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Analysis of the Sharia-based crypto-asset regulatory framework in the United Arab Emirates (UAE) and Bahrain

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Abstract

Purpose – This study analyzes the regulatory frameworks governing Shariah-compliant cryptocurrencies in the United Arab Emirates (UAE) and Bahrain, examining how these jurisdictions integrate Islamic principles into their crypto-asset regulations to foster legal digital financial markets.

Methodology – Employing a qualitative approach, the research reviews secondary data sources, including official legal documents, the Shariah fatwas, government policies, and prior academic literature related to cryptocurrency regulation in the UAE and Bahrain. The comparative analysis highlights divergences and convergences in their legal and Shariah-conforming fintech ecosystems.

Findings – The UAE and Bahrain have adopted progressive regulatory frameworks that permit cryptocurrency trading under explicit Shariah compliance conditions. The UAE's Dubai Blockchain Strategy promotes blockchain adoption with robust oversight mechanisms, emphasizing transparency, consumer protection, and synergy with Islamic finance principles. Bahrain, among the first Arab nations to establish comprehensive crypto-asset regulations, mandates licensing, security standards, and Shariah audits by authorized bodies.

Implications – Progressive and Shariah-aligned regulations in the UAE and Bahrain create fertile grounds for developing global standards for Islamic digital assets. Their frameworks enhance investor confidence, promote financial inclusion, and encourage the emergence of halal fintech products, such as digital sukuk and stablecoins. The findings suggest that other Muslim-majority countries can benefit from adopting similar adaptive, transparent, and Shariah-compliant regulatory schemes to integrate digital currencies into Islamic finance effectively.

Originality – This study contributes original insights by focusing on the comparative analysis of two pioneering Arab states' crypto-asset regulations through a Shariah lens, illuminating practical pathways toward a harmonized global Shariah standard for digital financial instruments.

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Introduction

The development of digital technology, particularly cryptocurrencies, has created a new chapter in the highly dynamic and transformative world of global finance. Cryptocurrencies offer revolutionary potential in terms of transparency, efficiency, and decentralization of payment and investment systems (Raya, 2022; Nurjannah & Lisnawati, 2024). However, as this innovation enters

Muslim countries, various dilemmas and challenges arise regarding the compatibility of technology with Islamic legal principles (Aloui et al., 2021). Can these digital assets truly be integrated into a Sharia-compliant financial system that prioritizes fairness, contract clarity, and prohibitions against *riba* (usury), *gharar* (uncertainty), and maysir (speculation)? These questions form the core of this research, an analysis of Sharia-compliant cryptocurrency regulations in two Gulf countries that demonstrate progressive progress in this area: the United Arab Emirates (UAE) and Bahrain.

Both countries have positioned themselves as pioneers in providing a comprehensive and innovation-friendly regulatory framework for cryptocurrencies while also aligning with Sharia principles. The UAE, with its ambitious initiative, the Dubai Blockchain Strategy, aims to establish Dubai as a blockchain-based digital financial hub that focuses not only on technological aspects but also on partnering with the Sharia Council to ensure compliance with Islamic law in these innovations. Meanwhile, Bahrain, through the Central Bank of Bahrain (CBB), became one of the first countries in the Arab world to issue official regulations specifically for crypto assets, including stablecoins, with an emphasis on security, transparency, and strict Sharia compliance. These two countries offer distinct regulatory models that provide halal investment opportunities while protecting Muslim consumers amid the risks of digital market volatility (Tamimi, 2025).

However, the success and implementation of regulations in the UAE and Bahrain are inseparable from the ongoing challenges. Regulatory differences among Muslim countries, such as the total ban on cryptocurrencies in Saudi Arabia and strict regulations in Indonesia, demonstrate a lack of global consensus on the status and use of cryptocurrencies in the Islamic economy (Fajaruddin et al., 2023). This affects Muslim investors, who must consider not only profitability but also the halal (permissible) status of their investment instruments. The proactive regulations implemented in the UAE and Bahrain are interesting to study because they accommodate innovation while maintaining a commitment to Sharia principles, a complex yet crucial combination (Al-Mehdar & Hammad, 2025).

On the other hand, the Central Bank of Bahrain formulated an official regulatory framework for cryptocurrencies to ensure their legal and secure operation by citizens, including strict provisions on security and transparency based on Islamic law. Both countries demonstrate regulatory models that not only support the adoption of new technologies, but also emphasize the principles of *Usul al-Fiqh* (Islamic principles) and *Maqasid al-Shariah* (Islamic principles) as the foundation for digital asset management (Saeed, 2021).

The United Arab Emirates (UAE) and Bahrain are the two GCC countries most advanced in implementing Shariah-compliant crypto assets, because they have supportive regulations and special oversight systems to ensure compliance with Shariah principles. The UAE has actively developed the blockchain sector and proactive regulations, making Dubai a global hub for Shariah digital finance. Bahrain was also the first Arab country to allow banks to collaborate with crypto trading platforms and to recognize crypto as a legitimate financial instrument within banking and payment systems (Rizieq & Baidhowi, 2025).

Other GCC countries such as Saudi Arabia, Qatar, Kuwait, and Oman are more conservative. Through its highest fatwa authority, Saudi Arabia has rejected crypto as a legitimate currency due to the high risks and potential misuse that contradicts Islamic principles. Other countries have not adopted progressive regulations for Shariah-compliant cryptos and prefer to wait, considering volatility risks, legal uncertainties, and the potential for misuse. Although there are crypto users, the platforms they use are usually foreign and lack Shariah-based regulations or domestic protection (Rizieq & Baidhowi, 2025).

