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DSN-MUI Fatwas as Soft Law Instruments in Indonesia's Sharia Finance Governance

Didi Suardi[1*], Martavevi Azwar[1], Dirman Hanafi[2]

[1]Department of Sharia Economics, Faculty of Islamic Economics and Business, Cendekia Abditama University, Jl. Islamic Raya, Kelapa Dua, Kec. Kelapa Dua, Kab. Tangerang, Banten, Indonesia
[2]Department of Electrical Engineering, Faculty of Electrical and Electronic Engineering, Universiti Tun Hussein Onn Malaysia, 86400 Parit Raja, Batu Pahat, Johor, Malaysia

*) Corresponding author: Didi Suardi
E-mail: didi@uca.ac.id; didisuardi1104@gmail.com

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Abstract. This article examines DSN-MUI fatwas as soft law instruments within Indonesia's sharia finance governance system. The study addresses a central problem: although DSN-MUI fatwas are not positioned as statutory law in Indonesia's formal hierarchy of laws, they significantly influence product design, contractual architecture, sharia compliance, supervisory expectations, and institutional governance in Islamic financial institutions. Using a normative-qualitative legal approach with doctrinal and conceptual analysis, this study analyses selected DSN-MUI fatwas concerning Islamic banking contracts, sharia capital-market instruments, sukuk, takaful, and digital financial products, together with relevant financial statutes, OJK and Bank Indonesia regulations, DSN-MUI institutional materials, and sharia supervisory governance documents. The analysis shows that DSN-MUI fatwas operate through three interconnected governance pathways: first, as non-binding religious-legal guidance grounded in collective *ijtihad* and *maslahah*; second, as regulatory references when adopted or recognized by state financial authorities; and third, as institutional compliance obligations when translated into SSB approvals, product manuals, contracts, audit procedures, and internal policies. This soft-law function strengthens regulatory certainty, standardizes sharia-compliant financial practices, and enhances market trust. However, it also creates governance challenges, especially interpretive plurality, uneven institutional implementation, limited procedural transparency, and coordination gaps between DSN-MUI, regulators, and Islamic financial institutions. The article contributes to Islamic financial law scholarship by clarifying how religious-legal authority produces practical regulatory effects without becoming formal statutory law. It concludes that greater methodological transparency in fatwa formulation, harmonized interpretive guidance, stronger coordination among DSN-MUI, OJK, and BI, and improved SSB capacity are necessary to enhance fatwa-based governance while preserving its flexibility for financial innovation.

Abstrak. *Artikel ini menganalisis fatwa DSN-MUI sebagai instrumen soft law dalam tata kelola keuangan syariah di Indonesia. Masalah utama yang dikaji adalah bahwa meskipun fatwa DSN-MUI tidak berkedudukan sebagai peraturan perundang-undangan dalam hierarki hukum nasional, fatwa tersebut memiliki pengaruh signifikan terhadap desain produk, arsitektur akad, kepatuhan syariah, ekspektasi pengawasan, dan tata kelola kelembagaan pada lembaga keuangan syariah. Penelitian ini menggunakan pendekatan hukum normatif-kualitatif dengan analisis doktrinal dan konseptual terhadap sejumlah fatwa DSN-MUI terpilih mengenai akad perbankan syariah, instrumen pasar modal syariah, sukuk, takaful, dan produk keuangan digital, serta dikaitkan dengan peraturan perundang-undangan sektor keuangan, regulasi OJK dan Bank Indonesia, dokumen kelembagaan DSN-MUI, dan dokumen tata kelola pengawasan syariah. Hasil penelitian menunjukkan bahwa fatwa DSN-MUI bekerja melalui tiga jalur tata kelola yang saling*

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berkaitan: pertama, sebagai panduan keagamaan-hukum yang tidak mengikat secara statutori dan bertumpu pada ijtihad kolektif serta pertimbangan maslahah; kedua, sebagai rujukan regulatif ketika diadopsi atau diakui oleh otoritas keuangan negara; dan ketiga, sebagai kewajiban kepatuhan internal ketika diterjemahkan ke dalam persetujuan DPS, pedoman produk, kontrak, prosedur audit, dan kebijakan internal lembaga keuangan syariah. Fungsi soft law ini memperkuat kepastian regulatif, menstandarkan praktik keuangan syariah, dan meningkatkan kepercayaan pasar. Namun, karakter tersebut juga menimbulkan tantangan tata kelola, terutama pluralitas interpretasi, ketidakseragaman implementasi kelembagaan, keterbatasan transparansi prosedural, dan celah koordinasi antara DSN-MUI, regulator, dan lembaga keuangan syariah. Artikel ini berkontribusi pada kajian hukum keuangan syariah dengan memperjelas bagaimana otoritas keagamaan-hukum dapat menghasilkan efek regulatif praktis tanpa berubah menjadi hukum statutori. Penelitian ini menyimpulkan bahwa peningkatan transparansi metodologis dalam perumusan fatwa, harmonisasi pedoman interpretatif, penguatan koordinasi DSN-MUI–OJK–BI, dan peningkatan kapasitas DPS diperlukan untuk memperkuat tata kelola berbasis fatwa tanpa menghilangkan fleksibilitasnya bagi inovasi keuangan.

INTRODUCTION

Indonesia's Islamic finance sector has expanded across diverse institutional forms, including Islamic banks, sharia-compliant business units, takaful, sharia-compliant capital markets, Islamic microfinance institutions, sukuk, and, more recently, sharia-based digital finance and fintech platforms. This development has occurred within a plural regulatory environment in which statutory law, administrative regulation, private contracting, market discipline, and religious-legal guidance interact. In this setting, fatwas issued by the *Dewan Syariah Nasional–Majelis Ulama Indonesia* (DSN-MUI) occupy a central position in defining the normative boundaries of sharia-compliant financial transactions. They provide authoritative guidance for contract design, product approval, risk allocation, accounting treatment, dispute prevention, and internal sharia governance across Islamic financial institutions (Asrun et al., 2020; Maslihatin & Riduwan, 2020; Saleh et al., 2023; Selian et al., 2023; Widyastuti et al., 2020).

The legal position of DSN-MUI fatwas is distinctive. Formally, fatwas are not legislation and are not included in Indonesia's hierarchy of laws and regulations. They do not operate as statutes, government regulations, OJK regulations, Bank Indonesia regulations, or binding judicial decisions. However, their practical influence cannot be understood merely from their non-statutory status. In the field of Islamic finance, fatwas acquire regulatory relevance through several legal and institutional channels.

Law No. 21 of 2008 on Islamic Banking recognizes sharia principles as the principles of Islamic law for banking activities, based on fatwas issued by the authorized fatwa institution; it also provides that sharia banking products and services must comply with sharia principles and that such fatwas must be translated into financial regulations. More recently, OJK Regulation No. 2 of 2024 on Sharia Governance for Islamic Commercial Banks and Sharia Business Units explicitly anchors sharia principles in DSN-MUI fatwas and/or statements of sharia conformity (Law No. 21 of 2008 on Islamic Banking, 2008; *Peraturan Bank Indonesia Nomor 10/32/PBI/2008 tentang Komite Perbankan Syariah*, 2008; *Peraturan Otoritas Jasa Keuangan Nomor 2 Tahun 2024 tentang Penerapan Tata Kelola Syariah bagi Bank Umum Syariah dan Unit Usaha Syariah*, 2024) . This demonstrates that DSN-MUI fatwas are formally non-statutory but can obtain hard regulatory effects when incorporated into financial regulations, supervisory expectations, institutional policies, or contractual documentation.

This dual character is the core problem this article addresses. DSN-MUI fatwas are religious-legal opinions in origin, but in practice, they influence the behavior of financial institutions, regulators, sharia supervisory boards, auditors, market participants, and consumers. They are not binding as statutory law,

but they may become binding at the institutional level through translations into SSB approvals, product manuals, standard operating procedures, customer contracts, audit mechanisms, and internal compliance policies.

This article, therefore, treats DSN-MUI fatwas through three levels of normativity: first, as non-binding religious-legal guidance grounded in collective *ijtihad* and *maslahah*; second, as regulatory references when recognized or adopted by state financial authorities; and third, as internal compliance obligations when embedded in institutional governance and private financial documentation. This distinction is important because it clarifies how DSN-MUI fatwas may remain soft law at the level of formal legal hierarchy while producing hard effects at the level of regulation, supervision, and institutional practice (Ambarwati, 2021; Hafandi & Handayati, 2021; Hasanudin et al., 2023; Maslihatin & Riduwan, 2020; Rasidin et al., 2022; Saleh et al., 2023; Widyastuti et al., 2020; Zein, 2018).

The use of a soft-law framework helps explain this regulatory phenomenon. In regulatory governance theory, soft law refers to norms, standards, guidelines, interpretive frameworks, or authoritative statements that influence behavior without possessing the full binding force of hard law. Soft-law instruments often operate through legitimacy, expertise, institutional acceptance, reputational pressure, and incorporation into administrative or contractual mechanisms (Abbott & Snidal, 2000; Senden, 2004; Trubek et al., 2005). DSN-MUI fatwas display these characteristics in Indonesia's Islamic finance sector. Their authority does not arise from legislative enactment, but from religious credibility, collective scholarly reasoning, regulator recognition, institutional uptake, and market reliance on sharia legitimacy. They guide financial innovation, reduce uncertainty in product development, and create a shared vocabulary for sharia compliance among regulators, SSB, Islamic financial institutions, and consumers.

Existing scholarship provides important foundations for understanding this phenomenon. One strand examines the epistemological basis of MUI and DSN-MUI fatwa formation, especially the role of *ijtihad*, textual reasoning, contextual adaptation, and *maslahah* in responding to modern financial innovation (Hasanudin et al., 2023; Hidayati et al., 2023). A second strand focuses on the institutional and sociological authority of MUI and DSN-MUI, including legitimacy, conservatism, state–*ulama* relations, and the interaction between religious authority and state regulation (Marrantika et al., 2024; Selian et al., 2023; Zein, 2018). A third strand analyses the historical and practical contribution of DSN-MUI fatwas to Islamic economic law, product standardization, sharia compliance, and the development of Islamic financial institutions in Indonesia (Fakhrunnas, 2018; Widyastuti et al., 2020). These studies show that fatwas are normatively influential, institutionally recognized, and practically relevant.

However, the existing literature has not yet sufficiently explained the precise legal-governance mechanism through which DSN-MUI fatwas move from religious normativity into financial institutional practice. Much of the literature discusses the content, epistemology, or authority of fatwas. Still, less attention is given to the transformation pathway by which fatwas become regulatory references, supervisory benchmarks, internal compliance obligations, and contractual standards. This creates a research gap at the intersection of Islamic jurisprudence, soft-law theory, legal pluralism, and financial regulatory governance. The gap is especially important because Islamic finance governance requires both normative certainty and interpretive flexibility. Fatwas must provide standardized sharia references for contracts and products. Still, they must also remain adaptable to new financial instruments, digital finance, sukuk structures, waqf-linked instruments, and other forms of innovation (Hafandi & Handayati, 2021; Hidayati et al., 2023; Nurlaela et al., 2020; Rasidin et al., 2022).

