Karatay İslam İktisadı ve Finans Dergisi e-ISSN: 2822-2857 Karatay Journal of Islamic Economics and Finance
Geliş Tarihi: 17.11.2024 Kabul Tarihi: 24.12.2024
Yıl 2024 | Cilt 2 | Sayı 2 Araştırma Makalesi/ Research Article

KARJIEF
KARATAY JOURNAL OF ISLAMIC ECONOMICS AND FINANCE

Tawfik AZRAK[1], Ozat SHAMSHIYEV[2]

Financial Instruments Used for Hedging Purposes in Borsa Istanbul: Case Study of Selected Participation Banks

ABSTRACT

Hedging is a crucial issue for both participation banks and conventional banks. This study analyzes Kuveyt Türk and Albaraka Türk, two prominent participation banks that play a significant role in both participation banking and capital markets. The primary objective of this study is to investigate the hedging instruments employed by these two banks and assess their effectiveness in this regard. To achieve this, the study adopts a qualitative research design through a case study approach, focusing on the use of hedging instruments in Islamic banking in Türkiye. Before delving into the case study, the research highlights several key topics, including the Islamic hedging methods currently utilized in capital markets, the importance of Borsa Istanbul's participation activities, and the functioning of participation indices. The findings of the analysis reveal that the banks under investigation do not employ derivative instruments for hedging purposes; instead, they utilize trade-based financial derivative products. This situation, on one hand, gives the impression that participation banks are not sufficiently hedged in the conventional sense. On the other hand, it underscores the necessity for participation financial institutions to develop a more original and comprehensive hedging mechanism.

Keywords: Borsa Istanbul, Hedging, Fiqh Perspective, Kuveyt Türk, Albaraka Türk, Risk Management.

JEL Codes: G32, P13, D81

Borsa İstanbul'da Riskten Korunma Amaçlı Kullanılan Finansal Araçlar: Seçilmiş Katılım Bankaları Örnek Olay İncelemesi

ÖZ

Riskten korunma, konvansiyonel bankalar kadar katılım bankaları için de hayati önem arz eden bir konudur. Bu çalışma gerek katılım bankacılığı gerekse sermaye piyasasında önemli bir yere sahip olan Kuveyt Türk ve Albaraka Türk katılım bankalarını incelemektedir. Çalışmanın temel amacı, söz konusu iki bankanın başvurdukları riskten korunma araçlarını araştırarak, bu konuda ne kadar başarılı olduklarını ortaya koymaktır. Dolayısıyla, bu çalışma, Türkiye'de İslami bankacılıkta riskten korunma araçlarının kullanımını incelemek amacıyla bir vaka çalışması yaklaşımını benimseyerek nitel bir araştırma tasarımı kullanmaktadır. Vaka incelemesinden önce, günümüzde sermaye piyasalarında kullanılan İslami riskten korunma yöntemleri, Borsa İstanbul'un katılım faaliyetleri ve önemi, katılım endekslerinin işleyişi gibi konular üzerinde durulmaktadır. Yapılan incelemeler sonucunda elde edilen bulgulara göre, araştırma konusu bankaların riskten korunma amaçlı türev araçlara başvurmadıkları,

[1] Assistant Professor, Social Sciences University of Ankara, Islamic Law, tawfik.azrak@asbu.edu.tr, ORCID: 0000-0001-9059-2115.

[2] Assistant Professor, Social Sciences University of Ankara, Institute for Islamic Studies, ozat.shamshiyev@asbu.edu.tr, ORCID: 0000-0002-9385-7235.

bunun yerine ticarete dayalı finansal türev ürünleri kullandıkları tespit edilmiştir. Bu durum, bir yandan katılım bankalarının konvansiyonel anlamda riskten yeterli ölçüde korunmadıkları izlenimini oluşturmakta; öte yandan, katılım finans kuruluşlarının daha özgün ve kapsamlı bir riskten korunma mekanizması geliştirmelerini zorunlu hale getirmektedir.

Anahtar Kelimeler: Borsa İstanbul, Riskten Korunma, Fıkhi Perspektif, Kuveyt Türk, Albaraka Türk, Risk Yönetimi.

JEL Kodları: G32, P13, D81

INTRODUCTION

In the dynamic and unpredictable landscape of global finance, hedging has emerged as a crucial strategy for managing financial risk. Islamic capital markets, which operate under Shariah principles, face unique challenges and opportunities in employing hedging instruments. This paper focuses on a case study of participation banks, specifically Kuveyt Turk and Albaraka Bank, which are among the largest participation banks in Türkiye. The study explores the specific financial instruments utilized for hedging purposes within the context of Islamic finance and examines whether these instruments comply with Islamic law principles.

Islamic finance prohibits conventional interest-based transactions and speculative activities, mandating that all financial instruments be structured in strict compliance with Shariah principles. This requirement fundamentally differentiates the hedging instruments available to Islamic financial institutions from those utilized in conventional finance. Unlike their conventional counterparts, Islamic hedging instruments must avoid elements of riba (interest), gharar (excessive uncertainty), and maysir (gambling or speculation), making the development and application of these tools uniquely challenging.

This study aims to analyze both the types and effectiveness of hedging instruments within the framework of Islamic finance, with a particular focus on Kuveyt Türk and Albaraka Bank, two of the largest participation banks in Türkiye. These banks operate in an environment marked by significant exposure to foreign exchange risk, interest rate volatility, and various other financial uncertainties. As they navigate these challenges, the banks must employ hedging strategies that not only protect their financial stability but also adhere to the stringent requirements of Islamic law.

Research Objectives

- To identify and describe the financial instruments used for hedging by Islamic financial institutions
- To evaluate the effectiveness of these instruments in mitigating financial risks faced by Kuveyt Türk and Albaraka Bank.
- To explore the shariah aspects, challenges and limitations associated with the use of hedging instruments in Islamic finance.
- To provide recommendations for enhancing risk management practices within Islamic financial institutions based on the findings from the case study.

Research Questions

- What types of financial instruments are utilized by Kuveyt Türk and Albaraka Bank for hedging purposes within the framework of Islamic finance?
- To what extent are these hedging instruments effective in mitigating the financial risks faced by Kuveyt Türk and Albaraka Bank?
- What challenges does Islamic financial institutions encounter in the implementation of hedging strategies?
- What improvements can be recommended for the use of hedging instruments in Islamic finance based on the case study of Kuveyt Türk and Albaraka Bank?

1. HEDGING IN ISLAMIC FINANCE

The 2008 global financial crisis exposed a roughly 2.5 trillion losses in the financial assets of Arab countries alone. Without a doubt, these losses have resulted from the lack of hedging mechanisms (derivatives contracts). Therefore, hedging would be sufficient to prevent such damage, as evidenced by the fact that global hedge funds, which still control the majority of global markets, recovered from the global crisis with relatively little loss (Injadat, 2022). There is an obvious lack of risk management tools in the Islamic financial sector, and the need for Islamic derivatives appears to be growing as a result of the capital markets' globalization, an increase in the size of risk, price fluctuations, severity, and rapid transmission (Injadat, 2022). By engaging in hedging operations, the central bank, commercial banks, corporate enterprises, brokers, savings funds, investors, importers, and exporters will have fewer worries about future price fluctuations (Ahmad & Halim, 2014). The term "hedging" has many different meanings in finance. Hedging, as defined by Investopedia is "hedging is a risk management strategy employed to offset losses in investments by taking an opposite position in a related asset" (Investopedia, 2024). The reduction in risk provided by hedging also typically results in a reduction in potential profits therefore hedging is the practice of putting procedures and mechanisms in place to protect against harm. The art of risk management also includes hedging (Injadat, 2018). A strategy for preventing or reducing loss from ongoing risk in the financial market is hedging. However, in traditional viewpoints or in conventional mindset, the hedging entails the use of derivative instruments, which are controversial to Islamic point of view. As a consequence of this difference, the laudable goal of risk management through hedging has been misinterpreted as being profit-oriented only. The notion of hedging necessitates more discourse due to the diverse views surrounding its definition (Ahmad & Halim, 2014).

The capital markets within the Islamic financial sector have experienced significant expansion, and there is a good correlation between this fact and hedging instruments. Therefore, to maintain that growth, the business needs to develop tools to protect against the risks associated with tangible assets like property and commodities (Injadat, 2014). Additionally, hedging can be used to balance off a bank's mismatch between its liabilities and asset values. According to Ahmad and Halim hedging is necessary for Islamic financial organizations to safeguard their assets. For instance, in order to meet client demand and provide ijarah financing based on variable rates, an Islamic bank must receive foreign money (Ahmad & Halim, 2014).