This difference in stance is mainly due to the UAE and Bahrain having more mature regulations and digital financial infrastructure, while the assessment of risks and a more conservative religious perspective in other GCC countries makes them more cautious in adopting Shariah-compliant crypto assets. The UAE and Bahrain have a strong commitment to becoming pioneers in Shariah digital finance, making them more willing to embrace this new technology.

This study explores how cryptocurrency regulations in the UAE and Bahrain are designed with a Sharia-compliant framework to accommodate the needs of digital innovation while maintaining the sustainability of Islamic legal principles. The study examines regulatory implementation related to transparency, oversight, investor protection, and efforts to avoid excessive speculation (maysir) and legal uncertainty *(gharar*). Furthermore, this research examines the oversight mechanisms of financial authorities and the role of the Sharia Board in assessing digital financial product compliance with Sharia standards.

The objectives of this study are threefold: to analyze the regulatory approaches of the UAE and Bahrain concerning transparency, oversight, and investor protection within a Sharia framework; to investigate how these countries leverage emerging technologies to develop compliant digital financial products; and to assess regulatory mechanisms that balance innovation with religious compliance amid global regulatory uncertainty and market volatility. The expected contributions include advancing the academic understanding of Sharia-based crypto regulation, informing policymakers of effective governance models, and providing insights for industry players in developing sustainable Sharia-compliant fintech ecosystems. By focusing on these points, this study sheds light on how the UAE and Bahrain are setting regulatory standards that could serve as models for other Muslim-majority nations while navigating the intersection of tradition and digital finance innovation.

Literature Review

Sharia-based crypto-asset regulation is a framework that governs the use and trading of digital assets by considering the principles of Islamic law. Specifically, a crypto asset can be categorized as halal if it meets key criteria, namely, having real benefits, a clear and halal underlying asset, and transactions free from elements of riba (usury), gharar (uncertainty), and maisir (speculation or gambling). The blockchain technology underlying crypto assets is considered compatible with the principles of transparency, security, and decentralization, which align with Islamic values. This regulation serves to ensure that activities related to crypto assets comply with Sharia's financial principles, providing legal certainty and protection for Muslim market participants (Labibunnajah & Lutfiyyah, 2024; Mokodompis et al., 2024).

To provide novelty in this study, the authors present previous research on cryptos in the Islamic world, including: *First,* Muhammad Rizieq and Baidhowi's research highlights the DSN-MUI fatwa No. 144 of 2021, which prohibits cryptocurrency as a medium of exchange due to its gharar, maysir, and dharar elements. However, it still permits it to be a digital commodity as long as it complies with Sharia principles. This study also compares regulations in Indonesia with those in Malaysia, which are more open and facilitate the development of blockchain-based Sharia fintech under strict supervision. In contrast, Saudi Arabia adopts a conservative approach, with a total ban on cryptocurrency trading as a medium of exchange (Rizieq & Baidhowi, 2025).

Second, Research conducted by Rahmi Vivri Masri, Herlinda, and Julina highlights three main factors that influence investment intentions in cryptocurrencies in Indonesia: Sharia law, state intervention, and security risks. Sharia law is a crucial consideration for the Muslim community, with differing views among Islamic scholars regarding the suitability of cryptocurrencies for Sharia principles. State intervention through regulation has a significant impact; clear and supportive regulations can increase investment interest, while overly restrictive regulations can hinder market growth (Masri et al., 2024).

Third, in a study by Nasruddin Khalil Harahap, Ahmad Wardana, and Abdul Aziz Harahap, which discusses cryptocurrencies from an Islamic perspective, Bitcoin is permissible as a medium of exchange for those who agree to use and accept it. However, Bitcoin as an investment is forbidden because it is merely a means of speculation, not an investment; it is merely a game of chance, and not a profitable business (Harahap et al., 2022).

This study builds on existing studies that explore cryptocurrency regulations and Sharia compliance in the Gulf region, emphasizing the practical need for regulatory frameworks that accommodate both innovation and Islamic legal principles. Previous research highlights the growing importance of transparent, Sharia-compliant financial products to support ethical investing in Muslim-majority countries. However, there remains a lack of comprehensive comparative analysis that specifically addresses how the UAE and Bahrain uniquely implement these frameworks in their respective financial ecosystems.

Unlike previous studies, which were more descriptive or focused on a single country (e.g., Indonesia) or discussed fatwas, this study explores regulations affecting the development of the halal digital asset market and the behavior of Muslim investors in the UAE and Bahrain. This study specifically focuses on an in-depth comparison of Sharia-compliant cryptocurrency regulations between the UAE and Bahrain, using a critical analysis approach to how both countries integrate Sharia principles into crypto-asset regulations, particularly in the areas of halal audits, consumer protection, and regulation of Sharia-compliant fintech innovation.

Research Methods

The research method used in the study "Analysis of Sharia-Based Cryptocurrency Regulation in the United Arab Emirates and Bahrain: A Study of the Implementation of the Dubai Blockchain Strategy and Crypto-Asset Regulatory Framework in Bahrain' is a descriptive qualitative method with a juridical-normative approach and a comparative literature study. This research focuses on secondary data analysis in the form of official documents, laws and regulations, fatwas, regulatory policies, and scientific literature discussing cryptocurrency regulation and the Islamic financial system in the United Arab Emirates (UAE) and Bahrain. The primary data sources come from financial authority regulations (such as the Dubai Financial Services Authority and the Central Bank of Bahrain), fatwas from the Sharia Council, journal articles, and official policy publications related to the Dubai Blockchain Strategy and the crypto-asset regulatory framework in Bahrain.

