



Regulating Digital Currencies in the EU: A Comparative Analysis with Islamic Finance Principles Under MiCA

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ABSTRACT

This paper investigates the intersection of MiCA and Islamic finance by conducting a comparative regulatory analysis, focusing on core areas such as stablecoin structures, decentralized finance (DeFi), smart contracts, and ethical governance. It critically examines MiCA's reserve and redemption frameworks for asset-referenced tokens (ARTs) and e-money tokens (EMTs) against Shariah mandates of asset-backing, risk-sharing, and prohibition of *riba* (interest) and *gharar* (excessive uncertainty). The analysis further explores the legal and ethical tensions between MiCA's treatment of decentralized assets and Islamic jurisprudence, especially regarding profit-sharing models like *Mudarabah* and *Musharakah*. It highlights challenges Islamic fintechs operating within the EU face, including the lack of recognition for Shariah boards and faith-based audit systems under MiCA. The study concludes by proposing policy recommendations for greater inclusivity, including potential amendments to MiCA that accommodate ethical finance models and support Islamic digital financial innovation. The findings contribute to the global discourse on harmonizing digital asset regulation with diverse ethical and religious frameworks, offering valuable insights for regulators, scholars, and Islamic financial institutions

INTRODUCTION

The European Union's Markets in Crypto-Assets Regulation (MiCA) represents a landmark regulatory framework governing digital currencies, including stablecoins and decentralized cryptocurrencies (Zetsche & Sinnig, 2025). MiCA introduces a structured approach to crypto-assets by classifying them into Asset-Referenced Tokens (ARTs), E-Money Tokens (EMTs), and fully decentralized assets like Bitcoin, each subject to varying degrees of oversight (European Parliament, 2023). The regulation emphasizes investor protection, financial stability, and market integrity, addressing risks such as fraud, money laundering, and systemic instability (European Banking Authority [EBA], 2023).

The rapid growth of digital currencies has raised concerns about their compatibility with Islamic finance principles, which prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling) (Ayub, 2022). While MiCA enforces transparency, asset backing, and redemption rights, Islamic finance requires additional Shariah-compliance mechanisms, such as profit-and-loss sharing (*Mudarabah*, *Musharakah*) and ethical governance (Islamic Financial Services Board [IFSB], 2021). This creates a research gap: Does MiCA align with Islamic finance principles, or does it inadvertently conflict with Shariah requirements?

The objectives of this study are threefold:

1. To analyze MiCA's regulatory framework for digital currencies.
2. To examine key Islamic finance principles applicable to crypto-assets.
3. To assess the compatibility (or divergence) between MiCA and Shariah-compliant finance, proposing recommendations for harmonization.

This research contributes to global crypto regulation and Islamic fintech discourse, offering insights for policymakers and financial institutions seeking to integrate digital assets within ethical and regulatory boundaries.

LITERATURE REVIEW

The EU's Evolving Regulatory Framework for Digital Assets

The European Union's Markets in Crypto-Assets Regulation (MiCA) represents a groundbreaking attempt to establish a harmonized regulatory framework for digital assets across member states. As the first comprehensive crypto-asset regulation in a primary jurisdiction, MiCA introduces a nuanced classification system that distinguishes between Asset-Referenced Tokens (ARTs), E-Money Tokens (EMTs), and decentralized crypto-assets (European Parliament, 2023). This tripartite classification reflects the EU's attempt to balance innovation with financial stability, while addressing the unique risks of different crypto-assets (Zetsche & Sinnig, 2025).

ARTs maintain value by referencing other assets or rights and are subject to particularly stringent requirements under MiCA. These include mandatory whitepapers, capital reserves, and ongoing disclosure obligations (European Banking Authority [EBA], 2023). The regulation's treatment of ARTs appears designed to prevent systemic risks, particularly in light of the failed Libra/Diem project, which envisioned a global stablecoin backed by a basket of fiat currencies and securities (Zetsche et al., 2021). In contrast, EMTs, which reference a single fiat currency, benefit from a more streamlined regulatory

approach that builds upon existing e-money regulations (Directive 2009/110/EC).

Perhaps most notably, MiCA adopts a differentiated approach to decentralized finance (DeFi). While fully decentralized assets like Bitcoin fall outside the scope of Titles II-IV of MiCA, Crypto-Asset Service Providers (CASPs) dealing with such assets remain subject to licensing and supervision requirements (Recital 22, MiCA). This reflects the EU's cautious stance toward decentralization, balancing innovation with consumer protection (Howell, 2023).