The Central Bank of Bahrain's Executive Director of Banking Supervision, Khalid Hamad, stated that "With the growth of Islamic finance, Islamic institutions can no longer afford to leave their positions un-hedged". This implies that the real function of hedging as a tool for risk management can be easily altered to reduce the potential risks, which naturally leads to maximization of earnings. Apart from the significance of hedging, Islamic banking serves as a means of safeguarding one of the most vital aspects of human existence – assets – since Islamic asset management is an integral part of all Islamic banking operations. As to shariah provision of the issue in question, in general, all Islamic scholars agree that hedging actions in Islamic capital markets are permissible as long as they do not violate shariah (Kamali, 2007). Yet, more comprehensive discussion of shariah perspective of the hedging to be presented.

2. LITERATURE REVIEW

One of the first and fundamental sources on the subject is Sami al-Suwailem's book titled "Hedging in Islamic Finance". al-Suwailem examines the intellectual background of hedging, related concepts, the place of risk management in Islamic finance and hedging instruments in detail (al-Suwailem, 2006). Islam permits hedging since protecting against potential dangers is the fundamental objective of hedging. As such, it is consistent with the idea of maqasid al-shariah (higher objectives of Islamic law). This was the original recommendation made by Islamic law for preserving and safeguarding money against loss and harm. The loss resulting from the constant risk present in the financial market might be reduced by hedging (Ahmad & Halim, 2014). Nonetheless, in the framework of the conventional market, hedging entails the use of derivative instruments, which Islam regards as contentious. Hedging can be utilized as a cooperative and economic tool for risk management in situations where taking risks is warranted by the potential for rewards, making it distinct from gharar and gambling. According to Asyraf Wajdi Dusuki (2009), risk management is crucial, and to manage risk effectively and quickly, strategic steps need to be implemented. Furthermore, according to Nor Fahimah Mohd Razif *et al.* (2012), hedging is generally permitted under shariah as long as it achieves the goal of property protection.

Risk-taking is a necessary component of running a business, hence risks and commerce are closely related topics. In fact, one might get more returns by taking on greater risk, and vice versa. One of the problems facing the conventional and Islamic finance sectors is the issue of risk. Hedging is one of the various forms of risk management. The process of protecting an asset or investment from an unpredictable market is generally known as hedging, and the person who engages in this activity is referred to as the hedger. Hedger is an investor who enters the market with the intention of minimizing risk rather than profiting from price fluctuations risk (Mohd Razif, Mohamad, & Rahman, 2012, p. 158). Hedgers in the futures market, for instance, could be producers, importers, exporters, or farmers. To offset the risks associated with price fluctuations in the money market, Hedger will engage in buys and sales in the futures trade market. The hedger may be able to reduce the risk of price fluctuations with the use of this technique (Johnson, 1976). Risks are erratic occurrences that might result in losses for investment portfolios or a decline in the value of specific assets. It is customary to take risks

when engaging in profitable endeavors. Excessive risk, however, will discourage investment and hinder progress. Thus, the primary obstacle faced by anyone engaged in financial transactions, particularly traders or investors, is effectively striking a balance between prudent risk-taking and severe risk. In this context, the hedging is one of the methods of controlling and reducing risk (Mohd Razif et al., 2012).

A hedging model is presented in a research study by Douglas T. Breeden and S. Viswanathan (1998) following the viewing of asymmetric information. According to this study, managers use hedging to convey their skills directly. The study's findings suggest that hedging happens when managers with more expertise differ significantly from those with lesser ability, or when hedging expenses are modest. This analysis supports the causal hypothesis that hedging locks up larger profit opportunities like arbitrageurs do. Furthermore, future studies approach hedging as an insurance contract that minimizes risk. According to a study by Murillo Campello *et. al.* (2011), hedging lowers the tax and cost associated with financial hardship, which eventually boosts a company's ability to invest and finance itself more effectively. When businesses manage their currency exposure, insolvency is less likely to occur. According to study by Vandana Rao Daka and Sankarshan Basu (Daka & Basu, 2016) hedging and leverage have a favorable association that eventually raises the value of an Indian company. Therefore, hedging is a strategy used to shield an investment from the possibility of a loss as a result of market volatility.

Different forms of the securities, including SWAPs, Futures, Islamic FX forward, and Islamic profit rate swaps, are available for trading on the traditional and Islamic financial markets. Furthermore, it was noted that while the Islamic finance sector has experienced significant growth, the industry continues to lack accessibility and a variety of hedging options when it comes to mitigating risks (Mohamad, Ahmad, & Shahimi, 2011). Moreover, the dearth of Islamic futures products for hedging is particularly concerning because it coincides with a critical period in which a large number of Islamic financial institutions have experienced notable expansions in their financial and economic operations, extending their operations much beyond their initial jurisdictions (Sole, 2007). One of the most significant contributions to the hedging paradigm is Akkuş & Sakarya's (2018) paper, which critically examines both conventional hedging instruments and their Islamic counterparts. Their work challenges the prevailing notion that the conventional financial system's risk management tools—specifically derivative instruments—are universally applicable and beneficial in Islamic finance. Akkuş and Sakarya (2018) argue that these instruments, even when adapted to Islamic finance, often fall short of aligning with the ethical and legal principles of Shariah. There are established standards governing hedging operations within the Islamic capital market, published by the International Islamic Financial Market (IIFM)('Published Standards – International Islamic Financial Market', n.d.). Recently, some of these standards were translated into Turkish by the Participation Banks Association of Türkiye (TKBB). These standards play a critical role in ensuring that hedging practices within Islamic finance align with Shariah principles, offering guidance for the development of compliant financial instruments and risk management strategies. The translation of these standards into Turkish marks an important step in making them more accessible to practitioners and institutions in Türkiye, facilitating the growth and

implementation of Islamic financial practices in the region. All of the above-mentioned studies deal with the hedging from a certain perspective. Therefore, based on our knowledge there is no study elaborating use of hedging instruments in Turkish IFIs within the scope of Borsa Istanbul.

3. METHODOLOGY

This study employs a qualitative research design, adopting a case study approach to explore the use of hedging instruments within Islamic banking in Türkiye. The research specifically focuses on two of Türkiye's largest participation banks, Kuveyt Türk Bank and Albaraka Bank, which operate in accordance with Shariah principles. These banks have been chosen due to their significant market presence and reputation for adherence to Islamic financial practices in Türkiye.

The primary objective of this study is to assess the effectiveness of the hedging strategies employed by these banks in managing and mitigating financial risks. In Islamic finance, risk management through hedging is more complex, since conventional derivatives like options, futures, and swaps often conflict with Shariah law's prohibition on interest (riba) and excessive uncertainty (gharar). Therefore, the study also aims to explore how these banks design and implement alternative Shariah-compliant hedging instruments that align with Islamic ethical and legal guidelines.

By examining the methods and tools used by Kuveyt Türk Bank and Albaraka Bank, the research will shed light on the challenges and effectiveness of hedging practices in Islamic finance. It will also evaluate whether the banks' strategies not only successfully mitigate financial risks but also maintain compliance with Islamic jurisprudence, thereby providing valuable insights for the broader field of risk management in Islamic financial institutions not only in Türkiye but in all over the world.

Data Collection and Analysis

The primary data source for this study consists of the financial reports of Kuveyt Türk and Albaraka Bank. These reports provide comprehensive information on the financial instruments used by the banks, their hedging strategies, and the outcomes of these strategies. Specifically, the data examined and analysed from these reports include:

Details of Financial Instruments: Information on the types of hedging instruments utilized by each bank, including Islamic derivatives, profit rate swaps, and currency hedging tools.

Risk Management Practices: Documentation of the banks' approaches to managing various financial risks, particularly those related to foreign exchange fluctuations and commodity price volatility.

Compliance with Shariah: Statements and disclosures related to the Shariah compliance of the hedging instruments used, including any certifications or endorsements from Shariah boards.

Financial Performance Metrics: Data on the financial outcomes associated with the use of hedging instruments, including any reported gains or losses, and their impact on the overall financial health of the banks.

As for the jurisprudential analysis of the subject, the method of comparative jurisprudence (al-fiqh al-muqāran) has been followed without adhering to a particular sect or view. In the use of sources, both classical and contemporary studies have been utilized.