The analysis was conducted descriptively by describing and interpreting the relevant legal documents and literature sources. Researchers explored how Islamic legal principles, such as *Usul al-Fiqh (*Islamic Principles of Fiqh) and *Maqasid al-Shariah* (Islamic Principles of Sharia), are integrated into policies and regulations in both countries. Furthermore, key aspects, such as legal requirements, consumer protection mechanisms, the licensing system for crypto asset providers, and the treatment of elements of gharar, maysir, and riba, were compared using a juridical approach and content analysis (Subli, 2024; Mu'minin et al., 2024).

This study has some limitations, including the absence of direct interviews with regulators or Shariah experts, as well as reliance on published sources that may contain biases or limitations in up-to-date information. Therefore, the research findings primarily depend on the analysis of available documents and literature with an awareness of these potential limitations. Future research should include primary data from interviews and field observations to enhance the validity of the results.

The collected data were systematically processed to identify patterns, similarities, and differences in the regulatory approaches in the UAE and Bahrain. Data validity was maintained using source triangulation techniques and a critical analysis of the current literature relevant to the context of Sharia-compliant cryptocurrency regulation. The research focused on documents and literature reviews, ensuring that the results are analytical and reflective of ongoing policy implementation. Using this method, this research is expected to provide a comprehensive overview of the effectiveness, challenges, and opportunities for developing Sharia-compliant digital asset regulations in the United Arab Emirates and Bahrain.

Results and Discussion

Cryptocurrency from the perspective of Sharia

In discussions of Islamic law regarding crypto, one of the key issues is whether crypto can be categorized as a currency (*al-naqd*) or merely a digital commodity (*sila'ah*). The discussion of cryptocurrency within the Sharia framework highlights several key aspects: its status as a currency or commodity, the issue of *gharar* (uncertainty), the element of *maisir* (gambling/speculation), and the prevailing fatwas in the Islamic world (Aloui et al., 2021; Khan, 2023). The following is a comprehensive explanation based on the perspectives of contemporary regulations and the discipline of *fiqh muamalat* (Islamic jurisprudence).

Cryptocurrency as currency and commodity

From an Islamic perspective, money is defined as a medium of exchange that has stable value and is generally accepted in trade. However, cryptocurrencies, such as Bitcoin, although used as a means of payment in some places, exhibit highly volatile values and significant fluctuations within short periods. This volatility makes it difficult to consider stability (Afrizal & Marliyah, 2021; Akbar & Huda, 2022). Furthermore, Sharia-compliant currencies require recognition from state authorities, while cryptocurrencies are not regulated by any government or institution. Some Islamic scholars prefer to view cryptos as commodities or digital assets traded in the market. In this case, its use is permissible as long as the transactions are conducted transparently without excessive speculation, and the asset's value is considered legitimate according to Islamic principles (Aulia, 2023; Djati & Dewi, 2024).

Uncertainty (gharar) and crypto price fluctuations

The high volatility in crypto asset prices raises concerns about the gharar and uncertainty prohibited in Islamic transactions due to its potential to harm one of the parties. Some scholars have argued that not all uncertainty is prohibited, but only excessive gharar without adequate information. If a crypto transaction is conducted with a mutual understanding of the risks by both parties and a full agreement, it is considered valid under Sharia law (Wahid, 2023).

Maisir (gambling) and speculation on crypto

Cryptocurrency trading is often equated with speculation, as many investors purchase crypto not for long-term use or transactions but rather to profit from short-term price fluctuations. This activity resembles gambling (maisir), which is strictly prohibited by Islam. When someone buys an asset solely to profit from unpredictable fluctuations, the transaction is close to gambling and is not a permissible investment. However, if the purchase of crypto is made as a long-term investment or for real use as a medium of exchange and the transaction takes place without excessive speculation, some scholars consider it permissible (Hamdi & Junaedi, 2023).

Comparison of Sharia regulations and fatwas on cryptocurrency in the Islamic world

The development of blockchain technology and cryptocurrencies has sparked a wave of change in the global financial system, including in Muslim countries that adhere to Islamic financial systems (see Table 1). Responses to the arrival of cryptocurrencies have varied; some countries have developed progressive legal frameworks, whereas others have completely rejected the use of these digital assets as financial instruments (Faozi & Gustanto, 2024; Islam et al., 2021).

The United Arab Emirates (UAE) and Bahrain stand out as pioneers in the Middle East, developing progressive regulatory frameworks based on Sharia that not only enable but also facilitate the growth of Islamic digital finance ecosystems in their countries. This approach marks a sharp contrast with other major Muslim countries, such as Saudi Arabia and Indonesia, which tend to take a more cautious or even conservative stance.

The UAE has a strict regulatory system that allows cryptocurrency trading, as long as it is supervised by financial authorities, such as the Securities and Commodities Authority, and complies with Sharia principles. Dubai is ambitiously establishing itself as a blockchain financial hub through a dedicated strategy and a free zone that permits cryptotransactions for qualified service providers. Collaboration with the Sharia Board is also a key focus; any digital financial product seeking to be labeled Sharia-compliant must undergo a Sharia-based audit and certification, ensuring that it does not contain any elements of *riba* (usury), *maysir* (speculation), or *gharar* (extreme uncertainty) (Nguyen, 2025).

