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A Comprehensive Analysis of The Varied Interpretations among Islamic Scholars Concerning Bitcoin Transactions

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Abstract

At present, there is a notable divergence in viewpoints among Islamic scholars pertaining to the legality of Bitcoin transactions. A subset of these scholars categorically prohibits its use, while another endorses it. This disparity has precipitated confusion within the Muslim community, thereby complicating the task of adopting one stance over the other. The primary aim of this study is to meticulously examine and analyze the arguments presented by both subsets, with the objective of shedding light on the underlying causes of this divergence of viewpoints. To achieve this, the study utilizes a blend of descriptive and inductive analytical methodologies. The findings indicate that the scholars who prohibit Bitcoin largely base their

arguments on external factors, with a minority of objections directly related to the inherent attributes of Bitcoin itself. In contrast, the subset that endorses the use of Bitcoin tends to focus on the intrinsic system of Bitcoin, often minimizing the importance of external factors. However, even the endorsers of Bitcoin acknowledge that current Bitcoin transactions are not without risks. They suggest that these risks should be addressed by the appropriate authorities through the implementation of effective preventive measures.

Keywords: Bitcoin, Bitcoin Transaction, Blockchain, Prohibition of Bitcoin, Obligation of Bitcoin

Introduction

Since the emergence of bitcoin in 2009 after its introduction by Nakamoto (2008), it has invited various perceptions and views from the public regarding its use. The emergence of bitcoin is a result of the development of financial technology (fintech) in the present time that aims to facilitate online payments without involving third parties, save costs, be more transparent and safer (Masruron, 2021). This cryptocurrency appeared as a result of technological advancement to replace minted money such as fiat money, coins, and others. However, it has received various reactions from authorities, academics and the general public.

According to some Islamic scholars, bitcoin does not meet the criteria of *riba* and *gharar* in Islam, two crucial principles in financial transactions in the religion. *Riba* refers to the profit gained through the application of interest or an unequal rate, while *gharar* is characterized by a high level of uncertainty in financial transactions. The scholars believe that bitcoin is also associated with a high and unstable level of risk, making it unsuitable as a payment method or source of income. Additionally, the ownership of digital currency is perceived as uncertain and raises ethical issues. Hence, those who hold the view that prohibits bitcoin believe that its ownership and usage contravene Islamic principles and should not be incorporated into Islamic financial practices. (Afrizal et al., 2021; Al-Saad & Al-Rawabidah, 2020; Asep & Elsa, 2018; Hardian & Ahmad, 2021; Masruron, 2021).

Bitcoin is a digital currency that boasts several advanced features, one of which is its blockchain system. This technology has become a trend in the fintech industry due to its ability to create various forms of currency. The blockchain operates by securely storing all cryptocurrency transactions and protecting against any issues related to cybercrime. The introduction of the blockchain system coincided with the creation of bitcoin in 2009, and it serves as a record of all transactions made with the currency. Each node or user computer has a copy of the blockchain that is automatically downloaded upon joining the bitcoin network. The blockchain stores a complete history of transactions, from the first ever made to the most recent, including the time and date of each. This information is shared among participants in the peer-to-peer network for validation. Essentially, the blockchain is an open record accessible to the public, allowing for full transparency of all bitcoin transactions (Nakamoto, 2008). Beyond Bitcoin, the blockchain is also the central technology for other decentralized digital currencies.

The blockchain has the characteristic of a peer-to-peer network that is decentralized, meaning anyone in the network without prior acquaintance can communicate or conduct business with others without the involvement of a third party. Every transaction will be recorded on the blockchain (Nababan, 2019; Sapra & Dhaliwal, 2021). For a transaction, the sender initiates it by signing its digital signature in the transaction (Nakamoto, 2008). This transaction request will be broadcasted in the computer network for the purpose of