The central research question of this article is: How do DSN-MUI fatwas function as soft law instruments in shaping sharia finance governance in Indonesia? This main question is developed into three subsidiary questions. First, how are DSN-MUI fatwas positioned within Indonesia's legal and financial regulatory

architecture? Second, through what mechanisms are fatwas transformed from religious-legal opinions into regulatory references and institutional compliance obligations? Third, what governance challenges arise from this soft-law character, particularly regarding interpretive plurality, procedural transparency, regulatory coordination, and implementation consistency across Islamic financial institutions? These questions address the need for a more precise explanation of DSN-MUI fatwas not only as doctrinal products but also as governance instruments.

The objective of this article is therefore threefold. First, it clarifies the legal status of DSN-MUI fatwas by distinguishing between their non-binding status in the hierarchy of laws, their quasi-regulatory influence through state recognition, and their institutional bindingness through SSB decisions, product documentation, and compliance procedures. Second, it analyses the governance pathway through which fatwas shape product design, contractual architecture, sharia supervision, risk management, and regulatory alignment. Third, it identifies governance tensions arising from fatwa-based soft law, including interpretive plurality, uneven institutional implementation, limited procedural transparency, and coordination challenges between DSN-MUI, OJK, Bank Indonesia, SSB, and Islamic financial institutions (Marrantika et al., 2024; Radliyah et al., 2018; Selian et al., 2023; Widyastuti et al., 2020).

The novelty of this article lies in its explicit framing of DSN-MUI fatwas as soft law instruments within Indonesia's sharia finance governance system. Unlike studies that focus primarily on the doctrinal content of individual fatwas or the sociological authority of MUI, this article offers a structural account of how DSN-MUI fatwas operate through a governance chain: religious-legal reasoning, regulatory recognition, SSB transmission, institutional compliance, product documentation, and market discipline. This approach bridges Islamic jurisprudence and regulatory governance theory by showing that religious-legal authority can complement state regulation without being absorbed entirely into statutory law. It also clarifies why fatwas may produce practical regulatory effects even when they remain formally outside the hierarchy of legislation (Hasanudin et al., 2023; Hidayati et al., 2023; Marrantika et al., 2024; Saleh et al., 2023; Selian et al., 2023).

Indonesia provides a particularly significant case for examining DSN-MUI fatwas as soft law instruments. The country has the world's largest Muslim population, a growing Islamic finance industry, a dedicated Islamic banking statute, an active financial regulator, and an institutionalized national fatwa body whose outputs are routinely referenced by financial institutions and regulators. This makes Indonesia an important site for studying how religious normativity, state regulation, market practice, and institutional compliance interact within a plural legal order. The Indonesian experience shows that fatwa-based governance can strengthen regulatory certainty, product standardization, and market trust, but it also reveals risks of fragmentation when interpretation, implementation, and coordination are not sufficiently transparent or harmonized (Ambarwati, 2021; Hafandi & Handayati, 2021; Maslihatin & Riduwan, 2020; Saleh et al., 2023; Zein, 2018).

Based on this framework, the article argues that DSN-MUI fatwas function neither as purely private religious opinions nor as ordinary statutory commands. Rather, they operate as soft law instruments whose practical force depends on institutional adoption, regulatory alignment, SSB implementation, and market reliance on sharia legitimacy. This argument contributes to Islamic financial law by explaining the specific mechanisms through which fatwas shape governance in banking, capital markets, takaful, sukuk, and digital finance. It also contributes to regulatory theory by showing how soft law can generate concrete governance effects in a religiously informed financial system without eliminating the distinction between religious normativity and formal legality.

LITERATURE REVIEW

This literature review develops the conceptual foundation for analyzing DSN-MUI fatwas as soft law instruments in Indonesia's sharia finance governance. It moves beyond a descriptive mapping of previous studies by identifying four theoretical tensions that frame the present article: first, soft law versus hard law; second, religious authority versus state regulation; third, standardization versus interpretive plurality; and fourth, *maslahah*-based flexibility versus regulatory certainty. These tensions are central to understanding why DSN-MUI fatwas, although formally non-statutory, may produce concrete governance effects in Islamic financial institutions. The review is organized into five thematic subsections: Islamic legal authority and fatwa in *muamalah maliyyah*; soft law and regulatory governance; the Indonesian financial regulatory framework; sharia governance and institutional transmission; and *maslahah*, innovation, and interpretive plurality. The final subsection synthesizes these strands into the conceptual framework used in the article.

Fatwa, Islamic Legal Authority, and *Muamalah Maliyyah*

In Islamic legal tradition, a fatwa is a non-judicial legal opinion issued by a qualified jurist or fatwa institution in response to a particular legal or moral question. Its authority does not derive from state coercion but from scholarly credibility, epistemic legitimacy, and recognition by the relevant community. In this classical sense, a fatwa differs from a court judgment, statute, or administrative regulation. It guides conduct normatively, but it does not, by itself, operate as enforceable state law (Firdaus & Achmad, 2024; Yasin, 2017).

In the Indonesian context, however, DSN-MUI fatwas have undergone institutionalization. Rather than being individual juristic opinions, fatwas in Islamic finance are formulated through a collective process within the *Dewan Syariah Nasional–Majelis Ulama Indonesia*. This institutional character distinguishes DSN-MUI fatwas from ordinary religious opinions and endows them with greater procedural, epistemic, and governance significance. Scholars describe this process as a form of collective *ijtihad* that combines textual reasoning, doctrinal interpretation, contextual analysis, and public welfare considerations to address modern financial transactions (Hidayati et al., 2023; Shadiq et al., 2024).

This transformation is particularly important in the field of *muamalah maliyyah*. Islamic finance requires juristic guidance not only on general ethical principles, but also on specific contractual structures, risk allocation, asset ownership, profit-sharing, fee-based services, investment agency, sukuk, fintech, and capital-market instruments. DSN-MUI fatwas provide normative parameters for determining whether such products comply with sharia principles. They define permissible contracts, prohibited elements, and essential conditions for validity, thereby serving as interpretive references for financial institutions and regulators (Nurlaela et al., 2020; Rasidin et al., 2022).

Previous studies have shown that DSN-MUI fatwas play a significant role in the development of Islamic economic law in Indonesia. Fakhrunnas (2018), for example, argues that fatwas contribute to the construction of Islamic financial infrastructure by providing legal and religious certainty for transactions. Saleh et al. (2023) demonstrate that sharia banks' compliance with DSN-MUI fatwas is closely related to institutional legitimacy and market trust. Other studies also show that fatwas influence Islamic banking, capital markets, sharia mutual funds, waqf-linked instruments, and fintech products (Hafandi & Handayati, 2021; Hidayati et al., 2023; Widyastuti et al., 2020).

Nevertheless, the literature has not always clearly distinguished between the various legal effects of fatwas. Some studies treat fatwas mainly as religious opinions, while others describe them as quasi-regulatory references. This lack of conceptual precision creates an analytical problem. DSN-MUI fatwas should not be equated with statutes, yet they should also not be reduced to purely private moral advice. Their significance

lies in their hybrid position: they are religious-legal opinions that may become regulatory references and institutional compliance standards through formal and informal governance mechanisms.

Soft Law, Hard Law, and Regulatory Governance

Soft law provides a useful theoretical lens for explaining the hybrid character of DSN-MUI fatwas. In regulatory theory, soft law refers to rules, standards, guidelines, codes, principles, interpretive statements, or institutional norms that influence conduct without having the full coercive force of hard law. Hard law usually involves formal validity, binding legal obligation, and enforceability through state institutions. Soft law, by contrast, relies on legitimacy, expertise, persuasion, institutional adoption, reputational pressure, and incorporation into other binding arrangements (Abbott & Snidal, 2000; Senden, 2004).

The distinction between soft law and hard law is not absolute. Soft-law instruments may produce hard effects when they are incorporated into contracts, administrative decisions, supervisory expectations, licensing requirements, or institutional policies. Trubek et al. (2005) note that modern governance often operates through hybrid combinations of hard and soft law, especially in complex regulatory fields where flexibility and technical expertise are required. Financial governance is one such field, because market innovation often develops faster than formal legislation. Regulators, therefore, frequently use standards, guidance, principles, and interpretive frameworks to shape institutional behavior.

DSN-MUI fatwas display the characteristics of soft law in at least four respects. First, they are formally non-statutory and do not appear as legislation in the hierarchy of Indonesian laws. Second, they provide authoritative normative guidance based on religious-legal expertise. Third, they influence market behavior through institutional acceptance, regulatory recognition, and consumer trust. Fourth, they may obtain harder effects when incorporated into OJK or Bank Indonesia regulations, SSB decisions, product documentation, standard operating procedures, and contracts.

The soft-law lens, therefore, helps explain why DSN-MUI fatwas can be simultaneously non-binding and practically influential. They are not binding because they are fatwas; they become influential because regulators, Islamic financial institutions, SSB, auditors, and market participants treat them as authoritative benchmarks of sharia compliance. This distinction is central to the article's argument. It avoids two analytical extremes: viewing fatwas as ordinary statutes on the one hand, or as merely private religious advice on the other.

This theoretical framing also connects the study to legal pluralism. Indonesia's Islamic finance governance is not built solely on state law, but on the interaction of statutory norms, administrative regulation, religious authority, market discipline, private contracts, and institutional governance. Legal pluralism explains how multiple normative orders may coexist and interact within a single regulatory field. In this case, DSN-MUI fatwas represent religious-legal normativity, while OJK and Bank Indonesia represent state regulatory authority. Their interaction creates a hybrid governance structure in which soft law and hard law reinforce one another (Selian et al., 2023; Zein, 2018).

DSN-MUI Fatwas in Indonesia's Financial Regulatory Framework

The Indonesian regulatory framework gives DSN-MUI fatwas a special role in Islamic finance. Although fatwas are not statutory law, their content may be recognized, translated, or incorporated into formal regulation. This is particularly visible in Islamic banking, where sharia compliance is a statutory requirement and where financial products must conform to sharia principles as interpreted by the authorized fatwa institution. This creates what scholars often describe as partial positivisation or regulatory anchoring of religious norms (Radliyah et al., 2018; Zein, 2018).

The relationship between DSN-MUI fatwas and state regulation should therefore be understood as complementary rather than identical. DSN-MUI provides religious-legal standards, while state regulators provide formal legal enforceability. When OJK or Bank Indonesia refers to, adopts, or operationalizes DSN-MUI fatwas, the fatwa does not automatically become a statute in itself. Instead, the regulatory instrument gives practical legal effect to fatwa-based standards within a particular sector. This is the point at which soft law may acquire hard regulatory consequences.

This dynamic can be seen across several sectors of Islamic finance. In Islamic banking, DSN-MUI fatwas inform contract structures such as *murabahah, mudharabah, musyarakah, ijarah, wakalah*, and other financing arrangements. In Islamic capital markets, fatwas determine the permissibility of sukuk (sharia-compliant securities), sharia-compliant mutual funds, and market transactions. In takaful, fatwas guide *tabarru', wakalah bil ujrah*, and risk-sharing arrangements. In fintech and digital finance, fatwas help assess new financial technologies against sharia principles and public-welfare considerations (Ambarwati, 2021; Hidayati et al., 2023; Nurlaela et al., 2020).