Bahrain adopted a similar approach, with the Central Bank of Bahrain (CBB) recognizing cryptocurrencies as legitimate digital assets with high oversight and security standards. The country launched a fintech sandbox programme to facilitate innovation through halal blockchain startups. *Halal* certification for several digital assets such as Stellar's Lumens strengthens the integration of Sharia law into digital financial products. The Sharia Board actively issues fatwas and certifications, ensuring transparency and avoidance of practices prohibited by Islam, such as usury or excessive speculation. The government's progressive approach is evidenced by its legal trading policies, reliance on Sharia audits, and adoption of crypto services specifically tailored to the needs of the Muslim community (Arofansyah, 2025).

Indonesia took a more cautious approach. Under the Sharia Supervisory Board of the Indonesian Ulama Council (Dewan Pengawas Syariah- Majelis Ulama Indonesia, DSN-MUI), fatwa No. 144/2021, cryptocurrencies are prohibited as a medium of exchange but are still permitted as investment commodities as long as they comply with Sharia principles and legal requirements from state authorities such as Bappebti. This conservative stance stems from caution regarding the risks of gharar (uncertainty) and maysir (stake) in highly volatile cryptocurrency trading (Basywar & Amdar, 2021; Habibi et al., 2023).

Malaysia offers an open model. The Securities Commission Malaysia drafted regulations that allowed the trading of digital assets under strict supervision. A fatwa issued by the country's Shariah Advisory Council states that cryptocurrencies can be used as investment instruments, as long as they do not contain excessive *gharar* (uncertainty) or *maysir* (speculation). The implementation of a blockchain-based Sharia fintech ecosystem is also increasingly being promoted to support the development of digital financial products in accordance with Islamic values (Putra et al., 2025). Saudi Arabia is one of the countries that strictly prohibit the use of cryptocurrency, both as a medium of exchange and as an investment instrument. The Lajnah Daimah (Islamic Council) and other fatwa authorities reject the use of crypto, citing uncertainty, intrinsic risks, and the potential for usury and gharar (*riba*) transactions.

These differing approaches have affected the digital Islamic financial market landscape in the Muslim world. Countries with open regulations, such as the UAE and Bahrain, are attracting fintech and Muslim investors. The combination of progressive legal frameworks and the certainty of Sharia certification creates an innovative digital financial ecosystem, while upholding the integrity of Islamic law. Products such as halal-asset-based stablecoins, Sharia-compliant smart contracts, digital payments, zakat, and waqf ecosystems are developing rapidly, providing access to *halal* investments across borders.

The main challenges faced relate to the lack of global standards and the harmonization of fatwas and regulations. Divergent approaches have led to market fragmentation and confusion among Muslim investors seeking to ensure the halal status of their digital assets. Protection from volatile market risks and financial literacy education are also key issues for the inclusive, equitable, and sustainable growth of Islamic digital finance.

Table 1. Regulatory stances on crypto and implications for Islamic finance

Country	Regulatory attitude and fatwa	Implications of Islamic finance
UAE	Legal, strictly supervised, mandatory Sharia audit	Sharia fintech innovation is growing
Bahrain	Legal, fintech sandbox, halal certification	Halal digital services are growing rapidly
Indonesia	Haram medium of exchange, permissible commodities	Investors beware, innovation is slow
Malaysia	Legal, supervised by regulators and fatwas	Sharia fintech is growing
Saudi Arabia	Full prohibition, fatwa rejects	Limited startups, investors outside

Source: shariaknowledgecentre.id and Kompas.tv (2025)

At the regional level, the UAE and Bahrain have demonstrated a progressive approach to cryptocurrency management. The UAE requires licensing and implementation of Sharia principles in digital asset transactions. Innovations such as the Dubai Blockchain Strategy are also being pursued to establish Dubai as a leading hub for blockchain-based digital finance in the Islamic world. Bahrain was one of the first countries in the Arab region to establish a formal legal infrastructure for cryptocurrencies, classifying digital assets as legitimate financial instruments as long as they meet applicable security and transparency standards.

From these descriptions, the disharmony in cryptocurrency governance in Muslim countries is evident. Saudi Arabia tends to be closed off, whereas Malaysia and Bahrain have allowed cryptocurrencies to enter their national financial systems. These diverse approaches arise from differences in the interpretation of Islamic law, the pace of technological development, and economic policies in each country. The implications are significant for Muslim investors—those residing in countries with strict regulations such as Saudi Arabia face limitations in legally accessing the cryptocurrency market, while in Malaysia and Bahrain, investor participation in digital assets takes place under a more secure legal framework (Rizieq & Baidhowi, 2025).

United Arab Emirates (UAE) and Dubai blockchain strategy

The United Arab Emirates (UAE), particularly through the leadership of Dubai, has emerged as the epicenter of digital transformation in Islamic and Gulf regions. This transformation focuses on the strategic and comprehensive adoption of blockchain technology (Alketbi et al., 2020; Bishr, 2019). The Dubai Blockchain Strategy is an ambitious initiative capable of transforming administrative and financial patterns, as well as the way the public and private sectors conduct public services and business. Through this strategy, the UAE seeks to integrate blockchain into various aspects of government and the economy with the goal of realizing a future digital ecosystem that is transparent, efficient, and inclusive (El-Gheriani & Hashish, 2025; Khan et al., 2019).

