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Governance, business, legal, and technology: Strategies for addressing volatility and *gharar* in Sharia capital markets

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Abstract

Introduction to the Problem: This study explored the intertwined challenges of market volatility and *gharar* in Sharia capital markets, which jointly contribute to uncertainty and instability. Volatility and *gharar* are mutually reinforcing phenomena, while speculative behaviors such as margin trading and short selling intensify both factors, resulting in price distortions, obscured asset valuations, and reduced investor trust in Sharia-compliant instruments.
Purpose/Study Objectives: The objective of this research is to examine the characteristics and legal dimensions of both volatility and *gharar* in Islamic capital markets, assess their collective impact on Sharia-compliant issuers, and propose integrated governance, legal, business, and technological strategies to mitigate associated risks and enhance market resilience.
Design/Methodology/Approach: This study adopted a juridical-empirical-normative approach. The empirical aspect involved collecting and analyzing market data from the Indonesian Islamic capital market. At the same time, the normative analysis focused on evaluating regulatory instruments, including DSN-MUI Fatwa No. 80/2011 and OJK Regulation No. 15/POJK.04/2015, and within the context of Sharia principles and business law.
Findings: The study finds that both *gharar* and market volatility contribute to structural weaknesses in Islamic capital markets. In addition, speculative trading practices amplify uncertainty and instability, demanding a regulatory response that limits such activities. Strengthening corporate governance, enhancing disclosure practices, and applying business law mechanisms are essential to risk mitigation. The study recommends future research into cross-border regulatory comparisons and the role of financial technology in improving market transparency and Sharia compliance.
Paper Type: Research Article
Keywords: Business Law; *Gharar; Market Speculation;* Sharia Capital Market; Technology

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Introduction

The Islamic capital market plays a vital role in promoting financial instruments aligned with Sharia principles, aiming to support an ethical, equitable, and stable economy. One of the fundamental tenets of Islamic finance is the prohibition of gharar (uncertainty), particularly in transactions involving ambiguity, excessive speculation, or deception (Latifah & Jati, 2023). Despite the strong emphasis on ethical conduct, speculative behavior continues to challenge the integrity of Islamic capital markets, especially in emerging economies like Indonesia.

Speculation refers to trading activities primarily driven by short-term profit motives rather than sound fundamental analysis. In the Islamic context, speculative practices are viewed as violations of Sharia values because they foster uncertainty, volatility, and injustice (Rusmita et al., 2020). Speculators may exploit price fluctuations caused by rumors, misinformation, or market sentiment, resulting in severe losses for uninformed or retail investors. Such instability undermines the transparency and justice that Islamic financial systems aim to uphold.

Indonesia's Islamic capital market has witnessed considerable growth in recent years. Institutions such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) have introduced policies to encourage Sharia-compliant investment, including the issuance of the Daftar Efek Syariah (DES), a list of stocks deemed compliant with Islamic principles (Astuty, 2015). As of now, the DES includes over 400 stocks. However, mere inclusion in the DES does not guarantee that issuers fully implement Sharia-compliant business practices. Many of these companies lack a Sharia Supervisory Board (DPS), and oversight of ongoing compliance is often weak.

Several real-world incidents underscore the vulnerability of the Islamic capital market to speculation and manipulation. PT Petrosea Tbk (PTRO), for example, experienced an unusual spike in trading volume despite no official corporate disclosure, raising suspicions of insider information or market manipulation (Rizal & Soemitra, 2022). Similarly, PT Indofood CBP Sukses Makmur Tbk (ICBP) suffered a drastic share price drop in 2020, despite issuing positive financial reports. The decline followed the release of negative news related to one of its importing countries, indicating the influence of sentiment and rumor over fundamentals.

The Jiwasraya scandal further illustrates the dangers of speculative manipulation in a market that claims Sharia compliance. Prominent business figures were found to have manipulated stock prices for personal gain, violating ethical standards and causing significant financial damage to investors (Ruhullah et al., 2024). These events

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demonstrate that regulatory efforts focusing solely on structural compliance, such as DES inclusion, are insufficient without behavioral monitoring and transparency enforcement.