However, regulatory incorporation is not always uniform. Some fatwas are directly reflected in regulations, while others function mainly as interpretive references. Some are translated into product manuals and supervisory checklists, while others remain broad normative guidance. This variability creates an important governance question: when does a DSN-MUI fatwa remain soft law, when does it become a regulatory reference, and when does it become an institutional compliance obligation? The literature recognizes the influence of DSN-MUI fatwas, but it has not always explained this transformation pathway systematically.

This article, therefore, positions DSN-MUI fatwas within a layered legal-governance architecture. At the first level, fatwas are religious-legal guidance. At the second level, they become regulatory references through recognition by OJK, Bank Indonesia, or other state authorities. At the third level, they become internal compliance obligations through SSB approvals, product manuals, contracts, audit procedures, and institutional policies. This layered model clarifies the relationship between religious authority, state regulation, and institutional practice.

Sharia Governance, SSB Transmission, and Institutional Compliance

Sharia governance is the institutional mechanism through which DSN-MUI fatwas are translated into organizational practice. It includes sharia supervisory boards, internal compliance units, product approval procedures, audits, disclosures, and risk-management systems. In Indonesia, the *Dewan Pengawas Syariah* plays a central role in ensuring that Islamic financial institutions operate in accordance with DSN-MUI fatwas and sharia principles (Maslihatin & Riduwan, 2020; Widyastuti et al., 2020). The literature shows that fatwas become operationally significant when they are transmitted through institutional structures. A fatwa may define the normative requirements of a contract, but the SSB translates those requirements into product approval, contract clauses, transaction workflows, monitoring procedures, and internal compliance standards. This process converts religious-legal guidance into institutional practice. It is therefore through sharia governance, rather than through fatwa alone, that DSN-MUI standards become embedded in daily financial operations (Lutfiyah et al., 2022; Rasidin et al., 2022).

This institutional transmission gives DSN-MUI fatwas practical force. Financial institutions rely on fatwas to obtain sharia legitimacy; regulators rely on them to evaluate compliance; auditors use them as benchmarks; and consumers rely on them as indicators of religious conformity. In this sense, fatwas contribute to market discipline. Institutions that ignore or misapply fatwas risk reputational harm, regulatory scrutiny, loss of consumer confidence, and internal compliance failure (Saleh et al., 2023). At the same time, the effectiveness of fatwa-based governance depends heavily on institutional capacity. If SSB members have

strong expertise, independence, and access to adequate compliance data, fatwa implementation is more likely to be consistent and credible. If SSB oversight is weak, fragmented, or merely symbolic, the translation of fatwas into practice may become uneven. Previous studies on sharia compliance in Islamic financial institutions show that implementation gaps remain a recurring challenge, especially when governance structures differ across institutions (Maslihatin & Riduwan, 2020; Widyastuti et al., 2020).

This creates a tension between standardization and institutional discretion. DSN-MUI fatwas aim to provide common sharia standards for the industry, but their application often depends on institutional interpretation, SSB reasoning, product complexity, and regulatory context. Standardization is needed to ensure legal certainty and market confidence, while discretion is needed to accommodate innovation and sectoral diversity. The unresolved balance between these two goals is a central governance challenge in Indonesia's Islamic finance system.

Maslahah, Financial Innovation, and Interpretive Plurality

Maslahah is a key normative principle in the formulation of contemporary Islamic economic fatwas. It allows jurists to evaluate financial innovation by considering public benefit, harm prevention, fairness, risk allocation, and the broader objectives of sharia. In the field of *muamalah maliyyah*, *maslahah* enables fatwa institutions to respond to new products and technologies without abandoning core doctrinal principles (Hasanudin et al., 2023; Mustofa, 2019). Studies on DSN-MUI fatwas show that *maslahah*-based reasoning has supported the development of Islamic financial instruments in Indonesia. It allows DSN-MUI to address digital finance, crowdfunding, e-wallets, sukuk structures, waqf-linked instruments, and other innovations through a purposive rather than purely literal approach. This makes fatwa-based governance adaptive and responsive to changing market conditions (Hafandi & Handayati, 2021; Hidayati et al., 2023).

However, *maslahah* also produces interpretive plurality. Different jurists or institutions may weigh public benefit, risk, necessity, and harm differently. What one interpretive authority regards as an acceptable innovation may be viewed by another as involving excessive *gharar*, *riba*-related concern, or unacceptable uncertainty. This plurality is not necessarily a weakness; it reflects the dynamism of Islamic legal reasoning. Nevertheless, in a regulated financial system, excessive divergence may create uncertainty for regulators, institutions, investors, and consumers. The governance problem is therefore not whether *maslahah* should be used, but how *maslahah*-based reasoning should be made transparent, consistent, and institutionally manageable. If the reasoning behind a fatwa is not adequately explained, stakeholders may find it difficult to understand why certain products are approved while others are restricted. If interpretive differences are not harmonized, institutions may apply similar fatwas differently. This is why procedural transparency and interpretive guidance are essential for strengthening fatwa-based soft law.

The tension between flexibility and certainty is central to this article. Financial innovation requires flexible juristic reasoning, but financial governance requires predictable standards. DSN-MUI fatwas must therefore perform a dual function: they must preserve the adaptive capacity of Islamic jurisprudence while providing sufficient certainty for regulation, supervision, and market practice. This dual function is precisely what makes them soft law instruments in sharia finance governance.

Conceptual Framework and Research Gap

The literature demonstrates that DSN-MUI fatwas are normatively authoritative, institutionally recognized, and practically influential in Indonesia's Islamic finance sector. However, existing studies remain fragmented. Studies on fatwa epistemology explain the juristic foundations of fatwa-making, but often do not analyze the regulatory effects of fatwas. Studies on Islamic finance regulation highlight the importance of DSN-MUI but often fail to clarify the different layers of fatwa normativity. Studies on sharia governance discuss SSB and compliance, but often do not systematically explain how fatwas move from religious

guidance into product documentation, supervisory mechanisms, and contractual obligations. This article addresses that gap by developing a soft-law governance framework.

The framework explains DSN-MUI fatwas through three interconnected levels. The first level is religious-legal normativity, where fatwas function as non-statutory guidance derived from collective *ijtihad, usul fiqh*, and *maslahah*. The second level is regulatory reference, where fatwas influence or are incorporated into financial regulation, licensing, supervision, and regulatory interpretation. The third level is institutional compliance, where fatwas become operationally binding through SSB decisions, internal policies, product manuals, contracts, audit systems, and sharia-compliance procedures.

This framework clarifies how DSN-MUI fatwas produce governance effects without being transformed entirely into statutory law. It also explains the main governance tensions that arise from their soft-law character: soft law versus hard law, religious authority versus state regulation, standardization versus interpretive plurality, and *maslahah*-based flexibility versus regulatory certainty. These tensions guide the analysis in the following sections.

Table 1. Conceptual framework: DSN-MUI fatwas as soft law instruments

No	Analytical Tension	Meaning in the Literature	Relevance to DSN-MUI Fatwas	Governance Implication
1.	Soft law vs hard law	Soft law influences behaviour without direct statutory force; hard law is formally binding and enforceable	DSN-MUI fatwas are non-statutory but may gain harder effects through regulation and institutional adoption	Explains how fatwas can be non-binding yet practically influential
2.	Religious authority vs state regulation	Religious norms and state law operate from different sources of legitimacy	DSN-MUI provides sharia legitimacy; OJK/BI provide formal regulatory authority	Shows complementarity between religious normativity and financial regulation
3.	Standardisation vs interpretive plurality	Regulation requires consistency, while Islamic legal reasoning allows interpretive diversity	Fatwas standardise contracts, but implementation may vary across SSB and institutions	Highlights the need for harmonised guidance and stronger supervisory coordination
4.	*Maslahah* flexibility vs regulatory certainty	*Maslahah* enables adaptation, but markets require predictable standards	Fatwas support innovation but may generate ambiguity if reasoning is not transparent	Supports procedural transparency and clearer interpretive criteria
5.	Fatwa as guidance vs compliance obligation	A fatwa begins as normative guidance but may become binding through institutional mechanisms	SSB approval, product manuals, contracts, and audits internalise fatwa standards	Explains transformation from religious opinion into governance practice

Source: Author's synthesis based on the literature reviewed (2026)

Based on this framework, the article argues that DSN-MUI fatwas should be understood neither as purely non-binding religious opinions nor as ordinary statutory regulations. They operate as soft law instruments that acquire practical force through regulatory recognition, sharia supervisory transmission, institutional

compliance, private contracting, and market reliance. This framing provides the theoretical basis for the method and analysis that follow.

METHOD

This section clarifies the research design, the corpus of materials, the selection criteria, and the analytical procedures employed to examine DSN-MUI fatwas not merely as doctrinal texts but as soft law instruments that shape sharia finance governance in Indonesia. The study is grounded in normative-qualitative legal research, with doctrinal, conceptual, and regulatory governance analysis. It treats DSN-MUI fatwas as normative outputs whose practical force is mediated through institutional adoption, sharia supervisory mechanisms, compliance architectures, private financial documentation, and regulatory alignment. The method integrates a governance lens with soft-law theory to illuminate how fatwas are translated into governance practice across Islamic banking, sharia capital markets, sukuk, takaful, and digital finance within Indonesia's hybrid regulatory order.

Research Design

The study adopts a normative-qualitative legal research design with an analytical–conceptual orientation. The objective is to explain how DSN-MUI fatwas function as soft law instruments within Indonesia's sharia finance governance system, rather than to quantify performance indicators or test causal hypotheses. This orientation is well-suited to examining normative texts, including fatwas, statutes, financial regulations, sharia governance standards, and institutional compliance documents, which operate in a legal-normative domain and require interpretive analysis to reveal their internal logic, legal positioning, and governance implications (Firdaus & Achmad, 2024; Hidayati et al., 2023; Shadiq et al., 2024; Zein, 2018).

The research design uses three complementary approaches. First, the statutory approach is used to examine the position of DSN-MUI fatwas vis-à-vis Indonesian legal instruments, including Islamic banking law, state sharia securities law, OJK regulations, Bank Indonesia regulations, and the hierarchy of laws and regulations. Second, the conceptual approach is used to analyze soft law, legal pluralism, sharia governance, collective *ijtihad, maslahah*, and institutional compliance. Third, the doctrinal approach is used to interpret selected DSN-MUI fatwas by identifying their legal reasoning, contractual principles, normative commands, prohibitions, and governance implications.

A governance lens enables the analysis to move beyond the formal question of whether fatwas are binding legislation. Instead, it examines how fatwas are operationalized within institutions through internal sharia governance, product development, risk management, audit, disclosure, and SSB supervision, and how regulators use fatwa content in licensing, supervisory expectations, and regulatory alignment. This perspective is consistent with literature describing the DSN-MUI–regulatory interface as a hybrid governance space in which religious authority informs, but does not directly replace, state regulation, thereby producing a form of partial positivisation of religious norms (Marrantika et al., 2024; Radliyah et al., 2018; Selian et al., 2023; Zein, 2018).