The Dubai Blockchain Strategy was launched by the Digital Dubai Office and the Dubai Future Foundation as part of Dubai's leadership's vision to become the world's first fully blockchain-powered city. This strategy comprises three main pillars: government efficiency, industry creation, and international leadership. The government efficiency pillar focuses on improving the performance of public services and administration by reducing bureaucracy and costs and establishing transparent and auditable systems. One tangible impact is expected to be a savings of approximately 5.5 billion dirhams annually in document processing alone, an amount equivalent to the economic value of building one Burj Khalifa tower (Amani, 2025).

In 2020, the UAE Securities and Commodities Authority (SCA) issued "Decision of the Chairman of the Authority's Board of Directors No. (21/RM) in 2020, Concerning the Regulation of Crypto Assets." This directive outlines the SCA's licensing regime for all ICOs, exchanges, marketplaces, crowdfunding platforms, custodial services, and related financial services based on, or utilizing, crypto assets that wish to operate in the country. The directive states that crypto-trading service providers must be incorporated within the UAE to obtain appropriate licensing (Shin et al., 2022; Shuhaiber et al., 2023). They must also comply with the country's anti-money laundering and counterterrorism financing laws, cybersecurity compliance standards, and data protection regulations. Unlike its Gulf neighbors, Qatar announced a total ban on cryptocurrency trading, except for security tokens, in 2020. Citing Islamic scholars, the country's leaders determined that cryptocurrency trading violates the Sharia principles prohibiting usury (*riba*) (Djumena, 2025).

The Middle East, particularly the United Arab Emirates, Dubai, and Bahrain, is a magnet for the growth of the global crypto industry. With progressive and inclusive regulations, the region has successfully attracted major crypto companies and exchanges to invest in and expand. Chehade, General Manager of Binance FZE in Dubai, revealed that the region's progressive regulations are a major draw for startups and established industry players (Nordrum, 2017; Othman & Dosh, 2024). He noted that regulators in other regions have not yet fully understood or took the time to study the crypto landscape or perhaps lack the bandwidth to begin regulating the sector. Chehade added that businesses need certainty to create long-term plans, and the regulatory framework in these jurisdictions facilitates this process (Faradiva, 2025; Mahaprana, 2025).

Binance FZE, which has been operating as a regulated exchange in Dubai for a year and a half, now has around 600 employees and is committed to driving the industry further. Citing a Cointelegraph report, Chehade highlighted Binance's role as a catalyst for Web3 companies and start-ups to establish themselves in the region. With over 600 employees, Binance plays a crucial role in building the cryptocurrency ecosystem in Dubai. The transaction volume in the region shows that users received $566 billion in cryptos between July 2021 and June 2022 (Franedya, 2025).

The Securities and Commodities Authority (SCA) of the UAE is currently finalizing amendments to the laws regulating Virtual Asset Service Providers (VASPs). The government hopes that the national crypto-licensing system will attract major companies to the region. At the end of the previous year, the UAE completed a crypto asset risk assessment involving 14 public sector institutions and 16 private sector entities. As reported by Bitcoin.com, the government concluded that regulation of cryptos is more appropriate than an outright ban. Regulation can reduce the risk of cryptocurrency use in illicit financial schemes (CNBC Indonesia TV, 2025).

UAE officials told local media that the country's crypto regulations take into account the latest guidance from the Financial Action Task Force (FATF), as well as regulatory strategies used in the US, UK, and Singapore. These regulations will adopt a hybrid approach. SCA regulates the cryptocurrency industry with input from the central bank. Local financial centers can establish their own daily licensing procedures. UAE officials also said that the government wanted to regulate the crypto-mining industry (Pratomo, 2025).

International leadership was the next key pillar. Dubai aims to strengthen its position as a global role model and reference in the application of blockchain technology to government, business, and public services. Through international forum initiatives, participation in global projects, and establishment of the Global Blockchain Council, Dubai is expanding its influence and network to support cross-border blockchain adoption. This ecosystem includes 46 members of governments, banks, technology companies, free zones, and international actors (Khan et al., 2022)

The implementation of the Dubai Blockchain Strategy has progressed across various sectors. One significant breakthrough is the digitization of government documents and certificates, all of which are being transferred to a digital format with blockchain-level security and transparency. Projects such as the digitization of all property data through the Dubai Land Department allow local and foreign investors to securely and reliably verify asset data in real-time. This step increases transaction efficiency, reduces the potential for data fraud, improves market credibility, and facilitates cross-institutional services, all consolidated on a single, integrated digital platform (Nordrum, 2017).

The transportation sector is also experiencing significant innovation, such as the application of blockchain for vehicle history tracking, developed by the Roads and Transport Authority as part of the Dubai10X initiative. This technology provides an immutable digital trail of ownership history, accidents, and the status of used vehicles, boosting trust among consumers, dealers, and regulators.

Beyond public administration, Dubai is also a pioneer in real asset tokenization through projects, such as property ownership tokenization. Through a collaboration with the Virtual Assets Regulatory Authority (VARA) and the Central Bank of the UAE, property ownership certificates can now be represented as blockchain tokens, providing access to property investment for a wider community and increasing market liquidity. By 2025, this project was able to attract hundreds of investors in a short time, demonstrating market interest and readiness of the legal framework for innovation expansion.

The regulations underpinning Dubai's blockchain transformation are designed to be inclusive, based on official licensing and oversight by authorities, such as the Securities and Commodities Authority (SCA) and the Dubai Financial Services Authority (DFSA), as well as strengthened Sharia certification and anti-money laundering controls. This not only addresses concerns about the risks of digital asset volatility and fraud, but also complies with Sharia principles, which demand fairness, transparency, and the avoidance of riba (usury), maysir (risk of corruption), and gharar (unlawful activity). Strict international auditing and Sharia audits are applied to every product marketed as Sharia-compliant, from stablecoins and smart contracts to tokenized *zakat and waqf* (Ibrahim, 2023).