Moreover, the potential for *gharar* persists even in markets labeled as Sharia-compliant, especially when companies are subject to price manipulation or speculative trading without accurate disclosure of information (Lita & Utama, 2014). The core issue lies not only in screening mechanisms but in ongoing market conduct and the enforcement of ethical investment behavior (Sugiarto & Disemadi, 2020).

This research is thus guided by the following questions: (1) How does speculation contribute to volatility in Indonesia's Islamic capital market? (2) To what extent do existing regulations mitigate speculative risks? (3) What policy measures can strengthen market integrity while ensuring compliance with Sharia principles?

Unlike prior studies that primarily focused on classifying Sharia-compliant instruments, this research evaluates the substantive compliance of market behaviors with Islamic values. It offers a more holistic assessment of how speculation challenges the ethical foundations of the Islamic financial system. Although this study focuses on the Indonesian market, the findings are broadly relevant to other jurisdictions where Islamic finance is emerging. Many shares similar vulnerabilities, namely, the overreliance on structural compliance and the lack of behavioral regulation. Strengthening transparency, minimizing speculative risk, and enhancing Sharia governance mechanisms are essential steps toward ensuring the Islamic capital market's long-term resilience and credibility (Chen, 2017). Therefore, this research aims to contribute to the discourse on reinforcing ethical standards in Islamic capital markets. By addressing speculation not just as a financial issue but as a Sharia compliance concern, it advocates for more robust oversight, deeper ethical accountability, and a more integrated regulatory framework, ensuring that Islamic financial systems uphold their promises not only in form but in substance.

Methodology

This study employed a juridical-empirical-normative approach to comprehensively examine *gharar* in Sharia-compliant issuers and the effects of market volatility driven by speculation. The selection of these three approaches is based on their complementary roles in providing a multidimensional analysis that integrates legal, empirical, and Sharia perspectives. The juridical approach was essential for assessing the regulatory framework governing speculation and *gharar*, focusing on relevant regulations such as DSN-MUI Fatwa No. 80/2011 and OJK Regulation No. 15/POJK.04/2015. This approach establishes the legal boundaries within which Sharia-compliant issuers operate. Meanwhile, the empirical approach strengthened the analysis by incorporating real market data to evaluate how speculation influences volatility and *gharar* in practice. It examined stock price fluctuations of sharia-compliant issuers and trading behaviors of speculators, utilizing primary data sources

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such as the Indonesia Stock Exchange and financial statements of sharia-compliant issuers. The normative approach ensured that the study remains grounded in Sharia principles by reviewing classical *fiqh* texts and contemporary scholarly interpretations, thereby allowing for the formulation of policy recommendations that align with Islamic financial ethics while addressing *gharar*-related risks. By integrating these three approaches, the study not only identified regulatory gaps and market trends but also ensured that its findings and recommendations align with Islamic legal principles, offering a comprehensive framework for analyzing volatility and speculation in the Islamic capital market.

Results and Discussion

Exploring the Uncertainty: Gharar and Volatility in the Context of Islamic Finance and Business Law

In Islamic finance, *gharar* refers to the uncertainty or ambiguity that exists within a financial transaction. This uncertainty contradicts the core principles of Sharia law, which emphasize fairness, transparency, and clarity in all transactions. *Gharar* can arise from various factors, such as unclear terms, the unpredictability of future prices, or the lack of information about the subject of a transaction (Astuty, 2015). The issue of *gharar* becomes particularly relevant in the context of the Islamic capital market, where these principles are foundational. The Islamic finance system, unlike conventional finance, strictly prohibits transactions that involve excessive risk or ambiguity, which is seen as a violation of fairness and transparency (Hermansyah et al., 2024).

In capital markets, volatility is a common occurrence. It refers to the fluctuations in asset prices, which can be sudden and unpredictable. This is especially the case in markets where speculative activities dominate, with traders seeking short-term profits by betting on price changes. Speculation can exacerbate volatility by artificially inflating or deflating asset prices, which in turn increases the level of uncertainty (*gharar*) for investors. In the Islamic capital market, this volatility presents a significant challenge, as it amplifies the risks associated with investment decisions, making it more difficult for investors to make informed and Sharia-compliant choices (Alfian et al., 2024).