The epistemological basis of the analysis is that DSN-MUI fatwas emerge from collective *ijtihad* and *maslahah*-based reasoning, and that their regulatory effects derive from epistemic credibility, religious legitimacy, institutional recognition, and purposive social benefits rather than solely from coercive state force. This premise is consistent with scholarship that emphasizes *maslahah* as a driver of doctrinal adaptability and regulatory relevance in modern Islamic finance (Firdaus & Achmad, 2024; Hasanudin et al., 2023; Hidayati et al., 2023; Shadiq et al., 2024).

By foregrounding DSN-MUI fatwas as governance instruments, the study contributes a structural and integrative synthesis that bridges Islamic jurisprudence and regulatory theory. It places fatwas within a framework of soft-law governance to illuminate issues of interpretive plurality, procedural transparency, institutional coordination, and adaptive regulatory capacity in response to digital finance, sukuk, capital-market innovation, takaful, and cross-sector financial activities (Lutfiyah et al., 2022; Marrantika et al., 2024).

Period and Sectoral Scope

The analysis period covers DSN-MUI fatwas and related regulatory materials issued between 2000 and 2024. The year 2000 is selected because it marks the early DSN-MUI fatwas on foundational Islamic finance contracts, including *murabahah, mudharabah, musyarakah, ijarah*, and *wakalah*. The year 2024 is selected as the endpoint because it captures recent regulatory developments in sharia governance, particularly OJK Regulation No. 2 of 2024 on the Implementation of Sharia Governance for Islamic Commercial Banks and Sharia Business Units. The focus on five key sectors-Islamic banking, sharia capital markets, sukuk, takaful, and digital finance-aims to assure the audience of the study's targeted scope, emphasizing its relevance to major areas of Islamic finance in Indonesia.

Data Sources

First, the primary normative materials are selected DSN-MUI fatwas relating to Islamic banking, capital markets, sukuk, takaful, and financial innovation. These fatwas define permissible contracts, risk-sharing concepts, agency structures, fee-based services, investment arrangements, and governance parameters that underpin product design and internal compliance frameworks (Andriansyah, 2023; Hidayati et al., 2023; Nurlaela et al., 2020; Zein, 2018). They serve as primary sources for tracing legal reasoning, public-welfare justification, and the normative benchmarks used by financial institutions.

Second, the study examines national financial regulations and supervisory instruments to clarify how fatwas are operationalized within formal regulatory frameworks. These include sector-specific laws, licensing criteria, sharia governance regulations, and supervisory guidelines issued by state authorities and official regulators. This material grounds the analysis of the transmission of fatwa-to-regulation and regulatory alignment (Dewi, 2019; Hamsin et al., 2023; Nasir & Wasilah, 2018; Rasyid et al., 2022; Usman, 2022; Widyastuti et al., 2020).

Third, institutional sharia governance and compliance documents are used to map the translation of normative fatwas into institutional practice. These include sharia supervisory board guidelines, product-approval procedures, sharia compliance frameworks, audit procedures, and publicly available institutional governance materials. These sources are used to trace how DSN-MUI fatwas are embedded in approval workflows, risk-management processes, disclosure practices, and internal sharia compliance systems (Lutfiyah et al., 2022; Maslihatin & Riduwan, 2020; Radliyah et al., 2018; Rasidin et al., 2022; Widyastuti et al., 2020).

Fourth, the study draws on scholarly analyses from doctrinal legal studies, Islamic economic law, regulatory theory, and governance-focused literature. These sources anchor the analytical framework on the epistemology of fatwas, the state–ulama interface, *maslahah*, soft law in financial governance, legal pluralism, and sharia governance in Indonesian financial institutions (Irsyadi & Slamet, 2024; Mustofa, 2019).

Primary Legal and Regulatory Corpus

The primary legal and regulatory corpus consists of three groups of materials: DSN-MUI fatwas, Indonesian laws and regulations, and institutional governance documents. The selected DSN-MUI fatwas were chosen

because they represent core areas of sharia finance governance: contractual, sectoral, and innovation-based. They are not intended to cover all DSN-MUI fatwas, but to provide a purposive corpus that illustrates how fatwas function as soft law instruments across major sectors.

Table 2. Selected DSN-MUI fatwas analysed in the study

No.	DSN-MUI Fatwa	Sector	Main Product	Reason for Selection
1.	Fatwa No. 04/DSN-MUI/IV/2000 on *Murabahah*	Islamic banking	Sale-based financing	Foundational contract widely used in Islamic banking products
2.	Fatwa No. 07/DSN-MUI/IV/2000 on *Mudharaba*h Financing	Islamic banking	Profit-sharing financing	Core profit-sharing structure in Islamic finance
3.	Fatwa No. 08/DSN-MUI/IV/2000 on *Musyarakah* Financing	Islamic banking	Partnership financing	Represents equity participation and partnership-based financing
4.	Fatwa No. 09/DSN-MUI/IV/2000 on *Ijarah* Financing	Islamic banking/ sukuk	Lease-based financing	Important for banking products and sukuk structures
5.	Fatwa No. 10/DSN-MUI/IV/2000 on *Wakalah*	Banking, investment, fintech	Agency contract	Foundational agency contract used in banking, investment, and digital finance
6	Fatwa No. 21/DSN-MUI/X/2001 on General Guidelines for Sharia Insurance	Takaful	Sharia insurance	Establishes basic governance principles for takaful
7.	Fatwa No. 32/DSN-MUI/IX/2002 on Sharia Bonds	Sukuk/capital market	Sharia bonds	Early basis for Islamic capital-market instruments
8.	Fatwa No. 40/DSN-MUI/X/2003 on Capital Market and General Guidelines for the Application of Sharia Principles in Capital Markets	Sharia capital market	Sharia securities and market conduct	Foundational fatwa for sharia capital-market governance
9.	Fatwa No. 69/DSN-MUI/VI/2008 on State Sharia Securities	Sukuk	SBSN	Links fatwa guidance to sovereign sukuk regulation
10.	Fatwa No. 80/DSN-MUI/III/2011 on the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Market of the Stock Exchange	Sharia capital market	Equity trading	Illustrates fatwa-based governance in exchange-traded instruments
11.	Fatwa No. 116/DSN-MUI/IX/2017 on Sharia Electronic Money	Digital finance	E-money/e-wallet	Represents fatwa response to digital payment innovation

Table 2. Selected DSN-MUI fatwas analysed in the study (continued)

No.	DSN-MUI Fatwa	Sector	Main Product	Reason for Selection
12.	Fatwa No. 117/DSN-MUI/II/2018 on Information Technology-Based Financing Services Based on Sharia Principles	Fintech	Sharia peer-to-peer financing	Illustrates fatwa governance in fintech
13.	Fatwa No. 126/DSN-MUI/VII/2019 on *Wakalah bi al-Istitsmar*	Investment governance	Investment agency	Relevant to fund management and investment structures
14.	Fatwa No. 137/DSN-MUI/IX/2020 on Sukuk	Sukuk/capital market	Sukuk	Updates the normative architecture of sukuk governance
15.	Fatwa No. 140/DSN-MUI/VIII/2021 on Sharia Securities Crowdfunding	Digital capital market	Securities crowdfunding	Illustrates fatwa-based governance in digital capital-market innovation

Source: Author's compilation based on selected DSN-MUI fatwas and official regulatory materials (2026)

The relevant regulatory corpus includes Law No. 21 of 2008 on Islamic Banking, Law No. 19 of 2008 on State Sharia Securities, Law No. 12 of 2011 on the Formation of Laws and Regulations, Bank Indonesia Regulation No. 10/32/PBI/2008 on the Sharia Banking Committee, OJK regulations on sharia capital markets and Islamic financial services, and OJK Regulation No. 2 of 2024 on the Implementation of Sharia Governance for Islamic Commercial Banks and Sharia Business Units. These materials analyze how fatwa-based norms are recognized, translated, or operationalized within Indonesia's formal financial regulatory framework.

Unit of Analysis

The primary unit of analysis is the DSN-MUI fatwa as a regulatory-normative instrument. Each selected fatwa is analyzed not only for its doctrinal ruling, but also for its governance implications: how it informs contract design, product architecture, internal compliance, risk management, SSB supervision, regulatory engagement, and market legitimacy. The analysis proceeds across three interconnected levels.

First, at the normative level, the study examines legal reasoning structures, contractual definitions, prohibitions, permissibility conditions, and *maslahah*-based considerations embedded in the fatwas. **Second,** at the institutional level, the study analyses how fatwas are operationalized through sharia supervisory boards, compliance units, product development units, product manuals, internal controls, audit mechanisms, and customer-facing contracts within Islamic financial institutions. **Third,** at the regulatory level, the study examines the interaction between DSN-MUI fatwas and formal financial regulation, including incorporation or recognition in licensing requirements, accounting treatment, product approval, disclosure rules, and supervisory expectations. This tri-level framing supports a cohesive narrative about how fatwas move from doctrinal outputs to governance practice. It also reflects the literature's emphasis on fatwas functioning as normative standards that shape institutional behavior and regulatory alignment (Lutfiyah et al., 2022; Marrantika et al., 2024; Maslihatin & Riduwan, 2020; Radliyah et al., 2018; Rasidin et al., 2022; Widyastuti et al., 2020).

Data Retrieval Procedure

The data were retrieved through document-based legal research. DSN-MUI fatwas were collected from the official DSN-MUI website, OJK's sharia regulatory repository, and other official institutional repositories

when necessary. Regulatory materials were collected from official legal databases and regulator websites, including OJK, Bank Indonesia, JDIH BPK, JDIH Ministry of Finance, and official government legal repositories. Scholarly literature was retrieved from Scopus, Web of Science, Google Scholar, Garuda/SINTA, DOAJ, Crossref, and journal publisher databases. The literature search combined English and Indonesian keywords to ensure coverage of international regulatory theory and Indonesian Islamic economic law scholarship.

The English search strings included: DSN-MUI fatwa, MUI fatwa, Islamic financial law, sharia banking regulation, sharia governance, soft law, legal pluralism, regulatory governance, OJK sharia finance, Bank Indonesia sharia banking, Sharia Supervisory Boards, *maslahah*, collective *ijtihad*, Islamic fintech, sukuk, sharia capital market, and takaful. The Indonesian search strings included: *fatwa DSN-MUI, hukum ekonomi syariah, tata kelola syariah, kepatuhan syariah, pasar modal syariah, perbankan syariah, asuransi syariah, uang elektronik syariah, layanan pembiayaan berbasis teknologi informasi, Dewan Pengawas Syariah, ijtihad kolektif*, and *maslahah dalam fatwa ekonomi syariah*. The search was conducted by combining legal-source retrieval and academic literature retrieval. Legal sources were prioritized when identifying the formal position and regulatory relevance of fatwas, while scholarly sources were used to construct the conceptual and analytical framework.

