-sharing mechanisms. To counter this, issuers must adopt full transparency in disclosing underlying assets, the nature of risk-sharing, and Sharīʿah compliance processes. Comprehensive disclosure on profit-sharing arrangements and Sharīʿah audit findings throughout the lifecycle of a ṣukūk would allow investors to assess its authenticity and distinguish it from conventional bonds. Such transparency not only fosters investor trust but also strengthens the market's credibility as a genuine Islamic capital market segment (LSEG, 2024; Financial Times, 2025a).

iii. Innovative *ṣukūk* structures: Traditional ṣukūk models, such as ijārah (lease-based), have faced criticism for closely resembling conventional loan arrangements. To better align with Sharīʿah principles, issuers should explore innovative structures that emphasise genuine risk-sharing, such as mushārakah and muḍārabah ṣukūk, which embody the essence of equity-based partnerships rather than fixed-return debt instruments. Authentic profit-and-loss sharing ensures that investors hold a true stake in the underlying asset or venture. The growing interest in green and sustainability-linked ṣukūk also demonstrates how innovation can meet both Sharīʿah compliance and contemporary investment demands (Hakim, 2024; OECD, 2025).

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iv. Regulatory support and supervision: Global regulators can play a pivotal role in strengthening Sharīʿah compliance by issuing explicit guidelines that support structural innovation. Providing incentives for issuers to adopt equity-based and sustainability-oriented ṣukūk structures could encourage greater diversity and ethical soundness in the market. AAOIFI's Draft Shari'ah Standard No. 62 represents an important step toward reinforcing asset ownership requirements, which could reshape the industry's compliance landscape. Coordinated regulatory oversight across jurisdictions would further enhance consistency and investor protection (AAOIFI, 2025; Financial Times, 2025b).

Research Methodology

Sharīʿah compliance in the issuance of *ṣukūk* is analysed in this study solely through document analysis, examining regulatory frameworks, financial reports, academic studies, and case studies that demonstrate the theoretical and practical challenges that the *ṣukūk* market faces in meeting Sharīʿah principles. Bowen (2009) stated that document analysis is a systematic procedure for reviewing or evaluating documents to gain both the contextual understanding of the content and to inspect the content. This method is used in fields such as social sciences, education, and public policy studies, where the materials investigated are not originally created for research but nevertheless yield relevant data (Corbin & Strauss, 2008). The primary document analysis may include legal texts, organisational records, and official reports, which constitute direct evidence on an organisation's practices (Yin, 2016). The review of secondary documents—foremost amongst these is the publication of academic articles and literature reviews—provides for the interpretation of the primary sources (Merriam, 2014).

The idea behind document analysis is to provide insights into the context studied, support several other methods of research, and focus on essential themes and patterns associated with questions related to the research problem (Bowen, 2009; Merriam, 2014). This helps researchers recognise how topics were discussed in the various documents and build a conceptual framework based on the patterns that were observed (Corbin & Strauss, 2008). The procedure of document analysis includes collecting important documents, performing content analysis to search for key themes, contextual analysis to understand the background of the document, and thematic analysis to code recurring themes (Corbin & Strauss, 2008; Merriam, 2014; Yin, 2016).

Document analysis consists of rich data that can be researched without participants' interaction, thus allowing investigations into both historical and contemporary issues (Bowen, 2009; Merriam, 2014; Yin, 2016). For example, in investigating Sharīʿah compliance in *ṣukūk*, researchers examined regulatory standards, circulars issued, and literature to understand compliance practices and challenges (Benaicha *et al.*, 2019). Overall, document analysis is a valuable method to address complex issues through the systematic examination of written material (Bowen, 2009). Nonetheless, document analysis can be problematic on account of bias, limited access, and subjective interpretation (Corbin & Strauss, 2008; Bowen, 2009; Yin, 2016).

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Results And Discussion

Sharīʿah Compliance Challenges and Solutions in *Ṣukūk* Issuance

Table 1: Overview of Sharīʿah Compliance Challenges and Solutions in Ṣukūk Issuances