The relationship between *gharar* and market volatility is crucial to understanding the risks in the Islamic capital market. Volatility, driven by speculative behavior, introduces an additional layer of uncertainty that undermines the principles of fairness and transparency. For example, in a volatile market, stock prices can fluctuate wildly, making it difficult for investors to determine the true value of an asset. This uncertainty can cause investors to hesitate or make incorrect decisions, as the price movements often do not reflect the intrinsic value of the underlying company (Maf'ula & Mi'raj, 2022).

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One significant example of how market volatility exacerbates *gharar* occurred in 2020 with the case of PT Indofood CBP Sukses Makmur Tbk (ICBP). Despite the company's strong financial performance, its stock price experienced a sharp decline due to negative rumors and speculative trading. These rumors, likely fueled by speculative activities, created uncertainty for investors who could not predict or control the price movements of the stock. This case highlights how speculative trading can introduce *gharar*, making it challenging for Sharia-compliant investors to assess the true value of a company and make informed decisions (Noh & Fidhayanti, 2022).

Similarly, in 2019, PT Petrosea Tbk (PTRO) experienced a sudden surge in trading volume, which raised suspicions of market manipulation. Despite the absence of any significant corporate announcements, the stock price rose sharply, leading investors to question the legitimacy of the price movement. This scenario also exemplifies how speculative activities can introduce uncertainty (*gharar*), creating an environment where Sharia-compliant investors may struggle to trust the market and make decisions that align with the principles of transparency and fairness (Aravik & Tohir, 2023).

In both cases, the key issue was the *gharar* created by speculative trading, which distorted the true value of the companies. For Sharia-compliant investors, the inability to predict or rely on transparent, fundamental factors makes it difficult to determine whether their transactions are in accordance with Islamic finance principles. Volatility, therefore, not only creates price fluctuations but also obscures the true value of assets, leading to suboptimal decision-making. This uncertainty undermines the integrity of the Islamic capital market, as investors may feel hesitant or uncertain about participating (Astuty, 2015).

Another challenge posed by volatility is its impact on the process of price discovery, a key function of efficient capital markets. Price discovery helps investors assess the true value of assets based on supply and demand dynamics (Janssen et al., 2020). However, in a volatile market driven by speculation, the prices of assets can become disconnected from their fundamental value. This disrupts the price discovery process, making it more difficult for investors to assess whether an asset is fairly priced. As a result, the market may become less efficient, with investors less confident in their ability to make informed investment decisions.

The interaction between *gharar* and market volatility poses a unique challenge in Islamic finance, as both create uncertainty that contradicts the principles of Sharia (Muhammadi et al., 2024). Sharia law requires that all financial transactions be conducted with transparency, fairness, and clarity. However, when speculative activities drive volatility, they introduce a level of unpredictability that increases *gharar* and makes it harder for investors to make sound, Sharia-compliant decisions (Koyyimah et al., 2023).

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To address these challenges, regulators and market authorities need to take proactive measures to mitigate the impact of market volatility on the Islamic capital market. One key strategy is to regulate speculative activities more strictly (Fitriyanti et al., 2023). Speculation can cause excessive price movements that distort the market and increase *gharar*. By implementing policies that reduce speculative behavior, regulators can help maintain market stability and protect the interests of Sharia-compliant investors (Aravik & Tohir, 2023).

Moreover, transparency is crucial in reducing *gharar* in the Islamic capital market (Siregar et al., 2025). Sharia-compliant issuers must disclose all relevant information about their operations, financial health, and prospects. Providing comprehensive financial reports, clear prospectuses, and maintaining open communication with investors can help reduce uncertainty and ensure that transactions are conducted in alignment with Sharia principles. By enhancing transparency, issuers can help investors make more informed decisions, thus reducing the risk of *gharar* and promoting market stability (Maf'ula & Mi'raj, 2022).

