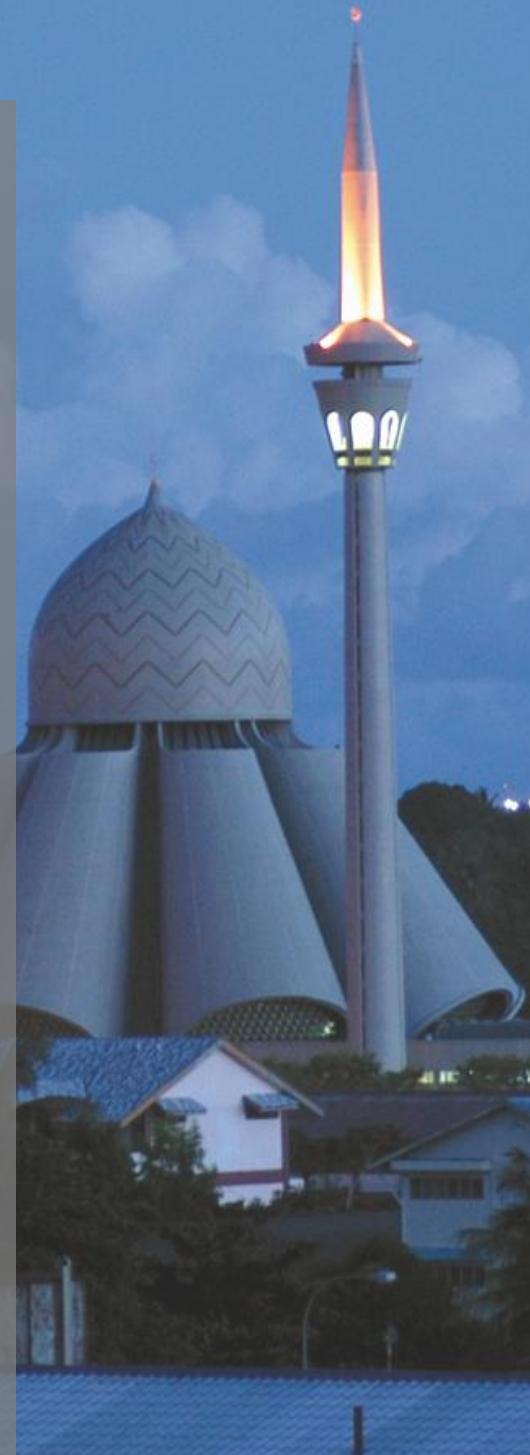


Guidance Note on Maqasid al-Shariah for Labuan International Business and Financial Centre

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LABUAN FINANCIAL SERVICES AUTHORITY



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01 Introduction

The Labuan International Business and Financial Centre (Labuan IBFC), as a premier international financial hub in Asia, is committed to fostering a robust, ethical, and sustainable financial industry. A key pillar of this commitment is the integration of the principles of Maqasid al-Shariah (the higher objectives of Islamic law) into the foundation of our financial ecosystem.

This Guidance Note is designed to provide market players in Labuan IBFC with a clear, comprehensive, and impactful framework for understanding and implementing Maqasid al-Shariah. It is intended to be a practical guide that is straightforward and easy for market players to understand, encouraging the adoption of ethical and responsible financial conduct.

This guidance is not a new set of rules but rather a framework to complement the existing regulatory and Shariah requirements. It aims to elevate the application of Shariah principles beyond mere compliance to a more holistic approach that creates positive and sustainable impact. Aligning with global sustainability movements such as Environmental, Social, and Governance (ESG) criteria, the United Nations' Sustainable Development Goals (SDGs), Socially Responsible Investing (SRI), and the Labuan IBFC Sustainability Taxonomy (LiST) positions Labuan IBFC at the forefront of a worldwide effort to create a more just and sustainable financial future.

As global financial systems increasingly seek models that balance profitability with purpose, Islamic finance, based on the principles of Maqasid al-Shariah, offers a compelling alternative. Labuan IBFC, with its unique positioning and robust yet adaptive regulatory framework, is well-placed to champion this value-based paradigm shift. This Guidance Note is part of a broader effort to align our financial ecosystem with values that promote justice, inclusivity, and sustainability.

