

The Impact of Regulated Cryptocurrency Exchange on Islamic Investments: An Empirical Investigation on Capital Market in Malaysia

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The significant increase of cryptocurrency values has led to an urgent need for a regulated exchange platform especially with the rise of cryptocurrency-related scam that targets non-sophisticated investors with enticing returns. The regulatory gap in the distribution and trading of Bitcoin led to increasing cases of illicit payments, fraud, and financial scams, which can be hazardous to the financial systems. From the Islamic perspective, the debates on the permissibility and shariah issues on cryptocurrency are still ongoing. One of the main issues highlighted is the nature of the framework which is independent of regulatory bodies such as the central bank, absence of intrinsic value and others. However, Malaysia's Shariah Advisory Council under the capital market regulator resolved in 2020 that in principle, it is permissible to invest and trade in digital currencies and tokens on registered cryptocurrency exchanges which make it the first regulator Shariah Advisory Council in the world to officially recognize crypto asset trading as halal. Against this backdrop, this study seeks to unravel the dynamic impact of the regulated cryptocurrency exchange platform by empirically examining the conditional correlation of Bitcoin, Islamic stock, Sukuk and Gold during pre-and post-regulation periods by employing the Dynamic Conditional Correlation Multivariate Generalized Autoregressive Conditional Heteroskedastic (DCC-MGRACH) model. Moreover, to examine how much fluctuations in Bitcoin prices are affecting the performance of Islamic stocks and Sukuk volatilities between pre-and post-regulation, this study will implement Variance Decomposition analysis. The analysis found significant changes in comovement between Islamic stock price and Bitcoin price from almost no comovement during the pre-regulation period to significant positive comovement after the establishment of regulation. These findings suggest that after regulation, the link between Bitcoin and Islamic stock price increases. Meanwhile, there are no significant changes in the comovement between Bitcoin price and Sukuk yield pre-and post-regulation periods. This may be due to the Sukuk structure being more asset-based contracts protecting its yield movement against Bitcoin price volatility and risky nature. In addition, the study finds that regulating the cryptocurrency exchange causes changes in Bitcoin prices to influence the Islamic stock price more than the Sukuk yield. Meanwhile, gold price plays the most significant role in affecting changes in Islamic stock and Sukuk yield in both periods of analysis. This study is among the few that contributes to the existing literature in terms of examining the impact of a regulated cryptocurrency exchange on faith-based investments measured by the dynamic

comovement between Bitcoin, Islamic stock, Sukuk and Gold in an emerging market such as Malaysia. These findings aim to provide empirical evidence for policymakers that regulated halal cryptocurrency exchange can impact faith-based investments and thus provide a greater spectrum of investment mix for investors.

Keywords: *Comovement, Cryptocurrency, Islamic Stock, Sukuk*