Therefore, the relationship between *gharar* and market volatility is a critical issue in the context of Islamic finance and business law. Volatility exacerbates *gharar* by increasing uncertainty and making it difficult for investors to assess the true value of assets. This uncertainty challenges the principles of transparency and fairness that underpin Islamic finance (Akbar et al., 2023). To maintain the integrity of the Islamic capital market, regulators need to implement policies that mitigate volatility and speculative behavior. Additionally, Sharia-compliant issuers must prioritize transparency and clarity in their operations to reduce *gharar* and ensure that financial transactions align with Islamic principles. By addressing the challenges posed by *gharar* and volatility, the Islamic capital market can become more stable, efficient, and trustworthy, providing a secure environment for investors.

Mitigating Gharar and Volatility: Strategies for Sharia-Compliant Issuers in Addressing Asset Uncertainty and Pricing Challenges

The relationship between *gharar* (uncertainty) and market volatility in Islamic capital markets is complex and not entirely unidirectional. While *gharar* contributes significantly to instability, not all market volatility stems from *gharar*. External factors—such as macroeconomic shocks, geopolitical tensions, or pandemics also play major roles in triggering volatility. However, *gharar* can exacerbate the severity and persistence of volatility, especially when combined with speculative trading practices and weak market governance (Badruzaman et al., 2023).

A clear instance where *gharar* intensified volatility occurred during the early phase of the COVID-19 pandemic. The FTSE Bursa Malaysia Hijrah Sharia Index dropped by over 15% in March 2020 (Jiun et al., 2021). Although the pandemic itself was the external shock, the lack of transparency in corporate disclosures during that period, coupled with ambiguity in business continuity strategies, magnified investor

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uncertainty, an example of *gharar* in the form of informational asymmetry. The opaque nature of financial disclosures from certain Sharia-compliant issuers prevented investors from accurately assessing asset values, contributing to panic-driven sell-offs and increased price fluctuations.

Similarly, in the Indonesian market, the Jakarta Islamic Index (JII) experienced volatility of up to 20% in 2022, largely driven by fluctuating commodity prices and global political instability (Amaroh, 2020). While these are exogenous triggers, a closer examination reveals that several issuers failed to communicate their risk exposure or operational hedges clearly. The resulting uncertainty led to sharp investor reactions, amplifying volatility. In this context, *gharar* functioned as an accelerant, intensifying the effects of broader market pressures.

Therefore, it is inaccurate to claim that all volatility is caused by *gharar*. However, in Sharia capital markets, *gharar* often aggravates volatility through mechanisms such as unclear contractual structures, lack of information disclosure, and ambiguous risk-sharing models (Noh et al., 2025). This is particularly evident in cases involving *sukuk* with vague profit-sharing terms or investment projects lacking detailed feasibility disclosures. These conditions prevent proper risk assessment, heightening price instability when markets become stressed.

Empirical estimations from studies such as Badruzaman et al., (2023) suggest that *gharar*-related factors may account for 30–40% of perceived risk premium in Islamic financial assets during unstable periods, highlighting its measurable influence on investor behavior and market pricing. Thus, while volatility can exist independently of *gharar*, the presence of *gharar*, particularly in the form of ambiguity, insufficient transparency, or speculative mechanisms, may intensify volatility, create a feedback loop of uncertainty and price distortion.

Understanding the interaction between *gharar* and volatility requires examining several underlying mechanisms. One key factor is the psychological effect on investors. During periods of high market volatility, investors become more sensitive to price changes and more hesitant in their decisions, sometimes reacting irrationally or with panic, which exacerbates both volatility and *gharar*. Another important aspect is the influence of volatility on pricing. In volatile markets, asset prices may not reflect their true value, disrupting the price discovery process and distorting asset values. This results in increased uncertainty regarding asset valuations, contributing to greater *gharar* (Hardana et al., 2024).

Sharia-compliant issuers have a key role in ensuring that financial transactions align with Islamic principles, particularly in promoting transparency and clarity. One primary method for reducing *gharar* is enhancing transparency across all aspects of operations (Rodhibillah, 2024). This includes the preparation of clear financial statements and detailed prospectuses that offer investors comprehensive information. Financial statements should provide an accurate picture of a company's financial health, including assets, liabilities, revenue, and expenses, enabling investors to make informed decisions, thus minimizing the uncertainty that could lead to *gharar*. Furthermore, the prospectus should provide clear details about investment risks, structures, and objectives of the funded projects or companies. A well-structured prospectus allows investors to fully understand the instruments they are purchasing, reducing the uncertainty typically associated with capital market transactions (Alfian et al., 2024).