02 Understanding Maqasid al-Shariah

Maqasid al-Shariah refers to the ultimate objectives, higher goals, and underlying principles derived from the divine guidance of As-Shariah and rulings of Islamic law. While the specific legal rulings (*ahkam*) of the Shariah provide the "how" of Islamic practice, the Maqasid explain the "why," representing the profound wisdom and ethical philosophy aimed at achieving the well-being of humanity.

The genesis of this concept can be traced to the early period of Islam, but it was the eminent jurists who systemised it into a coherent legal theory. Imam al-Haramayn al-Juwayni (d. 1085) was a pioneer in this field, but it was his student, Abu Hamid al-Ghazali (d. 1111), who famously articulated the core of the Maqasid. Al-Ghazali stressed that the Shariah's overarching concern is to safeguard five fundamental essentials for human flourishing, stating that: "The very objective of the Shari'ah is to promote the welfare of the people, which lies in safeguarding their faith (*din*), their life (*nafs*), their intellect ('*aql*), their lineage (*nasl*), and their property (*mal*). Whatever ensures the safeguarding of these five serves public interest and is desirable." Traditionally, these higher objectives are categorised into five essential values, known as the *Daruriyyat al-Khamsah*:

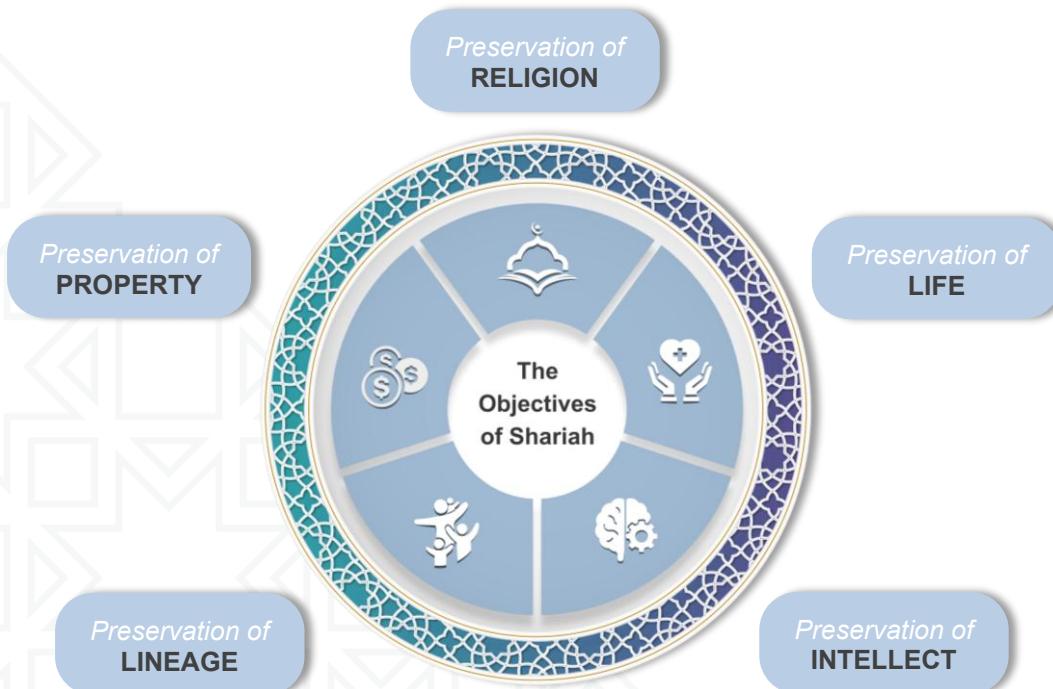


Figure 1: Five Essential Values for Human Flourishment or *Daruriyyat al-Khamsah*



Preservation of Religion (*Hifz al-Din*)

The preservation of religion refers to safeguarding the faith of every individual Muslim from being involved in anything that might weaken or confuse their belief and distort their conduct. This involves not only the freedom to practice the Islamic faith but also the promotion of values that underpin a moral and ethical society. In the context of finance, this translates to upholding ethical principles, ensuring justice and fairness in all transactions, and fostering an environment of trust, accountability and integrity.



