

## The Position of The Underlying Asset System in Musyarakah Mutanaqisah (MMq) Contract in Islamic Banking

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### Abstract

*This research aims to analyze the substance of related jurisprudence underlying asset in islamic economic law, analyzing the position of the system underlying asset in the financing agreement musharakah mutanaqisah (mmq) in the perspective of islamic economic law, and analyzing the application of the system underlying assets in the agreement musharakah mutanaqisah on sharia banking. This type of research is an empirical research type. Data is qualified as primary data and secondary data. Primary data was obtained through interviews and secondary data was obtained through literature study. The data collected was then processed using a qualitative analysis approach. The research results show that: 1) Underlying Asset position is based on the substance of fiqh as the basis for cooperation in an MMq contract, 2) Position Underlying Asset in the Musyarakah Mutanaqisah Agreement it can be categorized as the basis for cooperation in an MMq contract. In Islamic economic law, regarding the issue of musyarakah objects or MMQ objects being used as collateral, Islam prohibits goods used as transaction objects from becoming collateral/guarantee for the implementation of a mutual agreement, when the rental object has not beentangible when the contract is made, 3) The application of collateral in sharia banking is absolutely unavoidable. Requests for guarantees by banks from recipients of financing facilities are not only intended to ensure the return of the capital borrowed, but to ensure that recipients of financing facilities actually carry out everything that has been agreed upon in the contract, including Underlying Assets as a basis in the issuance of MMq contracts.*

**Keywords:** *Underlying Asset, Musyarakah Mutanaqisah Agreement, Sharia Banking.*

### INTRODUCTION

Islamic banks are banks that practice their business activities based on sharia principles, which in principle do not contain elements of usury, maysir, gharar, zalim and haram objects, which are based on Article 1 number 13 of Law Number 10 of 1998 of the Republic of Indonesia concerning Banking, which states that:

“Sharia Principles are the rules of agreement based on Islamic law between banks and other parties for the deposit of funds and or financing of business activities, or other activities that are stated to be in accordance with sharia, including financing based on the principle of profit sharing (mudharabah), financing based on the principle of equity participation (musharakah), the principle of buying and selling goods with profit (*murabahah*), or financing of capital goods based on the principle of pure lease without option (*ijarah*), or with the option of transferring ownership of goods leased from the bank by other parties (*ijarah wa iqtina*).”

Article 1 section 12 of Law Number 10 of 1998 concerning Banking of the Republic of Indonesia states that financing based on Sharia Principles is the provision of money or bills that are equivalent to it based on an agreement between a bank and another party that requires the financed party to return the money or bill after a certain period of time in return or profit sharing. In contrast to conventional banks that carry out conventional business activities, which in their activities provide services in payment traffic based on procedures and conditions regulated by law. Based on Article 1 section 11 of Law Number 10 of 1998 concerning Banking, credit is the provision of money or bills that are equivalent to it, based on an agreement or loan agreement between a bank and another party that requires the borrower to return the debt after a certain period of time with interest.

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In principle and function, Islamic banks and conventional banks are actually the same, which are both based on economic democracy with the principle of prudence. However, in Islamic banks there are sharia principles that do not exist in conventional banks. The functions of Islamic banks are broader than conventional banks. Islamic banks carry out every activity based on sharia principles sourced from the Qur'an, Hadith, and fatwa of scholars (MUI). The law of Islamic banks is also regulated in Law No. 7 of 1992 on Banking, which was later revised by Law No. 10 of 1998 and Law No. 21 of 2008 on Islamic Banking.

Sharia principles based on the values of justice, benefit, balance, and universality (*rahmatan lil 'alamin*) are applied in banking arrangements based on Sharia Principles called Islamic Banking. One of the principles in Islamic economics is the prohibition of usury in its various forms, and uses a system, among others, with the principle of profit sharing. With the principle of profit sharing, Islamic Banks can create healthy and fair investments because all parties can share both profits and potential risks that arise, thus creating a balanced position between banks and customers. In the long run, this will encourage national economic equality because the benefits are not only enjoyed by capital owners, but also by capital managers. The development of Islamic banking in Indonesia has made products in Islamic banking also grow rapidly. Not only maintaining the form of contracts that have existed since the time of the Prophet, now scholars and practitioners working in Islamic banking are also developing various models of new forms of contracts. These new contract models are not only an effort to develop Islamic banking but also to adapt Islamic banking to the times. Islamic banking financing products that are in great demand, especially by the lower middle class, are derivative products of musyarakah, namely the Musyarakah Mutanaqisab contract. In this financing, there is an element of cooperation between the bank and the customer to carry out cooperation according to sharia principles.