However, transparency alone is not enough. Sharia-compliant issuers must avoid practices that are ambiguous or likely to create uncertainty. In Islamic economics, all transactions must be conducted openly, ensuring that all parties understand the associated risks and benefits. Therefore, issuers must ensure that the financial instruments they offer are structured in a way that is easily understandable for all parties. For example, sukuk issuers should provide detailed explanations of profit-sharing mechanisms and risks, ensuring the absence of ambiguity in the contract. Moreover, sharia-compliant issuers must ensure that all contracts are free from uncertainty. Each clause must be clearly stated to prevent misunderstandings or ambiguity (Saputri, 2019). This clarity is vital to maintain the integrity of sharia-compliant transactions, ensuring they are both legally valid and fair. A sukuk contract, for example, must include explicit provisions on the obligations of each party, maturity dates, and profit distribution mechanisms (Daulay, 2021).

Adopting strong corporate governance practices is another way to minimize *gharar*. Good governance not only strengthens investor confidence but also reduces uncertainty and speculation that could destabilize the market. With robust governance, sharia-compliant issuers can ensure that decision-making is transparent and accountable, further minimizing the risk of ambiguity that could lead to volatility (Maf'ula & Mi'raj, 2022). These efforts demonstrate that sharia-compliant issuers contribute to both the integrity of the Islamic capital market and the trust of investors. By enhancing transparency, avoiding ambiguous practices, and implementing sound governance, *gharar* can be reduced, creating a more stable and reliable market environment. To address *gharar* and volatility, which often disrupt the stability of the Islamic capital market, a comprehensive approach is necessary, combining strict regulations, effective risk management, and investor education. This strategy should involve not only sharia-compliant issuers but also market authorities and regulators (Norchaevna, 2024).

One significant contributor to *gharar* in the Islamic capital market is excessive speculation (Jaradat & Oudat, 2025). Therefore, regulators must enforce strict regulations to limit speculation and reduce its impact on price volatility. Limiting margin trading and banning short selling are crucial steps. Margin trading, where investors borrow funds to buy stocks, can amplify price fluctuations, while short selling allows speculators to profit from falling stock prices, further destabilizing the market. Countries like Malaysia have implemented such policies successfully within their Islamic capital markets. Indonesia's market authorities, such as the OJK (Financial Services Authority), could adopt similar measures to curb speculation-driven volatility. Additionally, stronger oversight of high-risk derivative instruments is essential to ensure that they comply with Sharia principles and do not introduce elements of *gharar* (Afdal et al., 2024).

In addition to regulation, effective risk management strategies are vital to shield investors from volatility. Portfolio diversification is a key method for mitigating exposure to high volatility. By diversifying their portfolios, investors can reduce the impact of price fluctuations in any one asset or sector. Furthermore, using hedging strategies through Sharia-compliant derivatives can help investors manage risk more effectively. *Bay al-Salam* and *Bay al-Istisna'*, as forward sale contracts, can be structured to reduce risk exposure in different ways. Bay al-Salam, where payment is made in advance for future delivery of goods, can serve as a risk management tool by providing price certainty to both buyers and sellers. For instance, agricultural producers or commodity traders can use salam contracts to lock in prices, ensuring stability against fluctuating market conditions (Thöns & Stewart, 2020).

By securing financing through *salam*, sellers gain immediate liquidity, while buyers are protected from price surges at the time of delivery. Similarly, *Bay al Istisna'*, which allows phased payments for manufacturing or construction projects, can be leveraged to manage risks in infrastructure financing. Governments and businesses can use *istisna's* contracts to hedge against inflation risks by fixing costs at the contract's inception. This structure provides financial predictability and shields investors from volatility in material prices, making it particularly effective in capital-intensive industries. Regulators could encourage Sharia-compliant issuers to offer such derivatives, ensuring proper oversight to prevent speculative misuse. By integrating *Bay al-Salam* and *Bay al-Istisna'* into structured financial products, investors can better hedge against volatility while enhancing liquidity in the Islamic market. This would not only provide greater stability but also foster confidence among investors seeking Sharia-compliant risk management solutions(Wulandari et al., 2016).