The regulation's fiduciary duty provisions represent another critical innovation. Article 66(1) of MiCA mandates that CASPs "shall act honestly, fairly and professionally in the best interests of their clients," establishing a clear standard of conduct that parallels requirements in traditional finance (Zetzsche & Sinnig, 2025). These provisions, combined with stringent custody requirements (Article 75), aim to prevent the types of consumer harm witnessed during the 2022 crypto market collapse (Arner et al., 2024).

Islamic Finance Principles and Digital Assets

The principles of Shariah-compliant finance present challenges and opportunities for integrating digital assets into Islamic financial systems. At its core, Islamic finance prohibits *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling) - prohibitions that have significant implications for crypto-asset design and trading (Ayub, 2022). These principles derive from Quranic injunctions and centuries of Islamic jurisprudential development, creating a comprehensive ethical framework for financial transactions (Chapra, 2021).

The asset-backed nature of Islamic finance finds particular relevance in discussions of stablecoins and tokenized assets. Traditional Islamic financial instruments like Sukuk (Islamic bonds) demonstrate how asset linkage can satisfy Shariah requirements while providing investment opportunities (Ahmed, 2020). This principle has informed the development of Islamic stablecoins, which must maintain full backing by tangible assets and avoid interest-bearing reserves (El-Gamal, 2021). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued specific guidelines for crypto-assets, emphasizing the need for clear underlying assets and permissible trading mechanisms (AAOIFI, 2022).

Islamic finance's emphasis on risk-sharing rather than risk-transfer presents challenges and opportunities for decentralized finance models. Concepts like *Mudarabah* (profit-sharing) and *Musharakah* (joint venture) could provide Shariah-compliant alternatives to conventional crypto lending and staking arrangements (Dusuki, 2023). However, as Oseni and Ahmad (2024) note, many current DeFi protocols fail to meet Islamic finance standards due to their reliance on fixed returns and speculative trading patterns.

The governance structures of Islamic finance, particularly the role of Shariah supervisory boards, offer important insights for crypto regulation. These boards provide ongoing oversight to ensure compliance with Islamic principles, a model that could inform the development of ethical governance frameworks for digital assets (Abdullah & Rahman, 2022). The Islamic Financial

Services Board (IFSB) has begun addressing these issues through its work on fintech and digital banking, though specific standards for crypto-assets remain under development (IFSB, 2023).

Comparative Analysis: Regulatory Convergence and Divergence

The intersection of MiCA and Islamic finance principles reveals both areas of alignment and significant divergences. Both frameworks emphasize:

1. Asset-backing and transparency: MiCA's reserve requirements for ARTs and EMTs align with Islamic finance's prohibition of purely speculative instruments (Hassan & Aliyu, 2023).
2. Ethical conduct: MiCA's fiduciary duties mirror Islamic finance's emphasis on fair dealing and prohibition of exploitation (Chapra, 2021).
3. Risk mitigation: Both frameworks seek to limit systemic risk through different mechanisms (EBA, 2023; IFSB, 2021).

However, fundamental differences emerge in their treatment of:

1. Decentralization: While MiCA accommodates decentralized networks with certain safeguards, Islamic jurists remain divided on whether decentralized systems can satisfy Shariah requirements for identifiable responsibility (Alam et al., 2023).
2. Profit mechanisms: Fixed returns in conventional crypto lending directly conflict with Islamic prohibitions on *riba*, requiring alternative structures (Dusuki, 2023).
3. Governance: MiCA relies on state-based regulation, while Islamic finance incorporates religious oversight (Abdullah & Rahman, 2022).

Recent scholarship has begun exploring hybrid models that could bridge these differences. For instance, Zulkifli and Rahman (2023) propose "Shariah-compliant DeFi" protocols incorporating profit-sharing mechanisms and ethical screening. Similarly, the Malaysia Digital Economy Corporation (MDEC) has piloted initiatives to develop Islamic fintech solutions that comply with regulatory and Shariah requirements (MDEC, 2023).