Selection Criteria

The selected fatwas were determined through purposive sampling. A fatwa was included in the corpus when it met at least three of the following criteria: first, it was issued by DSN-MUI and directly related to Islamic financial activities; second, it regulated or guided a contract, product, service, or governance issue used by Islamic financial institutions; third, it had relevance to one of the five selected sectors: Islamic banking, sharia capital markets, sukuk, takaful, or digital finance; fourth, it had potential regulatory relevance through OJK, Bank Indonesia, or other institutional recognition; and fifth, it illustrated the transformation of fatwa from religious-legal guidance into regulatory reference or internal compliance obligation.

Regulatory documents were selected when they met one or more of the following criteria: first, they explicitly referred to sharia principles, DSN-MUI fatwas, or sharia governance; second, they regulated Islamic financial institutions, Islamic banking, sukuk, sharia capital markets, takaful, or digital finance; third, they provided legal or supervisory mechanisms through which fatwa-based norms could be implemented; and fourth, they were issued by authoritative state institutions such as the legislature, OJK, Bank Indonesia, or relevant ministries. Scholarly sources were selected based on their relevance to four conceptual areas: DSN-MUI fatwa epistemology, Islamic financial law, sharia governance, and soft law or regulatory governance theory. Priority was given to peer-reviewed journal articles, recent scholarship, and works directly discussing Indonesia's Islamic finance governance.

Verification and Validation

The study applies source verification through document triangulation. Each selected fatwa was checked against official DSN-MUI or OJK repositories to verify its number, title, year, and subject matter. Regulatory references were checked against official state legal databases or regulator websites. Scholarly sources were used only when they directly supported the article's conceptual framework or provided relevant analysis of DSN-MUI fatwas, Islamic finance governance, soft law, or sharia compliance. To reduce citation inaccuracy and over-citation, each citation was assessed according to its relevance to the specific claim being made. Citations were retained only when the cited source directly supported the argument. This procedure was used to address the risk of unsupported citations, excessive referencing, and unverifiable claims in the manuscript.

Analytical Framework

The study uses a soft-law governance framework to evaluate DSN-MUI fatwas along four analytic dimensions. The soft-law framing is grounded in contemporary financial governance literature. It is applied to the Indonesian sharia finance context to explain how non-statutory norms influence behavior, shape organizational practices, and interact with state regulation (Firdaus & Achmad, 2024; Hidayati et al., 2023; Lutfiyah et al., 2022; Marrantika et al., 2024; Radliyah et al., 2018).

The first dimension is the normative foundation of fatwas. This dimension examines how fatwas are grounded in collective *ijtihad, usul fiqh*, contractual reasoning, and *maslahah* as a central justificatory principle for responding to evolving financial innovations. It also acknowledges interpretive plurality that emerges when *maslahah*-based reasoning is deployed across multiple juristic contexts. This plurality is interpreted as both a potential strength and a governance challenge within a plural regulatory order (Hasanudin et al., 2023; Mustofa, 2019; Yasin, 2017).

The second dimension is regulatory alignment and co-production of governance. This dimension treats DSN-MUI fatwas as catalysts for regulatory alignment: informing product approvals, disclosures, risk-management expectations, licensing, supervision, and institutional policy. Regulators translate fatwa guidance into binding or semi-binding consequences through licensing, regulation, and supervision. This co-production view aligns with literature describing DSN-MUI fatwas as normative anchors that gain practical force via administrative adoption and supervisory expectations, despite their non-statutory origin (Hamsin et al., 2023; Marrantika et al., 2024; Radliyah et al., 2018; Zein, 2018).

The third dimension is institutional transmission. This dimension examines how fatwas are translated into SSB approvals, product manuals, standard operating procedures, contracts, audit processes, compliance reviews, and customer disclosures. It explains how fatwa-based norms move from religious-legal texts into institutional routines and transactional practice (Lutfiyah et al., 2022; Maslihatin & Riduwan, 2020; Rasidin et al., 2022; Widyastuti et al., 2020).

The fourth dimension is governance tension. This dimension identifies challenges arising from the soft-law status of DSN-MUI fatwas, including interpretive plurality, limited procedural transparency, uneven institutional implementation, coordination gaps between DSN-MUI and state regulators, and the tension between *maslahah*-based flexibility and regulatory certainty (Firdaus & Achmad, 2024; Hidayati et al., 2023; Marrantika et al., 2024; Shadiq et al., 2024).

Analytical Procedure

First, the selected fatwas were read doctrinally to identify their legal subject matter, contractual structure, sharia principles, prohibitions, operative clauses, and stated legal reasoning. Particular attention was given to elements of *muamalah maliyyah*, including *akad, riba, gharar, maysir*, ownership, agency, profit-sharing, fee-based services, and risk allocation.

Second, the fatwas were analyzed through the lens of *usul fiqh and* Islamic legal reasoning, especially collective *ijtihad, maslahah*, and the relationship between textual authority and financial innovation. This step examined how DSN-MUI constructs permissibility, prohibition, and conditional approval in modern financial transactions.

Third, each fatwa was mapped against relevant financial regulations to determine whether it remained a non-binding religious-legal opinion, became a regulatory reference, or acquired harder legal consequences through adoption or recognition by state regulatory instruments. This step clarified the difference between formal legal status and practical regulatory effect.

Fourth, the study traced the institutional transmission of fatwas into sharia governance mechanisms. This included examining how fatwas are translated into decisions on SSB, product approval processes, product manuals, standard operating procedures, contractual clauses, audit standards, disclosure practices, and compliance monitoring.

Fifth, the study compared the operation of fatwa-based governance across sectors. The comparison covered Islamic banking, sharia capital markets, sukuk, takaful, fintech, and digital financial products. This cross-sectoral reading was used to identify similarities and differences in the ways fatwas operate as soft law instruments.

Sixth, the findings were synthesized into a soft-law governance framework. The synthesis classified DSN-MUI fatwas according to three levels of normativity: religious-legal guidance, regulatory reference, and institutional compliance obligation. It also identified the main governance tensions arising from this framework, especially interpretive plurality, procedural transparency, regulatory coordination, implementation variability, and the balance between *maslahah*-based flexibility and regulatory certainty.

Table 3. Analytical matrix for examining DSN-MUI fatwas as soft law instruments

No.	Analytical Dimension	Guiding Question	Evidence Examined	Expected Finding
1.	Normative content	What sharia principle or contract does the fatwa regulate?	Fatwa text, *akad* structure, prohibitions, legal reasoning	Identification of the fatwa's doctrinal basis
2.	Legal status	Does the fatwa remain non-statutory, or is it recognised by regulation?	Laws, OJK/BI regulations, regulatory explanations	Classification as guidance, regulatory reference, or incorporated standard
3.	Institutional transmission	How is the fatwa implemented by Islamic financial institutions?	SSB mechanisms, product approvals, compliance manuals, contracts	Identification of internal compliance pathways
4	Governance effect	What practical effect does the fatwa produce?	Product standardisation, risk management, supervision, disclosure	Explanation of soft-law effect in practice
5.	Governance tension	What problems arise from implementation?	Literature, regulatory gaps, interpretive differences	Identification of transparency, coordination, or consistency challenges

Source: Author's analytical framework (2026)

Methodological Limitation

This study is primarily normative and document-based. It does not conduct interviews with DSN-MUI members, OJK officials, Bank Indonesia officials, SSB members, compliance officers, or Islamic financial institution managers. It also does not quantitatively measure the level of compliance of particular institutions with DSN-MUI fatwas. Therefore, the findings should be understood as doctrinal and governance-based conclusions derived from legal, institutional, and scholarly materials. Future research may extend this study through empirical interviews, institutional case studies, or comparative analysis of the implementation of fatwas across Islamic financial institutions.

RESULTS AND DISCUSSION

This section presents the findings of the normative-qualitative analysis of selected DSN-MUI fatwas, financial regulations, and sharia governance materials. The discussion examines how DSN-MUI fatwas operate as soft law instruments within Indonesia's sharia finance governance architecture. The findings show that DSN-MUI fatwas influence sharia finance governance through three interrelated mechanisms: first, standardizing contract structures and product architecture; second, transmitting religious-legal guidance into operational rules through sharia supervisory channels; and third, aligning fatwa-based norms with formal state regulation. The discussion also identifies governance consequences arising from the non-statutory character of fatwas, including interpretive plurality, uneven implementation across institutions, limited procedural transparency, and coordination challenges between DSN-MUI, OJK, Bank Indonesia, SSB, and Islamic financial institutions.

DSN-MUI Fatwas as Soft Law Instruments: Regulatory Status and Practical Force

The core finding of this study is that DSN-MUI fatwas function as soft law instruments in Indonesia's sharia finance ecosystem. In formal legal terms, DSN-MUI fatwas are not statutes, government regulations, OJK regulations, Bank Indonesia regulations, or binding judicial decisions. They are religious-legal opinions issued by a specialized fatwa institution. However, the document analysis shows that their practical force extends beyond moral or purely religious guidance. In the field of Islamic finance, DSN-MUI fatwas shape product design, contractual architecture, risk allocation, accounting treatment, internal sharia governance, disclosure practices, and supervisory expectations because financial actors require sharia legitimacy, regulators require standard references, and market participants rely on credible religious vetting of financial products (Lutfiyah et al., 2022; Marrantika et al., 2024).

The soft-law character of DSN-MUI fatwas is visible in their position between non-binding religious guidance and regulatory effect. At the first level, a fatwa is a non-statutory religious-legal opinion grounded in collective *ijtihad, usul fiqh*, and *maslahah*. At the second level, a fatwa may become a regulatory reference when recognized, adopted, or operationalized by OJK, Bank Indonesia, or other state authorities. At the third level, a fatwa may become an institutional compliance obligation when translated into SSB approvals, product manuals, standard operating procedures, contractual clauses, audit procedures, and internal compliance systems. This layered normativity explains why DSN-MUI fatwas remain formally soft law but may produce hard governance effects in practice.

Table 4. Levels of normativity of DSN-MUI fatwas in sharia finance governance

Level	Legal-Governance Position	Main Mechanism	Practical Effect
Level 1	Religious-legal guidance	Collective *ijtihad*, fatwa reasoning, *maslahah*, contract analysis	Provides normative sharia guidance but is not statutory law
Level 2	Regulatory reference	Recognition or adoption by OJK, Bank Indonesia, capital-market rules, banking supervision, or sectoral regulation	Gives fatwa-based norms regulatory relevance and supervisory significance
Level 3	Institutional compliance obligation	SSB approval, product manuals, SOPs, contracts, audit procedures, disclosure, internal policy	Converts fatwa guidance into operational and contractual obligations inside Islamic financial institutions

Source: Author's analysis based on selected DSN-MUI fatwas, financial regulations, and sharia governance materials (2026)

This finding confirms that DSN-MUI fatwas derive influence not from direct coercive power, but from their embeddedness in institutional and regulatory practice. They provide a shared interpretive framework that Islamic financial institutions adopt to secure market access, build consumer confidence, maintain sharia legitimacy, and secure regulatory acceptability. This governance chain: religious-legal authority, regulatory recognition, internal compliance procedures, SSB supervision, and market discipline constitutes the practical force of fatwas as soft law instruments in a plural legal order (Hamsin et al., 2023; Radliyah et al., 2018; Selian et al., 2023).