Preservation of Life (*Hifz al-Nafs*)

This emphasises the sanctity of human life and the importance of ensuring the safety, health, and well-being of individuals and communities. It includes ensuring education, good governance, economic well-being, fair distribution of wealth, stable family life, social cohesion, crime reduction, and overall peace and mental health. Financial activities should, therefore, contribute to the betterment of society and avoid causing harm, whether directly or indirectly. This includes supporting industries that enhance quality of life and avoiding those that are detrimental to health and safety.



Preservation of Intellect (*Hifz al-Aql*)

The preservation of intellect refers to safeguarding the human mind from anything that may impair, corrupt, or diminish its capacity for sound judgment. Faith provides guidance for intellect, while intellect ensures that faith remains dynamic and responsive to social, economic, and intellectual developments. The mind should be cultivated through noble values and beneficial knowledge, while harmful influences such as intoxicants, drugs, and destructive media must be prevented and removed. This objective also promotes the pursuit of knowledge, critical thinking, and rational decision-making.

In the financial industry, it translates into fostering transparency, providing stakeholders with clear and accurate information, and nurturing a culture of continuous

learning and innovation. It further requires the avoidance of exploitative or deceptive practices, including transactions involving excessive uncertainty (*gharar*), thereby ensuring that decision-making remains informed, rational, ethical, and aligned with public interest.



Preservation of Lineage (Hifz al-Nasl)

This objective highlights the family as the cornerstone of society and the necessity of preserving its integrity to maintain a stable social order within the Islamic community. The preservation of lineage ensures continuity, cohesion, and the protection of future generations. While it may appear less directly connected to finance, it underscores the value of financial products and services that strengthen family well-being, such as legacy and estate planning, education financing, healthcare coverage, and other solutions that secure long-term stability, dignity and resilience for households.



Preservation of Property (Hifz al-Mal)

This objective goes beyond the mere protection of wealth and assets to encompass the fair and equitable circulation of wealth within society. *Hifz al-mal* requires safeguarding wealth from destruction, wastage, misappropriation, or unlawful use, while prohibiting injustice, exploitation, and dishonest practices such as fraud, corruption, usury (*riba*), false measures, and market manipulation.

Islam encourages the just distribution of wealth through *zakat*, *sadaqah*, and *waqf*, ensuring that resources benefit society broadly rather than remaining concentrated among a few. At the same time, wealth creation is promoted through education, innovation, entrepreneurship, trade and sound financial management, provided it is undertaken within ethical and governance frameworks. In safeguarding wealth, Islam upholds justice and benevolence, prohibits hoarding, wastefulness, and unproductive economic activity. Instead, it promotes sustainable and productive enterprise that protects and enriches life, property, and dignity, while supporting broader socio-economic development.



The overarching philosophy of Maqasid al-Shariah is the **realisation of *maslahah* (public interest or benefit)** and the **prevention of *mafsadah* (harm or corruption)**. This is not a utilitarian calculus of achieving the greatest good for the greatest number, but rather a principle deeply rooted in the texts of the *Quran* and *Sunnah*. *Maslahah* within the Islamic tradition refers to a benefit that the Lawgiver (God) has validated and aims to secure for His creation, a benefit intrinsically linked to the preservation of the five essential values.

Consequently, it is a dynamic and forward-looking framework that is indispensable for contemporary Islamic legal reasoning (*ijtihad*). It provides the intellectual and ethical tools for the Shariah to address new and evolving challenges, ensuring its relevance for all times and places. Rather than being a rigid and static set of historical rulings, the Maqasid al-Shariah framework offers a system-thinking approach, allowing for holistic solutions to complex modern problems, including those in the financial sector. It is this dynamism that enables Islamic finance to innovate responsibly, to develop new products, embrace technology, and create structures that not only adhere to the letter of the law but, more importantly, fulfill its ultimate purpose of promoting justice, equity, and sustainable prosperity.

03 Maqasid al-Shariah in the Context of Labuan IBFC

As a well-established international business and financial centre, Labuan IBFC caters to a wide range of Islamic financial activities, including banking, takaful and retakaful (Islamic insurance and Islamic reinsurance), wealth management, capital markets, and digital financial services. The application of Maqasid al-Shariah in this context is therefore broad and encompassing, serving as a moral and ethical compass for the entire industry.