Investor education is also crucial in reducing *gharar* and volatility. Many investors may not fully grasp the risks associated with speculation and market fluctuations, especially within the context of Islamic finance. Therefore, a comprehensive educational program is needed to help investors make informed, sharia-compliant decisions. These programs should cover the risks of speculation, the importance of long-term investing, and how to identify issuers that comply with Sharia standards. Collaboration between regulators, stock exchanges, and Islamic financial institutions could help deliver educational initiatives that will encourage cautious and informed market participation (Setyowati & Rahayu, 2023).

Lastly, strong corporate governance is essential for minimizing *gharar*. Sharia-compliant issuers must ensure that their financial statements are prepared transparently and contain relevant information for investors. A clear and detailed prospectus is also necessary to explain the investment structure and risks. By adopting sound governance practices, issuers can help investors avoid making decisions based on uncertainty or incomplete information. Improved transparency will reduce *gharar*, as investors will have access to the necessary information to assess investments. Regulators should enforce stricter rules for information disclosure and financial reporting to ensure that Sharia-compliant issuers maintain these standards.

Governance and Transparency: Key Mechanisms in Mitigating Gharar and Volatility in the Islamic Capital Market

Enhancing governance and transparency is a critical measure to reduce *gharar* in the Islamic capital market. *Gharar*, which refers to uncertainty and ambiguity in transactions, can often be addressed by implementing robust and transparent governance practices. Effective corporate governance ensures that financial transactions comply with Sharia principles, eliminating uncertainties that could negatively affect investors (Aravik & Tohir, 2023). Issuers who adhere to Sharia should continuously improve governance by providing clear financial reports, detailed prospectuses, and transparent communication with stakeholders. Detailed financial reports are vital in reducing *gharar*, as they provide essential information on the company's financial status, including assets, liabilities, revenue, and expenses. A comprehensive prospectus also plays a key role by offering a clear outline of the investment structure, risks, and objectives. With enhanced transparency in financial statements and prospectuses, investors can make more informed decisions, thereby reducing the uncertainties associated with *gharar* (Harahap & Lubis, 2023).

Moreover, effective governance in the Islamic capital market requires the creation of a Sharia compliance committee that assesses potential *gharar* in each transaction. This committee ensures that contracts used by sharia-compliant issuers, such as *Sukuk* and financial instruments based on *muḍārabah* or *musyarakah*, are clearly defined and free of ambiguity (Asyiqin & Alfurqon, 2024). This oversight minimizes the risk of uncertainty that may arise from unclear agreements. In addition to transparency in reporting, the integration of modern technologies, like blockchain, is crucial in promoting effective governance. Blockchain technology enables transparent recording of transactions, reducing information asymmetry among stakeholders. By adopting such technologies, investors gain equal access to real-time data, thereby decreasing the likelihood of *gharar* caused by inaccurate or unbalanced information (Izzah & Sudiarti, 2022).

Furthermore, AI-powered predictive analytics can enhance risk management by providing real-time market forecasting, helping investors and regulators anticipate market trends and mitigate excessive fluctuations. Machine learning algorithms can

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analyze historical market data and detect potential risks, allowing Islamic financial institutions to make data-driven decisions. AI can also assist Sharia compliance committees in monitoring transactions by identifying patterns of speculative behavior, ensuring that market activities remain aligned with ethical and Sharia-compliant financial principles (Hidayah et al., 2021). By leveraging these technologies, the Islamic capital market can become more transparent, efficient, and resilient against *gharar* and excessive market volatility. This would not only enhance investor confidence but also contribute to the overall stability and integrity of Sharia-compliant financial markets.

