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Page 19 - 32

The Ambiguity of the DSN-MUI Vis-à-Vis Banking Regulations: A Critique of the Existence of Fatwas and the Institutional System in Indonesia

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Abstract: This study critically analyzes the regulatory and institutional frameworks that govern the issuance and enforcement of financial fatwas in Indonesia's Islamic finance industry. The study focuses on the central role of the DSN-MUI, which provides religious legitimacy and technical guidance on Sharia compliance for Islamic Financial Institutions. Drawing on doctrinal legal analysis of legal, institutional, and regulatory documents, this study identifies a complex regulatory framework governing the DSN-MUI. These findings show that although DSN-MUI operates as a quasi-autonomous civil society body, DSN-MUI remains closely related to and influenced by state institutions. This relationship allows government authorities to selectively transform DSN-MUI fatwas—initially consultative and non-binding—into legally enforceable regulations. Although this mechanism allows the state to leverage DSN-MUI's religious legitimacy, it also raises concerns about institutional autonomy and potential political intervention. The study argues that this institutional ambiguity is a significant systemic weakness that could jeopardize the long-term independence of DSN-MUI and the integrity of Indonesia's Sharia compliance framework. This article concludes by recommending structural and legislative reforms to clarify DSN-MUI's mandate and strengthen the resilience of Indonesia's Sharia governance system.

Abstrak: Studi ini secara kritis menganalisis kerangka peraturan dan kelembagaan yang mengatur penerbitan dan penegakan fatwa keuangan di industri keuangan syariah Indonesia. Studi ini berfokus pada peran sentral DSN-MUI, yang memberikan legitimasi agama dan bimbingan teknis tentang kepatuhan Syariah untuk Lembaga Keuangan Islam. Dengan menggunakan analisis hukum doktrinal terhadap dokumen hukum, kelembagaan, dan regulasi, penelitian ini mengidentifikasi kerangka regulasi yang kompleks yang mengatur DSN-MUI. Temuan ini menunjukkan bahwa meskipun DSN-MUI beroperasi sebagai badan masyarakat sipil kuasi-otonom, DSN-MUI tetap terkait erat dan dipengaruhi oleh lembaga negara. Hubungan ini memungkinkan otoritas pemerintah untuk secara selektif mengubah fatwa DSN-MUI—awalnya konsultatif dan tidak mengikat—menjadi peraturan yang dapat ditegakkan secara hukum. Meskipun mekanisme ini memungkinkan negara untuk memanfaatkan legitimasi agama DSN-MUI, mekanisme ini secara bersamaan menimbulkan kekhawatiran mengenai otonomi kelembagaan dan potensi intervensi politik. Studi ini berpendapat bahwa ambiguitas kelembagaan semacam itu merupakan kelemahan sistemik yang signifikan yang dapat membahayakan independensi jangka panjang DSN-MUI dan integritas kerangka kerja kepatuhan Syariah Indonesia. Pasal ini diakhiri dengan merekomendasikan reformasi struktural dan legislatif untuk memperjelas mandat DSN-MUI dan memperkuat ketahanan sistem tata kelola Syariah Indonesia.

Keywords:
Islamic finance; fatwa, DSN-MUI; Sharia governance; Regulatory framework

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Introduction

The National Sharia Council of the Indonesian Ulama Council (DSN-MUI) has significantly shaped Indonesia's Islamic finance institutional framework. Since 1999, the institution has played a central role in the governance and compliance structure of Islamic banking practices in Indonesia by overseeing the application of Sharia principles (Dharmayani et al., 2025; Dahlan, A. et al., 2024). The continued relevance of the DSN-MUI lies in Indonesia's large Muslim population and the rapid expansion of its Islamic finance industry, which necessitate an autonomous fatwa institution to provide normative guidance for the development and sustainability of the Sharia-based financial system.

DSN-MUI, through the Sharia Supervisory Board, serves as a companion to each Islamic financial institution in ensuring comprehensive Sharia compliance, as mandated by Law No. 21 of 2008 concerning Sharia Banking. Thus, DPS exists to maintain the existence and quality of Sharia Banks in carrying out their operations; supervision is needed to ensure compliance with Sharia principles (Putri, 2023). Article 32 paragraph (3) states: "The Sharia Supervisory Board is in charge of providing advice to the board of directors and supervising the Bank's activities in accordance with Sharia Principles."

Previous studies have shown the important position of DSN-MUI in Indonesia's Islamic finance ecosystem. Al-Hakim (2013) explained that DSN-MUI ensures Islamic banking products comply with sharia by issuing fatwas, which are then adopted into Bank Indonesia regulations. Hasan (2024) also emphasized that Islamic financial institutions in Indonesia must obtain Sharia-compliance certification from DSN-MUI, underscoring the importance of Islamic law compliance.