4. HEDGING PRACTICES AND INSTRUMENTS IN ISLAMIC CAPITAL MARKETS

Islamic financial and banking organizations must be able to provide creative, varied products and gratifying services to meet the demands of contemporary business. Due to this advancement, the contract forms seen in classical fiqh are not always effective and sufficient in contemporary business. Therefore, to establish and diversify types of contracts based on classical fiqh that meet the necessities and desires of modern society, creativity and fresh creations are required. In keeping with these advancements, Islamic banks must constantly innovate to draw in clients and outbid regular banks for the items they offer. The modern Muslim scholars' ijtihad product takes the shape of a hybrid contract notion, also known as multi-contract in Islamic (Pramita & Nisa, 2024).

In traditional finance, hedging is a key idea in overall risk management. In conventional financial system, derivatives are extremely well-developed and perfectly structured. The necessity of hedging is acknowledged in Islamic finance as well. However, Islamic hedging techniques are distinct from mainstream hedging tactics, as they have to adhere to Sharīah standards. The ban on interest (*riba*), gambling (*maysir*), undue uncertainty (*gharar*), and speculation are the primary distinctions between the Islamic and conventional financial systems (Kamali, 2007, p. 332).

As for hedging instruments, al-Suwailem categorizes hedging strategies into three main types first:

Economic Hedging: This strategy does not require explicit arrangements with other agents and is based on the decision-maker's actions. A common example is diversification, which helps mitigate the variance of returns by spreading investments across different assets (al-Suwailem, 2006).

Cooperative Hedging: This involves mutual arrangements between parties to manage risks collectively. It requires dedicated institutions to facilitate these mutual hedging strategies, ensuring that risks are shared and managed effectively (al-Suwailem, 2006).

Contractual Hedging: This type involves formal agreements or contracts to hedge against specific risks. It integrates risk management with real transactions, ensuring that the hedging instruments are aligned with Shari'ah principles and do not lead to speculation or gambling.(al-Suwailem, 2006) The key characteristic of contractual hedging is that it provides a structured approach to risk management while maintaining the integrity of the underlying transaction.

al-Suwailem outlines several types of contractual hedging, which include:

Murabaha: This is a cost-plus financing structure where the seller discloses the cost of the asset and adds a profit margin. It allows for fixed pricing and predictable cash flows, which can help hedge against price fluctuations.

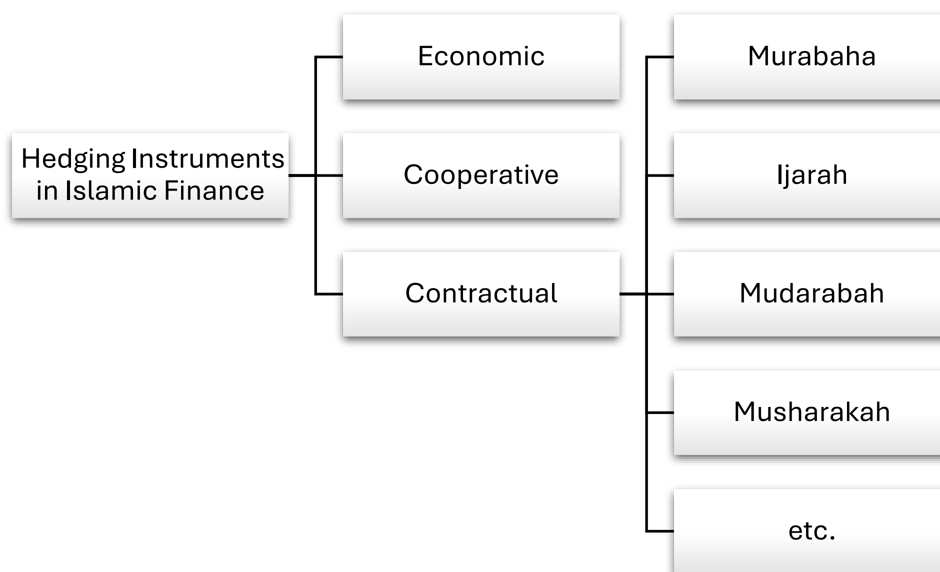
Ijarah: This is a leasing agreement where the financier purchases an asset and leases it to the customer. The lease payments can be adjusted based on market conditions, providing a mechanism to hedge against interest rate changes.

Mudarabah: This is a profit-sharing agreement where one party provides capital while the other provides expertise and management. The profits are shared according to a pre-agreed ratio, which can help mitigate risks associated with business ventures.

Musharakah: This is a partnership arrangement where all parties contribute capital and share profits and losses according to their investment ratios. It allows for risk sharing and can be structured to hedge against specific business risks.

These major types along with the other types of contractual hedging are designed to ensure that risk management is closely tied to real economic activities, thereby promoting stability and compliance with Islamic finance principles. Above-mentioned types of hedging are illustrated below:

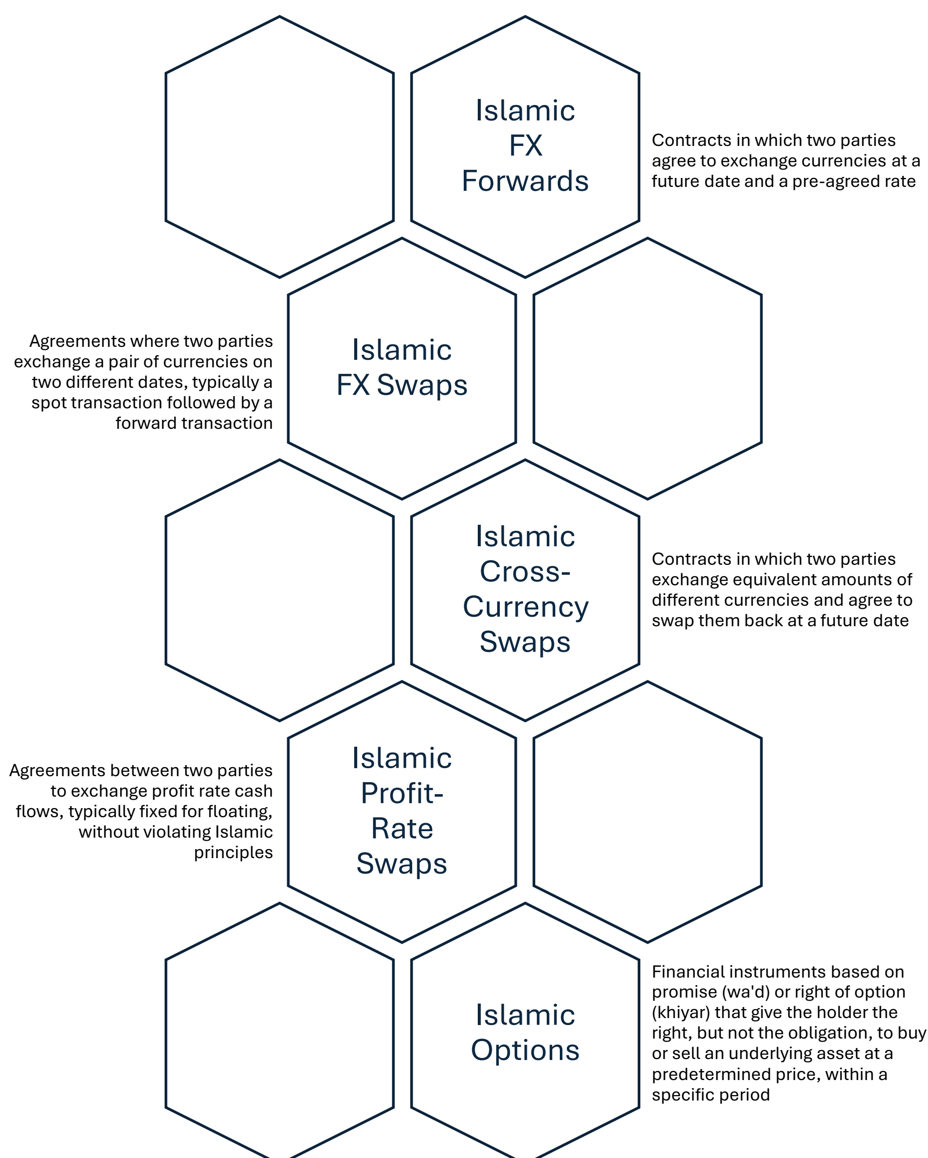
Graph 1. Hedging instruments in Islamic finance



Ref: (al-Suwailem, 2006)

On the other hand, new types of hedging strategies or insturments have emerged in response to evolving market conditions and are now commonly used in Islamic capital markets. These include: Islamic FX Forwards, Islamic FX Swaps, Islamic Cross-Currency Swaps, Islamic Profit-Rate Swaps, and Islamic Options (Mohamad, Othman, Roslin, & Lehner, 2014).

