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CROSS-BORDER SUKUK REGULATION: A COMPARATIVE ANALYSIS OF LEGAL AND SHARIAH GOVERNANCE FRAMEWORKS IN FIVE KEY MARKETS

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Abstract

This study examines the contrasting regulatory frameworks governing Sukuk across Saudi Arabia, Malaysia, Nigeria, the United Kingdom, and Hong Kong. It explores how differences in legal systems, Shariah governance structures, and institutional arrangements affect the growth and integration of the global Sukuk market. Using a comparative qualitative design, the study relies on secondary data from peer-reviewed journals, regulatory publications, and official reports of international Islamic finance institutions. The data were analyzed through thematic content analysis, which identified patterns and disparities in Sukuk regulation. Findings reveal that while Sukuk has become a vital instrument for funding infrastructure and sustainable development, the absence of standardization limits cross-border investment and market confidence. The study reiterates the need for harmonized legal and Shariah frameworks to enhance transparency, investor protection, and global market stability. It concludes that collaboration among regulators, scholars, and standard-setting bodies such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) is essential to reinforce global consistency in Sukuk issuance and practice. The paper contributes to the ongoing discourse on international financial integration and offers policy insights for advancing a unified Sukuk framework.

Keywords: Sukuk, Regulatory Framework, Standardization, Shariah Governance, Islamic Finance

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Introduction

Sukuk have become a vital instrument in Islamic finance, providing Shariah-compliant alternatives to conventional bonds. They are asset-based certificates that represent ownership in tangible assets, usufructs, or services, and are structured to comply with Islamic principles that prohibit *riba* (interest). Islamic finance presents a viable alternative framework. Grounded in ethical principles, risk-sharing and asset-backed transactions, Islamic finance promotes social justice, financial inclusion and responsible stewardship of resources. Its alignment with the United Nations Sustainable Development Goals, particularly poverty reduction, reduced inequality and climate action has been demonstrated through instruments such as Islamic microfinance and green Sukuk (Olawole et al., 2026; World Bank, 2021). Over the past two decades, the Sukuk market has expanded across Muslim and non-Muslim countries alike. Yet, despite its rapid growth, the lack of uniformity in Sukuk structure and regulation remains a critical concern (IFSB, 2022; World Bank, 2021). In Saudi Arabia, Sukuk issuance is guided by strict Shariah principles. The Capital Market Authority requires clear asset ownership and prohibits debt-based structures. This framework ensures high Shariah compliance and investor trust. However, it limits innovation and flexibility. Hanif (2019) reiterates that Saudi Sukuk are conservative but credible, providing a strong regulatory foundation that reinforces confidence in the Islamic capital market.

Malaysia, in contrast, adopts a flexible and innovative approach. The country remains the global leader in Sukuk issuance, accounting for nearly half of the world's outstanding Sukuk (Malaysia Ministry of Finance, 2021). Its regulatory system allows various contract structures, including *Ijarah*, *Musharakah*, and hybrid models. While this enhances market depth, it also introduces structural diversity that can challenge cross-border acceptance. Sanusi and Ahmad (2022) argue that the Malaysian model, though progressive, often differs from stricter Middle Eastern standards, thereby creating inconsistencies in global Sukuk interpretation. Nigeria entered the Sukuk market in 2017, using the proceeds to fund major road and infrastructure projects (Bello, Akhtarzaite, & Amanullah, 2022). The Nigerian Sukuk was well received locally, demonstrating the instrument's potential to support public development. Notwithstanding, regulatory coordination remains weak. Multiple agencies oversee Sukuk-related matters, and the absence of a unified Shariah advisory council results in divergent interpretations. This regulatory gap undermines investor confidence and slows market growth. Similarly, inadequate secondary market activity limits liquidity and long-term participation.