Based on the Decree of the National Sharia Council-Majelis Ulama Indonesia No. 01/DSN-MUI/X/2013, Musyarakah Mutanaqisab (MMq) financing is a product that uses musyarakah principles, in which the capital portion of the Islamic Bank is gradually reduced through commercial transfers to the customer. This cooperation involves ownership of an asset where one party's ownership decreases while the other party's increases until full ownership passes to one party. The instalment and rental payments must be clear and mutually agreed upon, with possible changes in the rental price. Institutions such as Islamic Commercial Banks (BUS), Islamic Business Units (UUS), and Islamic People's Financing Banks (BPRS) run this cooperation to obtain profits which are shared according to the agreement, with profits and losses borne together.

The Musyarakah agreement must fulfil certain pillars and be in writing. DSN-MUI Fatwa No: 73/DSN-MUI/XI/2008 states that MMq involves a reduction in one party's ownership of assets or capital through gradual purchases by the other party. OJK defines the underlying asset as the asset underlying MMq, which can be a tangible asset, value of benefits, services, project assets, or investment activities. Unlike collateral in the Civil Code, all assets of the debtor do not automatically become debt collateral. An example of the use of the MMq contract is the Meranti Islands Regency Government's loan with Bank Riau Kepri Syariah, where regional assets are used as underlying assets instead of collateral, emphasising the importance of underlying assets in ensuring compliance with sharia principles.

## **LITERATURE REVIEW**

Musyarakah Mutanaqisab (MMq), or diminishing partnership, is an Islamic financing structure often used in home financing and asset acquisition. In this contract, both the bank and the customer share ownership of the asset, and the customer gradually purchases the bank's shares until it eventually becomes the sole owner. The asset base system in MMq is essential to ensure compliance with Shariah principles and reduce the risks associated with the financing process. MMq is based on the principle of partnership (*Musharakah*) which involves joint ownership of an asset or business with profit and loss sharing according to a pre-agreed ratio. Unlike the regular *Musharakah*, MMq allows one partner (usually the bank) to gradually transfer ownership to another partner (the customer) through periodic payments. The underlying asset in MMq is important for several reasons: it ensures Shariah compliance by providing a tangible transaction basis and avoids usury, serves as collateral to mitigate the bank's risk, as well as being the basis for profit and loss sharing according

to the proportion of ownership. In practice, MMq involves Shariah-compliant supervision, periodic valuation of assets to determine the current value of ownership and lease payments, as well as a clear legal framework to document and handle any disputes regarding assets or transfer of ownership.

Compared to conventional financing, MMq offers a Shariah-compliant alternative, avoids interest payments, and involves a fairer risk sharing between the bank and the customer. Challenges in implementing MMq include the complexity of asset valuation and exposure to market risk, but there are opportunities for market growth with increasing demand for Shariah-compliant financing solutions as well as product innovation to meet diverse customer needs. With a focus on asset-based financing that is fair and compliant with ethical and religious principles, MMq contracts offer a strong and fair alternative to conventional financing methods.

## **METHODOLOGY**

The type of research used in this study is categorised as empirical research. Empirical legal research is a legal research method that serves to be able to see the law in real terms and examine how the law works in the community. In this case, the research activities are carried out by analysing the position of the Underlying Asset system in the Musyarakah Mutanaqisah Financing Agreement in the perspective of Islamic economic law and analysing the Application of the Underlying Asset System in the Musyarakah Mutanaqisah (MMq) Agreement in Sharia Banking.

## **FIQH SUBSTANCE RELATED TO UNDERLYING ASSETS IN ECONOMICS ISLAM**

### **Fiqh Basis of Underlying Asset in the Islamic Economic Law System in Indonesia**

Islam is a religion that was revealed based on God's revelation and regulates all aspects of life in a comprehensive and universal manner, always relevant to the dynamics of life. As a “way of life”, Islam sees a close relationship between faith and community life, politics, law, education and economics. Islam is not a secular religion that separates religion from social phenomena. For example, Islamic Fiqh law in Islamic banking has been regulated in Law No. 21 of 2008 on Islamic Banking. In Islamic economics, especially Islamic banking, there is cooperation that includes leasing, buying and selling, and profit sharing, all of which are part of the contract.