The analysis also shows that the strength of fatwa-based governance is conditional. A DSN-MUI fatwa may remain soft and general where it is not incorporated into regulation or institutional documentation. It becomes more authoritative when regulators use it as a reference for licensing, supervision, product approval, or disclosure. It becomes operationally binding within an institution when the SSB requires compliance with the fatwa in approving products, contracts, and procedures. Thus, DSN-MUI fatwas are not legally binding simply because they are fatwas; they become practically binding through regulatory adoption, institutional translation, and market reliance (Saleh et al., 2023; Widyastuti et al., 2020).

This layered model also explains the article's central contribution. DSN-MUI fatwas should not be treated as ordinary statutory commands, but they should also not be reduced to private religious advice. They are soft law instruments whose practical force depends on the interaction between religious authority, state regulation, internal governance, private contracting, and market discipline. This explains why fatwas can strengthen regulatory credibility and market trust while simultaneously generating governance tensions when implementation, interpretation, or regulatory coordination is weak.

Evidence Matrix: From Fatwa Text to Governance Effect

The analysis of selected fatwas shows that DSN-MUI fatwas operate differently across sectors, but they follow a broadly similar governance pathway. Each fatwa begins as a religious-legal determination on the permissibility, structure, or conditions of a financial product or transaction. The fatwa then becomes relevant to regulators, SSB, product-development teams, auditors, and contractual documentation. Its governance effect is evident in product standardization, sharia compliance, risk allocation, market trust, and dispute prevention.

Table 5. Selected DSN-MUI fatwas, regulatory linkage, SSB implementation, and governance effects

No.	DSN-MUI Fatwa	Product/ Sector	Key Sharia Principle	Regulatory or Institutional Linkage	SSB Implementation Mechanism	Governance Effect
1.	Fatwa No. 04/DSN-MUI/IV/2000 on *Murabahah*	Islamic banking financing	Sale-based financing, disclosure of cost and margin, avoidance of *riba*	Reflected in Islamic banking product design and sharia compliance under Islamic banking regulation	SSB reviews *murabahah* structure, purchase sequence, margin disclosure, and contract documentation	Standardises sale-based financing and reduces uncertainty in consumer financing
2.	Fatwa No. 07/DSN-MUI/IV/2000 on *Mudharabah* Financing	Islamic banking and investment financing	Profit-sharing, capital provider–entrepreneur relationship, loss-bearing rules	Used in banking and investment-based financing products	SSB verifies profit-sharing ratio, business object, risk allocation, and non-guarantee principle	Supports profit-sharing governance but requires careful risk monitoring

Table 5. Selected DSN-MUI fatwas, regulatory linkage, SSB implementation, and governance effects (continued)

No.	DSN-MUI Fatwa	Product/ Sector	Key Sharia Principle	Regulatory or Institutional Linkage	SSB Implementation Mechanism	Governance Effect
3.	Fatwa No. 08/DSN-MUI/IV/2000 on *Musyarakah* Financing	Partnership financing	Joint capital contribution, shared profit and loss	Used in partnership-based financing and project financing	SSB reviews capital participation, profit-sharing formula, and loss allocation	Enables partnership-based financing and strengthens contractual clarity
4.	Fatwa No. 09/DSN-MUI/IV/2000 on *Ijarah* Financing	Leasing, banking, sukuk	Lease-based usufruct transfer, rent, object of lease	Used in lease financing and sukuk structures	SSB reviews object, ownership, usufruct, rent, and lease period	Provides basis for lease-based products and asset-backed structures
5.	Fatwa No. 10/DSN-MUI/IV/2000 on *Wakalah*	Banking, investment, fintech	Agency, representation, authority, fee	Used in banking services, fund management, and digital finance	SSB reviews agency scope, *ujrah*, authority limits, and fiduciary duties	Creates governance basis for agency-based financial services
6.	Fatwa No. 21/DSN-MUI/X/2001 on General Guidelines for Sharia Insurance	Takaful	*Tabarru'*, risk-sharing, mutual assistance, separation of funds	Used as normative basis for takaful product governance	SSB verifies *tabarru'* fund management, *wakalah* fee, surplus distribution, and underwriting practice	Establishes sharia governance foundation for Islamic insurance
7.	Fatwa No. 40/DSN-MUI/X/2003 on Capital Market and General Guidelines for the Application of Sharia Principles in Capital Markets	Sharia capital market	Prohibition of *riba, gharar, maysir,* unlawful business activities, and non-sharia market conduct	Used as foundational reference for sharia capital-market governance	SSB or sharia experts review securities, issuers, and transaction mechanisms	Provides general normative framework for sharia securities and market conduct
8.	Fatwa No. 69/DSN-MUI/VI/2008 on State Sharia Securities	Sovereign sukuk/SBSN	Asset-based issuance, beneficial ownership, sharia-compliant underlying asset	Linked to SBSN regulation and sovereign sukuk issuance	Sharia approval reviews underlying asset, issuance structure, and investor rights	Supports state sukuk legitimacy and public financing instruments
9.	Fatwa No. 80/DSN-MUI/III/2011 on Equity Securities Trading Mechanisms in the Regular Market	Sharia capital market	Permissible trading mechanism, avoidance of prohibited practices	Used in exchange-based sharia equity trading governance	Sharia experts review trading mechanisms and prohibited market conduct	Clarifies sharia boundaries in stock-exchange transactions

Table 5. Selected DSN-MUI fatwas, regulatory linkage, SSB implementation, and governance effects (continued)

No.	DSN-MUI Fatwa	Product/ Sector	Key Sharia Principle	Regulatory or Institutional Linkage	SSB Implementation Mechanism	Governance Effect
10.	Fatwa No. 116/DSN-MUI/IX/2017 on Sharia Electronic Money	Digital payment/e-money	Safekeeping, *qard, wadiah*, avoidance of *riba, gharar, maysir*, and unlawful use	Provides sharia reference for digital payment products	SSB reviews fund placement, fee structure, merchant use, and operational safeguards	Extends sharia compliance into digital payment ecosystems
11.	Fatwa No. 117/DSN-MUI/II/2018 on Information Technology-Based Financing Services Based on Sharia Principles	Sharia fintech/P2P financing	Sharia contracts in technology-based financing, avoidance of prohibited elements	Used as reference for sharia fintech product architecture	SSB reviews platform contracts, financing structure, fee model, and risk disclosure	Provides governance basis for sharia fintech innovation
12.	Fatwa No. 126/DSN-MUI/VII/2019 on *Wakalah bi al-Istitsmar*	Investment and fund management	Investment agency, mandate, *ujrah,* fiduciary duty	Used in investment management and fund mobilisation structures	SSB reviews investment mandate, asset eligibility, fee, and reporting duties	Strengthens governance of investment agency relationships
13.	Fatwa No. 137/DSN-MUI/IX/2020 on Sukuk	Sukuk/ capital market	Sukuk structure, asset linkage, rights of sukuk holders	Used in sukuk issuance and capital-market instruments	Sharia review covers underlying asset, contract structure, return mechanism, and disclosure	Updates sukuk governance and supports product standardisation
14.	Fatwa No. 140/DSN-MUI/VIII/2021 on Sharia Securities Crowdfunding	Digital capital market	Sharia-compliant crowdfunding, issuer and investor protection, permissible instruments	Used in digital securities fundraising	SSB reviews issuer eligibility, investment structure, platform governance, and investor disclosure	Extends fatwa-based governance to digital capital-market innovation

Source: Author's analysis based on selected DSN-MUI fatwas, financial regulations, and sharia governance materials (2026)

The matrix shows that DSN-MUI fatwas operate through a repeated governance pattern. First, a fatwa defines the permissibility and requirements of a financial transaction under sharia. Second, regulators and institutions use the fatwa as a reference for product approval, supervision, or compliance. Third, SSB translates the fatwa into operational review, product documentation, and monitoring. Fourth, the fatwa produces governance effects by standardizing products, reducing uncertainty, guiding risk management, and strengthening market legitimacy.

This evidence also supports the conclusion that DSN-MUI fatwas do not operate uniformly across all sectors. In Islamic banking, the transmission pathway tends to be more institutionalized because sharia compliance is embedded in banking regulation and SSB oversight. In capital markets and sukuk, the linkage between fatwa and product structure is often mediated through regulatory recognition and issuance requirements. In takaful, fatwa-based governance is closely tied to the separation of funds, risk-sharing,

and supervisory review. In digital finance, fatwas provide an adaptive framework for new products, but implementation may remain more varied because technological innovation develops rapidly.

Standardization of Sharia Contracts and Product Architecture

A major finding of the study is that DSN-MUI fatwas contribute significantly to the standardization of sharia contracts and product architecture. Fatwas on *murabahah, mudharabah, musyarakah, ijarah*, and *wakalah* provide foundational contract references for Islamic financial institutions. These fatwas define essential elements of contracts, identify prohibited components, and establish conditions for validity. As a result, product development teams and SSB do not need to reconstruct sharia reasoning from scratch for every new product; they can rely on DSN-MUI fatwas as standardized normative references.

For example, Fatwa No. 04/DSN-MUI/IV/2000 on *murabahah* provides a basis for sale-based financing by requiring that the transaction be structured around a legitimate sale rather than an interest-bearing loan. In practice, this affects the sequence of purchase, ownership, margin disclosure, and customer documentation. Fatwa No. 07/DSN-MUI/IV/2000 on *mudharabah* and Fatwa No. 08/DSN-MUI/IV/2000 on *musyarakah* provide normative guidance for profit-sharing and partnership-based financing. These fatwas affect how institutions define profit-sharing ratios, capital contribution, business risk, loss allocation, and the distinction between investment risk and guaranteed return. Fatwa No. 09/DSN-MUI/IV/2000 on *ijarah* guides the use of lease-based products by clarifying the transfer of usufruct, rental payments, the lease object, and ownership-related issues. Fatwa No. 10/DSN-MUI/IV/2000 on *wakalah* provides the basic agency framework used in banking services, investment management, and digital financial products.

This standard-setting function is among the strongest governance effects of DSN-MUI fatwas. It reduces interpretive uncertainty, facilitates product approval, supports cross-institutional consistency, and provides regulators, SSB, auditors, and consumers with a common vocabulary for sharia compliance. The literature has recognized this practical function in Islamic banking, capital-market products, fintech, and sharia mutual funds (Dewi, 2019; Nurlaela et al., 2020; Rasidin et al., 2022; Rasyid & Bahri, 2019; Widyastuti et al., 2020).

However, the findings also show that standardization is partial rather than complete. Fatwas generally establish the normative boundaries of a contract, but they do not always prescribe detailed operational procedures for every product variation. For instance, a *murabahah* fatwa may provide the structure of a valid sale-based financing arrangement. However, individual institutions still determine how to design documentation flows, customer disclosures, operational systems, and risk controls. Similarly, a *wakalah* fatwa may define agency principles, but the precise allocation of authority, reporting, fees, and liability may differ across products and sectors. This confirms the governance tension between standardization and discretion (Firdaus & Achmad, 2024; Marrantika et al., 2024; Shadiq et al., 2024).

