Blockchain and Smart Sukuk in Malaysia: A New Era for Islamic Capital Markets

Associate Professor Dr. Ashurov Sharofiddin

IIUM Institute of Islamic Banking and Finance (IIiBF)

Malaysia has long been regarded as a global leader in sukuk issuance, representing nearly 36 percent of the world's outstanding sukuk as of the end of 2024. The size of its domestic bond and sukuk market, valued at approximately RM2.06 trillion in mid-2024, demonstrates not only depth but also the maturity of its Islamic capital market architecture. Yet the rapid rise of blockchain and tokenisation is prompting a critical reassessment of how these markets operate, and whether Malaysia can extend its leadership into what some describe as the era of "smart sukuk" (MIFC, 2024; Bank Negara Malaysia, 2024).

At its core, a smart sukuk is a Shariah-compliant investment instrument that embeds contractual terms directly within blockchain-based smart contracts. This enables the issuance, tracking of investor records, generation of cash-flow schedules, and enforcement of covenants to be automated and time-stamped on a distributed ledger. The notion is not simply technical sophistication; it is a reconfiguration of trust. In conventional sukuk, multiple intermediaries such as registrars, paying agents, and trustees safeguard investor rights and verify compliance. Blockchain promises to disintermediate parts of this chain, cutting costs and time-to-market while providing investors with an immutable audit trail. Bursa Malaysia's early proof-of-concept on digital bonds and sukuk in Labuan confirmed that issuance and lifecycle management can be executed efficiently on-chain, laying the groundwork for further experimentation (Bursa Malaysia, 2023).

The timing is significant. Global sukuk issuance, despite market volatility, remains resilient, with forecasts of US$160–180 billion in 2024 (S&P Global Ratings, 2024; World Bank, 2024). Analysts note that growth will increasingly depend on cost efficiency and access to new categories of investors, particularly retail and small institutions. Tokenisation directly addresses both of these needs. Malaysia's Securities Commission (SC) and Khazanah Nasional announced in 2025 a pilot to tokenise bonds and sukuk, explicitly aimed at retail inclusion. By reducing denomination sizes and simplifying settlement, tokenised sukuk could be distributed in RM100 lots to ordinary Malaysians, similar to but more accessible than the existing Exchange-Traded Bonds and Sukuk (ETBS) framework (SC, 2025).

However, the opportunities are matched by challenges that demand critical evaluation. First is the issue of Shariah governance. Codifying Islamic contracts into immutable smart contracts is not merely a technical exercise; it risks freezing interpretations that should remain flexible in light of new circumstances. For example, debates over ownership transfer, risk sharing, or asset use cannot be fully captured by lines of code. Malaysia's recent review of Shariah contract frameworks offers useful direction, but it will require adaptive standards that allow smart contracts to be audited, amended, and overseen without undermining investor confidence (SC, 2024).

Legal enforceability is another pressing concern. For tokenised instruments to attract mainstream issuers, especially sovereign or government-linked corporations, they must enjoy the same legal finality as book-entry securities. Malaysia's SC has progressively enhanced its Guidelines on Digital Assets, and Bank Negara Malaysia has highlighted blockchain as a tool for greater transparency and security. Yet questions remain about investor options in the event of coding errors, cyber breaches, or custodian failures. Although blockchain reduces certain frictions, it introduces new layers of risk that regulators must anticipate (Bank Negara Malaysia, 2024; SC, 2024).

From an economic standpoint, tokenisation can reduce issuance costs by automating KYC checks, registrar functions, and profit distribution schedules. This is particularly significant for smaller corporates and green projects, which often find conventional sukuk issuance prohibitively expensive. Consider a rooftop solar project: each investor's share of electricity revenues could be tracked on-chain, with profit distributions automatically credited to digital wallets. Such efficiency could transform the financing of Malaysia's energy transition agenda. Likewise, SME supply-chain sukuk—where suppliers receive financing against invoices—could benefit from automated milestone verification and profit redemption, reducing disputes and enhancing transparency.