Core Aspirations for the Financial Industry in Labuan IBFC

To translate the timeless principles of Maqasid al-Shariah into actionable strategies for market players, Labuan IBFC has identified five core aspirations. These aspirations serve as a practical bridge between the higher objectives of Shariah and the day-to-day operations of the financial industry. They are designed to align with both the foundational ethics of Islamic finance and the pressing global and local sustainability mandates.

Each aspiration is a call to action for market participants to elevate their practices beyond mere compliance towards creating tangible, positive, and lasting value for the economy, society, and the environment.

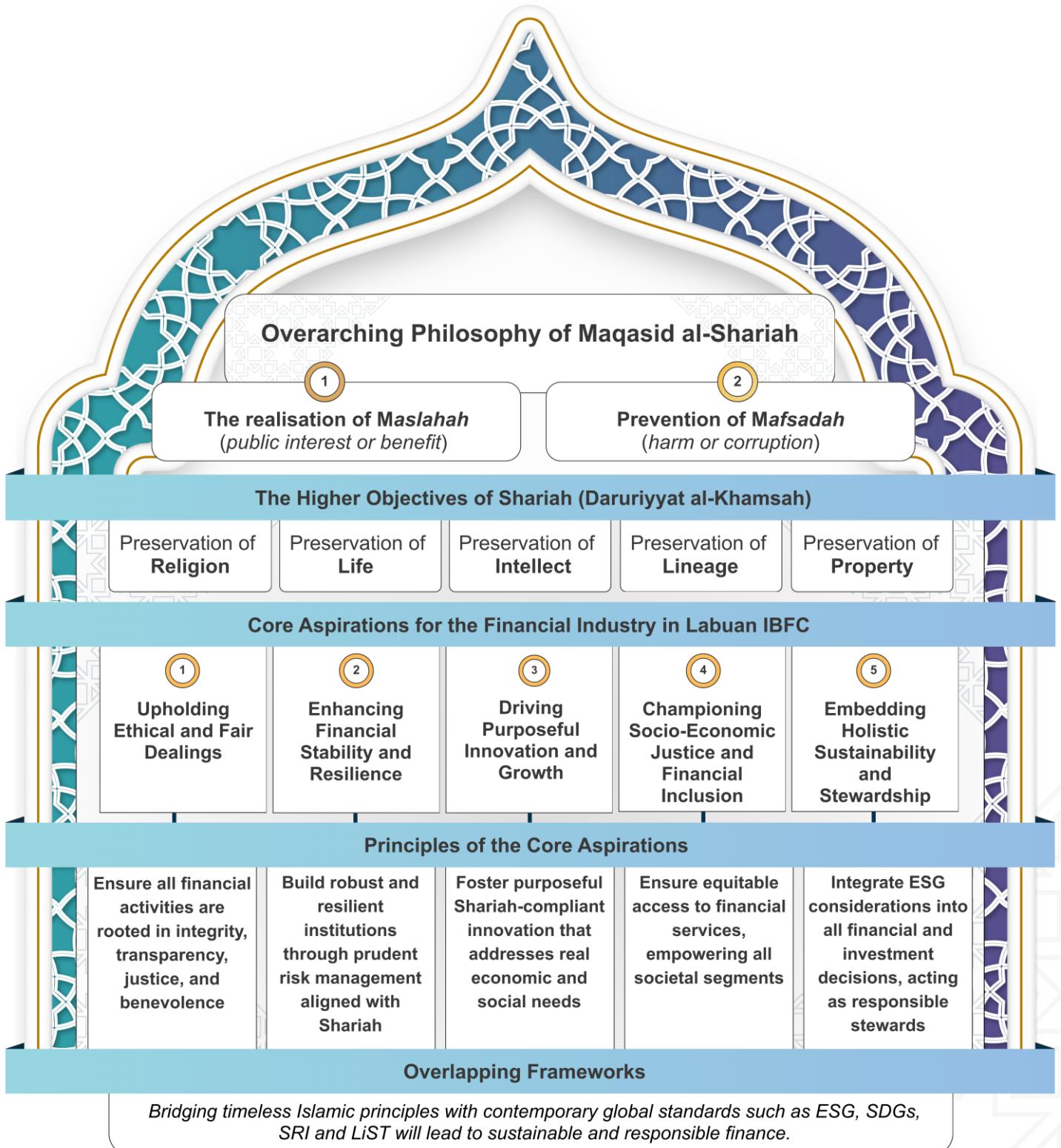


Figure 2: Overview of the Core Aspirations for the Financial Industry in Labuan IBFC