However, DSN-MUI's institutional development has also posed several regulatory and governance challenges. Fakhrina & Hamid (2025) argue that DSN-MUI contributes to the legitimacy of Islamic banking while accommodating certain conventional financial practices. Similarly, Tarmidzi et al. (2024) identify inconsistencies between the DSN-MUI fatwa, the Compilation of Sharia Economic Law, and the Financial Services Authority (OJK) regulations. This inconsistency creates uncertainty in the Islamic financial system and can weaken the stability of Islamic financial governance.

The institutional ambiguity of DSN-MUI is further complicated by its informal legal position within the Indonesian constitutional framework. Widiyono (2024) noted that the DSN-MUI fatwa serves as an important operational guideline for Islamic banks but has no direct legal authority in Indonesia's formal legal hierarchy. As a result, fatwas become legally binding only when state regulatory authorities such as the OJK and Bank Indonesia adopt them. These initial findings make DSN-MUI's institutional position ambiguous and a structural weakness in Indonesia's governance system for implementing Sharia principles in financial institutions.

Therefore, in this article, the discussion will be examined through the following questions: 1) How is the architecture of the financial fatwa built by DSN-MUI related to the evolution of existing regulations in Indonesia? 2) What is the institutional impact of DSN-MUI? Is there an institutional ambiguity? 3) How is the analysis of the systemic institutional role of DSN-MUI from the perspective of Islamic financial governance in Indonesia?

At its core, this ambiguity reflects an underlying epistemological tension between normative *fiqh al-muʿāmalāt*, which conceives of Sharia as an autonomous and self-sufficient normative order, and legal positivism, which recognizes a norm as legally valid only when incorporated into, or otherwise recognized by, the state's formal legal system. DSN-MUI sits directly at the intersection of these two epistemologies: it derives its legitimacy from classical *uṣūl al-fiqh* methodology, yet its practical authority over Islamic financial institutions is realized only after its fatwas are translated into instruments issued by OJK and Bank Indonesia. This article treats the institutional ambiguity of DSN-MUI as an expression of this deeper epistemological tension, rather than as a purely administrative or organizational shortcoming.

This study contributes to the literature on Islamic financial governance by offering a multidimensional analysis of potential institutional ambiguities in the DSN-MUI framework in

relation to Islamic banking regulations. The study also integrates legal, economic, political, and socio-religious perspectives to evaluate the relationship between religious authorities and state regulations in Indonesia's Islamic financial system.

Among previous studies that provide a useful reference for examining MUI fatwas is Mudzhar (2013), which analyzes the economic fatwas issued by DSN-MUI in terms of legal reasoning and socio-legal impacts. Drawing on 82 fatwas, the study examines 17 in greater detail, covering areas including banking, insurance, capital markets, and pawnbroking. Mudzhar finds that DSN-MUI fatwas consistently refer to the Quran and Hadith, and, in some cases, to *ijmāʿ, qiyās*, and the opinions of classical and contemporary scholars. At the same time, he argues that the fatwas tend to provide a form of "confirmation" for conventional banking instruments by employing contractual devices such as *ḥīlah* and *murakkab* contracts, which, he contends, are strictly prohibited under sharia.

Early research on the institutionalization of DSN-MUI includes Zein (2018), who found that DSN is an institution under the Indonesian Ulema Council with authority to issue Islamic financial fatwas, which can later serve as a reference for Islamic banking actors. The DSN-MUI fatwa legislation is part of the product and attitude of Islamic politics that seeks to convince that Islamic law cannot be separated from the state.

Meanwhile, the latest research by Dharmayani et al. (2025) shows that DSN-MUI plays a strategic role in harmonizing sharia principles and positive law in Indonesia by issuing fatwas that serve as references for government regulations and industry players, as well as by educating the public and stakeholders. DSN-MUI also plays an important role in developing the Sharia legal economy in Indonesia. However, DSN-MUI, the government, and industry players still need greater synergy, and human resource quality needs improvement, to strengthen DSN-MUI's capacity to master Islamic law sources and financial institutions' practices. Hartini et al. (2025) researched the relationship between DSN-MUI and other formal institutions. The study found that although the OJK (Financial Services Authority) holds comprehensive regulatory and supervisory authority, DSN-MUI remains important as an interpreter and guarantor of sharia compliance. This dual authority between the OJK and DSN-MUI reflects a careful balance between maintaining financial system stability and ensuring compliance with Islamic law.