Still, the promise of inclusivity must be weighed against potential pitfalls. While lower denominations open sukuk investment to students, gig workers, or low-income households, the volatility and unfamiliarity of blockchain platforms may expose unsophisticated investors to new risks. Regulators must balance accessibility with robust investor protection, ensuring that tokenised sukuk are distributed only through licensed, well-capitalised platforms with clear disclosure standards. The danger is that enthusiasm for "financial inclusion" may overshadow prudential safeguards.

The issue of liquidity also demands scrutiny. Tokenised sukuk will only succeed if they can be traded seamlessly across existing venues such as Bursa ETBS and new digital asset exchanges. Otherwise, they risk fragmenting liquidity rather than deepening it. This requires common data standards, harmonised settlement rules, and interoperability between custodians. Without such coordination, the market could become a patchwork of isolated platforms, undermining the efficiency gains tokenisation seeks to deliver (SC, 2024).

Malaysia's trajectory in this field suggests a cautious but deliberate progression. The pilot with Khazanah is designed to test not only the technical feasibility but also the behavioural dynamics of retail participation. If successful, subsequent phases may involve thematic smart sukuk—for example, green or SME-focused instruments—and eventually the integration of short-term liquidity tools such as IILM sukuk. By then, full-scale interoperability and perhaps cross-border recognition within OIC markets could make Malaysia a hub for digital Islamic finance (IILM, 2024).

From a strategic perspective, the successful implementation of blockchain-enabled smart sukuk in Malaysia requires a coherent framework anchored in three interdependent pillars: regulatory alignment, market readiness, and technological integration. Regulatory alignment should begin with harmonizing the roles of the Securities Commission, Bank Negara Malaysia, and the Shariah Advisory Council to ensure that tokenized sukuk enjoy full legal recognition while preserving Shariah compliance through adaptable smart contract templates. Market readiness entails structured capacity-building for issuers, underwriters, trustees, and investors, with training programmes, financial literacy campaigns, and pilot issuances that gradually expand from government-linked entities to SMEs and green projects. Technological integration must focus on building interconnected infrastructures that link Bursa Malaysia's existing Exchange-Traded Bonds and Sukuk platform with licensed digital exchanges, supported by robust cybersecurity safeguards and clear custody standards. By sequencing these pillars in a phased roadmap, Malaysia can realistically position smart sukuk as a mainstream instrument, deepening inclusion while strengthening its global leadership in Islamic finance.

References

Bank Negara Malaysia. (2024, August 15). Quarterly Bulletin: Second Quarter 2024. Kuala Lumpur: Bank Negara Malaysia. Retrieved from https://www.bnm.gov.my

Bursa Malaysia. (2023). Digital bonds and sukuk proof-of-concept in Labuan. Kuala Lumpur: Bursa Malaysia.

International Islamic Liquidity Management Corporation (IILM). (2024). Short-term sukuk issuance report 2024. Kuala Lumpur: IILM.

Malaysia International Islamic Financial Centre (MIFC). (2024, July 3). Malaysia dominates global sukuk market with 36% share of outstanding issuance. Kuala Lumpur: Bank Negara Malaysia/MIFC.

Securities Commission Malaysia. (2024). Guidelines on Digital Assets (Revised 2024). Kuala Lumpur: Securities Commission.

Securities Commission Malaysia. (2025, January 17). SC and Khazanah Nasional to pilot tokenisation of bonds and sukuk to enhance retail access. Kuala Lumpur: Securities Commission.