Therefore, DSN-MUI fatwas standardize the normative architecture of sharia finance, but they leave room for institutional interpretation. This is not necessarily a weakness. Some degree of discretion is needed to accommodate financial innovation and sectoral diversity. The governance challenge is to ensure that discretion does not lead to inconsistent implementation or symbolic compliance.

Sharia Supervisory Transmission: How Fatwas Become Operational Rules

The second major finding is that DSN-MUI fatwas influence market practice through sharia supervisory transmission. The SSB is the key institutional actor that converts fatwa guidance into operational rules. In this transmission pathway, the fatwa serves as the normative baseline; the SSB interprets the fatwa for specific products; product development teams convert SSB requirements into documentation and procedures; internal compliance units monitor implementation; and audits verify ongoing conformity. This

layered mechanism shows how DSN-MUI fatwas become institutional rules despite their non-statutory status. A fatwa does not directly enforce itself. It becomes operational when the SSB uses it to approve or reject products, require contract modifications, review transaction flows, assess risk controls, and supervise compliance. This confirms earlier findings that sharia supervisory structures are crucial in translating DSN-MUI fatwas into institutional practice (Lutfiyah et al., 2022; Maslihatin & Riduwan, 2020; Radliyah et al., 2018; Rasidin et al., 2022; Widyastuti et al., 2020).

The analysis of selected fatwas shows that SSB implementation usually operates through five mechanisms. First, SSB reviews whether the product uses an appropriate sharia contract. Second, SSB examines whether the transaction avoids prohibited elements such as *riba, gharar, maysir, tadlis,* unlawful objects, and invalid risk transfer. Third, SSB evaluates whether the product documentation reflects the fatwa's requirements. Fourth, SSB monitors whether the operational process is consistent with the approved structure. Fifth, SSB reports or advises on sharia compliance issues through institutional governance channels.

The process is visible in *murabahah* financing, where SSB examines the purchase-sale sequence, ownership transfer, and margin disclosure. It is also visible in takaful, where SSB reviews *tabarru'* fund separation, *wakalah* fee, surplus distribution, and claim mechanisms. In digital finance, SSB examines platform contracts, fund placement, fee arrangements, merchant use, borrower–lender relationships, and technology-based disclosure. These examples show that the governance effect of fatwas depends not only on the text of the fatwa but also on the institutional capacity to implement it.

The quality and independence of SSB, therefore, determine the strength of fatwa-based governance. Strong SSB oversight fosters credible and consistent application of fatwas. Weak SSB oversight may result in symbolic compliance, where institutions claim sharia legitimacy but fail to align product operations with the substance of the fatwa requirements. This is a major governance vulnerability in soft-law systems because the effectiveness of the norm depends heavily on internalization within institutions rather than direct state coercion (Maslihatin & Riduwan, 2020; Radliyah et al., 2018; Widyastuti et al., 2020).

Alignment with State Regulation: Complementarity and Quasi-Positivisation

The third major finding is that DSN-MUI fatwas shape governance through regulatory alignment. This produces what may be called a quasi-positivisation effect: religious-legal opinions become functionally regulatory without becoming statutes in their own right. This effect is most visible when fatwas are recognized in statutes, translated into regulatory instruments, used in licensing processes, or embedded in supervisory expectations. Indonesia's Islamic banking framework illustrates this point. Law No. 21 of 2008 on Islamic Banking recognizes sharia principles in banking activities as principles of Islamic law, as determined by fatwas issued by an authorized institution.

The same law also requires Islamic banking products and services to comply with sharia principles. It provides a channel for translating fatwas into financial regulation (Law No.21 of 2008 on Islamic Banking). Bank Indonesia Regulation No. 10/32/PBI/2008 further institutionalized the Sharia Banking Committee as part of the mechanism for interpreting and transforming fatwa-based principles into banking regulation (Bank Indonesia, 2008). More recently, OJK Regulation No. 2 of 2024 strengthened the sharia governance framework for Islamic commercial banks and sharia business units, including the role of sharia principles, SSB, and institutional governance mechanisms (OJK, 2024).

This regulatory alignment demonstrates complementarity between DSN-MUI and state authorities. DSN-MUI supplies religious-legal legitimacy and sharia interpretive authority, while OJK and Bank Indonesia provide formal regulatory authority and supervisory enforcement. Fatwas do not replace regulation; rather,

they provide normative content that may be operationalized through regulation. Conversely, regulation does not erase the religious-legal character of fatwas; it gives them administrative and supervisory effect in defined institutional contexts (Marrantika et al., 2024; Radliyah et al., 2018; Selian et al., 2023; Zein, 2018).

In the capital-market sector, Fatwa No. 40/DSN-MUI/X/2003 provides the general sharia principles for capital-market activities. Its significance lies not only in its doctrinal content but also in its role as a reference for developing sharia capital-market rules, screening mechanisms, and market conduct standards. Fatwa No. 80/DSN-MUI/III/2011 further illustrates how fatwa-based guidance enters exchange-trading mechanisms by defining the sharia parameters of equity securities transactions in the regular market. In the sukuk sector, Fatwa No. 69/DSN-MUI/VI/2008 on State Sharia Securities and Fatwa No. 137/DSN-MUI/IX/2020 on Sukuk demonstrate how fatwa-based reasoning helps structure asset linkage, investor rights, and permissible return mechanisms in Islamic securities.

This finding supports the argument that DSN-MUI fatwas operate as soft law instruments with variable degrees of legal effect. Some fatwas remain broad normative guidance. Some become regulatory references. Some are transformed into operational requirements through licensing, supervision, SSB approval, and contractual documentation. The crucial issue is not whether a fatwa is formally a statute, but through which governance channel it becomes effective. However, regulatory alignment also creates challenges. Timing misalignment may occur when financial innovation develops faster than the issuance of fatwas or regulatory adoption. Scope misalignment may occur when a fatwa provides broad principles, but regulations require detailed technical standards. Interpretive misalignment may occur when institutions or SSB apply the same fatwa differently. These challenges require structured coordination between DSN-MUI, OJK, Bank Indonesia, SSB, and Islamic financial institutions (Lutfiyah et al., 2022; Marrantika et al., 2024; Radliyah et al., 2018; Widyastuti et al., 2020).

Sectoral Illustrations of Fatwa-Based Governance

First, in Islamic banking, foundational contract fatwas such as *murabahah, mudharabah, musyarakah*, *ijarah*, and *wakalah* provide the basic architecture for financing and service products. Their governance impact is evident in product approval, contract drafting, disclosure, risk allocation, and internal audit. *Murabahah* exhibits the strongest standardization effect because it defines the financing as a sale-based transaction and requires institutions to distinguish the sale margin from interest. *Mudharabah* and *musyarakah* illustrate a more complex governance challenge because profit-sharing products require careful monitoring of business risk, loss allocation, and moral hazard. Thus, the same soft-law framework may produce different governance effects depending on contract complexity (Dewi, 2019; Maslihatin & Riduwan, 2020; Saleh et al., 2023).

Second, in sharia capital markets and sukuk, DSN-MUI fatwas function as product architecture standards and market conduct references. Fatwa No. 40/DSN-MUI/X/2003 supplies the general principles of sharia capital-market activity, while Fatwa No. 80/DSN-MUI/III/2011 clarifies permissible trading mechanisms. Sukuk-related fatwas guide asset linkage, contractual basis, ownership representation, and investor rights. These fatwas support investor confidence by providing a recognized basis for distinguishing sharia-compliant securities from conventional instruments (Lutfiyah et al., 2022; Radliyah et al., 2018; Widyastuti et al., 2020).

Third, in takaful, Fatwa No. 21/DSN-MUI/X/2001 provides a normative foundation for Islamic insurance by emphasizing *tabarru'*, mutual assistance, separation of funds, and sharia-compliant risk-sharing. Its governance effect appears in fund segregation, operator fee arrangements, surplus distribution, and claim procedures. This demonstrates that fatwa-based governance concerns not only apply to contracts between

customers and banks but also to institutional fund management and fiduciary responsibilities in risk-sharing arrangements.

Fourth, in digital finance, Fatwa No. 116/DSN-MUI/IX/2017 on sharia electronic money and Fatwa No. 117/DSN-MUI/II/2018 on information technology-based financing services show the adaptive function of DSN-MUI fatwas. These fatwas extend sharia governance into digital payments, e-wallets, and fintech financing. Their governance effect lies in defining permissible contracts, fee arrangements, fund placement, risk disclosure, merchant restrictions, and avoidance of prohibited elements. However, digital finance also reveals the fragility of soft-law governance because technological innovation may generate new business models faster than fatwas and regulations can provide detailed guidance (Hamsin et al., 2023; Hidayati et al., 2023; Nurlaela et al., 2020).

Fifth, Fatwa No. 140/DSN-MUI/VIII/2021 on Sharia Securities Crowdfunding illustrates the expansion of DSN-MUI fatwas into digital capital-market governance. It shows how fatwa-based standards can guide new forms of fundraising by addressing issuer eligibility, investor protection, platform governance, and permissible instruments. This confirms that DSN-MUI fatwas are not static doctrinal texts but adaptive governance instruments that respond to changing financial technology and market structures.

These sectoral illustrations support the article's argument that DSN-MUI fatwas function as soft law instruments through practical institutional channels. They guide contracts, products, supervision, market conduct, and innovation. However, their effectiveness depends on the quality of regulatory incorporation, SSB implementation, institutional compliance, and transparency of reasoning.

Public Welfare Orientation: *Maslahah* as Governance Justification

The public-welfare orientation of DSN-MUI fatwas is another important finding. Many fatwas in *muamalah maliyyah* are not framed merely as technical contract rulings, but as efforts to align financial activity with fairness, benefit, harm prevention, and social need. This *maslahah*-based orientation helps explain why DSN-MUI fatwas remain relevant in fast-changing financial markets. It gives fatwas a purposive logic that allows them to respond to innovation while preserving core sharia prohibitions against *riba, gharar, maysir,* injustice, and unlawful economic activity (Firdaus & Achmad, 2024; Hasanudin et al., 2023; Hidayati et al., 2023; Shadiq et al., 2024).

Maslahah supports the adaptive capacity of fatwa-based governance. In Islamic banking, classical contracts are structured to meet modern financing needs. In capital markets, it supports the development of sharia-compliant securities, including sukuk. In takaful, it justifies mutual risk protection through *tabarru'* and cooperative principles. In digital finance, it enables sharia analysis to address technological platforms, electronic money, peer-to-peer financing, and securities crowdfunding. Thus, *maslahah* connects religious-legal reasoning with policy objectives such as financial inclusion, consumer protection, market integrity, and systemic stability (Hidayati et al., 2023; Mustofa, 2019; Shadiq et al., 2024).

However, *maslahah* also creates interpretive plurality. Different jurists, SSB, institutions, or regulators may weigh public benefit, market need, risk, uncertainty, and harm differently. This plurality is valuable because it allows Islamic legal reasoning to remain dynamic. However, excessive plurality in financial governance may create uncertainty for institutions and consumers. The governance challenge is therefore to preserve *maslahah*-based flexibility while improving the transparency, consistency, and predictability of fatwa reasoning (Hasanudin et al., 2023; Hidayati et al., 2023; Mustofa, 2019).