The United Kingdom was the first non-Muslim country to issue a sovereign Sukuk, in 2014, and a second issuance in 2021 (UK Debt Management Office, 2021). The UK's regulatory framework accommodates Islamic finance within its broader financial system. English law is often preferred in international Sukuk transactions because of its clarity and enforceability (Fitch Ratings, 2023). However, the UK lacks a dedicated Shariah supervisory authority. This means that Sukuk issued under UK law rely mainly on private Shariah advisory firms, which can lead to interpretational differences. While the UK model enhances global accessibility, it also underscores the contrasting ways non-Muslim countries adapt Sukuk regulation. Hong Kong provides another notable case. Its government issued Sukuk in 2014, 2015, and 2017, all based on *Ijarah* (lease) structures and listed globally (Hong Kong Monetary Authority, 2018). These issuances were oversubscribed, reflecting

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strong investor interest. Hong Kong's legal framework ensures tax neutrality between Sukuk and conventional bonds. Yet, the market remains government-driven, with limited private sector participation. The absence of a Shariah board and reliance on external advisers highlight a recurring challenge in non-Muslim jurisdictions, the need for consistent Shariah governance (IMF, 2021).

The comparison of these five countries reveals a vital issue: the absence of standardization. Differences in Shariah interpretation, legal documentation, and regulatory supervision create barriers to cross-border Sukuk issuance. These divergences reduce market efficiency and raise legal uncertainty. Hasan, Ahmad, and Parveen (2019) found that markets with strong governance frameworks record higher Sukuk issuance and investor participation. Hence, this study seeks to fill this gap by examining Sukuk frameworks across Saudi Arabia, Malaysia, Nigeria, the United Kingdom, and Hong Kong, to identify regulatory and structural differences, and to propose ways toward standardization.

LITERATURE REVIEW

Sukuk are vital instruments in Islamic finance. They represent ownership in tangible assets or services and are structured to comply with Shariah principles that prohibit *riba* (interest). Unlike conventional bonds, Sukuk link returns to asset performance rather than debt obligations. This makes them suitable for ethical and asset-based financing (Iqbal & Mirakhor, 2011). Kahf (2004) reiterates that Sukuk enhance economic justice by ensuring risk-sharing and discouraging speculation. Usmani (1998) also explains that Sukuk should reflect genuine ownership, not debt simulation. Over time, Sukuk have evolved across countries, leading to various structures and interpretations. A regulatory framework defines how Sukuk are issued, traded, and monitored. It includes Shariah governance, legal enforceability, and investor protection mechanisms. Standardization of these frameworks remains the fulcrum for global integration. In tandem with the growth of Islamic capital markets, the call for harmonization has become vital to reinforce transparency and enhance investor trust.

This study is guided mainly by Institutional Theory and Regulatory Convergence Theory. Institutional Theory explains how social, legal, and cultural norms influence organizational structures. It suggests that financial systems evolve according to institutional pressures (DiMaggio & Powell, 1983). In the Sukuk context, institutions, such as Shariah boards, regulators, and market actors, shape how Sukuk frameworks develop in each country. Differences in these institutions lead to contrasting regulatory outcomes. Regulatory Convergence Theory, on the other hand, focuses on the harmonization of financial rules across borders. It posits that globalization and cross-border investment push nations to align their regulatory systems (Levi-Faur, 2005). Applying this theory to Sukuk implies that as markets become interconnected, the need for shared standards becomes more pressing. Together, these theories reinforce the need for a unified Sukuk framework that aligns legal, Shariah, and operational practices across jurisdictions.

Legal and Regulatory Frameworks for Sukuk

The legal foundation for Sukuk varies widely across jurisdictions. In Saudi Arabia, the Capital Market Authority (CMA) ensures that Sukuk structures comply strictly with Shariah principles. Sukuk must be asset-backed, not asset-based, to prevent *riba* (Hanif, 2019). This framework enhances investor

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confidence but reduces innovation flexibility. Malaysia, by contrast, has a more adaptable regulatory environment. The Securities Commission Malaysia integrates Sukuk within the Capital Markets and Services Act. It accommodates hybrid structures, including *Ijarah* (lease), *Mudarabah* (silent partnership), and *Wakalah* (agency) (Malaysia MOF, 2021). This approach encourages growth but can create interpretational differences with Middle Eastern scholars who prefer stricter asset-based models (Sanusi & Ahmad, 2022).