Aspect	Description	Challenges	Examples
Prohibition of *Ribā*	*Ṣukūk* returns are based on profit-sharing, not *ribā*.	Some structures resemble conventional debt.	*Murābaḥah ṣukūk*
Asset-Backed Financing	*Ṣukūk* must be backed by tangible assets to ensure compliance and risk-sharing.	Many are asset-based, not asset-backed.	DanaInfra *Ṣukūk*
Risk-Sharing	Investors share profits and risks, unlike fixed interest in conventional bonds.	Some resemble debt certificates.	*Ijārah ṣukūk*, *Mushārakah ṣukūk*
Prohibition of *Gharar*	Ensures transparency and clear terms in agreements.	Hybrid *Ṣukūk* may introduce ambiguity.	Complex *ṣukūk* structures
Purchase Undertakings	Allows issuers to buy back *Ṣukūk*, ensuring principal repayment.	Reduces risk-sharing, resembles conventional bonds.	Saudi Aramco *Ṣukūk*
Standardization Issues	Variations in Sharīʿah interpretations across regions.	Inconsistent standards hinder cross-border issuance.	CIMB Islamic *Ṣukūk*
***Tawarruq* Structures**	Involves commodity transactions to generate profit.	May mimic interest-bearing loans.	Arcapita Bank *Murābaḥah Ṣukūk*
Investor Confidence	Trust depends on adherence to Sharīʿah principles like risk-sharing and asset ownership.	Deviation can reduce market participation.	Perception of *ṣukūk* as Islamic bonds
Regulatory Support	Strong regulations are needed for Sharīʿah compliance and global growth.	Fragmented regulations create inconsistencies.	Efforts by AAOIFI and IFSB
Innovative Structures	New *Ṣukūk* models like *Musharakah* can attract investors seeking ethical investments.	Traditional models may resemble conventional loans.	Expanding profit-sharing *ṣukūk*

Source: Extracted from different sources with modifications (AAOIFI, 2025; Financial Times, 2025a, 2025b; Hakim, 2024; LSEG, 2024; OECD, 2025; IFN, 2022; IFSB, 2023)

Table 2 gives a big-picture view of specific issues to be resolved for ensuring Sharīʿah compliance in *ṣukūk* issuances. It outlines several key obstacles and their implications. For example, the prohibition against *ribā* is a mainstay principle in Islamic finance, with *Ṣukūk* returns being along the lines of profit-sharing rather than interest. Therefore, certain structures like *Murabahah Ṣukūk*, which are based on cost-plus sales, may bear resemblance to

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conventional debt instruments and rouse questions with respect to their true Sharīʿah compliance.

Another key consideration is asset-backed financing, where *Ṣukūk* should be linked to tangible assets for the genuine transfer of ownership and risk-sharing. The issue is that quite many *Ṣukūk* are asset-based, not truly asset-backed, which weakens the risk-sharing foundation and may lead to a lack of investor confidence. Additionally, there is a compromise on how risk is supposed to be shared, with some systems sharing profits but not losses. For example, some *Ṣukūk* structures, such as *Istisna'*, resemble debt certificates more than equity-based investments and, thus, fail to fully restate the notion of risk-sharing.

Another important principle is *gharar*, which prohibits excessive uncertainty in contracts, thus making them clear and unambiguous. This is not always easy or possible to adhere to, especially with hybrid *Ṣukūk* structures that use mixtures of various contracts. Further, any purchase undertakings that give a promise of the issuer on selling back to the investors the *Ṣukūk* at maturity virtually guarantee capital repayment. Such arrangements give rise to misgivings concerning risk-sharing and reduce *Ṣukūk* to a similarity with conventional bonds, thus triggering further doubts on their true Sharīʿah compliance.

Standardisation issues present a major challenge, as differing interpretations of Sharīʿah across regions complicate cross-border *Ṣukūk* issuances and impact investor confidence. The lack of consistent compliance standards makes it hard for global investors to evaluate the legitimacy of *Ṣukūk* from various markets. Additionally, Tawarruq structures, which involve the buying and selling of commodities to generate profit, may be compliant in form but not in spirit. Critics argue that they resemble interest-bearing loans and lack genuine economic activity, which undermines the ethical objectives of Sharīʿah compliance.

Investor confidence is vital in the *Ṣukūk* market, relying on strict adherence to Sharīʿah principles like risk-sharing, asset ownership, and the avoidance of riba and gharar. Any deviations from these principles, such as the use of purchase undertakings, can erode confidence and lessen market participation. Strong regulatory support is crucial to ensure compliance with Sharīʿah principles and promote global market growth. However, fragmented regulations and "fatwa shopping" lead to inconsistencies that hinder market development and trust.

Finally, there is a pressing need for innovative structures in *Ṣukūk* issuance. Creating new models like Musharakah and Mudharabah, which align more closely with Sharīʿah principles, can attract investors looking for ethical investments and help differentiate *Ṣukūk* from conventional products. Expanding profit-sharing *Ṣukūk* could enhance investor interest in truly Sharīʿah-compliant instruments. Overall, the discussion provides a thorough overview of the challenges and potential solutions for ensuring Sharīʿah compliance in *Ṣukūk* issuance, integrating practical challenges with a nuanced analysis of the complexities involved.