ASPIRATION 1 Upholding Ethical and Fair Dealings

- **Principle:** To ensure all financial activities and business conduct are consistent with the highest standards of integrity, transparency, justice ('*adl*), and benevolence (*ihsan*).
- **Guidance for Market Players:** This foundational aspiration actualises the preservation of Religion by embedding a strong ethical compass into all business practices, and the preservation of integrity by demanding transparency and preventing deception. Market players are urged to implement robust governance frameworks that champion fairness, combat corruption and the financing of harmful activities, and ensure contracts are valid, proper and equitable. Ethical conduct is not only a religious imperative but also a strategic advantage in building trust and long-term value.

Aspiration	Principle	Related Maqasid al-Shariah	Key Market Player Actions
Upholding Ethical and Fair Dealings	Ensure all financial activities are rooted in integrity, transparency, justice, and benevolence.	Preservation of Religion.	<ul style="list-style-type: none"> • Implement robust governance frameworks. • Ensure contracts are clear, fair, and transparent. • Avoid activities that cause harm or involve unethical practices. • Embed good governance culture across all operations.

ASPIRATION 2**Enhancing Financial Stability and Resilience**

- **Principle:** To build robust and resilient financial institutions and markets that can withstand economic shocks through prudent risk management aligned with Shariah principles.
- **Guidance for Market Players:** This aspiration is central to the preservation of Property, which requires not just the generation of wealth but also its protection and stability. Shariah principles, which prohibit excessive speculation (*maysir*) and interest, inherently promote equitable and asset-backed financing which are pillars of a stable financial system. Market players should adopt risk management practices that reflect these principles, contributing to systemic resilience and long-term economic sustainability.

Aspiration	Principle	Related Maqasid al-Shariah	Key Market Player Actions
Enhancing Financial Stability and Resilience	Build robust and resilient institutions through prudent risk management aligned with Shariah.	Preservation of Property.	<ul style="list-style-type: none">• Avoid interest, gambling, and excessive speculation.• Maintain adequate capital buffers.• Adopt Shariah-based risk-sharing structures.• Stress-test portfolios for economic shocks.

ASPIRATION 3

Driving Purposeful Innovation and Growth

- **Principle:** To foster innovation in Shariah-compliant finance that is not only competitive but also purposeful, directly addressing the evolving financial needs of the real productive economy and society.
- **Guidance for Market Players:** This aspiration links the preservation of Intellect through ingenuity and problem-solving, with the preservation of Property by directing capital towards productive and beneficial economic activities. Innovation should be purpose-driven, moving beyond novel structures to create solutions that enhance financial inclusion, support Small and Medium Enterprises (SMEs), and facilitate investment in sustainable development. Labuan IBFC encourages a dynamic and forward-looking approach to Islamic finance. Market players should invest in research and development to create new and innovative products that are not only Shariah-compliant but also commercially viable, enterprising and competitive. This includes leveraging Labuan IBFC's strengths in areas such as digital financial services, wealth management, and sustainable finance to create accessible, efficient, and impactful solutions that serve genuine economic needs.

Aspiration	Principle	Related Maqasid al-Shariah	Key Market Player Actions
Driving Purposeful Innovation and Growth	Foster purposeful Shariah-compliant innovation that addresses real economic and social needs.	Preservation of Intellect & Property	<ul style="list-style-type: none">• Invest in research and development for impactful Islamic finance products.• Leverage fintech to improve accessibility and efficiency.• Support SMEs, real economy sectors, and sustainable infrastructure.

ASPIRATION 4**Championing Socio-Economic Justice and Financial Inclusion**

- **Principle:** To ensure financial services are accessible and equitable, empowering all segments of society and promoting a just distribution of economic benefits.
- **Guidance for Market Players:** This aspiration speaks directly to the soul of Maqasid al-Shariah: the principle of distributive justice. It calls for a conscious and strategic effort to combat economic disparity by transforming finance into a powerful tool for empowerment. Market players to actively uphold the highest objectives of Shariah by ensuring funding and resources accessible to underserved communities, SMEs, and social enterprises. They contribute to the preservation of Life by strengthening livelihoods, support the preservation of Lineage by fostering stable and prosperous families, and promote the preservation of Property by ensuring its fair and productive circulation throughout society.