In Nigeria, the Securities and Exchange Commission introduced Sukuk guidelines in 2013 to attract Islamic investors. The first sovereign Sukuk in 2017 funded federal road projects (Bello, Akhtarzaite, & Amanullah, 2022). However, coordination between agencies remains weak. There is no national Shariah council, and legal enforceability still depends on conventional contract law. The United Kingdom provides a different model. The UK government ensures tax neutrality between Sukuk and conventional bonds (UK Debt Management Office, 2021). English common law governs most Sukuk documentation, which enhances credibility for international investors. Yet, the absence of a Shariah authority makes the UK reliant on private advisory firms (Fitch Ratings, 2023). Hong Kong developed a clear regulatory pathway for Sukuk by revising its tax and legal structures in 2014. Its three sovereign Sukuk issues were based on *Ijarah* and structured to attract Middle Eastern investors (Hong Kong Monetary Authority, 2018). However, the market remains government-led with minimal corporate participation. These legal contrasts show that while each country aligns Sukuk to its domestic laws, global uniformity remains limited. As the World Bank (2021) observed, the lack of harmonized standards creates transaction inefficiencies and legal uncertainty.

Shariah Governance and Institutional Oversight

Shariah governance is the mainstay of Islamic finance. It ensures that financial products adhere to Islamic law. Saudi Arabia relies on institutional Shariah boards within the CMA and banks. This centralization ensures strict compliance and reduces interpretational disputes (Hanif, 2019). Malaysia adopts a centralized model through the Shariah Advisory Council (SAC) under the Securities Commission. All Sukuk must obtain SAC approval before issuance. This reinforces confidence and consistency (IFSB, 2022). In Nigeria, there is no centralized Shariah council for capital markets. Each institution uses its own advisory board. This leads to variations in rulings and weakens investor perception of compliance. Bello et al. (2022) note that this lack of coordination affects market development.

The UK and Hong Kong, as non-Muslim jurisdictions, rely on external scholars or Shariah advisory firms. While this provides flexibility, it may cause credibility concerns among global Islamic investors. The IMF (2021) emphasized that the absence of Shariah institutional frameworks in such countries can limit long-term confidence. Thus, effective Shariah governance remains vital. Without institutional alignment, achieving cross-border standardization will remain difficult. Centralized oversight, as seen in Malaysia, offers a replicable model for others to enhance Shariah compliance globally.

Market Development and Cross-Border Integration

Sukuk markets differ in depth and maturity. Malaysia remains the largest issuer globally, contributing nearly 45% of global Sukuk value in 2021 (IFSB, 2022). Its deep market, multiple

structures, and active secondary trading enhance liquidity and investor participation. Saudi Arabia follows closely, with Sukuk issuance funded by both sovereign and corporate entities. The Kingdom's Vision 2030 plan supports Sukuk as a tool for infrastructure and diversification (Hanif, 2019). However, trading remains limited because many Sukuk are held to maturity. Nigeria's Sukuk market is young but growing. The proceeds have funded infrastructure projects in road construction (Bello et al., 2022). Yet, weak secondary market activity restricts liquidity.

The UK acts as a global listing hub for Sukuk, especially on the London Stock Exchange. This platform attracts issuers from the Gulf and Asia. English law enhances cross-border confidence (Fitch Ratings, 2023). Hong Kong's market development is still state-driven, with limited private sector Sukuk. Nonetheless, its strategic role as a bridge between East Asian investors and Middle Eastern markets remains evident (IMF, 2021). Cross-border integration is hindered by varying documentation, credit ratings, and legal enforceability. The IFSB (2022) reiterates that harmonized standards would enhance Sukuk liquidity, lower issuance costs, and improve investor reach across borders.

The Case for Global Standardization

Scholars and practitioners agree that standardization is vital to the global growth of Sukuk. The current diversity in regulatory and Shariah frameworks poses operational and legal risks. Hasan, Ahmad, and Parveen (2019) found that jurisdictions with strong governance attract more Sukuk investors. The Islamic Development Bank and AAOIFI have also been working to develop global guidelines, but adoption remains uneven (AAOIFI, 2021). Saudi Arabia and Malaysia represent contrasting models, strict compliance versus flexible innovation. The challenge is how to align these without compromising religious integrity. Standardization could provide a middle path that respects both traditions.