Method

This study uses a literature-based doctrinal legal approach, emphasizing interpretive and critical analysis of legal norms and fatwas in Islamic economics, particularly Islamic financial regulation. It combines doctrinal analysis of legal and *fiqh* sources with institutional and comparative approaches to examine the DSN-MUI's ambiguous institutional position within Indonesia's Islamic financial regulatory framework.

The doctrinal analysis examines statutory provisions, regulatory instruments, and judicial decisions relevant to Islamic financial governance in Indonesia. Primary legal materials include Law No. 21 of 2008 on Islamic Banking, Law No. 21 of 2011 on the Financial Services Authority, relevant Bank Indonesia regulations (PBI), OJK Regulations (POJK), OJK Circular Letters (SEOJK), and DSN-MUI fatwas. These materials are examined to identify the respective sources of authority, legal status, institutional functions, and relationships among the state, regulatory authorities, and the DSN-MUI.

The study is supplemented by an institutional analysis of the relationship between DSN-MUI fatwas and state-issued financial regulations. The analysis examines how fatwas are incorporated, translated, modified, or selectively adopted within formal regulatory instruments, as well as the implications of these processes for the authority and accountability of the DSN-MUI. Secondary sources include peer-reviewed journal articles, academic books, institutional reports, international governance standards, and comparative literature on Islamic financial regulation.

A comparative approach also situates Indonesia's institutional arrangement within broader models of Islamic financial governance. Malaysia and selected Gulf jurisdictions, particularly those

operating within the AAOIFI framework, are used as comparative references to examine differences in the institutionalization of Sharia governance, the relationship between religious authorities and state regulators, and the legal status accorded to Sharia standards and fatwas.

Data were collected through systematic documentary analysis of legislation and regulations, official government and regulatory portals, DSN-MUI publications, legal databases, and international Islamic financial governance materials. The collected materials underwent qualitative content analysis to identify recurring patterns of institutional ambiguity, the selective incorporation of fatwas into state regulations, and the allocation of regulatory authority and accountability.

For the fatwa analysis, the study uses purposive selection based on three criteria. First, the fatwa must have been formally adopted, in whole or in part, into a Bank Indonesia (PBI), OJK Regulation (POJK), or OJK Circular Letter. Second, it must address a core Islamic banking contract category, such as *murābaḥah, ijārah, muḍārabah, or mushārakah,* widely applied in Islamic banking practice. Third, the fatwa must have generated sustained academic or regulatory discussion, as reflected in the existing literature or regulatory materials. Applying these criteria to the corpus of DSN-MUI fatwas issued since 2000, the study purposively selects a limited number of fatwas for close doctrinal and institutional analysis. Fatwa No. 04/DSN-MUI/IV/2000 on *Murābaḥah* and Fatwa No. 84/DSN-MUI/XII/2012 on the Recognition of *Murābaḥah* Profit are examined in depth as illustrative cases. This sampling strategy prioritizes analytical and doctrinal depth rather than statistical representativeness.

The analytical framework examines five dimensions of institutional ambiguity: 1) Ambiguity of legal status; 2) Ambiguity of authority; 3) Ambiguity of accountability; 4) Financial ambiguity; and 5) Operational ambiguity. In addition, this study analyzes the mechanism of selective transformation through three processes: political screening, regulatory translation, and law enforcement discretion. To make the selective transformation mechanism more transparent, this study also maps the process into a sequential pathway (Figure 1) tracing how a DSN-MUI fatwa moves from religious deliberation to state-enforceable regulation. It constructs a comparative table of Sharia governance models (Table 1) situating Indonesia's arrangement against Malaysia and the GCC/AAOIFI framework.

To strengthen validity, this study triangulates legal sources, institutional documents, and comparative governance models. The study acknowledges several limitations, notably its reliance on publicly available documents and the dynamic nature of Indonesia's evolving Islamic financial regulatory landscape.

Results and Discussion

The Evolution of Financial Fatwa Regulation and Architecture

The legal recognition of Islamic banking in Indonesia developed through a brief but decisive legislative sequence. Law No. 7 of 1992 on Banking first accommodated a "profit-sharing" banking scheme, and Law No. 10 of 1998 subsequently recognized a dual banking system in which Sharia-based institutions formally operate alongside conventional ones (Dahlan et al., 2023; Anshori, 2008). These early statutes created procedural space for Islamic banking without yet settling who held substantive authority to determine what counted as "Sharia-compliant." That question was resolved only at the most decisive institutional turning point: the enactment of Law No. 21 of 2008 concerning Sharia Banking.