The deed under study is musyarakah mutanaqisah, a form of two-party co-operation in the ownership of an asset, where one party reduces ownership through gradual purchase or commercial transfer, while the other party increases its ownership. Basically, the current Islamic law in musyarakah mutanaqisah financing is based on the musyarakah contract. The basic principle in musyarakah is partnership and co-operation between related parties for mutual progress. In the perspective of Islamic economics, it is important to pay attention to the underlying asset as the basis of the contract, which is the economic asset that is the object of cooperation in musyarakah mutanaqisah financing. In investing, the underlying asset is the key to security because it is the basis of investment activities. Before the contract is issued, there must be an underlying asset based on sharia principles. This confirms that every Islamic banking product has a strong legal basis, both from the law of the State and the law of Allah.

The function of the underlying asset is to ensure the security of the investment with the existence of real assets that are the object of investment activities. This underlying asset is an asset of economic value which is the basis for the formation of a musyarakah mutanaqisah contract. In the context of investment, underlying assets are very important to note because they play a role in guaranteeing investment activities. In the principles of Islamic financing, before the contract is made, there must be goods or services as underlying assets that are in accordance with sharia principles. The contribution of this underlying asset is very significant because it is the basis for the formation of a contract. When Islamic banking issues its products, they have a strong legal basis for each product activity, ensuring the validity of the product, not only from the point of view of State law, but also as a form of accountability to God's law which is the basis for the implementation of Islamic banking products.

Fatwa DSN-MUI No. 73/DSN-MUI/XI/2008 regulates Musyarakah Mutanaqisah, which stipulates several general provisions related to the contract. Firstly, the Musyarakah Mutanaqisah contract consists of

Musyarakah/Syirkah and Bai (sale-purchase) contracts. Secondly, in Musyarakah Mutanaqisah, the law applies as stipulated in the DSN fatwa No. 08/DSN-MUI/IV/ on Musyarakah Financing, where partners have rights and obligations, including providing capital and work based on the agreement at the time of the contract, obtaining profits according to the agreed ratio, and bearing losses according to the proportion of capital. Third, in a Musyarakah Mutanaqisah contract, the first party (one of the sharks, the LKS) must promise to sell all of its shares gradually, and the second party (the other shark, the customer) must buy them.

In the fatwa on musyarakah mutanaqisah contracts, it is agreed that the first party must gradually sell its hishshah to the second party, which is obliged to buy it until the repayment of the sale. Upon repayment, the entire hishshah of the LKS transfers to the customer's sharer. However, this fatwa also allows Musyarakah Mutanaqisah assets to be leased to the customer's syarik as agreed, where the ujah will be shared according to the ratio in the contract, and losses will be shared according to ownership. The definition of underlying asset provided by OJK includes various types of assets, both tangible and intangible, which form the basis of Islamic transactions. This determination of the underlying asset also distinguishes sharia principles from the guarantee in the Civil Code, where all of the debtor's assets automatically become collateral for the debt, reinforcing that the creditor can have security over the debtor's assets without a special agreement beforehand. From this, it can be seen that before a written contract is issued, the existence of an underlying asset is the main requirement, which can be a tangible or intangible asset that has economic value.

The principles contained in this fatwa reinforce the need for compatibility between sharia principles and economic practices. The definition of underlying assets by OJK includes various types of assets, both tangible and intangible, which form the basis of sharia transactions. This shows the importance of ensuring that every transaction or investment in Islamic banking is based on assets that fulfil sharia principles. Thus, the concept of underlying assets not only guarantees the safety of investment, but also ensures that every economic activity is within the boundaries of sharia. In this context, the emphasis on the existence of underlying assets as the basis of Islamic transactions confirms the commitment of Islamic banking to operate in accordance with Islamic principles, which is not only legally responsible, but also morally and ethically. Therefore, the provisions contained in this fatwa not only reflect efforts to strengthen sharia principles in economic practice, but also as a manifestation of compliance with Islamic teachings in various aspects of life.