Aspiration	Principle	Related Maqasid al-Shariah	Key Market Player Actions
Championing Socio-Economic Justice and Financial Inclusion	Ensure equitable access to financial services, empowering all societal segments.	Preservation of Life, Lineage & Property.	<ul style="list-style-type: none">• Direct capital to underserved communities, SMEs, and social enterprises.• Develop micro-takaful, social impact sukuk, and inclusive wealth tools.• Embed social value creation into core business model.• Evaluate social impact of transactions.• Support blended finance and Islamic social finance.

The challenge for market players is to innovate with purpose. Harnessing the power of Islamic fintech, for instance, is critical to reducing costs and extending outreach, making it possible to deliver solutions like micro-takaful, issue social impact sukuk for community projects, and design inclusive wealth management services that build generational security. Ultimately, this requires a mindset shift that moves beyond philanthropy to embed social value creation into the core business model. It means actively considering the social impact of every transaction, seeking opportunities to contribute to community well-being, and ensuring that internal business practices remain fundamentally fair and equitable. By doing so, market players can deliver not just financial returns, but significant and sustainable social dividends.

ASPIRATION 5 **Embedding Holistic Sustainability and Stewardship**

- **Principle:** To actively integrate ESG considerations into all financial and investment decisions, acting as responsible stewards (*khalifah*) of capital and natural resources.
- **Guidance for Market Players:** This aspiration reflects the holistic nature of Maqasid al-Shariah, particularly the preservation of Life through environmental protection and the preservation of Property through sustainable resource use. Market players are expected to embrace sustainable values and direct capital towards activities that mitigate climate change, prevent pollution, and protect biodiversity. This includes adopting green financing instruments, such as green sukuk, and implementing rigorous ESG screening to ensure that investments do not cause significant harm and, where possible, contribute substantially to a sustainable future. Aligning investment strategies with long-term planetary and societal well-being is essential to this effort. Stewardship is not only a fiduciary duty but a moral obligation to future generations. Embedding sustainability into core financial practices ensures that market players' operations contribute positively to both the environment and society, while still maintaining commercial viability.

Aspiration	Principle	Related Maqasid al-Shariah	Key Market Player Actions
Embedding Holistic Sustainability and Stewardship	Integrate ESG considerations into all financial and investment decisions, acting as responsible stewards.	All five Maqasid al-Shariah, especially Life & Property	<ul style="list-style-type: none"> • Direct financing to climate mitigation, biodiversity protection, and pollution prevention. • Issue green, social, and transition sukuk. • Apply ESG screening and Do No Significant Harm (DNSH) principle. • Align investment portfolios with sustainability goals.

04 Integration with Contemporary Global Standards

The principles of Maqasid al-Shariah are not only timeless but also remarkably a guiding framework to key global sustainable movements that are shaping the future of finance. Integrating these frameworks with sustainable initiatives enables Labuan IBFC to position itself as a leader in sustainable and responsible finance, while also providing market players with a unified lens to harmonise Shariah values with the diverse requirements of global impact standards.

Environmental, Social, and Governance (ESG)

ESG criteria are a set of standards for a company's operations with socially conscious investors who screen potential ethical and sustainable investments. The guidance of Maqasid al-Shariah or ESG is strong, with both frameworks emphasising good governance, social responsibility, and environmental stewardship. For example, the Shariah prescription of equity and fair dealing as well as prohibition of interest and excessive uncertainty aligns with the governance pillar of ESG, while the emphasis on social justice and community well-being aligns with the social pillar.

Sustainable Development Goals (SDGs)

The 17 SDGs are a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity. The objectives of Maqasid al-Shariah are inclusive SDGs initiatives, with many of the goals such as poverty alleviation, good health and well-being, and climate action being directly supported by the principles of Islamic finance.

Socially Responsible Investing (SRI)

SRI is an investment strategy that seeks to consider both financial return with sustainable social/environmental valued goods and services. The principles of Maqasid al-Shariah provide a natural and robust framework for SRI, as they inherently screen for industries with proper and good ethical practices, and discriminate those that are harmful to society and the environment.

