



THE NEW DIGITAL OASIS

Digital Assets in the Middle East

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Introduction

The relationship between Islam and digital assets is still evolving, but Islamic scholars and fintech thinkers are actively working to define ethical and Shariah-compliant frameworks around this modern financial territory. As the global financial landscape continues to evolve through various phases of technological reform, a notable development is the rise of digital assets that operate on decentralised systems, independent of traditional regulation or control by any central authority.

Bitcoin, launched in 2009, introduced a decentralised alternative to government issued currencies (often referred to as fiat currency) and gained global attention by 2010, becoming a leading force in the cryptocurrency market. Its success led to the creation of over 25,000 cryptocurrencies by 2023 and numerous other digital assets, including security tokens and blockchain innovations. As technology reshapes asset ownership, digital assets offer opportunities for wealth generation through trading. Their classification into digital currencies and tokens, based on collateral, results in distinct zakat rulings according to Islamic law.

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Recognition

Digital assets are recognised as legitimate property (māl) under Shariah, as affirmed by several authoritative bodies, including the Perlis State Fatwa Committee (2019), the Shariah Advisory Council of the Securities Commission (SC, 2020b), and the Selangor State Fatwa Committee (2021). In 2019, the Perlis State Fatwa Committee issued a fatwa regarding Bitcoin, classifying its use as mubah (permissible) within the bounds of Shariah. Similarly, the Selangor State Fatwa Committee provided a legal framework allowing digital currency to be used as a medium of exchange, for remittance, or as a store of value, provided that specific Shariah-compliant parameters are met. These are summarised as follows:

- a) All transactions involving digital currencies must be conducted through licensed digital currency exchange platforms that are approved and regulated by the relevant authorities.
- b) Users engaging with digital currencies are required to possess adequate knowledge regarding:
 - The nature, primary characteristics, and associated risks of digital currencies;
 - The technical aspects of acquiring and storing digital currencies securely;
 - The operational guidelines and regulatory frameworks of licensed digital currency platforms; and
 - The applicable laws and legal regulations governing the use of digital currencies.
- c) As with conventional currencies, digital currencies must not be used for transactions involving prohibited (haram) activities, such as the purchase of illicit substances, prostitution, gambling, terrorist financing, or money laundering.

Scope

The Shariah Advisory Council of the Securities Commission (MPS) has deliberated on the Shariah rulings (ahkam) concerning digital assets by categorizing them into digital currencies and digital tokens. This classification is aligned with the definitions outlined in the Capital Markets and Services (Prescription of Securities) (Digital Currencies and Digital Tokens) Order 2019, as published in the Federal Government Gazette, Malaysia. The Shariah Advisory Council (MPS) categorises digital currencies within two primary scopes:

- a) Digital currencies that are purely technology-based and not backed by any form of ribawi (interest-bearing) collateral. These types of digital currencies are classified as ‘urūd’ (trade goods) rather than as currencies from a Shariah perspective. Since they are not considered ribawi items, transactions involving such digital currencies are not subject to the principles of bay‘ al-ṣarf (currency exchange), which apply to the exchange of ribawi items.
- b) Digital currencies backed by ribawi assets

i. If a digital currency is backed by gold, silver, or fiat currency.

In this case, it is classified as a currency under Shariah. Therefore, transactions involving such digital currencies are subject to bay‘ al-ṣarf rules, which regulate the exchange of currencies and require immediacy and equality in quantity where applicable.

ii. If a digital currency is backed by other ribawi items (excluding gold, silver, or currency).

Here, the digital currency is classified as amwāl ribawiyyah (ribawi goods). As a result, any trading activity involving such digital assets must comply with the Shariah regulations governing the exchange of ribawi goods, which are designed to prevent unjust enrichment and ensure fairness in trade.

Zakat

Digital Assets are recognized as a property and thus, subject to zakat. Zakat is obligatory based on general Shariah principles (dalil) pertaining to obligatory payments of zakat on property. **Zakat** is one of the Five Pillars of Islam and refers to the obligatory act of giving a portion of one's wealth to those in need. The word "zakat" literally means "**purification**" and "**growth**"—it purifies wealth by setting aside a portion for the less fortunate and helps foster social equity.