The synergy among regulators, Islamic fintech providers, and technology experts has strengthened Dubai's position as a global digital Islamic financial hub. This impact is evident in the growth of halal blockchain startups, the emergence of Islamic peer-to-peer lending platforms, and the digitalization of public services, making them increasingly accessible to the Muslim community. The principles of financial inclusion are implemented alongside the goals of maintaining security, trust, and peace in the industry.

This does not mean that the blockchain implementation in Dubai is challenging. Differing interpretations of Islamic law, the need to harmonize international standards, and increasing public literacy remain shared responsibilities. However, the Dubai government continues to develop progressive legal instruments, enhance international collaboration, and invest in human resource training to ensure equitable and sustainable blockchain adoption.

Dubai's commitment to becoming the world's first blockchain city is a key driver of the region's digital transformation while maintaining Sharia-compliant governance in all innovations. Blockchain adoption enables bureaucratic efficiency, strengthens audit systems, and enhances cyber resilience, which are increasingly essential in the face of the global digital economy. This overall strategy is not simply a technological agenda but an integral part of Dubai's vision as a future city that is happy, prosperous, and ethical in managing the latest technology (Al-Tawil, 2023). The Dubai Blockchain Strategy provides concrete evidence that digital innovation and Sharia principles can coexist. The UAE's leadership, particularly Dubai's, in developing blockchain regulations and ecosystems, paves the way for Muslim countries and global economic players to learn, collaborate, and build a fair, trustworthy, and highly competitive digital financial future (Al-Qudah et al. 2025).

Bahrain and the crypto-asset regulatory framework

Digital asset regulations vary across the GCC countries. Some countries adopt a more direct approach, whereas others are more relaxed. Bahrain, one of the first countries to adopt cryptoregulations, launched a directive in 2019. The directive states that no person may market or conduct business activities that include regulated crypto asset services from within the Kingdom of Bahrain without obtaining a license from the Central Bank of Bahrain (CBB) (Abdeldayem et al., 2020; Abdeldayem & Al Dulaimi, 2020).

Bahrain is one of the most progressive countries in the Middle East in regulating and supporting the crypto-asset ecosystem (see Table 2). The Bahraini government, through the Central Bank of Bahrain (CBB), implemented a comprehensive regulatory framework that provides legal certainty, consumer protection, and space for innovation for companies and startups in the digital asset sector. The main regulatory framework is set out in the Crypto-Assets Module, which is part of CBB Rulebook Volume 6. This regulation covers all aspects of crypto-asset activities, from trading and custody to portfolio management, as well as investment advice for crypto exchange management. The goal is to balance financial technology innovation and systemic risk protection while maintaining compliance with the best governance and anti-money laundering principles (Alrasheed, 2025; Pongratz, 2025).

Licensing is mandatory for all cryptocurrency businesses in Bahrain. Only entities licensed by the CBB can provide services, such as crypto exchanges, digital asset custodians, crypto-related investment advisors, and trading and portfolio management services. The CBB implements strict oversight, encompassing minimum capital requirements, corporate governance, and technology security standards, including cyber risk management, reporting and auditing requirements, and financial crime prevention (AML/CFT) measures.

These regulations accommodate recent developments, including Decentralized Finance (DeFi) activities such as digital asset lending and borrowing, tokenization, and stablecoin issuance. Any DeFi or digital token service provider offering services within Bahrain's jurisdiction is required to meet licensing criteria and implement strict operational transparency and consumer protection measures. Furthermore, Bahrain is fostering an innovation-friendly environment through its Regulatory Sandbox program, in which startups can test crypto services under regulatory oversight before launching them to the market. Initiatives such as FinTech Bay are catalyzing the growth of the fintech ecosystem, strengthening Bahrain's position as a regional digital finance pioneer (AbuRaya et al., 2021; Al-Aswad et al., 2021).

In the context of Islamic assets and tokens, Bahrain has integrated halal audits and checks into its digital asset offerings, ensuring that products do not conflict with the Sharia principles. This step provides added confidence to Muslim investors and broadens the scope of their financial inclusion. A clear legal framework has encouraged the growth of licensed crypto exchanges, such as CoinMENA and Binance Bahrain, and has strengthened market confidence. Bahrain's experience demonstrates that a balanced and progressive regulatory approach not only protects investors but also encourages the widespread adoption and innovation of digital financial technology (Novika, 2025).

Regulatory progress continues, adapting to global dynamics, updating rules related to tokenization, stablecoins, and strengthening the oversight of crypto-market activities. Challenges, such as harmonizing international standards and educating the public, remain, but the CBB's commitment to making Bahrain a successful model for adaptive, innovative, and Sharia-compliant crypto-asset governance in the region.

Table 2. Summary of Bahrain crypto-asset regulation highlights

Aspect	Explanation
Regulatory Authority	Central Bank of Bahrain (CBB)
Main Regulations	Crypto-Assets Module (CBB), stablecoin regulation in progress
Licensed Services	Exchange, custodian, advisor, crypto investment, stablecoin, Sharia platform
Supervision & Sanctions	Blockchain technology audit, administrative & criminal sanctions for violations
Innovation Support	Regulatory sandbox, Fintech Bay program
Special Sharia Provisions	Halal certification, sharia audit on products and services
Crypto Trading Status	Legal provided the platform/exchange is licensed

Source: Government of Bahrain (bahrain.bh)

Bahrain has become a regional benchmark for developing a crypto-asset regulatory framework that is adaptive, innovative, and exceptionally protective of the interests of the public and the digital financial market.