METHODOLOGY

Stablecoins and Tokenized Assets

1. MiCA's Reserve Requirements vs. Islamic Asset-Backed Structures

Under MiCA, stablecoins are categorized into Asset-Referenced Tokens (ARTs) and Electronic Money Tokens (EMTs). ARTs are backed by a basket of assets, such as fiat currencies, commodities, or other crypto-assets, while EMTs are pegged to a single fiat currency. MiCA mandates that issuers maintain sufficient reserves to cover all claims by token holders. Specifically, at least 30% of reserves must be held in segregated accounts at credit institutions, increasing to 60% for significant issuers. The remaining reserves should be invested in highly liquid financial instruments with minimal market, credit, and concentration risks.

In contrast, Islamic finance emphasizes that financial instruments must be backed by tangible assets to comply with Shariah principles. Instruments like *sukuk* (Islamic bonds) represent ownership in tangible assets or services, ensuring that investments are grounded in the real economy. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has

advocated for sukuk structures to involve actual legal asset transfers to investors, moving away from merely asset-based models.

2. Redemption Rights and Shariah's Prohibition of Speculative Contracts

MiCA requires that stablecoin issuers offer redemption rights to token holders, allowing them to exchange tokens at par value. While this mechanism aims to protect consumers, it introduces elements of guarantee that may conflict with Islamic finance's prohibition of *gharar* (excessive uncertainty) and *maysir* (speculation). Islamic financial instruments avoid fixed returns and promote profit-and-loss sharing arrangements to ensure risk is equitably distributed among parties.

3. Risk-Sharing vs. Guaranteed Returns

Islamic finance principles advocate for risk-sharing mechanisms, such as *mudarabah* (profit-sharing) and *musharakah* (joint venture), where returns are not guaranteed but based on the underlying assets' actual performance. MiCA's framework, by ensuring redemption at par value and mandating reserve requirements, leans towards guaranteeing returns, which may not align with the risk-sharing ethos of Islamic finance.

Decentralized Finance (DeFi), Smart Contracts, and Shariah Compliance

1. MiCA's Treatment of Fully Decentralized Tokens

MiCA primarily addresses crypto-assets with identifiable issuers or service providers. Fully decentralized tokens, like Bitcoin, which lack a central issuing authority, fall outside the direct scope of MiCA; this regulatory gap challenges overseeing decentralized finance (DeFi) platforms and services.

2. Shariah Perspectives on Decentralization and Smart Contracts

From an Islamic finance perspective, decentralization is not inherently problematic. However, the permissibility of DeFi components depends on their adherence to Shariah principles. Smart contracts, which automate transactions based on predefined conditions, can be compatible with Islamic finance if they replicate Shariah-compliant contracts like *mudarabah* or *ijarah* (leasing). The key is ensuring these contracts avoid uncertainty, gambling, and interest.

3. Crypto Staking vs. Islamic Profit-Sharing (Mudarabah, Musharakah)

Crypto staking involves participants locking up their tokens to support network operations, receiving rewards in return. If these rewards are predetermined or guaranteed, they may resemble interest, which is prohibited in Islamic finance. However, if staking rewards are variable and based on actual network performance, they could be analogous to profit-sharing models like *mudarabah*, provided they adhere to Shariah guidelines.

Governance and Ethical Oversight

1. MiCA's Fiduciary Duties vs. Islamic Ethical Governance

MiCA imposes governance requirements on crypto-asset service providers, including transparency, disclosure obligations, and measures to prevent market abuse. These fiduciary duties aim to protect consumers and ensure market integrity.

Islamic finance incorporates ethical governance through Shariah Supervisory Boards (SSBs), which oversee financial institutions to ensure

compliance with Islamic principles. These boards provide guidance, review products, and conduct audits to maintain Shariah compliance.

2. Transparency and Disclosure in MiCA vs. Shariah Audit Requirements

Both MiCA and Islamic finance emphasize transparency and disclosure. MiCA requires issuers to publish white papers detailing crypto-assets' characteristics, while Islamic finance mandates regular Shariah audits to verify compliance. However, MiCA does not currently recognize or incorporate Shariah audits or SSBs within its regulatory framework, potentially limiting the participation of Islamic financial institutions in the EU's crypto-asset market..

RESULTS AND DISCUSSION

Case Studies

This section explores practical examples to assess how MiCA's regulatory framework interacts with Islamic finance principles and operational models. It focuses on two comparative case studies: (1) stablecoins regulated under EU frameworks such as MiCA and (2) Islamic-compliant digital currencies. It also highlights the structural challenges Islamic fintechs face in integrating into the EU digital financial ecosystem.