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Approach for Sharīʿah Compliance in *Ṣukūk* Issuance

Table 2: Document Analysis Approach for Sharīʿah Compliance in Ṣukūk Issuance

Aspect	Description	Challenges in Sharīʿah Compliance	Document Analysis Process	Examples
Prohibition of *Ribā*	Ensuring *Ṣukūk* returns are based on profit-sharing, not interest (*ribā*), to comply with Sharīʿah principles.	Some structures, like *Murabahah Ṣukūk*, may resemble conventional debt transactions.	Analyze legal texts and *Ṣukūk* documentation to verify adherence to *ribā* prohibition standards.	*Murabahah Ṣukūk* involves cost-plus sale, resembling conventional interest payments.
Asset-Backed Financing	*Ṣukūk* should be backed by tangible assets to support risk-sharing and ensure Sharīʿah compliance.	Many *Ṣukūk* are asset-based rather than asset-backed, weakening the risk-sharing principle.	Review financial reports and asset ownership documents to confirm if *Ṣukūk* are genuinely asset-backed, ensuring compliance with Sharīʿah principles.	DanaInfra Nasional Berhad's *Ṣukūk* was asset-backed, while some GCC *Ṣukūk* are asset-based.
Risk-Sharing	Investors should share both profits and risks to align with Sharīʿah's emphasis on equity and justice.	Some structures, like *Istisna'*, act more like debt than equity, undermining risk-sharing.	Analyze financial performance and contract documents to assess the actual risk-sharing between issuers and investors.	*Ijarah Ṣukūk* and *Musharakah Ṣukūk* align more with risk-sharing principles, while *Istisna' Ṣukūk* are criticised.
Prohibition of *Gharar*	Ensuring all transactions are free from excessive uncertainty and ambiguity in terms of agreement clarity.	Hybrid *Ṣukūk* may introduce complexities and ambiguities that challenge compliance.	Conduct content analysis of *Ṣukūk* contracts to detect potential *gharar* issues due to complex structures or unclear terms.	Complex structures may create uncertainty, challenging Sharīʿah compliance.
Purchase Undertakings	Provides issuers the option to buy back *Ṣukūk* at maturity, guaranteeing principal repayment.	Reduces the risk-sharing nature, making *Ṣukūk* similar to conventional bonds.	Examine *Ṣukūk* issuance circulars and legal documents to evaluate the use and impact of purchase	Saudi Aramco *Ṣukūk* used purchase undertakings, causing debates among scholars.

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			undertakings on compliance.	
Standardization Issues	Lack of uniform Sharīʿah interpretations across regions complicates cross-border *Ṣukūk* issuance.	Inconsistent compliance standards affect investor confidence and market growth.	Review cross-border *Ṣukūk* issuance records and regional Sharīʿah rulings to assess compliance standard variations and their impact.	CIMB Islamic *Ṣukūk is* compliant in Malaysia but questioned in the GCC.
***Tawarruq* Structures**	*Tawarruq* involves commodity trading, seen as compliant in form but not in spirit, as it may mimic interest-bearing loans.	Criticized for lacking real economic activity, undermining Sharīʿah goals.	Analyse the use of *Tawarruq* in *Ṣukūk* through transaction records to determine if it involves genuine trade or merely simulates interest payments.	Arcapita Bank *Murabahah Ṣukūk* used *Tawarruq* for short-term funding, raising compliance concerns.
Investor Confidence	Trust in *Ṣukūk* relies on genuine adherence to Sharīʿah principles like risk-sharing and prohibition of *ribā* and *gharar*.	Deviation from these principles can erode confidence and reduce market participation.	Review market data and investor surveys to measure confidence levels based on perceived Sharīʿah compliance in different *Ṣukūk* structures.	Perception of *Ṣukūk* as 'Islamic bonds' erodes distinct appeal, driving away ethical investors.
Regulatory Support	Strong regulations and guidelines are needed to ensure adherence to Sharīʿah principles and support global *Ṣukūk* market growth.	Fragmented regulations and "fatwa shopping" hinder consistent compliance and growth.	Review regulatory frameworks, AAOIFI standards, and *Ṣukūk* guidelines to identify gaps in Sharīʿah compliance and enforcement across markets	AAOIFI and IFSB efforts are ongoing, but broader adoption and enforcement are needed.
Innovative Structures	Developing *Ṣukūk* models like *Musharakah* and Mudharabah that align better with Sharīʿah principles can attract ethical investors.	Traditional structures like *Ijarah* may closely resemble conventional loans, affecting appeal.	Analyse case studies of new *Ṣukūk* models and market reception to determine effectiveness in meeting Sharīʿah principles and investor needs.	Expanding profit-sharing *Ṣukūk* could boost investor interest in truly Sharīʿah-compliant instruments.