For emerging markets like Nigeria, a unified framework could enhance credibility and attract foreign participation. For non-Muslim hubs such as the UK and Hong Kong, alignment with AAOIFI standards could reinforce investor trust and ensure consistent practices. The World Bank (2021) emphasizes that lack of comparability among Sukuk structures deters cross-border investment. Similarly, the IMF (2021) notes that standardization could enhance the resilience and global acceptance of Islamic capital markets. In tandem with these findings, it is evident that harmonization is not only desirable but necessary. It is the fulcrum for the next phase of Sukuk evolution. A global framework that balances flexibility and uniformity will reinforce confidence, enhance liquidity, and enable sustainable growth in Islamic finance.

Theoretical Framework

This study is underpinned by Institutional Theory and Regulatory Convergence Theory, which together provide the analytical lens for examining why Sukuk regulatory frameworks diverge across jurisdictions and how standardization might be achieved.

Institutional Theory, as articulated by DiMaggio and Powell (1983), posits that organizations within a field become structurally similar through coercive, mimetic, and normative isomorphic pressures. In the Sukuk context, Shariah boards, regulators, and market actors function as institutional forces that shape how regulatory frameworks evolve in each country. The recent empirical evidence

supports this framework: Nigeria and Indonesia's divergent Sukuk governance architectures reflect their distinct institutional histories, with Indonesia's centralized Shariah framework contrasting sharply with Nigeria's fragmented advisory structure. This institutional heterogeneity explains why, despite global growth in Islamic finance assets reaching USD 3.88 trillion in 2024, Sukuk markets remain structurally uneven, with Africa and Central Asia emerging as new frontiers while mature markets consolidate.

Regulatory Convergence Theory, elaborated by Levi-Faur (2005), examines how globalization and cross-border investment drive alignment of financial rules across jurisdictions. The IFSB (2025) explicitly calls for "coordinated action" to deepen Sukuk markets, noting that complex structures, limited local-currency issuances, and low trading volumes constrain long-term growth. Malaysia's recent development of a structured, rules-based framework for Shariah-compliant products under the Maqasid al-Shariah Task Force exemplifies how a jurisdiction can serve as a convergence anchor, standardizing disclosure and regulatory approaches for broader adoption.

The interplay between these theories reveals a central tension: institutional embeddedness sustains regulatory diversity, while market integration pressures push toward convergence. This study examines how five jurisdictions navigate this tension and identifies pathways toward standardization.

Methodology

This study adopts a comparative qualitative research design to examine the regulatory frameworks governing Sukuk in Saudi Arabia, Malaysia, Nigeria, the United Kingdom, and Hong Kong. The selection of these countries is vital as they represent both Islamic and non-Islamic jurisdictions with viable Sukuk markets. The research relies mainly on secondary data drawn from peer-reviewed journals, regulatory publications, central bank reports, and documents from international bodies such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The study employs thematic content analysis to identify patterns, contrasts, and emerging themes in Sukuk regulation and Shariah governance. This approach reinforces the interpretive nature of the research, allowing for deeper insight into the institutional, legal, and religious dynamics shaping Sukuk standardization. The qualitative and comparative method is justified because the study seeks to understand meanings, contexts, and relationships rather than measure variables. Quantitative tools would not capture these nuances. Hence, the qualitative design serves as a fulcrum for analyzing the complex and diverse Sukuk frameworks across regions. The findings aim to enhance global understanding and reiterate the need for a harmonized Sukuk regulatory structure.

Discussion of Findings

The findings of this study reveal that the regulatory environment for Sukuk varies widely across the five countries examined, Saudi Arabia, Malaysia, Nigeria, the United Kingdom, and Hong Kong. These differences reflect not only contrasting legal traditions but also variations in how Shariah principles are interpreted and implemented. In tandem, these findings reinforce the argument that the absence of a harmonized framework continues to limit cross-border Sukuk operations. In Saudi Arabia, the Sukuk market operates within a fully Shariah-based financial system supervised by the

Saudi Capital Market Authority (CMA). The framework emphasizes compliance with Islamic law, but the absence of a national Shariah board often leads to interpretational differences among scholars. In Malaysia, the regulatory structure is more advanced, combining Shariah oversight by the Shariah Advisory Council of Bank Negara Malaysia with well-defined legal procedures under the Securities Commission. Malaysia's approach enhances investor confidence and has funded several sustainable projects.