### **The Substance of Fiqh: Its Concept and Position in the Indonesian Legal System**

The concept of fiqh discusses the relationship between humans and with Allah SWT in order to uphold *hablun minannas* and *hablun minallah*. In the context of Islamic economics, *muamalah fiqh* regulates the procedures for economic transactions as a form of worship that must be in accordance with the instructions of Allah SWT in the book of fiqh. *Muamalah* jurisprudence cannot be separated from the science of *ushul fiqh* which is the basis for scholars to formulate fiqh law. In financing contracts such as *musyarakah mutanaqisah*, the underlying asset becomes the object of the contract that must comply with Sharia principles. This means that the underlying asset must be in accordance with Islamic law, *halal*, and beneficial for the benefit of mankind. Islamic sharia provides guidance in the form of commands and prohibitions. Something that is ordered or allowed by sharia will provide benefits to humans, while what is prohibited will bring harm. Islamic sharia encourages business development, innovation, and marketing models that are in accordance with the development of the local and global business world, with the aim of achieving benefits. The importance of knowing the history of the growth and development of fiqh rules can be seen from three reasons. First, it allows us to understand the seriousness of the scholars in creating knowledge about the rules of fiqh as a general guideline in solving fiqh problems. Second, this can be used as a valuable lesson that encourages us to continue to be creative and maintain and develop the rules of fiqh in order to maintain the existence of Islamic law in the midst of social change. Third, the rules of fiqh that have been formulated by past scholars can be directly utilized in dealing with contemporary Islamic legal issues without the need to spend energy to recreate them.

Fiqh and fatwa have a complementary relationship. Fiqh contains a systematic description of Islamic law, which is considered the book of law and becomes a normative reference in everyday life. When there are certain issues that require detailed explanations, such as in determining the object in a *musyarakah*

mutanaqisah contract (underlying asset), fatwas serve to apply the provisions of fiqh concretely in these cases. In the context of a musyarakah mutanaqisah contract, the fiqh related to the underlying asset must be in accordance with the fatwa of DSN MUI, although there are various opinions. The substance of fiqh can also be in the form of individual or collective fatwas, which are the result of the agreement of scholars. In giving a fatwa, a mufti must fulfil certain requirements, such as mastering opinions in ushul fiqh and fiqh, and having the ability to perform ijihad. In transactions or cooperation in Islamic banking, fiqh allows it as long as the object or underlying asset is not against sharia, such as alcohol factories. However, MUI's fatwa does not have the force of law and its position is only aspirational. In the context of positive law, the DSN-MUI fatwa is not binding and is only considered as one of the hierarchy of laws and regulations. Therefore, the determination of underlying assets in a musyarakah mutanaqisah contract must consider the provisions of fiqh and the corresponding fatwa, but the fatwa itself does not have binding legal force in the context of Indonesian positive law.

### **Urgency of Islamic Economic Law System in Indonesia**

The Islamic economic system, from an academic perspective, can be considered on par with the economic systems of capitalism and socialism because it fulfills the criteria of an economic system. This can be seen from its micro and philosophical foundations which are rooted in the principles of Islamic law from the Quran and Al-Hadith. In the Islamic economic system, every economic activity must be in accordance with established Islamic principles. Islamic economics involves a way of viewing, analyzing, and solving economic problems, becoming a standard for the conventional economic system that has existed before. Islamic economic practices have penetrated into various fields, such as the empowerment of zakat fitrah by Amil Zakat to equalize the source of production capital for small communities, the establishment of Baitul Mal as a forum for raising funds through contracts, as well as capital market products such as Islamic stocks and bonds, and Islamic financial institutions that are widespread in Indonesia and the world. Thus, the relationship between religion and state, as well as between material and spiritual aspects, has never been separated in the context of Islamic economics.

Islamic economics can be understood as a system that regulates economic activities in a government or society using Islamic principles. One example is Islamic banks that operate within a macro and micro framework, following the prohibition of usury and implementing a profit-sharing system to overcome economic crises. Some views also state that Islamic economics applies only to the Islamic world or Muslims. Islam rejects the concept of an unfettered free market that ignores norms and ethics. In an Islamic market, market participants are driven by the spirit of fair competition and cooperation within the framework of Islamic values and morality. Market activities should reflect honest, open, and fair competition to produce fair and reasonable prices. In Indonesia, Islamic economic thinking is still focused on the theme of banking or financial institutions, but the lack of development of this concept in macro and microeconomics as well as in Islamic statistics and accounting is still a challenge. Islamic economics involves instruments that drive economic activity, such as the real sector and the monetary sector. The three main pillars of the Islamic economic system are zakat, anti-riba, and anti-gambling. It can be concluded that Islamic economics is a combination of economics and fiqh muamalat, which studies economic activity based on fiqh rules and in accordance with Islamic teachings. Islamic economics has several objectives, including building Muslim integrity in running the economy in accordance with Islamic teachings, encouraging economic activity as worship, supporting the economic empowerment of Muslims, and practicing Islamic economics as a form of support for the amar ma'ruf nahi mungkar movement.