Then the most crucial stage is the stage of major institutional transformation through the enactment of Law No. 21 of 2008 concerning Sharia Banking, where the Sharia Supervisory Board (DPS) was created, as well as regulations that place an independent institution, namely the National Sharia Board - Indonesian Ulama Council (DSN-MUI), which was established on February 10, 1999 (Haitsam, 2025). This law officially positions DSN-MUI as the primary authority responsible for issuing Sharia financial fatwas applicable to Islamic financial institutions. Under this

framework, all Islamic banking products and operations must comply with Sharia principles as determined by DSN-MUI (Dahlan, A. et al., 2024).

The findings show that Indonesia's Islamic financial governance structure operates through a dual authority system involving DSN-MUI, Bank Indonesia, and the Financial Services Authority (OJK) (Sanusi & Wahyudi, 2026). In this arrangement, DSN-MUI provides the religious and ethical substance of Sharia standards, while OJK and Bank Indonesia exercise formal regulatory and supervisory authority.

This dual structure suggests a unique governance mechanism in which religious legitimacy and state regulatory authority are interconnected. DSN-MUI issues fatwas related to Sharia financial transactions, while state regulators then adopt these fatwas into legally binding regulations through circulars, regulations, or supervisory instruments. According to Dasopang (2025), this results in Sharia standards: both fatwa and Sharia compliance take effect only after being incorporated into the state regulatory framework. This creates overlap between institutions. On the one hand, an institution is authorized to issue Sharia fatwas in financial institutions; on the other hand, without regulation or oversight, the fatwa becomes useless because it does not function effectively in society. This occurred in MUI Fatwa No. 1 of 2004 concerning Interest on Haram Banks. Aziz et al. (2025) explained that the fatwa has sparked criticism and debate among academics and scholars who question its legitimacy. In addition to the fact that the legal sources used are considered less clear, and more importantly, that no regulatory support exists for the fatwa, the fatwa becomes useless as a legal guide in the eyes of the public and the financial market.

At present, DSN-MUI's involvement has increased public trust among the Muslim community by ensuring Islamic financial products align with religious principles. At the same time, the state also maintains financial stability and prudential supervision through the OJK and Bank Indonesia, especially in the fintech-based financial system, so the harmonization of all regulators, DSN-MUI, Bank Indonesia, OJK, and other relevant agencies is needed (Suaidi et al., 2025).

These achievements still create a regulatory architecture that creates institutional tensions. DSN-MUI has substantial religious influence on Islamic financial practices by referring to various sharia laws and *fiqh* rules and using the *ijtihâd* method (Imaniyati & Adam, 2019). However, DSN-MUI lacks direct constitutional authority as a formal state institution because the implementation of its fatwa still depends on state regulations, a condition this article refers to as a series of institutional ambiguities.

Institutional Ambiguity of DSN-MUI

Historically, the Indonesian Ulama Council (MUI) established DSN-MUI, a non-governmental religious organization. Still, DSN-MUI must carry out functions that significantly affect national financial governance (Haitsam, 2025). In its development, there is an institutional ambiguity that is reflected in several dimensions;

First, DSN-MUI has authority to set Sharia-compliance standards for Islamic financial institutions, but it lacks independent law enforcement powers. It can only issue fatwas, but regulators who officially supervise and authorize Islamic financial institutions must still adopt them. From a political perspective, the existence of DSN-MUI remains centralized, which is close to power politics. However, this is actually relatively common in Muslim-majority countries, such as Pakistan, Sudan, and Malaysia, where political authorities still play a role in determining the legality of the DSN-MUI fatwa (Suhendar et al., 2023; Alamudi & Hasan, 2023).

Second, DSN-MUI functions simultaneously as a religious authority and a quasi-regulatory institution. This dual role creates uncertainty regarding the boundaries between religious legitimacy and state regulatory authority. Dharmayani et al. (2025) explained that DSN-MUI has gained institutional legitimacy from Islamic jurisprudence and the Muslim community. Still, its effectiveness has been limited because, in practice, each DSN-MUI depends heavily on

cooperation with government institutions, especially in implementing fatwas related to contracts in financial institutions.

Third, the constitution does not explicitly recognize DSN-MUI. It operates independently and autonomously, without other institutional intervention in issuing fatwas on contracts within Islamic financial institutions. This is still ambiguous because DSN-MUI is morally responsible to the Muslim community and is institutionally connected to the MUI. Its regulatory influence affects the broader national financial system, but its constitutional basis is weak. In fact, the most powerful body is the Shariah Supervisory Board (DPS), which is explicitly mentioned in Law No. 21 of 2008 concerning Sharia Banking and in Law No. 40 of 2007 concerning Limited Liability Companies, Article 109, which regulates the obligation to establish a Sharia Supervisory Board (DPS) for Companies that carry out their business activities based on Sharia principles.