Digital assets backed by ribawi items (gold, silver, or fiat) are classified as currency under Shariah and subject to zakat on savings at a rate of 2.5% once ownership, nisab, and haul conditions are met. In contrast, technology-based digital assets without ribawi collateral are categorized as *'urūd al-tijārah* (trade goods) and subject to zakat on business assets.

There are various views regarding Islam and digital assets, especially things like cryptocurrency, blockchain, NFTs, and DeFi, through the lens of Islamic law and ethics. Islamic finance is governed by principles like:

- No riba (interest).
- No gharar (excessive uncertainty).
- No maysir (gambling).
- Asset-backing: Transactions should involve real, tangible value.
- Risk-sharing and ethical investing.

How are Digital assets evaluated

Zakat on digital assets is a growing area of concern for Muslims who want to stay true to their faith while navigating modern financial systems. The general principles of zakat can be applied to digital assets, but there are nuances depending on the type of asset and how it is used.

Zakat is due on:

- Wealth held for one lunar year (haul).
- Assets that meet or exceed the niṣāb threshold (minimum amount for zakat to be obligatory, traditionally based on 87.48g of gold or 612.36g of silver).
- Rate: 2.5% on assets subject to zakat.

Arguments for and against permissibility

Cryptocurrencies (Bitcoin, Ethereum, etc.)

Arguments for permissibility (halal):

- Viewed as a medium of exchange, like money.
- Decentralised (no unjust control by a single party).
- If used ethically, it aligns with Islamic values.
- Can be seen as a form of maal (recognizable wealth).

Concerns (potentially haram):

- Volatility and speculation (maysir).
- Some are used in unethical or illegal activities.
- Uncertainty about intrinsic value (gharar).
- Staking/yield farming may resemble interest.



So... is crypto halal?

Most scholars say:

- Bitcoin & major cryptos are halal if used for legitimate purposes and not for speculation.
- Speculative trading (e.g., day trading or pump-and-dumps) could fall into haram.
- Each token/project needs individual assessment.

Tokenised Assets / NFTs

- NFT - is a digital asset that is part of a blockchain with a 'token' attached.
- Utility NFTs (e.g. game items, membership tokens): Not subject to zakat unless they are resalable and held as investments.
- Investment NFTs (e.g., digital art, tokenised real estate): Zakat may apply if held for resale or appreciation.

DeFi (Decentralised Finance) holdings (is an emerging digital ecosystem that allows people to send, purchase, and exchange financial assets without relying on banks, brokerages, or exchanges.)

- Staking rewards / yields: subject to zakat, but there is debate over how to classify them (like rent? like riba?).
- Liquidity pools: If you own the underlying tokens, their market value is subject to zakat.

Different scholars and organisations (like AAOIFI, National Zakat Foundation, etc.) may vary slightly in rulings. Most contemporary scholars treat crypto and digital investments like cash or trade goods — so zakat is due if held for value appreciation.



Conclusion

In summary, digital assets represent a modern form of wealth, emerging alongside rapid technological advancements and gradually transforming traditional financial systems into virtual frameworks.

These assets are broadly categorised into digital currencies and digital tokens, based on their underlying collateral. Those backed by gold, silver, or fiat currencies are treated as savings and are subject to zakat akin to monetary holdings. In contrast, digital assets that are technology-based and lack tangible collateral are generally acquired for trading and profit, thereby falling under the category of 'urudh al-tijarah' (trade goods) and are subject to zakat as such.

To assist in creating an appropriate structure for the holding of digital assets, Artemis can play a central coordinating and strategic role. In order to do we would look to understand the client's objectives (e.g., long-term growth, privacy, succession planning, tax efficiency) and assess risk tolerance regarding digital assets (volatility, security, jurisdictional exposure). If the client holds both fiat and crypto, Artemis can also coordinate:

- Hybrid portfolios (crypto + equities + real estate)
- Yield strategies across both asset classes
- Estate planning harmonised across all holdings



For more information

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