Labuan IBFC Sustainability Taxonomy (LiST)

The LiST, a sustainability taxonomy developed by Labuan Financial Services Authority (Labuan FSA), provides a structured framework for classifying and qualifying economic activities that are environmentally and socially sustainable. It incorporates principles from national and international taxonomies, including those from Bank Negara Malaysia, Securities Commission Malaysia, Association of Southeast Asian Nations (ASEAN), and European Union (EU). LiST serves as a practical guide for Labuan financial institutions to align their operations with sustainability goals, reinforcing the ethical and responsible finance agenda championed by Maqasid al-Shariah.

05 Practical Guidance for Market Participants

To translate these principles and aspirations into practice, market participants in Labuan IBFC are encouraged to:

Product Development and Structuring

Align products and services with the principles of Maqasid al-Shariah, ensuring that they are not only compliant in form but also in substance. This means designing products that are fair, transparent, and beneficial to the customer and society.

Investment and Financing Decisions

Integrate ESG, SDG and SRI considerations into Shariah approved investment and financing decisions by adopting ESG screening, integration, and impact investing strategies, thereby helping to build a resilient and sustainable financial ecosystem that can withstand economic shocks and support the long-term well-being of future generations.

Financial Inclusion

Promote financial inclusion by developing and offering innovative and accessible Islamic financial products, particularly for SMEs and underserved segments of the population.

Transparency and Disclosure

Ensure transparency, accountability, and ethical conduct at all levels of the organisation. This includes providing clear and comprehensive disclosure on the Shariah, ethical, and sustainability aspects of their products and services.

Technological Advancement

Embrace technological advancements, including Islamic fintech, in a responsible manner to enhance efficiency, outreach, and customer experience.

Community Well-Being

Support community well-being and environmental stewardship through responsible investment choices, philanthropic activities, and by adopting sustainable business practices.

06 Conclusion

The Maqasid al-Shariah framework both universal and relevant for elevating the extant and progressive standards of the financial industry in Labuan IBFC. Integrating these profound ethical and moral objectives with modern sustainability concepts allows our industry to achieve sustainable commercial value while also contributing meaningfully to societal well-being, environmental preservation, and the growth of a resilient, inclusive, and responsible global financial ecosystem.

Labuan FSA is committed to supporting its market players in this journey. We believe that by working together, we can build a financial centre that is not only prosperous but also an impetus for orderly and good in the word financial systems.

We encourage market players to lead by example: innovating within the Maqasid framework, championing ethical finance, and demonstrating that profitability and purpose can go hand in hand. Through visionary leadership and principled action, Labuan IBFC can become a beacon of responsible finance in the region and beyond.

07 Glossary of Definitions

Acronyms and Abbreviations

Abbreviation	Definition
ASEAN	Association of Southeast Asian Nations
DNSH	Do No Significant Harm
ESG	Environmental, Social, and Governance
EU	European Union
Labuan FSA	Labuan Financial Services Authority
Labuan IBFC	Labuan International Business and Financial Centre
LiST	Labuan IBFC Sustainability Taxonomy
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
SRI	Socially Responsible Investing

Arabic Terminologies

Terminology	Definition
'Adl	Justice
Ahkam	Legal rulings
'Aql	Intellect
Daruriyyat al-khamsah	Five essential values of the higher objective of Shariah
Din	Religion
Gharar	Excessive uncertainty (Prohibited in Islamic finance)
Hifz	Preservation or protection
Ihsan	Benevolence
Ijtihad	Islamic legal reasoning
Mafsadah	Harm or corruption
Mal	Property or wealth
Maslahah	Public interest or benefit
Maysir	Excessive speculation or gambling (Prohibited in Islamic finance)
Nafs	Life
Nasl	Lineage
Quran	The holy scripture of Islam
Riba	Usury or Interest (Prohibited in Islamic finance)
Sadaqah	Voluntary charity
Sukuk	Islamic financial certificates (often referred to as Islamic bonds)
Sunnah	The teachings, practices, and sayings of Prophet Muhammad (peace be upon him)
Waqf	Islamic endowment for charitable or community purposes
Zakat	Obligatory almsgiving (pillar of Islam)

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