The existence of DSN-MUI, which lacks formal constitutional status, remains vulnerable to shifts in political priorities and regulatory policies. This weakens the institution's operational independence and limits its capacity to enforce Sharia standards without compromise. The DSN-MUI fatwa becomes positive law only when it is adopted in regulations ratified by law, such as in a judge's decision or in Bank Indonesia Regulations, OJK Regulations, and others (Alamudi & Hasan, 2023).

This ambiguity is further compounded by the need for DSN-MUI fatwas to determine the operational laws of Islamic financial institutions, which continue to evolve. In contrast, financial institutions have not fully incorporated existing DSN-MUI fatwas into their technical transactions (Awaluddin & Febrian, 2020). This gap is increasingly crucial as DSN-MUI fatwas respond to the growth of digitally operating Islamic financial institutions and the expansion of the digital money business.

The Normative Basis: Istinbāṭ al-Aḥkām and the Limits of a Purely Socio-Political Reading

The institutional ambiguity described above cannot be fully explained through a socio-political lens alone; it must also be read against the uṣūl al-fiqh methodology that DSN-MUI itself invokes to justify its fatwas. DSN-MUI's istinbāṭ al-aḥkām (method of legal derivation) draws principally on four interrelated instruments: *maṣlaḥah mursalah* (unrestricted public interest), *taysīr manhajī* (methodological facilitation), *murā'āt al-ḥājah wa al-'ilal* (consideration of need and underlying legal causes), and *sadd al-dharī'ah* (blocking the means to harm) (Haitsam, 2025; Mudzhar, 2013).

Maṣlaḥah mursalah is invoked most frequently to justify accommodations such as the *wakālah* arrangement in *murābahah* financing (Fatwa No. 04 of 2000) or the annuity-based profit-recognition method (Fatwa No. 84 of 2012): where a literal application of classical contract doctrine would obstruct the functioning of a modern banking system, DSN-MUI reasons that a structurally adjusted contract may be permitted if it serves a benefit not explicitly foreclosed by a specific text, provided it does not contradict a definitive (*qaṭ'ī*) prohibition. *Taysīr manhajī* reflects DSN-MUI's institutional posture of methodological ease rather than strict textualism, favoring interpretations that keep Islamic financial products viable and competitive against conventional alternatives. *Murā'āt al-ḥājah/al-'ilal* directs attention to the *'illah* (effective legal cause) behind a prohibition, so that a contract is not rejected merely because it resembles a conventional instrument, but is evaluated according to whether the specific cause of prohibition *ribā, gharar,* or *maysir* is actually present in the reformulated structure. *Sadd al-dharī'ah*, by contrast, functions as a limiting principle: DSN-MUI is expected to close off arrangements that, while not explicitly prohibited, would predictably lead to a prohibited outcome.

Read together, these four instruments show that DSN-MUI's compromises are not simply pragmatic concessions to market or state pressure, as a purely socio-political reading might suggest; they are also framed (rightly or wrongly) as internally consistent applications of a recognized *uṣūl*

al-fiqh methodology. This does not resolve the institutional ambiguity identified in this study. However, it relocates part of the analytical burden: the more pressing normative question is not merely whether DSN-MUI's fatwas resemble conventional finance, but whether its use of *maṣlaḥah mursalah* and *taysīr manhajī* is applied consistently alongside the corrective function of *sadd al-dharī'ah,* or whether institutional and regulatory dependence has caused the facilitative instruments to outweigh the restrictive ones consistently.

From a governance perspective, these findings support theories of religious and state relations, which argue that organizations operating in domains with overlapping religious and state authorities often face legitimacy tensions and operational constraints (Hamidah, 2012; Ramadhan et al., 2023). In the Indonesian context, DSN-MUI is a hybrid governance institution that functions as both a civil society body and a regulatory actor.

Selective Transformation of Fatwa into Regulations

Selective transformation occurred in DSN-MUI fatwa, which did not automatically gain legal validity in Indonesia's formal legal hierarchy. In contrast, government regulators determine which fatwas are worthy of inclusion in binding regulations, especially those used as the basis for Bank Indonesia regulations and Financial Services Authority regulations. This process of selective transformation occurs through three main mechanisms:

Figure 1.
The Selective Transformation Pathway from DSN-MUI Fatwa to Binding Regulation



First, political screening refers to how state regulators evaluate DSN-MUI fatwas in light of broader economic and political considerations. Regulatory authorities may prioritize financial stability, market competitiveness, or macroeconomic objectives when deciding whether to adopt a particular fatwa (Suaidi et al., 2025). In practice, fatwas that could disrupt market liquidity or financial sector growth may face implementation delays or regulatory modifications. This shows that state interests significantly shape how fatwa products are operationalized and how they balance Sharia standards with the national financial sector's interests.