Source: Extracted from different sources with modifications (AAOIFI, 2025; Financial Times, 2025a, 2025b; Hakim, 2024; LSEG, 2024; OECD, 2025; IFN, 2022; IFSB, 2023)

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Table 3 offers a comprehensive framework for grasping the intricacies of Sharīʿah compliance in *Ṣukūk* issuance, blending practical challenges with a systematic approach. Each element of *Ṣukūk* issuance is examined, including the prohibition of riba, asset-backed financing, risk-sharing, prohibition of *gharar*, purchase undertakings, standardization issues, *Tawarruq* structures, investor confidence, regulatory support, and innovative structures.

For example, the prohibition of *ribā* is a fundamental principle of Islamic finance, where *Ṣukūk* returns are derived from profit-sharing instead of interest. However, structures like *Murabahah Ṣukūk* bear a close resemblance to conventional debt instruments, which raises questions about genuine Sharīʿah compliance. Asset-backed financing guarantees that investors possess ownership rights, yet many *Ṣukūk* are asset-based rather than truly asset-backed, which undermines the risk-sharing principle and investor trust. The concept of risk-sharing is another vital component, where investors partake in both profits and losses, unlike conventional bonds that offer fixed interest. Nevertheless, certain *Ṣukūk* structures, such as *Istisna'*, appear more like debt certificates than equity-based investments, failing to fully represent risk-sharing.

The prohibition of *gharar* (excessive uncertainty) is tackled through transparency and well-defined terms in transactions. However, hybrid *Ṣukūk* structures that merge multiple contracts can create ambiguity, making compliance more complex. Purchase undertakings enable issuers to repurchase *Ṣukūk* at maturity, ensuring principal repayment and diminishing risk-sharing, which causes *Ṣukūk* to resemble conventional bonds and raises doubts about true compliance. Standardization challenges emerge due to differing Sharīʿah interpretations across regions, complicating cross-border *Ṣukūk* issuances and affecting investor confidence.

Tawarruq structures, which involve buying and selling commodities to generate profit, are compliant in form but not in spirit, as they may mimic interest-bearing loans. Critics argue that *Tawarruq* lacks real economic activity, undermining the ethical goals of Sharīʿah compliance. Investor confidence in *Ṣukūk* depends on adherence to Sharīʿah principles, such as risk-sharing, asset ownership, and avoidance of *ribā* and *gharar*. Deviations from these principles, such as using purchase undertakings, can diminish confidence and reduce market participation. Regulatory support is crucial to ensure adherence to genuine Sharīʿah principles and foster global market growth. Fragmented regulations and "fatwa shopping" contribute to inconsistencies, hindering market development and trust.

Table 3 highlights the need for innovative structures in *Ṣukūk* issuance. By creating new models like Musharakah and Mudharabah that better align with Sharīʿah principles, it becomes possible to attract investors seeking ethical investment opportunities. Traditional structures such as Ijarah may resemble conventional loans, which can draw criticism and impede market growth. Expanding profit-sharing *Ṣukūk* could boost investor interest in truly Sharīʿah-compliant instruments.

In addition to these practical aspects, the table also outlines a document analysis methodology, explaining how this approach can be used to explore and understand the challenges of Sharīʿah compliance in *Ṣukūk* issuance. Document analysis involves collecting and reviewing primary documents, such as legal texts and policies, as well as secondary documents like academic articles and literature reviews. This process includes data collection, content analysis, contextual analysis, and thematic analysis to pinpoint recurring compliance issues. The methodology offers several advantages, including the provision of rich data and insights into complex compliance challenges without requiring participant interaction. However, it also encounters challenges such as potential biases in document interpretation, limited access to relevant documents, and subjective interpretations that could affect the analysis outcomes.

The integrated table illustrates the various practical challenges involved in achieving Sharīʿah compliance in the issuance of *Ṣukūk*. It also details the methodological approach taken to study these challenges through document analysis. This comprehensive integration gives a broad view of *Ṣukūk* issuance, addressing theoretical, practical, and methodological factors, thereby making it a valuable asset for scholars and practitioners in the field of Islamic finance

Conclusion

This study thoroughly explored the challenges of achieving Sharīʿah compliance in *Ṣukūk* issuance by examining regulatory frameworks, financial reports, and academic literature. The findings reveal significant issues, such as the similarities between certain *Ṣukūk* structures and conventional debt, the absence of standardized Sharīʿah interpretations, and the use of controversial structures like *Tawarruq*. These factors affect investor confidence and the credibility of *Ṣukūk* as Sharīʿah-compliant instruments. The insights emphasize the necessity for regulatory reforms, enhanced transparency, and the development of *Ṣukūk* models that are more in line with Sharīʿah principles. In practice, implementing these changes would strengthen investor trust and promote sustainable growth in the *Ṣukūk* market. Future research should investigate the effects of standardized global Sharīʿah guidelines on cross-border *Ṣukūk* issuance and examine alternative structures that adhere more closely to Sharīʿah principles.

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