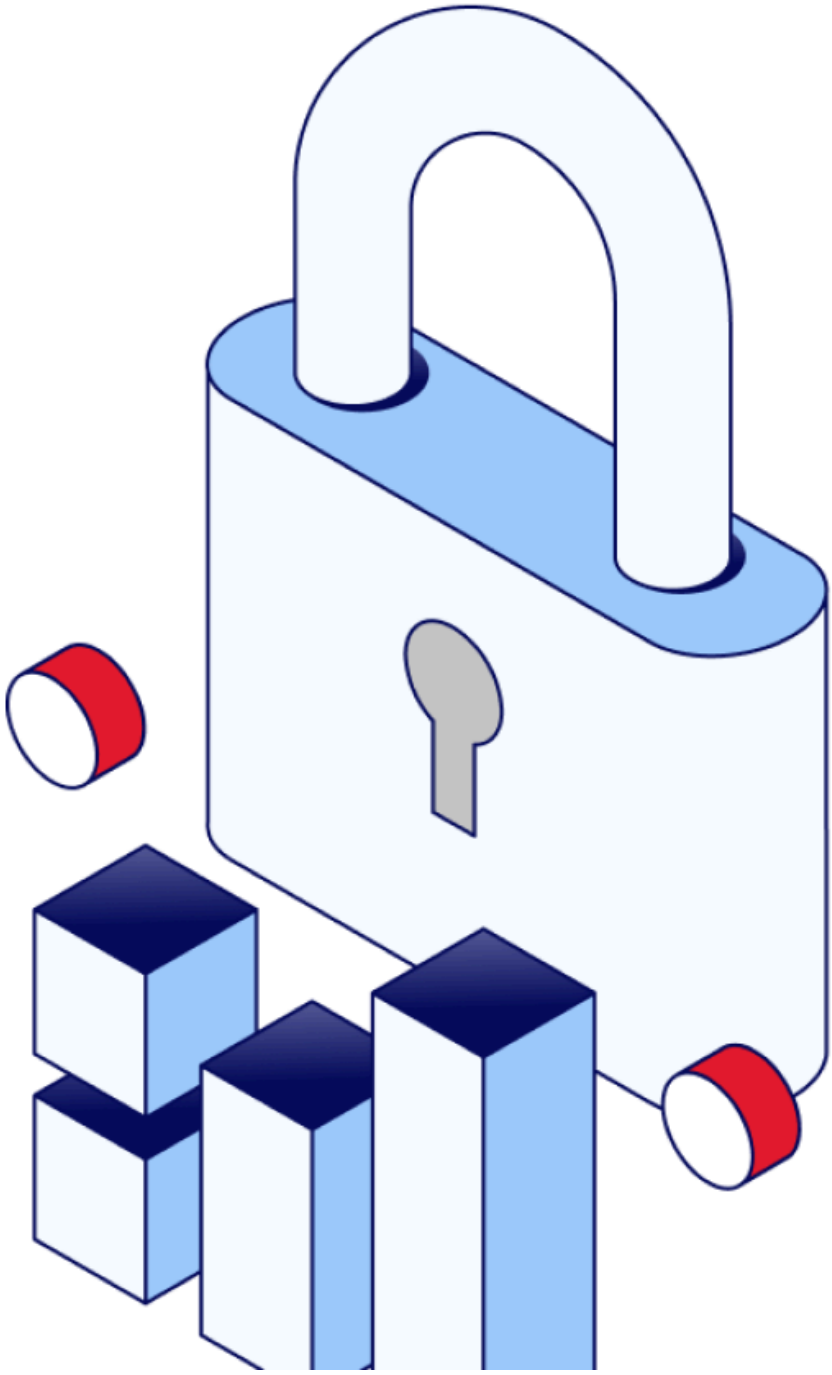
Standard & Poor's Global Ratings. (2024, February 20). Global Sukuk Outlook 2024: Modest growth expected amid resilient demand. New York: S&P Global Ratings.

World Bank. (2024, June 25). Global Islamic finance: Sukuk issuance trends and prospects. Washington, DC: World Bank Blog. Retrieved from https://blogs.worldbank.org

- Tags
- Shariah Scholars' Corner

- Category
- Article

Published Date
06 Nov 2025
Author
Associate Professor Dr. Ashurov Sharofiddin



Please enter your access code
Access Code Access Code
Verify