Second, translation occurs when religious fatwas are reformulated into technical regulatory language. During this process, regulators often adapt terminology, procedures, or implementation mechanisms to align with the broader financial regulatory framework. These findings suggest that such translations can change the substantive meaning of certain Sharia principles. Although the regulatory framework formally upholds Sharia's legitimacy, modifications introduced during translation may undermine the fatwa's original religious purpose. In the development of many fatwas that adopt the market without eliminating sharia principles, such as Fatwa DSN-MUI No. 04/DSN-MUI/IV/2000 concerning *Murābahah*, which, in practice, allows banks to represent (*wakālah*) customers to buy goods from third parties on behalf of banks. Also, DSN-MUI Fatwa No. 27/DSN-MUI/III/2002 concerns ijarah, which in practice uses a lot of *Ijarah Muntahiyah Bittamlik (IMBT)* contracts, a form of lease-lease agreement that ends with the transfer of ownership of the object from the lessor to the tenant, where the contract is widely used for house buying and selling transactions.

These contractual adjustments raise a normative question this study addresses directly, rather than treating every departure from classical form as evidence of deviation. Classical fiqh

distinguishes between *ḥīlah mamnū'ah*, a prohibited legal stratagem that nullifies the substance of a Sharia prohibition while formally observing its letter, of which the classical *bay' al-'īnah* is the paradigm case, and *ḥīlah maḥmūdah*, a permissible legal solution that restructures a transaction to avoid a prohibited element without eliminating the economic substance the prohibition was meant to protect. Applying this distinction, the *wakālah* arrangement in Fatwa No. 04 of 2000 is more properly classified as *ḥīlah maḥmūdah:* the bank's appointment of the customer as its purchasing agent does not, in principle, remove the requirement that the bank actually acquire ownership and bear the risk of the goods (*qabḍ and ḍamān*) before reselling them to the customer at a markup, so that the *arkān* (pillars) of a valid sale-offer, acceptance, subject matter, and price remain formally intact. In practice, however, the arrangement risks collapsing into *ḥīlah mamnū'ah* when the *wakālah* and *murābahah* contracts are executed simultaneously or when the bank never assumes real ownership risk, a practice several scholars have criticized as reducing *murābahah* to a disguised interest-bearing loan (Aziz et al., 2025). This study therefore argues that classifying a DSN-MUI-endorsed contract as *maḥmūdah* or *mamnū'ah* cannot be determined from the fatwa text alone; it depends on the sequencing and documentation of the underlying transaction, which is precisely where DSN-MUI's lack of independent enforcement authority discussed in the following section becomes normatively, and not only institutionally, consequential.

Third, the DSN-MUI fatwa is enforced with discretion. In Law No. 30 of 2014 concerning Government Administration, discretion may only be used by government officials to: (1) address concrete problems in the field that need immediate handling; (2) fill legal gaps or address unclear rules; and (3) prevent or overcome government stagnation (bureaucratic deadlock) in the public interest.

Meanwhile, discretion in the context of DSN-MUI manifests in fatwa enforcement, leading to variations in supervision across institutions. So far, DSN-MUI fatwas prioritize different regulations, leading to inconsistent enforcement practices across Islamic financial institutions. For example, Fatwa No. 84/DSNMUI/XII/2012 addresses how to recognize the benefits of *murābahah* financing. The recognition of *murābaḥah* profits in business carried out by merchants *(al-tujjār)* can be done proportionately *(ṭarīqah mubāshirah),* which is stated in the Statement of Financial Accounting Standards (PSAK No. 102) on *Murābahah* Accounting. Meanwhile, annuity is a recognition of profits that is carried out proportionally to the remaining amount of uncollected cost of goods by multiplying the percentage of profit by the amount of remaining uncollected cost of goods *(ṭarīqah al-ḥisāb al-tanāẓuliyyah* or *ṭarīqah tanāquṣiyyah)* that has been adjusted to the prevailing customs *('urf)* among Islamic financial institutions (Afandi, 2019). This fatwa clearly strengthens the annuity and proportional method, as reflected in PBI No. 14/14/PBI/2012 concerning Transparency and Publication of Sharia Bank Reports and SEBI No. 15/26/DPbs/2013 concerning the Implementation of Indonesian Sharia Banking Accounting Guidelines. These methods reflect Islamic banks' commitment to transparency and financial reporting in recognizing *murābahah* profits. The annuity method refers to PSAK 50, PSAK 55, and PSAK 60 because it is essentially a form of financing. The proportional method refers to PSAK 102 because it is basically categorized as a form of buying and selling activities (Faisal, 2014). As a result, the annuity system, in which the initial payment exceeds the principal installment, has become a tradition in both Islamic and conventional banks.