Regulatory implications for Islamic financial markets and Muslim investors

Sharia-compliant cryptocurrency regulations in the United Arab Emirates (UAE) and Bahrain have had a significant impact on the development of Islamic financial markets and the behavior of Muslim investors. The main implications are creating legal certainty, protecting investors, increasing access to digital finance, and accelerating innovation in Islamic financial products (see Table 3).

In the UAE, regulations allow cryptocurrency trading through official licensing and are supervised by authorities, such as the Securities and Commodities Authority and Sharia-compliant institutions. Any digital asset or company wishing to enter the market must comply with Sharia audits, transparency principles, and strict consumer protection. This creates legal security for Muslim investors, allowing them to transact and invest without fear of Sharia-compliant transactions, *riba* (usury), *gharar* (uncertainty), or *maysir* (gambling) transactions.

The Dubai Blockchain Strategy strengthens the digital financial ecosystem by increasing the transparency and efficiency of Islamic financial services. Financial institutions can adopt blockchain for transaction recording, halal smart contracts, and digital distribution of zakat and waqf funds. This regulation directly increases market confidence and opens up opportunities for innovation in new Islamic investment products such as halal stablecoins and Sharia-compliant real asset tokenization.

Bahrain, through the Central Bank of Bahrain (CBB), offers a progressive and comprehensive crypto-asset regulatory framework. Every digital asset service provider is required to obtain official permits and undergo operational oversight, as well as Sharia-compliant and technology security audits. The regulatory sandbox program facilitates the testing of blockchain startups and Sharia-compliant crypto services before their widespread launch, fostering the safe and legal growth of the Sharia-compliant fintech ecosystem. *Halal* certification for digital assets, as reflected in the integration of Stellar Lumens into the Sharia-compliant financial ecosystem, enhances the confidence of regional and international Muslim investors (Othman & Dosh, 2024).

These clear regulations protect Muslim investors from the risks of fraud, manipulation, or non-Sharia-compliant products. Investors gain assurance that their transactions and investment instruments meet the strict Sharia criteria through audits, licensing, and regulatory oversight. Another implication of this study is the expansion of digital financial access. Licensed Sharia-compliant fintech and crypto exchanges attract retail and institutional investors, including microbusinesses and individuals who previously had difficulty accessing conventional financial services. Financial inclusion in the Gulf region is increasing owing to innovation-friendly regulations that accommodate the economic needs of the Muslim community.

Regulations in the UAE and Bahrain also encourage the creation of a Sharia-compliant digital innovation ecosystem where financial institutions can develop real asset-based stablecoins, Sharia-compliant smart contracts, and halal peer-to-peer lending services. This accelerated the modernization of the Islamic financial sector and provided diversified investment products in accordance with the principles of *maqasid sharia*. However, several residual challenges remain, such as digital asset price volatility, the need for Sharia-compliant financial literacy education, and global harmonization of regulatory standards. Although the systems in the UAE and Bahrain are mature, differences in the interpretation of Sharia law between countries can still lead to market fragmentation and confusion for global Muslim investors. Investor protection must also be continuously improved in line with the development of new digital products and technologies (Al-Tawil, 2023).

Sharia-compliant cryptocurrency regulations in the UAE and Bahrain have strengthened their positions as pioneers in Islamic digital finance. Regulatory clarity increases the trust and participation of Muslim investors, accelerates the adoption of blockchain technology in Islamic financial institutions, and opens opportunities for the growth of a more inclusive, efficient, and highly competitive digital market in the Islamic world.

Table 3. Regulatory implications for markets and investors

Aspect	Regulatory implications
Legal certainty	Providing legitimacy and a sense of security for Muslim investor transactions
Transparency	Reduce the risk of fraud/manipulation, facilitate Sharia audits
Financial Inclusion	Increasing access and participation in halal digital finance
Innovation	Encourage the development of new Sharia products (stablecoins, smart contracts)
Protection	Strengthening investor protection from the risks of *gharar, usury,* and illegal practices
Risk/Fragmentation	Potential market confusion and uncertainty if regulations are not harmonized

Source: Rizieq and Baidhowi (2025), and CNN Indonesia.

UAE and Bahrain as portraits of the future towards a global Sharia standards for digital assets

The rapid development of blockchain technology, digital assets, and cryptocurrencies continues to shift the paradigm of the global financial system and raise the urgency to formulate global Sharia standards for digital assets. Currently, various Muslim countries, such as the United Arab Emirates, Bahrain, Malaysia, and Indonesia, are adapting diverse regulatory models and fatwas to digital assets, ranging from outright prohibition to conditional legal recognition and progressive implementation of Sharia filters. Policy fragmentation and differing interpretations of Sharia pose significant challenges to building a safe, transparent, and sustainable Islamic investment and finance ecosystem.

Akshay Chopra, Vice President and Head of Innovation and Design a Visa, also affirmed Chehade's views on the progressive regulatory outlook in the region. As a board member of the MENA Fintech Association, Chopra highlighted a "*forward-looking and inclusive approach to blockchain and crypto solutions*" as a key driver of the sector's growth in the region. Chopra emphasized the cooperation between regulators, local blockchain communities, institutions, startups, and entrepreneurs as essential to forming a highly inclusive perspective on the future development and positioning of markets and regulators in this domain. With progressive and inclusive regulations, the Middle East has successfully attracted major crypto companies and exchanges to invest and grow. Given its rapid growth, the region has great potential to become a global hub for the crypto industry (Zela, 2025).