A more detailed disclosure of the risks and benefits associated with sharia-compliant financial products is also necessary. Instruments like sukuk require thorough disclosure of both operational and market risks linked to the underlying assets. This helps investors better understand the risks they are exposed to, while also reducing uncertainty that might arise from a lack of clarity regarding the actual condition of the assets being invested in (Affandi et al., 2024). Open and truthful communication with investors is another crucial aspect of strengthening governance and transparency. Sharia-compliant issuers must ensure that the information shared with investors is accurate, timely, and relevant. Regular financial reports, transparent risk disclosures, and prompt responses to investor inquiries can foster trust and reduce the uncertainty that often leads to guarantee uncertainty that often leads to the garage. These efforts not only help mitigate the risk of *gharar* but also build greater investor confidence in the Islamic capital market (D'Alvia, 2020).

To further address market volatility and mitigate the impact of speculative trading, Islamic financial instruments such as *Istisna'*-based investment, *Tawarruq* with strict regulatory oversight, and Sharia-compliant hedging (*Tahawwut*) can be leveraged. *Istisna'*-based investment can be structured to finance infrastructure projects through gradual payments, reducing exposure to short-term speculative fluctuations. *Tawarruq*, if strictly regulated, can provide liquidity without excessive speculation. Sharia-compliant hedging instruments, such as *Wa'd*-based derivatives or Salam contracts, can help stabilize prices and provide risk mitigation strategies while ensuring compliance with Islamic finance principles. These mechanisms enable market participants to hedge against volatility while maintaining ethical financial practices in line with Sharia guidelines (Mubyarto & Mutia, 2024).

Additionally, case studies from countries that have successfully implemented strong governance and transparency in the Islamic capital market provide valuable lessons. In Malaysia, for example, the Sharia Committee (SC) and the Sharia Advisory Council (SAC) of the Malaysian financial regulatory body play an essential role in overseeing the Sharia compliance of issuers and ensuring that financial reports meet Sharia compliance of issuers and that financial reports meet Sharia standards (Razak et al., 2021). The adoption of strict Sharia audits and transparent reporting has helped build investor confidence and significantly reduce *gharar* in transactions. Similarly, in the

United Arab Emirates (UAE), sharia-compliant issuers are required to prepare sustainability reports that address social, environmental, and governance issues. These reports not only offer investors a more comprehensive understanding but also ensure that investment decisions are based on clear, transparent information (Daulay, 2021).

Ultimately, it is crucial to understand and manage the relationship between *gharar* and market volatility to maintain the integrity and stability of the Islamic capital market. The Islamic capital market can become more reliable and stable by enforcing strict regulations, enhancing investor education, and improving governance and transparency. This will foster a healthier, more sustainable investment environment that is in line with Sharia principles, ultimately promoting equitable and prosperous economic growth.

Conclusion

This study emphasizes the critical need for effective management of Islamic capital markets, which are significantly influenced by market volatility and speculative behaviors. *Gharar*, or uncertainty in Islamic financial transactions, particularly when driven by excessive speculation, can undermine market stability and erode investor confidence. The findings highlight how speculative activity distorts the true value of shares, amplifies uncertainty, and increases the risks associated with Sharia-compliant transactions. For instance, cases of rapid price fluctuations in sharia-compliant stocks, triggered by speculative trading rather than fundamental value, illustrate how *gharar* manifests in real market conditions. To mitigate *gharar*, sharia-compliant issuers must adopt strong governance practices, enhance transparency in financial reporting, and provide clear investment disclosures. Empirical evidence from this study underscores the importance of enforcing strict regulatory policies to curb speculative trading and prevent excessive market manipulation. Strengthening corporate governance, particularly in maintaining transparency in financial reporting and contractual agreements, is essential to preserving the integrity of the Islamic capital market. Furthermore, a case study on a specific market event, such as the impact of speculative trading on Sharia-compliant stocks during periods of economic uncertainty, would provide concrete evidence of how *gharar* affects market stability. By integrating such real-world examples, the study can offer more actionable insights for regulators, financial authorities, and market participants. Based on these findings, this research provides key recommendations for policymakers to develop more robust frameworks that align market practices with Sharia principles, ultimately fostering a more stable and equitable Islamic financial system.

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Declarations

Authors contribution	:	Author 1: initiated the research ideas, instrument construction, data collection, analysis, and draft writing, revised the research ideas, literature review, data presentation and analysis, and the final draft. Author 2 contributed to data analysis, revised the research idea, literature review, data presentation, and analysis, and assisted in finalizing the manuscript.
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