EU-Regulated Stablecoins vs. Islamic Stablecoins

1. EU-Regulated Stablecoins (USDC, EURC)

Stablecoins like USD Coin (USDC) and EURC (Euro Coin), issued by Circle Internet Financial Ltd., operate under increasing scrutiny and anticipated licensing obligations within the European Union under MiCA. These stablecoins are typically backed 1:1 by fiat reserves in audited bank accounts. Circle is actively pursuing compliance with MiCA, positioning itself to obtain an EMT license for EURC and possibly ART authorization for broader product offerings.

MiCA mandates these tokens:

- Maintain adequate reserves in low-risk liquid assets;
- Offer full redemption rights at par value to token holders;
- Provide periodic transparency through whitepapers and audits;
- Be issued by authorized entities in the EU or with a legal presence in the EU (European Commission, 2023).

These requirements align well with conventional financial systems but do not inherently consider religious or ethical compliance, such as the prohibition of interest (riba) or the ethical use of reserve assets.

2. Islamic Stablecoins (X8X, Islamic Dinar, OneGram)

Islamic stablecoins attempt to align blockchain-based money with the Shariah mandates of being:

- Asset-backed (preferably by gold, real estate, or productive assets);
- Free from interest and speculative activities;
- Transparent and audited by Shariah supervisory boards.

One notable example is X8X, a stablecoin project backed by eight fiat currencies and gold, developed with guidance from a Shariah advisory body to ensure Islamic compliance (X8 Currency Whitepaper, 2020). Another case, OneGram (OGC), is a gold-backed cryptocurrency where each token represents

at least one gram of physical gold stored in vaults. The Shariah compliance was certified by Al Maali Consulting Group.

A third conceptual case is the Islamic Dinar, proposed by institutions like the Islamic Development Bank (IDB) as a digital gold-backed unit of account rooted in traditional Islamic economic frameworks.

However, despite their compliance and innovation, such tokens face barriers to adoption in the EU due to MiCA's rigid classification system that does not accommodate religiously motivated asset selection or governance models.

Regulatory Challenges for Islamic Fintech in the EU Under MiCA

Islamic fintechs seeking to operate in the EU under MiCA face a set of legal and operational hurdles:

1. Lack of Recognition for Religious Governance Structures

MiCA recognizes fiduciary obligations and consumer protection mechanisms but does not acknowledge Shariah Supervisory Boards (SSBs) or similar faith-based compliance frameworks. This omission complicates licensing for firms whose governance models are centered around religious ethics, as there is no clear pathway to incorporate Shariah audits within MiCA's compliance framework (European Parliament, 2023).

2. Prohibited Reserve Asset Classes

Many Islamic fintech firms avoid conventional government bonds or interest-bearing securities to back their tokens due to the prohibition of *riba*. MiCA, however, requires a portion of reserves to be invested in high-quality liquid financial instruments, often interpreted as including short-term sovereign bonds or interest-bearing accounts, placing Islamic stablecoins at odds with compliance requirements.

3. Ambiguity Around DeFi and Profit-Sharing Models

MiCA excludes fully decentralized finance (DeFi) platforms from its regulatory perimeter if no identifiable issuer exists. However, many Islamic fintechs utilize hybrid DeFi structures for *Mudarabah* (profit-sharing) or *Wakalah* (agency-based investment) models. The lack of clarity around such structures may result in compliance risk or exclusion from EU markets.

4. Interoperability and Dual Compliance

Islamic fintechs serving a global Muslim audience often must maintain dual compliance: adhering to both MiCA and standards set by organizations such as AAOIFI and IFSB. Navigating this dual regulatory burden raises operational complexity and cost, deterring smaller Islamic fintechs from entering EU markets.

These cases underscore a fundamental tension: while MiCA aims to create a harmonized regulatory framework for digital assets, its one-size-fits-all model does not accommodate faith-based financial paradigms. For Islamic fintechs to thrive within the EU, regulatory innovation is needed—possibly through regulatory sandboxes, Shariah-compliant licensing pathways, or public-private collaboration between EU regulators and Islamic financial institutions..

CONCLUSIONS AND RECOMMENDATIONS

Policy Recommendations

Implementing the Markets in Crypto-Assets (MiCA) regulation represents a significant step toward harmonizing the crypto-asset market within the European Union. However, the regulation currently lacks mechanisms considering faith-based financial systems, such as Islamic finance, which governs over \$3 trillion in assets globally and rapidly expands into digital and decentralized finance domains (IFSB, 2022). The following policy recommendations offer a pathway for enhancing inclusivity and regulatory interoperability between MiCA and Islamic financial principles.