Graph 2. Types of Hedging Implemented in Islamic Financial Markets



Ref: Compilation of the authors from different soruces.

It is important to note that the aforementioned instruments are primarily developed by incorporating elements such as promises, mutual promises, or retention rights into the contract. However, we will not delve into the fiqh (Islamic jurisprudence) aspects of these hedging instruments here. Instead, our focus will be on analyzing the risk management techniques employed by the banks selected as case studies.

5. BORSA ISTANBUL AND IFIs

Borsa İstanbul, originally established as the Istanbul Stock Exchange (IMKB) in 1985, has a rich history dating back to the foundation of the Dersaadet Securities Exchange in 1873. Over the years, Borsa İstanbul has undergone significant transformations to become a pivotal financial hub in Türkiye and a key player in the global financial markets.

One of the major milestones in its evolution was the merger with the İstanbul Gold Exchange in 2013, which consolidated its position in the financial sector. This merger also

marked Borsa İstanbul's expansion into international markets, as it became a shareholder of the Montenegro Stock Exchange.

In 2014, the BISTECH Technological Transformation Program was initiated, aiming to modernize and integrate all market transactions on a single platform. This ambitious project was completed in 2018, enhancing the efficiency and reliability of trading operations. The same year, Borsa İstanbul launched the Swap Market and the Committed Transaction Market, further diversifying its financial instruments and services.

Borsa İstanbul's commitment to aligning with global standards was evident in 2019 when it removed the mid-day single price section to harmonize with international stock markets. Additionally, the introduction of the Turkish Lira Overnight Reference Rate (TLREF) in the same year provided a crucial benchmark for short-term financial products and contracts.

Today, Borsa İstanbul stands as a dynamic and liquid trading platform, known for its technological advancements and comprehensive range of financial services. It continues to play a vital role in Türkiye's economic development and maintains a significant presence in the global financial landscape (BIST, 2024).

The legal framework of the Turkish capital markets underwent significant changes with the introduction of the Capital Markets Law No. 6362 (CML), which replaced the previous Capital Markets Law No. 2499 and Decree Law No. 91. This new law brought Turkish regulations in line with EU standards, thereby enhancing global integration and competitiveness. It restructured and renamed the Istanbul Stock Exchange (IMKB) as Borsa Istanbul and designated stock exchanges as private law entities established by presidential authorisation with the approval of the Capital Markets Board. Borsa Istanbul was formally registered as a private limited company on 3 April 2013. The current legal framework is primarily governed by the CML and the Turkish Commercial Code, supplemented by detailed regulations issued by the Capital Markets Board and the Exchange (BIST, "Legal Framework", 2024).

Borsa Istanbul holds memberships in several international organizations, including the World Federation of Exchanges (WFE), Organisation of Islamic Cooperation (OIC) Exchanges Forum, London Bullion Market Association (LBMA), World Federation of Diamond Bourses (WFDB), and Intermarket Surveillance Group (ISG). Additionally, Borsa Istanbul supports various international initiatives such as the Kimberley Process Certification Scheme (KPCS), OECD's Responsible Gold Guidance, United Nations Global Compact (UNGC), Sustainable Stock Exchanges Initiative (SSE), and the Integrated Reporting Türkiye Network (ERTA). It is also accredited by the European Securities and Markets Authority (ESMA) as a "Third Country Trading Venue" (BIST, "International Membership", 2024).

Currently, 664 companies operating in different sectors and markets are traded on BIST. Some of these are screened in the Participation[3] Indices, while others are not (Public Disclosure Platform (KAP), 2024).

Financial instruments considered within the scope of Participation Finance are estimated to have reached a value of more than USD 3.3 trillion globally in the first half of 2023

[3] The term "Participation Finance" in Türkiye refers to a financial system that adheres to Islamic principles, which is mostly articulated as "Islamic Finance" in other countries.

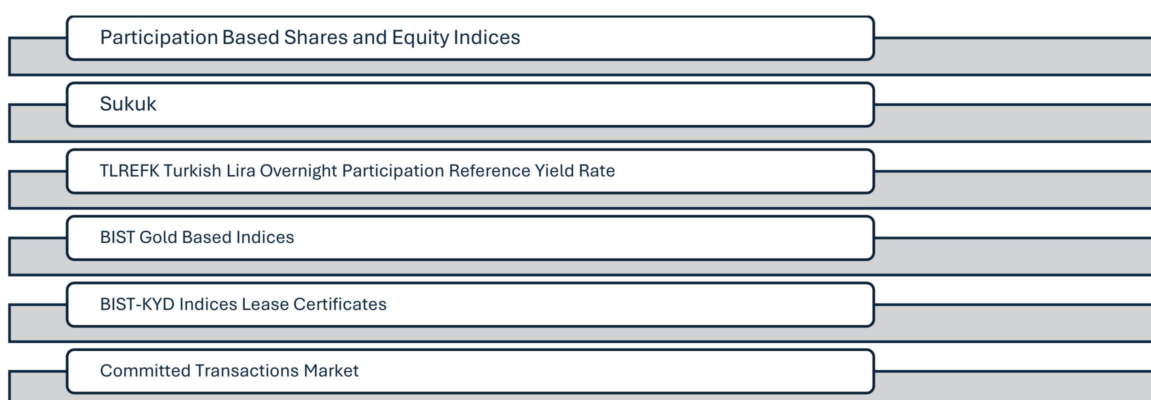
and are also expected to register a compound annual growth rate (CAGR) of more than 10 per cent between 2024 and 2029. Türkiye's Participation Finance ecosystem has reached USD 90 billion and is expected to grow exponentially in the coming years (BIST, “Katılım Finans”, 2024).

Participation finance refers to an umbrella concept that covers all sectors operating in accordance with the principles of participation finance and the products, services and activities offered by these sectors. It is a financial system that operates within the framework of participation finance principles and goal-oriented principles and covers products, services, activities and institutions that prioritise goal-oriented principles.

Financial Markets constitute one of the most important development areas of the Participation Finance ecosystem. Borsa Istanbul, which is at the centre of the Capital Markets, aims to enable investors and companies to access and participate in financial instruments and funding opportunities in accordance with the principles of Participation Finance.

For this purpose, Borsa Istanbul cooperates with the Advisory Board of the Participation Banks Association of Türkiye (TKBB), and Participation Based Financial Instruments are developed and offered to investors within the framework of the principles and standards established by the Advisory Board.

Graph 3. The scope of Islamic finance activities in BIST



Ref: BIST, “Katılım Finans” (Access 24 July 2024).

Determining the Scope of Islamic Indices

In periodical index valuations, the following steps are followed in order to determine the scope of the indices, taking into account the responses of the companies in the Information Forms according to the relevant fiscal period:

1) In the first stage, company shares that are not listed in the Star Market, Main Market or Sub-Market as of the beginning of the Index Period are excluded from the scope.

2) In the second stage, company shares that have privileges such as profit or liquidation share privileges in company shares or usufruct certificates that are materially and directly against other shareholders are excluded.

3) In the third stage, the shares of the company in which the activities listed in Standard Article 1.1 are written in the articles of association of the company are excluded. The activities listed in Standard Article 1.1 are as follows

a) Production and trade of alcoholic beverages,

b) Production and trade of narcotic substances other than for medical purposes,

c) Gambling and gambling-like activities,

d) Production and trade of pork and its products,

e) Interest-bearing financial transactions,

f) Forward transactions between money and/or monetary assets,

g) Broadcasting contrary to morality and Islamic values,

h) Entertainment, hotel management, etc. activities that are incompatible with Islamic values,

i) Activities that cause great harm to the environment and living things,

j) Biological/genetic activities aimed at changing human nature,

k) Production and trade of tobacco products harmful to health.

4) In the fourth stage, companies are required to

a) 5% of the share of revenues from the activities specified in Standard Article 1.1 in total revenues,

b) 33% of the ratio of interest-bearing assets in the financial statement to the greater of average market value or total assets, (Total assets are used when calculating the ratio for companies traded less than 20 days as of the end of the Valuation Period).

c) The ratio of interest-bearing liabilities in the financial statements to the greater of average market value or total assets exceeds 33%, (Total assets are used when calculating the ratio for companies traded for less than 20 days as of the end of the Valuation Period).[4]

Company shares exceeding the specified ratios are excluded from the scope. Companies are required to answer the questions regarding the financial period in the Information Forms based on their most recent financial statements that have been independently or limited audited. Companies that do not enter the Information Forms or make incomplete entries are prudently assumed not to fulfil the aforementioned criteria and are excluded from the scope. Companies that explicitly declare in their articles of association that they will operate in accordance with the Standard are included in the scope of the index without any additional criteria if they are traded in a market that is eligible for the index. Shares of companies that are stated to fulfil the index selection criteria in the public offering prospectus are included in the index on the date they start to be traded (Participation Banks Association of Türkiye (TKBB), 2024; Orhan & Isiker, 2021).