The application of sharia principles in the Islamic economy, especially through Islamic banks, continues to grow and provides more potential services than conventional banks. This shows that Islamic economics remains relevant in facing the challenges of an increasingly complex era. The implementation of sharia in Islamic economic and financial practices can help overcome various contradictions that arise. The results of this study are also in accordance with the theory of benefit, which emphasises the importance of maintaining the objective purpose of Islamic law to create good and prevent damage. By prioritising maslahah, or benefit, Islamic economics can realise prosperity and welfare, as reflected in the selection of underlying assets in the musyarakah mutanaqisah contract, which aims to provide benefits in accordance with sharia principles.

## **THE POSITION OF THE UNDERLYING ASSET SYSTEM IN THE MUSYARAKAH MUTANAQISAH FINANCING CONTRACT IN THE PERSPECTIVE OF ISLAMIC ECONOMIC LAW**

### **The Position of Underlying Asset in Musyarakah Agreements Mutanaqisah**

Musyarakah Mutanaqishah (MMQ) is a product development of the Musyarakah contract in Islamic banking financing. In MMQ, one partner, the Bank, gradually reduces its capital portion by selling or commercially transferring it to another partner, the Customer. MMQ is a form of cooperation in which two or more parties have ownership of an item or asset (Underlying Asset). Before investing, investors must consider many important things, one of which is the underlying asset of the investment product. Underlying assets are financial assets or assets with economic value that are the basis for issuing investment instruments. The function of the underlying asset is to ensure the security of the investment with the existence of real assets that can be used as collateral.

In a Musyarakah Mutanaqishah contract, the underlying asset is a condition of the transaction because in Islam, transactions must be based on real assets not just the exchange of money. The underlying asset can be in the form of buildings, land, development projects, or services that comply with sharia provisions. With an underlying asset, the security of the investment will be higher. Based on the discussion of the fiqh substance of the underlying asset, it can be concluded that in the Musyarakah Mutanaqishah contract, the underlying asset can be categorised as a 'guarantee'. Islamic banks, as the main institution in the Islamic economic system, collect funds from the public and channel them back through various financing schemes in accordance with sharia principles, including musyarakah and mudharabah schemes, as well as other complementary products such as fee-based services.

In Islamic banking, people hand over their funds to the bank without any material collateral, based only on the trust that the funds will be returned with profit. Therefore, banks must apply the precautionary principle strictly in the distribution of funds through financing, including by requesting guarantees or collateral from customers. Basically, Islamic banks conduct a careful assessment of the customer before providing financing, taking into account the character, ability, capital, collateral, and business prospects of the customer. Although the character of the customer is considered important, the existence of collateral is a determining factor in the security of the financing channeled by the bank. In Islamic law, the concept of collateral is divided into two, namely collateral in the form of people (kafalah) and collateral in the form of property (rahn). Kafalah is an agreement to bear responsibility for others in the face of debt, while rahn is storing goods as collateral for debt. The application of collateral in Islamic banking is very important to provide certainty that funds can be returned, as well as to ensure that customers comply with the agreements that have been agreed in the contract. Although there is a view in the context of mudharabah that does not allow collateral, Islamic banking views collateral as a way to ensure the proper execution of the contract, including the underlying asset as an object of collateral in the MMQ contract.

### **Sharia Economics in the Field of Business Acts**

Legal rules relating to contracts in Islamic economic transactions are very important to maintain stability in society and ensure that transactions are carried out in accordance with sharia principles. The application of Islamic economics is the main goal in applying the Islamic economic system in various business contracts. The legal rules regarding contracts in Islamic economic transactions aim to maintain conformity with the principles of sharia, so that people can conduct transactions in accordance with the teachings of their religion. The contract, as a legal product that continues to evolve along with the changing times, will continue to be the main instrument in regulating business transactions in accordance with the principles of Islamic economics.

Agreements in Islamic economic transactions are divided into two main forms: tabarru agreements, which aim to help without seeking commercial gain, and tijarah agreements, which are carried out with the aim of making a profit. Business contracts are becoming a modern alternative in Islamic investments, combining various contracts in accordance with sharia principles to avoid usury. This provides an opportunity for

Islamic banking to develop products that comply with sharia principles and are free from usury practices, encouraging the advancement of the Islamic economy.