Accommodating Islamic Digital Finance Under MiCA

1. Development of a “Faith-Based Finance” Compliance Category

The European Commission could introduce a compliance category or licensing pathway tailored to faith-based financial instruments. This category would recognize Shariah-compliant products, including Islamic stablecoins, sukuk-backed tokens, and profit-sharing contracts. Such a framework would mirror the flexibility granted under existing regimes like the EU green taxonomy, where environmental standards guide classification.

Policy Action: Establish optional certification mechanisms for religiously compliant crypto-assets through collaboration with global standard-setting bodies like AAOIFI or the Islamic Financial Services Board (IFSB).

2. Integration of Shariah Governance Advisory Frameworks

Islamic finance is governed by Shariah Supervisory Boards (SSBs) that ensure compliance with Islamic jurisprudence. MiCA could allow regulated entities to voluntarily register their Shariah advisory structures, enabling regulators to understand and incorporate ethical oversight mechanisms without directly endorsing religious doctrine.

Policy Action: Create regulatory templates or disclosures within MiCA whitepapers that allow firms to report SSB governance, audit procedures, and Shariah compliance certifications.

3. Islamic-Compatible Reserve Asset Guidelines

A critical challenge for Islamic stablecoins is MiCA’s requirement to hold reserve assets in low-risk, interest-bearing instruments (e.g., government bonds). This requirement is incompatible with the prohibition of *riba* (interest) in Islamic finance. The European Securities and Markets Authority (ESMA) could consider a parallel standard for non-interest-bearing, Shariah-compliant assets (e.g., physical gold, halal REITs, or sukuk).

Policy Action: Introduce a list of acceptable Shariah-compliant reserve assets as an addendum to MiCA’s Article 34 reserve requirements.

Potential Amendments to MiCA for Shariah Compliance

To facilitate a level playing field for Islamic fintechs, MiCA could be amended or interpreted to support the following modifications:

1. Flexible Definition of Asset-Backed

The current definitions of ARTs and EMTs under MiCA are limited in their asset criteria. A revised interpretation could accept tangible, productive assets (e.g., agricultural commodities, infrastructure, gold) as valid collateral, which is more consistent with Islamic economic theory (Kamla & Alsoufi, 2015).

Amendment Proposal: Broaden Article 3 definitions to include “ethical or religiously permissible real assets” as collateral for ARTs.

2. Optional Ethical Certification Disclosure in Whitepapers

Issuers of crypto-assets must publish a whitepaper under MiCA. The regulation could mandate or encourage an optional ethical or religious certification section in the whitepaper, comparable to how ESG or sustainability disclosures are integrated.

Amendment Proposal: Add an annex requirement under MiCA Article 6 for “ethical certification or religious compliance disclosure,” to enhance transparency and market diversity.

Role of Islamic Financial Institutions in EU Crypto Regulation

Islamic financial institutions (IFIs), both within and outside the EU, can play a vital role in shaping a pluralistic and resilient digital financial future.

1. Knowledge Transfer and Shariah Sandbox Collaborations

EU regulatory bodies (e.g., ESMA, EBA) could collaborate with IFIs and global Islamic finance bodies to establish Shariah-compliant sandboxes where innovative crypto-products can be tested for regulatory and religious compliance. This would mirror successful models in Malaysia and Bahrain.

Example: Bahrain’s Central Bank approved a Shariah-compliant crypto-exchange (Rain), following sandbox testing in coordination with Shariah advisors.

2. Cross-Border Regulatory Harmonization

Islamic finance operates under multiple international standards (AAOIFI, IFSB, OIC Fiqh Academy). EU regulators should consider memoranda of understanding (MoUs) with these bodies to ensure interoperability between MiCA and Islamic digital finance systems.

Policy Action: Establish formal dialogue channels between the European Commission, AAOIFI, and IFSB on digital financial products and token classification.

3. Enhancing Financial Inclusion

By accommodating Islamic digital finance, MiCA can contribute to financial inclusion among Muslim minorities in Europe (particularly in France, Germany, and the Netherlands), many of whom remain unbanked due to religious concerns about interest-based banking systems (El-Gamal, 2006).

Strategic Goal: Encourage inclusive digital finance as part of the EU’s broader Digital Finance Strategy and Capital Markets Union agenda.