6. RESULTS AND FINDINGS: USING HEDGING INSTRUMENTS BY SELECTED SAMPLES OF PARTICIPATION BANKS IN BORSA ISTANBUL

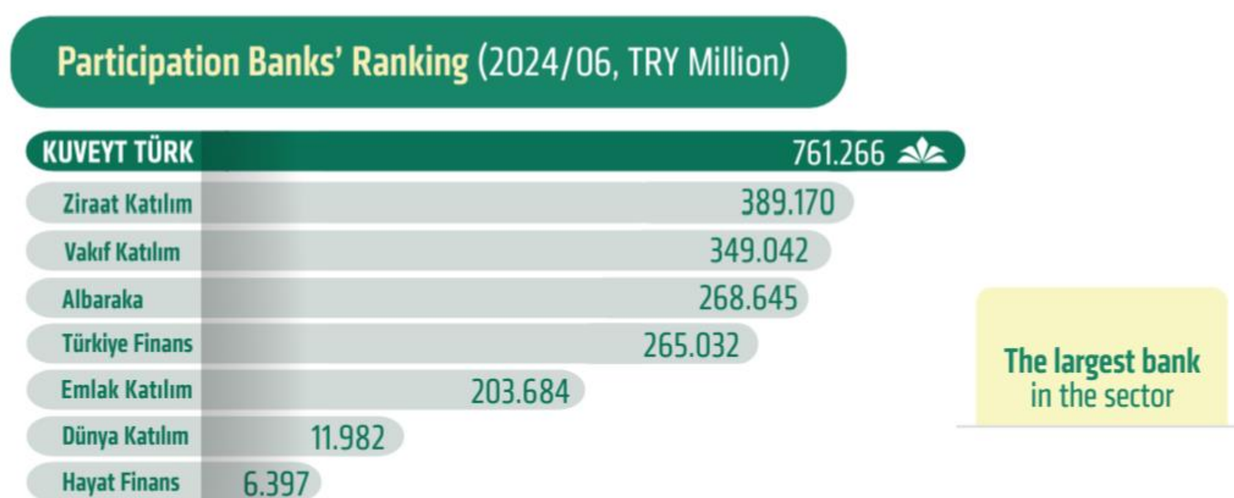
6.1. CASE NO. 1: KÜVEYT TÜRK PARTICIPATION BANK

[4] Compare to AAOIFI's Financial Paper (Shares and Bonds): Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI0), *Shari'ah Standards* (Bahrain: AAOIFI, Shariah Standard No. 21).

Kuveyt Türk particpation bank is the largest participation bank in Türkiye in terms of assets, with total assets valued at 761.266 TL which is representing a market share of 2.71% of the total banking sector in Türkiye. In addition, it is holding 69.64% ROAE as number one bank among the top 20 in equity growth.

It has been operating in the interest-free finance sector since 31 March 1989. Kuveyt Türk contributes to the development of participation banking with its dynamic corporate governance approach, innovative products and its global expansion, since it is part of Kuwait Finance House (KFH) which is among the oldest Islamic banks in the world.

Graph 4. Comparison of Kuveyt Türk Bank with the other participation banks in Türkiye



Ref: Kuveyt Türk database 2024.

Based on Kuveyt Türk Bank website the main hedge instrument used by the bank was Forward Exchange Transaction which allow the customers to buy and sell products or services by fixing the exchange rate risk for a certain currency, and this instrument based on promise (waad) as we explained it previously. With regard to the derivative financial instruments we summarize it based on the below table

Table 1: The information on Kuveyt Türk Bank in 2023 was as follows:

	TC	*FC*	*Total*
DERIVATIVE FINANCIAL INSTRUMENTS	**30,123,622**	**113,210,686**	**143,334,308**
Derivative Financial Instruments Held for Hedging	0	0	0
Fair Value Hedges	0	0	0
Cash Flow Hedges	0	0	0
Hedges of Net Investment in Foreign Operations	0	0	0
Derivative Financial Instruments Held for Trading	**30,123,622**	**113,210,686**	**143,334,308**

Forward Buy or Sell Transactions	1,966,099	7,546,320	9,512,419
Forward Foreign Currency Buying Transactions	1,965,934	2,900,611	4,866,545
Forward Foreign Currency Sale Transactions	165	4,645,709	4,645,874
Other Forward Buy or Sell Transactions	28,157,523	105,664,366	133,821,889

Ref: https://www.kap.org.tr/ (Access 20 August 2024).

The data indicates that the majority of the bank's derivative exposure is in foreign currency, suggesting a significant involvement in international financial markets or currency-related transactions. From pure financial perspective, the absence of hedging instruments indicates that Kuveyt Türk Bank does not use derivatives for risk management purposes. Instead, all derivative activities are classified under trading, which may suggest a focus on speculative profit rather than mitigating risks associated with currency fluctuations or interest rate changes. The bank's entire derivative portfolio is devoted to trading activities. This might involve taking positions in various financial markets to profit from price movements. However, this approach also exposes the bank to potential market volatility and financial risk. The near parity between buying and selling forward foreign currency transactions indicates a balanced approach, possibly to take advantage of arbitrage opportunities or to manage foreign exchange exposure on a short-term basis. However, given that these transactions are part of trading activities rather than hedging, they might not be used to mitigate risk but rather to capitalize on expected movements in exchange rates. The bulk of so-called "other forward buy or sell transactions" are in foreign currency, which may involve a variety of forward contracts related to different financial instruments, such as commodities or complex financial derivatives. The significant size of these transactions indicates a strong emphasis on non-currency-specific forward contracts, likely used for taking advantage of expected market conditions.

6.2. CASE NO. 2: ALBARAKA TÜRK PARTICIPATION BANK

As Albaraka Türk Participation Bank, were founded in 1984 by pioneering interest-free banking in Türkiye and began actively serving in 1985. Having founded under the guidance of the strong capital groups in the Middle East, Al Baraka Group B.S.C.(c), Islamic Development Bank (IsDB) and another industry group serving the Turkish economy for more than a half century.

As of 31.12.2023, Albaraka Group B.S.C.(c)'s share in the shareholding structure is 45.09% and Dallah Al Baraka Holding's share is 8.3%. the Bank's shares are traded on Borsa Istanbul.

With regard to the derivative financial instruments we would like to summarize it based on the below table:

Table 2: The information on Albaraka Bank in 2023 was as follows:

	TC	FC	Total
DERIVATIVE FINANCIAL INSTRUMENTS	**10,656,422**	**14,249,689**	**24,906,111**

Derivative Financial Instruments Held for Hedging	0	0	0
Fair Value Hedges	0	0	0
Cash Flow Hedges	0	0	0
Hedges of Net Investment in Foreign Operations	0	0	0
Derivative Financial Instruments Held for Trading	**10,656,422**	**14,249,689**	**24,906,111**
Forward Buy or Sell Transactions	143,878	294,989	438,867
Forward Foreign Currency Buying Transactions	77,365	61,866	139,231
Forward Foreign Currency Sale Transactions	66,513	233,123	299,636
Other Forward Buy or Sell Transactions	10,512,544	13,954,700	24,467,244

Ref: https://www.kap.org.tr/ (Access 20 August 2024).

Albaraka Bank does not hold any derivatives for hedging purposes as well, indicating that all derivative instruments are intended for trading rather than for managing financial risks. This reflects a strategic choice to not use derivatives as a tool for risk mitigation. Albaraka Bank's derivatives portfolio is entirely focused on trading, which suggests an active participation in financial markets, potentially to generate profits from market movements rather than to hedge against risks. The smaller volume of forward transactions suggests that Albaraka Bank is either less involved in speculative trading or is focusing on less risky, possibly more straightforward transactions. The bulk of Albaraka Bank's forward transactions fall into "other…" category, indicating that they may be involved in a variety of forward contracts beyond just currency-related ones. The relatively balanced distribution between Turkish and foreign currency indicates a diversified approach.