A similar distinction applies to the annuity method endorsed in Fatwa No. 84 of 2012. Because the underlying contract is a sale (*bay'*), classical *fiqh* requires the price to be fixed at the point of contract; treating the deferred price as if it accrues at a compounding, time-based rate resembles the structure of interest more closely than the proportional method does. Nevertheless, as long as the total price is disclosed and fixed in the *murābahah* agreement itself, with the annuity schedule functioning only as an internal accounting convention for recognizing income under PSAK 102 rather than as a mechanism that alters the customer's contractual obligation, the arrangement can still be classified as *ḥīlah maḥmūdah*. Where the annuity schedule instead allows the effective price to vary with market interest-rate movements, however, it drifts toward *ḥīlah*

mamnū'ah. DSN-MUI's fatwa itself does not adjudicate this boundary; it delegates that determination to accounting standards (PSAK 50/55/60) and to each institution's Sharia Supervisory Board, which returns the analysis to the accountability ambiguity discussed later in this article.

These findings show that the state retains the highest authority over the enforceability of Islamic financial standards, which is less than ideal as a differentiator between Islamic and conventional banks. As a result, DSN-MUI operates not as a fully autonomous authority of Sharia institutions but as a provider of religious legitimacy in a state-dominated regulatory system. This aligns with the view that, in a non-Islamic country, Islamic banking cannot conduct *muamalah* transactions in accordance with the rules of Islamic fiqh as set out in Islamic fiqh books.

Therefore, Islamic banking products are "forced" to resemble conventional banking products, thereby affecting the concept of contract theory in classical *fiqh,* which is also forced to be modified to suit market tastes. This is where the role of DSN-MUI fatwa in determining the law is sometimes also forced to adjust to market needs, not necessarily in accordance with the goals of classical *muamalah* jurisprudence (Dahlan, 2018). This condition supports the critical legal perspective that argues that legal authority is shaped not only by normative legitimacy but also by institutional power relations. In the case of DSN-MUI, Indonesia's selective transformation mechanism reflects the dominance of state regulatory authority over religious standard-setting institutions.

Systemic Weaknesses and Governance Implications

The Risk of Political Dependence

The political dependence referred to in this article is a condition of DSN-MUI, which remains an independent institution whose existence still depends heavily on other regulations, especially those related to politics and governance. Some previous research has shown that DSN-MUI's reliance on state regulations makes the institution vulnerable to political influence and regulatory decisions. The implementation of fatwas, a religious matter, ultimately depends on state authority and political and economic considerations that can override the main purpose of sharia in financial institutions (Suhendar et al., 2023; Alamudi & Hasan, 2023).

This situation creates a structural imbalance in which Islamic financial institutions and fatwa institutions can become vulnerable to the state's policy agenda. When conflicts arise between strict Sharia standards and financial sector goals, regulators may prioritize economic stability over uncompromised adherence to religious principles (Dahlan et al., 2024). This dependence can indirectly encourage the issuance of politically and economically accommodating fatwas. To maintain institutional relevance and ensure regulatory acceptance, DSN-MUI can avoid issuing decisions that financial regulators or industry stakeholders deem too restrictive.

From the perspective of the "Concentric Circle Theory," DSN-MUI is appropriate when implemented properly and proportionately. The theory has three components: religion, law, and the state. If united, they form a concentric circle, creating unity and close relationships among them. Religion, as the first component, is in the position of the deepest circle, because it is the core of that circle. This is followed by the law, which occupies the next circle. In this case, religion strongly influences the law and, at the same time, is the main source of law, alongside ratios as complementary sources (Irfani, 2022).

Institutional Weaknesses and Challenges

The main weakness of DSN-MUI lies in its autonomy and in institutions whose political existence has not been optimally managed. Although the institution performs functions with implications under national regulations, DSN-MUI, as an autonomous institution, lacks an independent constitutional budget or a fully autonomous institutional structure. DSN-MUI's

operational financial dependence may limit its capacity to conduct independent and critical supervision of Islamic financial institutions that structurally use DPS services under DSN-MUI's control (Ansori, 2008; Rizki et al., 2026). Effective Sharia institutions such as DSN-MUI require institutional independence not only in legal authority but also in operational and financial resources.