### **Musarakah Mutanaqisah Financing Agreement**

Musarakah mutanaqishah is a derivative agreement of musarakah, where two or more parties cooperate in the ownership of an item or asset. In musarakah mutanaqishah, the title to the good or asset changes by way of financing, whereby one party loses its title while the other party gains additional title. The process involves several stages, including submission of a request for funds, feasibility analysis, approval of a fee agreement, delivery of the goods, and repayment of the freight rate. It has a number of advantages, such as joint ownership of assets, profit sharing, adjustment of rental rates, and reduction of financial risks. However, there are also weak points, such as the risk of a heavy financing burden at the beginning of the year and the lack of income from the rental margin. To maintain legal certainty in the musarakah mutanaqisah contract, sharia rules and principles as well as applicable laws must be adhered to, as stipulated in Law No.21 of 2008 on Islamic Banking and Fatwa DSN No.73/DSN-MUI/XI/2008 on musarakah mutanaqisah. This ensures that the underlying asset, which is the object of the contract, is properly organized and complies with sharia principles.

The regulation and application of underlying assets in the musarakah mutanaqisah contract are regulated in detail in a legal basis that does not conflict with the law and sharia principles. This research is supported by the theory of certainty, which states that the main concept to determine legal certainty in the position of underlying assets in the musarakah mutanaqisah contract in Islamic economics provides legal certainty in accordance with rules that do not conflict with the law. Thus, the application of Islamic economics, especially in business contracts such as musarakah mutanaqisah, offers a modern alternative for investment that is based on sharia principles and helps avoid the practice of usury. This provides opportunities for Islamic banks to develop products that are compliant with sharia principles and free from usury. The application of the musarakah mutanaqisah contract has several advantages that are integrated with the principles of Islamic financing. First, both parties, the customer and the Islamic bank, own the asset as the object of the agreement, which is safeguarded for mutual benefit. Second, there is profit sharing based on the agreed rental margin, providing an opportunity for both parties to benefit. Third, the rental rate agreement can be adjusted based on time and market prices, providing greater flexibility in transactions. Fourth, there is protection against financial risks that can occur due to inflation or rising interest rates, which does not apply to conventional banks. And fifthly, there is no influence of market interest fluctuations on the rates, reducing the risk usually experienced by conventional banks. Nonetheless, there are also some drawbacks to the implementation of musarakah mutanaqisah, such as the risk of a heavy financing burden at the start of the transaction and the lack of income for the Islamic bank from the rental margin. Thus, an in-depth understanding of the concept and application of underlying assets in musarakah mutanaqisah contracts is essential to ensure legal certainty and compliance with sharia principles in Islamic economics.

The theory of legal certainty, which emphasizes that the concept that is the main consideration to determine legal certainty in the position of underlying assets in the musarakah mutanaqisah contract in Islamic economics provides legal certainty in accordance with rules that do not conflict with the law. The regulation and application of underlying assets in the musarakah mutanaqisah contract is regulated in Law Number 21 of 2008 concerning Islamic Banking and also the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) No. 73/DSN-MUI/XI/2008 concerning musarakah mutanaqisah. This theory provides legal certainty about the underlying assets that are regulated in a legal basis that is in accordance with sharia principles. Thus, a good understanding of this concept will help in ensuring that the implementation of the musarakah mutanaqisah contract runs in accordance with the principles of Islamic economics and the applicable legal rules.

### **CONCLUSION**

Sharia-based Islamic economics is increasingly influential in the operations of Islamic banks, which now offer more services than conventional banks. In Islamic financing, before a contract is issued, there must be goods or services that serve as underlying assets in accordance with sharia principles. This underlying asset is very

important because it is the basis for issuing the contract. Based on the substance of fiqh, the position of the underlying asset in the Musyarakah Mutanaqisab (MMq) contract is the basis for cooperation. In the context of Islamic economic law, although there are issues regarding the object of musyarakah or MMq being used as collateral, Islam prohibits the use of goods that are the object of the transaction as collateral or security, especially if the object is not yet real at the time of the contract. The application of collateral in Islamic banking is very important and unavoidable. The application of collateral by Islamic banks to recipients of financing facilities is not only intended to ensure the return of borrowed capital, but also to ensure that the recipient of the financing actually carries out everything that has been agreed in the contract, including the underlying asset as the basis for issuing the MMq contract. MMq is a contract of co-operation in ownership, in which the ownership portion of one party will be reduced due to payment by the other party. This contract requires the willingness to sell the ownership portion of the other party, so the contract can be cancelled if there is no such willingness.

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