The large volume of derivatives held by Kuveyt Türk Bank, particularly in foreign currencies, may suggest significant engagement in speculative activities, which could be considered non-compliant with Islamic principles. Albaraka Bank, with a much smaller derivatives portfolio, might be demonstrating a more cautious approach that aligns better with Islamic financial ethics by minimizing potential involvement in speculative activities. Hedging, when done to manage real risks and not for speculation, can be permissible in Islamic finance. The absence of hedging instruments in both banks indicates that their derivative activities are focused entirely on trading rather than risk management. The substantial volume of trading derivatives at Kuveyt Türk Bank indicates a strong focus on speculative profit-making, which is problematic from an Islamic standpoint. In contrast, Albaraka Bank's smaller trading volume might reflect a more prudent approach, potentially indicating a greater alignment with Islamic financial principles by avoiding excessive speculation.

Our assessment of the impact of the use or non-use of hedging instruments by Kuveyt Türk and Albaraka Bank on their risk management strategies is grounded primarily in the principles of conventional economics. From this perspective, both banks are perceived as

underperforming in risk management due to their limited use of derivative instruments. In conventional economic thought, derivatives, particularly those employed in hedging, are regarded as the most significant tool for mitigating financial risk. This prevailing belief shapes the analysis of these banks' risk management practices.

At this juncture, however, we wish to offer a methodological critique. If we aim to cultivate self-sufficient and sustainable banking and financial markets, a radical, multifaceted shift in risk management practices is essential, as highlighted by scholars such as el-Suwailem. Continuing to replicate the methods of conventional finance without critically evaluating their compatibility with Islamic finance principles will inevitably lead to problematic practices. This includes the emergence of instruments like Islamic FX Forwards, Islamic FX Swaps, Islamic Cross-Currency Swaps, Islamic Profit-Rate Swaps, and Islamic Options, which have been criticized for undermining fundamental Islamic legal principles. Such instruments, as noted by Mohamad, Othman, Roslin, and Lehner (2014), may result in the commodification and exploitation of tools such as promises (wa'd), bilateral promises (muwāʾadah), and the sale of right of options (bay' al-ikhtiyār) — concepts that are meant to serve as ethical tools within Islamic law, and not binding contractual means.

To move beyond these imitative practices, we propose a rethinking of risk management within the framework of Islamic finance. Rather than relying on instruments that closely mirror their conventional counterparts, we advocate for the use of contract types that are deeply rooted in Islamic jurisprudence. Contracts such as *salam*, *istisna*, *murabaha*, *ijarah*, *musharakah, diminishing musharakah,* and *mudarabah* offer promising alternatives that align with the ethical and legal standards of Islamic finance. These contracts, already employed in various contexts, provide models for risk management that emphasize fairness, shared risk, and transparency, in contrast to the speculative nature of many derivative instruments.

By realigning risk management practices with Islamic contractual principles, we can foster a more authentic and sustainable financial system that avoids the pitfalls of conventional finance while upholding the values of justice and equity central to Islamic law.

7. DISCUSSIONS: SHARIAH PERSPECTIVE ON HEDGING INSTRUMENTS

In conventional finance, hedging serves as a strategic approach to managing and mitigating the risks inherent in economic activities such as trading or investing. While it effectively reduces exposure to potential losses, it is crucial to note that hedging does not eliminate risk entirely. Instead, it functions as a protective measure to cushion against adverse market movements. In a similar vein, Islamic finance has crafted distinct methodologies for risk management that align with the ethical and legal frameworks prescribed by Shariah principles.

In the context of Islamic finance, the relationship between risk management and hedging is often viewed as inseparable, akin to two sides of the same coin. Effective risk management in Islam inherently involves the practice of hedging, and vice versa. Islam acknowledges that risk is an inevitable element of any business venture. However, it also emphasizes that with the implementation of well-thought-out strategies, such risks can be effectively managed and minimized. Islamic teachings caution against two extreme behaviors in relation to risk: the first is the complete avoidance of risk, particularly by seeking profits without bearing any risk, which

is exemplified by the practice of riba (usury). The second extreme is engaging in excessive risk-taking, especially in activities that resemble gambling or maysir. Instead, Islam advocates for taking calculated and measured risks to achieve legitimate profits (Mohamad et. al., 2014).

Undoubtedly, derivatives are important risk management tools as hedging instruments. But they can also be used by speculators to speculate. One of the fundamental differences between conventional finance and Islamic finance lies in the distinction between speculation and hedging. In conventional markets, speculation often involves taking on additional risk in the hopes of achieving higher returns, a practice that can border on gambling. Islamic finance, on the other hand, strictly distinguishes between hedging as a risk management tool and speculation as a profit-driven activity (Umar et. al., 2020). Shariah scholars maintain that hedging is permissible when its primary objective is to protect against potential losses, such as those resulting from currency fluctuations in transactions involving real assets. Therefore, the true essence of hedging in Islamic finance is the prudent management of risk, rather than the pursuit of speculative gains. This principle underscores the ethical foundation of Islamic finance, where the intent behind financial actions is as important as the actions themselves (Mohamad & Tabatabaei, 2008).

There is consensus of Islamic legal scholars regarding the implementation of hedging insturments in financial activities. But when it comes to religious, logical and theoretical substantitation of the hedging concept, we can refer to the tallest verse in the Qur'an that named "āyah al-mudāyanah" (i.e. the verse on reciprocal borrowing) (Baqarah, 2/28). The verse highlights the need of writing down debt activities while contracting. Scholars assert that this verse's objective is to instill the "protection sense" towards the wealth, which is in line with the idea of hedging.(al-Qurṭubī, 1964, 3/383) As a logical consequence of the verse, we can say that collateral (guarantee) contracts such as transfer or assignment of debt (ḥawālah), surety (kafālah) and pledge (rahn) actually support the idea of hedging in Islamic finance by providing security, reducing risk, and ensuring the fulfillment of contractual obligations. These contracts offer a Shariah-compliant means to manage financial risks, protect wealth, and promote trust and stability in financial transactions, all of which are essential elements of hedging. Over and above that, "legal interdiction of the foolish" or "incompetency restriction", which refers to the legal restriction or interdiction placed on individuals deemed incapable of managing their financial affairs wisely due to immaturity, mental incapacity, or irresponsible behavior, is also support the general idea of the hedging in Islam. For this concept (ḥajr) in Islamic jurisprudence is used to protect the assets and interests of those who are considered "sufahā" (foolish or incompetent) by preventing them from making poor financial decisions.[5]

On the other hand, it is stated in a hadeeth that "*Whoever dies in protecting his property, he dies as a martyr*" (al-Bukhārī, 1993)[6] signifies that if a person loses his life while safeguarding his or her family and possessions, his death is regarded as martyrdom. Consequently, taking measures to defend and protect wealth from financial risks is strongly

[5] For further details. Apaydın, H. Y. (1996). *Hacir*. In Türkiye Diyanet Vakfı İslam Ansiklopedisi. İstanbul: TDV Yayınları.

[6] (al-Bukhārī, 1993, p. 34). Text of the corresponding hadith as follows: مَنْ قُتِلَ دُونَ مَالِه فَهُوَ شَهِيدٌ

encouraged, as failure to do so could not only harm the individual but also have detrimental effects on society as a whole.

Islamic hedging, when viewed through the lens of maqasid al-shariah (the higher objectives of Islamic law), aligns with the overarching goals of Shariah, which are to promote human well-being and prevent harm. Maqasid al-shariah emphasizes the protection and preservation of essential elements in human life, including religion (dīn), life (nafs), intellect ('aql), lineage (nasl), and wealth (māl). Hedging in Islamic finance can be understood as a means to achieve these objectives by managing financial risks in a Shariah-compliant manner. One of the key objectives of maqasid al-shariah is the protection of wealth, as it is a vital resource for sustaining life, supporting families, and contributing to society. Islamic hedging plays a crucial role in safeguarding wealth from potential financial losses due to market volatility, currency fluctuations, or other economic risks. By reducing the exposure to such risks, Islamic hedging ensures that wealth is preserved and used productively, in accordance with Shariah principles. In accordance with the legal maxim that "preventing loss takes precedence over gaining benefit" (Commission, 2004, 6/245. Text of the relevant maxim is: دفع المفسدة أولى من جلب المنفعة) Islamic finance emphasizes the importance of safeguarding against potential losses and managing risks before seeking profit in financial markets. This principle underscores the idea that financial stability and the protection of assets are fundamental priorities. In practice, this means that before pursuing opportunities for profit, investors and financial institutions should first ensure that they have taken adequate measures to mitigate risks that could lead to financial harm or instability. By doing so, they not only protect their own interests but also contribute to the overall stability of the financial system, which is essential for sustainable economic growth. This approach aligns with the broader objectives of Shariah, which seek to promote justice, fairness, and the well-being of society by preventing harm and ensuring that financial activities are conducted in a responsible and ethical manner.