Nigeria's regulatory framework remains evolving. The Securities and Exchange Commission (SEC) provides Sukuk guidelines modeled after AAOIFI standards, but practical implementation faces challenges due to limited expertise and weak secondary markets. Nevertheless, Sukuk issuances in Nigeria have funded vital infrastructure, reinforcing the instrument's socio-economic relevance.

The United Kingdom demonstrates that non-Muslim jurisdictions can develop effective Sukuk markets through adaptive regulation. The Financial Conduct Authority (FCA) and HM Treasury ensure that Sukuk structures comply with both Islamic principles and English commercial law. This dual compliance model enhances inclusivity and attracts global investors. Similarly, Hong Kong has positioned itself as a regional hub for Islamic finance through strategic legislative adjustments and sovereign Sukuk issuances backed by tangible assets. Its experience shows how clear regulations can enhance investor confidence even in a non-Islamic setting.

Comparatively, the findings reiterate that the absence of global standardization poses operational risks. Differences in Shariah interpretations, documentation processes, and disclosure requirements hinder cross-border recognition of Sukuk instruments. This lack of alignment affects liquidity and market integration. Notwithstanding these challenges, initiatives by AAOIFI and IFSB are vital steps toward harmonization. However, their adoption remains inconsistent across jurisdictions. In essence, the study highlights that effective Sukuk development depends on robust legal clarity, unified Shariah governance, and cross-border cooperation. Standardization would enhance transparency, reduce legal uncertainty, and reinforce global investor confidence. The findings thus provide a fulcrum for policymakers and regulators to collaborate in creating a universally accepted Sukuk framework capable of driving sustainable Islamic financial growth.

Conclusion and Recommendations

This study examined the contrasting regulatory frameworks guiding Sukuk in Saudi Arabia, Malaysia, Nigeria, the United Kingdom, and Hong Kong. It is evident that while Sukuk remain a vital funding instrument for infrastructure and sustainable development, their global integration is weakened by the absence of standardized structures and harmonized regulations. Each country reflects its legal and institutional realities, yet the lack of cross-border coordination continues to hinder market efficiency and investor confidence.

The study reiterates that standardization is the fulcrum for the future of the global Sukuk market. It will reinforce Shariah compliance, enhance liquidity, and sustain investor trust across jurisdictions. Malaysia's coordinated institutional framework provides a model for regulatory integration, while Saudi Arabia's strict Shariah oversight offers guidance on maintaining ethical discipline. Similarly, the United Kingdom and Hong Kong illustrate how secular jurisdictions can adapt Islamic finance within their legal systems without compromising neutrality. Nigeria's evolving experience reinforces the need for unified supervision and broader market participation.

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In tandem with these insights, this study proposes a practical roadmap toward Sukuk standardization:

1. **Global Alignment with AAOIFI and IFSB Standards:** National regulators should align their Sukuk frameworks with AAOIFI's structuring principles and IFSB's prudential guidelines. This alignment will promote consistency in documentation, risk-sharing, and disclosure practices.
2. **Establishment of a Global Sukuk Standardization Council:** A collaborative body under the Organisation of Islamic Cooperation (OIC), supported by the Islamic Development Bank, should coordinate Shariah interpretations, vet cross-border issuances, and accredit compliant Sukuk structures.
3. **Regional Legal Harmonization:** Jurisdictions should review their laws to recognize asset-backed Sukuk as true ownership instruments under international legal standards. This will ensure enforceability and investor protection across borders.
4. **Unified Shariah Advisory Mechanism:** Countries should link their national Shariah boards through a global advisory network. Such a system will minimize interpretational conflicts and reinforce uniformity in Shariah rulings.
5. **Capacity Building and Collaborative Research:** Continuous training for regulators, Shariah scholars, and market practitioners is vital. Joint policy dialogues and research partnerships will enhance technical knowledge and support new, standardized Sukuk models.

Notwithstanding the diversity of their systems, the five countries studied can jointly build a coherent and globally recognized Sukuk framework. Harmonization will enhance market depth, reinforce investor confidence, and position Sukuk as a universal Shariah-compliant instrument for sustainable global growth.

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