Accommodating Islamic digital finance under MiCA is feasible and aligns with the EU’s core values of diversity, inclusion, and ethical innovation. Through amendments, sandbox programs, and cross-border engagement, regulators can ensure that Shariah-compliant digital assets find a legitimate and secure place within Europe’s evolving crypto-asset ecosystem.

Conclusion

The evolving landscape of digital financial assets has prompted jurisdictions across the globe to reevaluate regulatory architectures. The European Union's Markets in Crypto-Assets Regulation (MiCA) represents a landmark initiative to harmonize crypto regulation, enhance investor

protection, and ensure financial stability across member states. However, this study reveals that while MiCA advances comprehensive oversight of digital assets, it lacks the structural flexibility to accommodate faith-based financial paradigms, notably Islamic finance, fully.

Summary of Findings

This paper conducted a comparative analysis between MiCA's regulatory framework and the core principles of Islamic finance, focusing on three critical domains: stablecoins and asset-backing mechanisms, decentralized finance (DeFi) models, and ethical governance structures.

1. Stablecoins under MiCA, categorized as Asset-Referenced Tokens (ARTs) and E-Money Tokens (EMTs), are governed by reserve, redemption, and transparency requirements. These provisions overlap with some Islamic financial principles (e.g., asset-backing and transparency), yet conflict with others, particularly the prohibition of interest-bearing reserve assets and guaranteed fixed returns.
2. DeFi and innovative contract ecosystems, while partly outside MiCA's immediate scope, introduce complexities for Islamic finance. The principles of risk-sharing, prohibition of gharar (excessive uncertainty), and ethical accountability challenge integrating Islamic financial models into protocols relying on staking, liquidity mining, or yield farming.
3. MiCA's governance expectations, such as fiduciary responsibility and disclosure obligations, align with Islamic ethical finance. However, the absence of recognition for Shariah Supervisory Boards (SSBs) or religious audit procedures leaves a critical governance gap for Islamic digital asset providers seeking EU market access.
4. Case studies, including comparisons between EU-compliant stablecoins (USDC, EURC) and Islamic stablecoins (X8X, OneGram, Islamic Dinar), demonstrated that although technical interoperability is feasible, regulatory misalignment—especially around reserve asset classes and licensing—creates significant barriers for Islamic fintech firms.

Future Research Directions

Building on this foundational comparative analysis, future research should delve into the following directions:

1. Islamic Central Bank Digital Currencies (CBDCs): Exploring the theoretical and legal structure of a Shariah-compliant CBDC, including how central bank money could incorporate Islamic principles such as real-economy linkages, risk-sharing, and ethical limitations on usage (e.g., exclusion of financing for alcohol or gambling industries).
2. Smart contract codification of Islamic financial contracts: Empirical studies and pilot programs are needed to evaluate how Mudarabah, Musharakah, and Ijara contracts can be translated into programmable logic while maintaining religious compliance and consumer protection.
3. Dual-regulatory frameworks: Research could further analyze how dual-compliance models—incorporating secular financial regulation (e.g., MiCA) and religious standards (e.g., AAOIFI, IFSB)—can operate effectively, especially in jurisdictions with diverse financial consumers.

4. Islamic Fintech Sandboxes: Evaluating the impact of regulatory sandboxes (like those in Bahrain, Malaysia, and the UAE) on promoting Shariah-compliant innovation, and whether such models could be adopted in Europe under the EU Digital Finance Strategy.

Implications for Global Crypto Regulation

The findings underscore that faith-based financial systems like Islamic finance are not peripheral but increasingly influential in global fintech innovation. As such:

1. Global crypto regulatory bodies—such as the Financial Stability Board (FSB), International Organization of Securities Commissions (IOSCO), and regional entities like the European Securities and Markets Authority (ESMA)—must consider integrating ethical and religious diversity into their frameworks.
2. A one-size-fits-all approach to digital asset regulation risks excluding entire markets, particularly in regions where Islamic finance constitutes a significant portion of financial activity (e.g., the GCC, Malaysia, Indonesia, parts of Africa, and the European diaspora).
3. The standardization of Shariah-compliant crypto instruments and mutual recognition of religious certifications could form a foundation for cross-border compatibility, increasing financial inclusion and facilitating global cooperation in digital finance.

In conclusion, while MiCA is a progressive and necessary step toward comprehensive crypto regulation in the EU, its future iterations or parallel frameworks must incorporate pluralistic approaches. Doing so will ensure that the next generation of financial systems is secure, transparent, inclusive, and ethically grounded.

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