The United Arab Emirates (UAE) and Bahrain have emerged as leading models in implementing progressive regulations and digital innovation, while remaining grounded in Sharia principles. Both countries demonstrate how digital assets can be harmoniously integrated into the global Islamic financial system while simultaneously fostering the development of a halal fintech ecosystem that adapts to technological change.

Through policies such as the Dubai Blockchain Strategy, is creates a legal environment that allows cryptocurrency trading under the supervision of official authorities, with rigorous Sharia-compliant audits. This promotes transparency, transaction security, and consumer protection, which are key pillars of the acceptance of digital assets by Muslim investors. The Dubai government is striving to establish the city as a Sharia-compliant blockchain-based digital financial hub by implementing technologies such as smart contracts, digital assets, and sukuk tokenization across various Sharia-compliant financial services.

Simply put, sukuk are sharia-compliant securities that represent ownership of an asset or project. This is similar to bonds, but without interest. In sukuk, investors profit from the rental or sale of assets in accordance with Sharia-compliant contracts such as ijarah (leasing), wakalah (representation), or murabahah (sale and purchase). However, the sukuk issuance process is complicated and requires numerous documents and intermediaries. Blockchain can help simplify things (El-Madury 2025).

Bahrain and the UAE are running pilot projects for sukuk issuances using a private Ethereum-based blockchain system. They also use smart contracts, an automated code that replaces manual processes. First, rental income (nisbah) is automatically distributed to investor accounts. Second, the principal repayment schedule was programmed without manual management. Third, an automatic notification of late payments is provided. Everything was recorded using an immutable digital ledger. The results were more transparent, faster, and more secure from manipulation.

The Sukuk used is Ijarah Sukuk, where assets are leased and investors receive a return from rental. This is typically managed manually; however, with smart contracts, the process is more streamlined. This technology maintains Sharia principles such as no interest, a clear contract process, and fair distribution of profits (Arofansyah, 2025).

Bahrain is no less progressive and provides an official regulatory framework for cryptocurrencies through the Central Bank of Bahrain. This country not only recognizes the legality of digital assets, but also strengthens the innovation ecosystem with a regulatory sandbox specifically for blockchain startups, including Sharia-compliant digital innovations. Every entity operating in the crypto-asset sector must undergo a licensing process, strict security oversight, and digital halal audits. The implementation of blockchain and smart contracts in digital sukuk- and Sharia-compliant financial services in Bahrain has increased transaction efficiency, asset transparency, and investor confidence regionally and globally.

The steps taken by the UAE and Bahrain are the pillars towards the global Sharia standards for digital assets. Both countries are promoting best practices, such as: *First*, digital asset regulation based on digital Sharia audits and certification. *Second,* the development of new products such as halal stablecoins, digital sukuk, and Sharia smart contracts. *Third,* support from regulatory sandboxes for testing Sharia fintech products before they are released to the market. Fourth, the digital literacy and education of market players help them understand the risks and opportunities of new technologies.

The success of the UAE and Bahrain in integrating blockchain technology and Sharia-compliant digital assets provides guidance for other Muslim countries that still face legal fragmentation and differing interpretations of Sharia. Global Sharia standardization is expected to be achieved through regulatory harmonization, collaboration between regulators and international Sharia councils, and implementation of a digital halal certification system for all digital asset products traded internationally.

The UAE and Bahrain models also demonstrate that strengthening Muslim investor confidence and expanding inclusion in Islamic digital finance can be achieved without sacrificing the core values of maqasid Sharia. Future challenges include the need to harmonize international standards, accelerate public literacy, and enforce laws to address disruptive innovations in digital assets. However, the experiences of both countries have become key benchmarks, reinforcing optimism for the future of Islamic financial systems in the global digital era.

Conclusion

This study found that the regulation of crypto-assets in the United Arab Emirates (UAE) and Bahrain demonstrates a progressive and adaptive approach to digital assets, especially those based on the Shariah principles. Both the UAE and Bahrain have implemented regulatory frameworks that allow the trading of crypto-assets under strict supervision and the application of Shariah principles in these transactions. This approach contrasts with several other countries that tend to be conservative or prohibit the use of crypto assets.

This study's findings address the question of how the Shariah-based crypto-asset regulatory framework operates in these two countries by showing a balance between financial technology innovation and adherence to Shariah principles. The regulation not only considers the legality and security aspects of transactions but also accommodates the need for transparency, investor protection, and supervision by the Shariah authorities. However, this study acknowledges the absence of a single global standard for Shariah-based crypto-asset regulation, leading to differences in interpretation and implementation across countries.

These findings highlight the important role of regulation in supporting the development of Shariah fintech and strengthening digital financial inclusion for Muslims. Moreover, appropriate regulation can reduce the risks of volatility and excessive speculation that have hindered wider acceptance of crypto-assets in accordance with Shariah principles.

The limitations of this study include its reliance on secondary data and the existing literature, as well as the lack of internationally agreed Shariah regulatory standards. This restricts the generalization of the findings to contexts outside the UAE and Bahrain.

Suggestions for future research: Further empirical research is needed involving Shariah fintech industry players, regulators, and Muslim communities in various countries to obtain a more comprehensive picture of the implementation of Shariah-based crypto-asset regulations. In-depth studies are required to develop global regulatory standards for crypto-assets that align with the Shariah principles to achieve harmonization and legal certainty at the international level.

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