Islamic finance offers several risk management techniques deemed permissible by Shariah scholars. These include limiting the scope and degree of risk within any investment, diversifying investment portfolios across different instruments, and securing third-party guarantees to mitigate potential losses. These strategies reflect a balanced approach to risk, ensuring that the pursuit of profit does not compromise ethical considerations (Nordin et. al., 2014).

Since Shariah recognizes the concept of hedging and acknowledges its significance in financial transactions, the instruments and measures adopted to achieve hedging are encouraged, provided they do not contravene any Shariah principles. Among the prominent scholars who have explored financial hedging, critically evaluated conventional hedging instruments, and endeavored to develop Shariah-compliant alternatives are Dr. Sami al-Suwailem, Dr. Mohamed Ali Elgari, Dr. Abdul Sattar Abu Ghuddah, as well as institutions such as the International Islamic Fiqh Academy, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Dallah al-Barakah Shariah Advisory Council, and various Shariah committees of Islamic financial institutions. These scholars and institutions have generally recognized the importance of financial risk management in Islamic finance and do not reject its fundamental concept. However, there is a diversity of opinions on what

constitutes Shariah-compliant hedging mechanisms. While there is consensus that hedging is permissible and even necessary in Islamic financial markets, it is widely agreed that hedging should not be seen as a tool for the complete elimination of risks, but rather as a means to manage and mitigate them in a way that aligns with Islamic ethical and legal standards.

The jurists have consistently emphasized that the instruments and methods employed to manage risk must adhere strictly to Shariah principles, without violating any of its rulings. This stance is deeply rooted in the Shariah principle that "the end does not justify the means." This concept was thoroughly examined during the 28th Barakah Symposium held in Jeddah on September 16, 2007, which focused specifically on the issue of hedging (tahawwut). The resolution issued from this symposium reinforced this viewpoint:

> “1. In Islamic financial activities, the pre-condition is that investors bear the risks. This is based on the principle of “*al-ghunmu bi al-ghurmi*” which means that entitlement to profit is accompanied by responsibility for attendant expenses and possible loss. This is backed by the *Hadith* “*Inna al-Kharaj Bi al-Dhaman*” which means the entitlement to profit from something is dependent on responsibility for attendant expenses and possible loss and defects (Hadith narrated by al-Tirmizi, Abu Dawud, Ibn Majah and Ahmad). Therefore, any investment activities based on the separation between “*al-ghunm*” (profit) and “*al-ghurm*” (losses), where investors are qualified to receive profits without bearing “daman” (responsibility for losses or risks), are not allowed. Any contracts or contractual terms which are meant to guarantee investment capital and profit are contradictory to the Shariah.
>
> 2. Minimising and avoiding risks are permissible if managed in line with Shariah mechanisms, contract and instruments, as long as they do not bring about matters that contravene Shariah principles (Resolution No. 2:28).”

To delve into the Shariah-compliant discussion of risk-mitigating tools used by Kuveyt Türk Bank and Albaraka Bank, we must first address the philosophical divergence between Islamic and conventional financial systems, particularly concerning hedging and risk management.

In conventional finance, derivatives are widely employed as risk mitigation tools (Pramita & Nisa, 2024, p. 95). However, they often involve speculative elements that contradict Islamic principles, which prioritize ethical risk sharing, fairness, and transparency. From a Shariah perspective, risk management is acceptable when it is tied to real economic activities and serves to mitigate actual risks rather than facilitate profit-driven speculation. This distinction is crucial when evaluating the activities of Kuveyt Türk and Albaraka Bank, as their reliance on derivatives might suggest differing levels of Shariah compliance depending on the purpose and nature of these transactions.

Shariah allows the management of risk, but it places emphasis on risk that is inherent and tied to real economic activity, such as the risks associated with physical assets, production, and trade (Abu Bakar, 2023). Tools that mirror these goals and avoid speculation can be acceptable. For instance, Islamic contracts like *salam*, *istisna*, *murabaha*, *mudarabah, musharakah* and *ijarah* are structured to manage risk by sharing it equitably among contracting

parties. Salam and istisna contracts manage risks related to future delivery and production, while mudarabah and musharakah provide frameworks for sharing both profit and loss, ensuring that the risk is not disproportionately borne by one party (Zaabi, 2010, p. 92). These contracts, by design, are more aligned with the risk management framework advocated by Islamic finance, where speculative and uncertain transactions (*gharar*) are prohibited (Malkawi, 2014, p. 50). In this context, it is more accurate to state that both banks are adhering to a Shariah-compliant approach by limiting their use of hedging instruments to trading purposes only.

The critique of Kuveyt Türk's engagement in foreign currency derivatives and the smaller but still significant derivatives portfolio of Albaraka Bank highlights the challenge of using quasi-conventional instruments that may resemble conventional derivatives but are adapted for Islamic markets. These instruments, such as Islamic FX Forwards and Islamic Profit-Rate Swaps, have been criticized for being superficial modifications of their conventional counterparts, often failing to align with the ethical and risk-sharing foundations of Islamic finance (Dusuki, 2009).

The challenge here lies in the fact that many so-called Islamic hedging instruments operate on bilateral promises, which, in practice, may lead to speculative outcomes similar to those seen in conventional finance. The promise (*wa'd*) in Islamic finance is intended to serve as a moral obligation rather than a binding contract, and its commercial exploitation could be seen as an abuse of this concept (Ahmad, Yaacob, & Mat Zain, 2014). This reliance on instruments that are essentially replicas of conventional derivatives suggests that the Islamic finance industry has not yet developed a distinct risk management framework that fully aligns with Shariah.

There is a pressing need to establish a new worldview or conceptual framework for risk management in Islamic finance. Instead of adapting or mimicking conventional derivatives, Islamic finance must focus on the development of tools that are rooted in Islamic jurisprudence and principles of risk-sharing and fairness. This new paradigm should be based on contracts like salam, istisna, and ijarah etc., which manage real economic risks and avoid speculative behavior. These contracts could be expanded or modified to address modern financial challenges while maintaining their adherence to Shariah. The idea is to create instruments that provide the same risk mitigation benefits as conventional derivatives but are fully aligned with Islamic ethics and legal foundations (International Shariah Research Academy for Islamic Finance (ISRA), 2015, pp. 651–652).

In conclusion, the current use of quasi-conventional instruments by Islamic banks calls for a re-evaluation and a shift towards a more authentic and Shariah-compliant approach to risk management. By prioritizing contracts that promote genuine risk-sharing and ethical behavior, Islamic finance can offer a more sustainable and just alternative to the risk management practices seen in conventional finance.

CONCLUSION

Among private participation banks, Kuveyt Türk and Albaraka Türk stand out as key players in

terms of their volume of operations and their notable presence in capital markets. However, when viewed from a conventional finance perspective, their approach to risk management may appear inadequate. This is primarily because these banks do not rely on conventional derivative-based risk management tools. Instead, they adhere to the principles of Islamic economics by using instruments rooted in real commercial transactions and trade activities, avoiding speculative instruments that contradict Islamic financial ethics.

There are two critical issues that need to be addressed in this context. First, both risk management practices and the development of Islamic derivative instruments require careful reconsideration. Existing concepts and approaches should be reconstructed to better align with Islamic economic principles. For instance, the concept of risk management in Islamic finance should be redefined through contracts that are firmly based on tangible commercial activities and genuine partnerships, as opposed to the financial engineering typical of conventional systems. However, it is essential to acknowledge that risk management cannot be entirely achieved through financial contracts alone. The nature of risks faced in modern economic and financial activities is diverse, complex, and multifaceted, encompassing market volatility, operational challenges, and strategic uncertainties.

Therefore, in addition to contractual frameworks, Islamic financial institutions must develop broader risk management techniques. This includes managerial (cooperative) approaches, where banks and stakeholders collaborate to mitigate risks, as well as economic (strategic) methods that involve anticipating and adapting to broader market conditions. Such a holistic approach would provide a more comprehensive and resilient risk management framework that adheres to Islamic values while addressing modern financial realities.

Second, financial reporting and disclosures by Islamic banks must evolve accordingly. These institutions should avoid mimicking conventional risk management practices, such as adopting quasi-derivative instruments, and instead focus on designing innovative solutions grounded in Islamic legal and ethical frameworks. This shift requires banks to update their financial statements and reporting structures to reflect their unique risk management strategies and adherence to Islamic principles. Transparent and accurate reporting of risk exposure, and the tools used to mitigate these risks, will bolster the credibility of Islamic financial institutions and enhance stakeholder confidence.