DSN-MUI also operates within a complex accountability framework that continues to involve the MUI, the Muslim public, regulators, and financial institutions associated with DSN-MUI. No legally codified accountability procedure can contribute to the professional and transparent governance of DSN-MUI. Compared to countries like Malaysia, where the Sharia fatwa-making body under JAKIM (Malaysian Department of Islamic Progress), as the federal government body in Malaysia is responsible for Islamic religious affairs, including the coordination of Islamic administration and the standardization of halal certification throughout the country, it has very strong legal authority (Mubarak & Bakar, 2018). Meanwhile, Indonesia's Sharia fatwa governance model is relatively vulnerable to regulatory inconsistencies, political intervention, and financial market needs.

Table 1.
Comparative Sharia Governance Models: Indonesia, Malaysia, and GCC/AAOIFI

Dimension	Indonesia (DSN-MUI)	Malaysia (JAKIM / SAC-BNM)	GCC / AAOIFI
Institutional basis	Quasi-autonomous civil society organ under MUI	Statutory federal body (JAKIM) and Shariah Advisory Council under the central bank	Independent standard-setting body (AAOIFI), adopted variably by national regulators
Legal authority of rulings	Non-binding fatwa; binding only once adopted via POJK/PBI/SEOJK	SAC rulings binding on Islamic financial institutions by statute	Binding where mandated by national law (e.g., Bahrain, Sudan); advisory elsewhere
Institutional independence	No independent constitutional budget; reliant on state adoption for effect	Embedded within, and funded through, the central bank structure	Funded by member institutions and industry fees; independent of any single state
Accountability mechanism	No codified accountability procedure; accountable informally to MUI and the public	Statutorily accountable to the central bank and Parliament	Accountable to AAOIFI's board and member institutions; enforcement depends on national adoption

This condition can affect international perceptions of the reliability and integrity of Indonesia's Sharia institutional framework. On the one hand, Indonesia is trying to strengthen its position as a global Islamic financial center; on the other, DSN-MUI faces institutional ambiguity. This condition poses a significant challenge to DSN-MUI's effective governance. Thus, DSN-MUI's institutional ambiguity is not only an administrative problem but a structural governance issue with significant implications for legal certainty, institutional independence, and the integrity of Sharia compliance.

Conclusion

Rather than restating each dimension of institutional ambiguity examined above, this concluding section draws together the study's principal contribution. It situates it within the broader trajectory of Islamic financial governance research. The central finding of this study is that the ambiguity surrounding the DSN-MUI is not incidental but structural. It is produced by the interaction of two factors: first, an unresolved epistemological tension between normative *fiqh al-*

muʿāmalāt and state legal positivism, and second, an *uṣūl al-fiqh* methodology, *maṣlaḥah mursalah and taysīr manhajī* in particular, that is well suited to accommodating state and market pressure but only weakly checked by the corrective function of *sadd al-dharī'ah*. Selective transformation, in this sense, is not simply imposed on DSN-MUI from outside by OJK and Bank Indonesia; it is also enabled from within, by the interpretive flexibility that gives DSN-MUI's fatwas their practical usability.

This reframing carries a policy implication that goes beyond the general call for "stronger institutional status" common in prior literature. If part of the ambiguity stems from how facilitative and restrictive uṣūl al-fiqh instruments are balanced, then legislative reform of DSN-MUI's constitutional position, while necessary, is not sufficient on its own. Reform should be paired with a transparent, published methodology by which DSN-MUI documents, for each fatwa, which *maqāṣid* consideration justified a departure from classical form and *how sadd al-dharī'ah* was applied to bound that departure. Such documentation would also give OJK, Bank Indonesia, and Sharia Supervisory Boards a clearer normative reference point when translating fatwas into binding regulation, narrowing the room left for purely political screening.

This study is limited by its reliance on publicly available legal and institutional documents rather than interviews with DSN-MUI commissioners or regulators, and by its focus on two illustrative fatwas rather than a full corpus analysis; both constraints bear on the generalizability of the ḥīlah classification proposed here. Future research could extend the comparative governance model developed in this study (Table 1) into a larger empirical comparison of Sharia governance outcomes across Indonesia, Malaysia, and AAOIFI-adherent jurisdictions. It could test whether fatwas justified primarily through *maṣlaḥah mursalah* are, in practice, revised or reinterpreted more frequently than those grounded in more restrictive instruments.

Ultimately, strengthening DSN-MUI's institutional foundation legally, financially, and methodologically remains essential to the long-term credibility of Indonesia's Islamic finance sector, both domestically and as the country seeks to position itself as a global center of Islamic finance.

Declaration of Generative AI

This manuscript received limited assistan-ce from an AI-based language tool (Grammarly and ChatGPT) for language refinement and grammar checking. The authors critically reviewed and fi-nalized all content and accept full responsibility for the published work. No AI tools were used in data analysis or the interpretation of findings.

Declaration of Competing Interest

The authors report no known competing financial interests or personal relationships that could have influenced the work presented in this paper.

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