This finding confirms the tension between flexibility and regulatory certainty. Fatwa-based governance must remain both adaptable enough to accommodate financial innovation and predictable enough to support supervision, compliance, and market confidence. This is one of the central reasons why DSN-MUI

fatwas are best understood as soft law instruments rather than as either purely private religious opinions or rigid statutory commands.

Governance Challenges: Interpretive Plurality, Transparency, and Compliance Variability

The first challenge is interpretive plurality. Because fatwas often establish normative boundaries rather than detailed operational rules, institutions may interpret the same fatwa differently. For example, a fatwa on *wakalah* may guide agency relationships, but institutional products may vary in the scope of agency, fee structure, reporting mechanism, and risk allocation. A fatwa on fintech may permit certain technology-based financing structures, but individual platforms may differ in contract sequencing, disclosure, fund placement, and risk-control mechanisms. This plurality supports innovation but may also weaken standardization if not managed through interpretive guidance (Firdaus & Achmad, 2024; Mustofa, 2019).

The second challenge is limited procedural transparency. The credibility of soft-law instruments depends not only on their authority but also on the clarity of their reasoning. If the *istinbat* process, *maslahah* considerations, factual assumptions, and risk analysis behind a fatwa are not sufficiently explained, stakeholders may find it difficult to understand why a product is permitted, restricted, or prohibited. This may weaken trust, reduce predictability, and create difficulties for regulators and SSB in applying fatwa standards consistently (Shadiq et al., 2024).

The third challenge is compliance variability. Fatwas become effective through SSB and institutional compliance systems. Therefore, implementation quality depends on SSB competence, independence, access to information, institutional support, audit strength, and management commitment. Strong governance structures can translate fatwas into effective compliance. Weak structures may produce formal compliance without substantive alignment with sharia. This is especially important in complex products such as sukuk, fintech, takaful, and investment agency arrangements, where documentation and transaction flow may be difficult for ordinary consumers to evaluate (Maslihatin & Riduwan, 2020).

The fourth challenge is regulatory coordination. Because DSN-MUI, OJK, Bank Indonesia, SSB, and financial institutions occupy different institutional positions, coordination is necessary to ensure that fatwa-based standards, regulatory requirements, and operational practices move in the same direction. Without coordination, gaps may arise between the issuance of fatwas, regulatory adoption, product approval, supervision, and market implementation. This can create transitional uncertainty and fragmentation, especially in emerging sectors such as digital finance and securities crowdfunding (Zein, 2018).

Policy Implications: Strengthening Fatwa-Based Governance Without Losing Flexibility

First, procedural transparency should be strengthened. DSN-MUI fatwas would have greater governance value if their methodological reasoning, *maslahah* considerations, factual assumptions, and risk analysis were presented more clearly. Greater transparency would improve predictability, facilitate the implementation of SSB, and help regulators translate fatwa-based standards into supervision and product approval (Radliyah et al., 2018).

Second, interpretive harmonization should be developed. DSN-MUI, OJK, Bank Indonesia, and SSB networks may issue explanatory notes, implementation guidelines, frequently asked questions, or technical guidance to reduce inconsistent application of fatwas. Harmonization does not require eliminating juristic plurality. Rather, it requires managing plurality so that innovation remains possible while core sharia standards remain predictable.

Third, institutional coordination should be strengthened. Regular coordination between DSN-MUI, OJK, Bank Indonesia, SSB, and Islamic financial institutions would reduce timing gaps between fatwa issuance,

regulatory adoption, product development, and supervision. This is particularly important for rapidly developing sectors such as digital payments, fintech financing, securities crowdfunding, and sukuk innovation (Marrantika et al., 2024; Selian et al., 2023).

Fourth, SSB capacity and independence should be improved. Since SSB is the primary transmission mechanism between DSN-MUI fatwas and institutional practice, its competence, independence, access to information, and audit relationship are crucial. Strengthening SSB review processes, documentation standards, sharia audit, and disclosure practices would reduce the risk of symbolic compliance and improve market confidence (Lutfiyah et al., 2022; Maslihatin & Riduwan, 2020; Rasidin et al., 2022; Widyastuti et al., 2020).

Fifth, fatwa-based governance should be connected more clearly to consumer protection and market integrity. Fatwas should not only validate the permissibility of products but also support fair disclosure, responsible marketing, transparency of risks, and dispute prevention. This would strengthen the link between sharia compliance and broader financial governance objectives.

These policy implications confirm that the aim is not to transform all DSN-MUI fatwas into hard law. Their value lies partly in their flexibility, responsiveness, and capacity to address new financial products. The appropriate reform direction is therefore to improve the governance quality of fatwa-based soft law by strengthening transparency, harmonization, coordination, SSB capacity, and institutional accountability.

Synthesis of Findings

Taken together, the results indicate that DSN-MUI fatwas function as soft law instruments that standardize core contractual structures, shape product architecture, transmit sharia norms into operational practice through SSB, and align religious-legal guidance with formal financial regulation. Their practical force stems from a governance chain that links religious authority, regulatory recognition, institutional compliance, private contracting, and market discipline.

The findings also show that DSN-MUI fatwas operate across three levels of normativity. At the first level, they remain non-statutory religious-legal guidance. At the second level, they become regulatory references when recognized or operationalized by state authorities. At the third level, they become institutional compliance obligations when embedded in SSB approvals, product manuals, contracts, audits, and internal policies. This layered framework explains how DSN-MUI fatwas can remain outside the hierarchy of laws while producing real governance effects in Islamic finance.

At the same time, the soft-law character of DSN-MUI fatwas generates governance tensions. Interpretive plurality may support innovation but reduce uniformity. *Maslahah*-based flexibility may enable adaptation but complicate regulatory certainty. SSB transmission may strengthen compliance but also produce variability where institutional capacity is uneven. Regulatory recognition may enhance legal effect but create coordination challenges if fatwa issuance, regulation, and supervision are not synchronized.

Table 6. Condensed results: How DSN-MUI fatwas work as soft law instruments in practice

No.	Main Finding	How It Works	Key Governance Effect	Main Governance Risk
1.	DSN-MUI fatwas function as soft law instruments	Influence occurs through religious authority, regulatory recognition, SSB transmission, institutional compliance, and market discipline	Strengthens sharia legitimacy and regulatory credibility	Fragile if transmission mechanisms are weak

Table 6. Condensed results: How DSN-MUI fatwas work as soft law instruments in practice (continued)

No.	Main Finding	How It Works	Key Governance Effect	Main Governance Risk
2.	Fatwas standardise contracts and product architecture	Fatwas define contract typologies, prohibitions, validity conditions, and permissible product structures	Reduces uncertainty and supports product approval	Institutional discretion may create inconsistent implementation
3.	SSB translates fatwas into operational rules	SSB reviews products, contracts, SOPs, audit procedures, and disclosures	Converts fatwa guidance into institutional compliance	Weak SSB may produce symbolic compliance
4.	Fatwas align with state regulation	OJK, Bank Indonesia, and sectoral rules recognise or operationalise fatwa-based norms	Creates quasi-regulatory effect without changing fatwas into statutes	Coordination gaps may cause fragmentation
5.	*Maslahah* supports innovation	Fatwas use welfare reasoning to respond to new products and technologies	Preserves adaptability and relevance	Interpretive plurality may weaken certainty
6.	Governance reform is needed	Transparency, harmonisation, coordination, SSB capacity, and accountability must be strengthened	Improves predictability without eliminating flexibility	Over-formalisation may reduce adaptive value

Source: Author's analysis based on selected DSN-MUI fatwas, financial regulations, and sharia governance literature (2026)

The Indonesian case, therefore, demonstrates how religious-legal authority can operate within a modern financial governance system without becoming identical to statutory regulation. DSN-MUI fatwas complement state regulation by supplying sharia legitimacy and interpretive guidance, while state regulators and financial institutions provide the mechanisms through which fatwa-based norms become operational. This hybrid structure is the central reason why DSN-MUI fatwas should be understood as soft law instruments in Indonesia's sharia finance governance.

CONCLUSION

This article demonstrates that DSN-MUI fatwas function as soft law instruments in Indonesia's sharia finance governance. Although they are not statutory law within Indonesia's formal hierarchy of laws, they produce practical governance effects through regulatory recognition, SSB supervision, institutional compliance, contractual incorporation, and market reliance on sharia legitimacy. The study finds that DSN-MUI fatwas operate through three levels of normativity: first, as non-statutory religious-legal guidance grounded in collective *ijtihad, usul fiqh*, and *maslahah*; second, as regulatory references when recognized or operationalized by OJK, Bank Indonesia, and other authorities; and third, as institutional compliance obligations when translated into SSB approvals, product manuals, contracts, audits, disclosures, and internal governance systems.

These findings clarify that DSN-MUI fatwas are neither merely private religious opinions nor ordinary statutory commands. They mediate between religious authority, state regulation, institutional governance, and market discipline by standardizing sharia contracts, guiding product architecture, supporting SSB-based supervision, strengthening regulatory alignment, and enhancing market trust. At the same time,

fatwa-based governance faces challenges. Interpretive plurality may support innovation but can produce inconsistent implementation; *maslahah*-based flexibility improves adaptability but requires greater methodological transparency; and uneven SSB capacity or weak coordination among DSN-MUI, OJK, Bank Indonesia, and Islamic financial institutions may reduce implementation consistency.

The article contributes to Islamic financial law by explaining how religious-legal authority can generate regulatory effects without becoming formal legislation. In practice, it recommends strengthening transparency in the issuance of fatwas, improving coordination among DSN-MUI, OJK, and Bank Indonesia, enhancing SSB competence and independence, and embedding fatwa requirements more consistently across products, contracts, disclosures, audits, and institutional compliance systems. This study is limited to normative and document-based analysis. Future research should examine empirical implementation through interviews, institutional case studies, and comparative analysis across Islamic banking, takaful, sukuk, sharia capital markets, fintech, securities crowdfunding, and other sharia governance models. In sum, DSN-MUI fatwas shape Indonesia's sharia finance governance as soft law instruments whose effectiveness depends on transparency, harmonization, coordination, SSB capacity, and institutional accountability, while preserving flexibility for Islamic financial innovation.

Author Contributions

Didi Suardi	:	Conseptualization, Data Collection, Software & Writing
Martavevi Azwar	:	Supervision
Dirman Hanafi	:	Editing & Review

Conflict of Interest

The authors affirm that there are no conflicts of interest regarding the publication of this article.

Generative AI Writing Statement

During the preparation of this manuscript, the authors utilized ChatGPT Plus, Scite Premium, Grammarly Pro, and Zotero as supporting tools for data analysis, reference management, and manuscript refinement. All outputs generated by these tools were carefully reviewed, verified, and edited by the authors. Therefore, the authors assume full responsibility for the accuracy, originality, and integrity of the published work. The authors have made every effort to prepare this manuscript in accordance with academic standards. Nevertheless, any constructive comments, suggestions, and feedback from readers are highly appreciated and will serve as valuable input for the improvement of future publications.

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