The translation of hedging standards prepared by the IIFM/ISDA by the Participation Banks Association of Türkiye (TKBB) marks an important step toward addressing these challenges. However, this is not sufficient on its own. It is imperative that hedging standards are tailored to Türkiye's strategic and economic environment, considering Borsa Istanbul's unique market dynamics, the country's regulatory framework, and the specific needs of its Islamic financial institutions. Developing localized standards and innovative instruments, aligned with both Shariah principles and Türkiye's financial ecosystem, will strengthen the capacity of Islamic banks to manage risks effectively while remaining true to their ethical foundations.

REFERENCES

Accounting and Auditing Organization for Islamic Financial Institutions. (n.d.). *Shariah standard No. 21*. Bahrain: AAOIFI.

Ahmad, A. A., Yaacob, S. E., & Mat Zain, M. N. (2014). The Use of wa'Dan in Islamic Contract FX Forward: Weighting between Maslahah and Mafsadah. Asian Social Science, 10(22), 332–342. https://doi.org/10.5539/ass.v10n22p332

Ahmad, A. A., & Halim, M. A. A. (2014). The concept of hedging in Islamic financial transactions. Asian Social Science, 10(8), 42–49. https://doi.org/10.5539/ass.v10n8p42

Akkuş, H. T., & Sakarya, Ş. (2018). Türev Ürünlerin İslami Finans Modelleri Açisindan Değerlendirilmesi. Adam Akademi Sosyal Bilimler Dergisi, 8(2), 267–299. https://doi.org/10.31679/adamakademi.427523

al-Bukhārī, M. b. I. (1993). Al-Jāmiʿ al-ṣaḥīḥ (5th ed., Vols 1–7; M. D. al-Bughā, Ed.). Damascus: Dār Ibn Kathīr.

al-Qurṭubī, A. 'Abdillāh M. b. A. (1964). Al-Jāmi' li aḥkām al-Qur'ān (Vols 1–10). Cairo: Dār al-Kutub al-Miṣriyyah.

al-Suwailem, S. (2006). Hedging in Islamic Finance. Jeddah: Islamic Development Bank.

Breeden, D. T., & Viswanathan, S. (1998). Why Do Firms Hedge? An Asymmetric Information Approach. Journal of Fixed Income, 1(1), 1–55. https://doi.org/10.2139/ssrn.2642396

BIST, Borsa Istanbul. (2024, July 24). Milestones in Borsa İstanbul history. Retrieved from https://borsaistanbul.com/en/sayfa/24/milestones-in-borsa-istanbul-history

BIST, Borsa Istanbul. (2024, July 24). Legal framework. Retrieved from https://borsaistanbul.com/en/sayfa/3753/legal-framework

BIST, Borsa Istanbul. (2024, July 24). International memberships. Retrieved from https://borsaistanbul.com/en/sayfa/2209/international-memberships

Campello, M., Lin, C., Ma, Y., & Zou, H. (2011). The real and financial implications of corporate hedging. The journal of finance, 66(5), 1615-1647.

Commission. (2004). Amr. In Al-Mawsū'a al-Fiqhiyyah al-Kuwaitiyyah (Vols 1–45). Kuwait: Wizārah al-Awqāf.

Daka, V. R., & Basu, S. (2016). Is Corporate Hedging Consistent with Value-Maximization in Emerging Markets?: An Empirical Analysis of Indian Firms. Retrieved from http://repository.iimb.ac.in/handle/2074/11977

Dusuki, A. W. (2009). Shari'ah Parameters on the Islamic Foreign Exchange Swap as a Hedging Mechanism in Islamic Finance. ISRA International Journal of Islamic Finance, 1(1), 77–99. https://doi.org/10.55188/ijif.v1i1.66

Injadat, E. M. (2014). Futures and forwards contracts from perspective of Islamic law. Journal of economics and political economy, 1(2), 241-252.

Injadat, E. (2022). The development of Salam as a hedging instrument. Asian Journal of Earth Sciences, 5(5), 33–42.

Injadat, E. (2018). The practical model of hedging in Islamic financial markets. International Journal of Economics, Commerce and Management, VI(6), 134–140.

International Shariah Research Academy for Islamic Finance (ISRA). (2015). Islamic Capital Market: Principles & Practices. Kuala Lumpur: ISRA Academy. Retrieved from https://ubsmebooks.com/book/info/203206/Islamic-Capital-Market-Principles-Practices

Jobst, A., et al. (2008). Islamic bond issuance: What sovereign debt managers need to know. International Journal of Islamic and Middle Eastern Finance and Management, 1(4), 330–344. https://doi.org/10.1108/17538390810919637

Johnson, L. L. (1976). The Theory of Hedging and Speculation in Commodity Futures. In B. A. Goss & B. S. Yamey (Eds.), The Economics of Futures Trading (pp. 83–99). London: Palgrave Macmillan UK. https://doi.org/10.1007/978-1-349-02693-7_4

Kamali, M. H. (2007). Commodity Futures: An Islamic Legal Analysis. Thunderbird International Business Review, 49(3), 309–339. https://doi.org/10.1002/tie.20146

KAP, Public Disclosure Platform. (2024, July 24). Companies. Retrieved from https://www.kap.org.tr/en/bist-sirketler

Khan, M. A. (1988). Commodity exchange and stock exchange in Islamic economy. American Journal of Islam and Society, 5(1), 91–114. https://doi.org/10.35632/ajis.v5i1.2882

Malkawi, B. H. (2014). Financial Derivatives Between Western Legal Tradition and Islamic Finance: A Comparative Approach. Journal of Banking Regulation, 15(1), 41–55.

Mohamad, S., Ahmad, A. A., & Shahimi, S. (2011). Innovative Islamic Hedging Products: Application of Wa'd in Malaysian Banks [SSRN Scholarly Paper]. Rochester, NY. Retrieved from https://papers.ssrn.com/abstract=2070574

Mohamad, S., Othman, J., Roslin, R., & Lehner, O. M. (2014). The Use of Islamic Hedging Instruments as Non-Speculative Risk Management Tools. Venture Capital, 16(3), 207–226. https://doi.org/10.1080/13691066.2014.922824

Mohamad, S., & Tabatabaei, A. (2008, December 16). Islamic Hedging: Gambling or Risk Management? 2–19. Australia.

Mohd Razif, N. F., Mohamad, S., & Rahman, N. N. A. (2012). Permissibility of Hedging in Islamic Finance. Middle-East Journal of Scientific Research, 12(2), 155–159. https://doi.org/10.5829/idosi.mejsr.2012.12.2.1679

Nordin, N., et al. (2014). The Islamic hedging management: Paving the way for innovation in currency options. International Journal of Management Studies, 21(1), 23–37.

Orhan, Z. H., & Isiker, M. (2021). Developing a ranking methodology for Sharīʿah indices: The case of Borsa Istanbul. ISRA International Journal of Islamic Finance, 13(3), 302–317. https://doi.org/10.1108/IJIF-08-2019-0113

Pramita, V. T., & Nisa, F. L. (2024). Penerapan Efektif dalam Keuangan Islam melalui Peran Maqashid Syariah. Economic and Business Management International Journal (EABMIJ), 6(2), 89–96. https://doi.org/10.556442/eabmij.v6i2.687

Published Standards – International Islamic Financial Market. (n.d.). Retrieved 1 October 2024, from https://www.iifm.net/standards/published-standards

Razif, N. F. M., Mohamad, S., & Rahman, N. N. A. (2012). Permissibility of hedging in Islamic finance. Middle-East Journal of Scientific Research, 12(2), 155-159.

Sole, J. (2007). Introducing Islamic Banks Into Coventional Banking Systems. IMF Working Papers, 07(175), 1–28. https://doi.org/10.5089/9781451867398.001

Umar, Z., et al. (2020). The inflation hedging capacity of Islamic and conventional equities. Journal of Economic Studies, 47(6), 1377–1399. https://doi.org/10.1108/JES-04-2019-0183

Wardrep, B. N., & Buck, J. F. (1982). The efficacy of hedging with financial futures: A historical perspective. Journal of Futures Markets, 2(3), 243–254. https://doi.org/10.1002/fut.3990020304

Zaabi, O. S. A. (2010). Salam Contract in Islamic Law: A Survey. Review of Islamic Economics, 14(2), 91–122.