ETHICS AND EFFICIENCY IN ISLAMIC STOCK MARKETS

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In an Islamic stock market, by definition, concerns about Islamic ethics and values should predominate concerns about efficiency. This, at times, causes an apprehension among regulators and policymakers that a process of Islamisation may reduce the efficiency of the market. This paper argues that no trade-off exists between Islamic values and market efficiency. The dilemma arises primarily due to mistaken notions of efficiency. In some cases, there is also a conflict between various dimensions of efficiency. The relationship between notions of Islamic ethics and market efficiency is mostly direct and straight forward. An attempt to ensure Islamic ethics would, in general, lead to enhancement of efficiency. The Islamic ethical norms of freedom from riba, gharar, ghubn, jahalah, najas, ihtikar etc. are all clearly identifiable with notions of efficiency.

1. Introduction

The *raison d'être* for a financial market is to transfer funds from savings-surplus units to savings-deficit ones in the economy. The latter are supposed to use funds primarily for investment in productive assets and add to the wealth of the society. Promotion of efficiency is generally accepted as the primary goal of policy makers and regulators of stock markets. Another goal is to ensure ethics and fairness in the markets. A problem with both efficiency and ethics-related criteria is that these are multi-dimensional. A more serious problem associated with the latter relates to definition. While a widely accepted definition of efficiency exists in the vast financial market literature, ethical norms for financial markets are yet to be adequately defined. The purpose of stock market regulations is to enhance both efficiency and ethics. In many instances, however, a conflict exists between concerns about efficiency and ethics. In such cases regulations involve a trade-off between the two with the balance generally tilting in favor of the former. In an Islamic stock market, by definition, ethical concerns predominate and must be met even at the cost of efficiency. However, we argue that there may be no real costs in terms of loss of efficiency in an Islamic stock market, because efficiency notions often underlie certain Islamic norms of financial ethics. The trade-off may indeed be between alternative norms of Islamic financial ethics, rather than between ethics and efficiency.

2. Stock Market Efficiency

The criteria to measure efficiency of the stock market are well-defined in financial literature. A stock market, in addition to providing liquidity to stocks issued by firms, performs a very important function. It provides a vehicle for continuous valuation of firms and allocation of funds among them. The market prices are supposed to serve as indicators for flow of funds into the firms. The notion of allocational efficiency implies that funds should flow into desirable firms. More funds should flow into firms with higher profitability and lower risk (hence, higher value or intrinsic worth) and vice versa. This implies that stocks issued by such firms should command a higher price in the market. Prices should reflect intrinsic worth of stocks. Pricing efficiency is a prerequisite for allocational efficiency which means prices of stocks must equal their respective fundamental values at all times.

The equality between price and value of a given stock would be achieved only when there is informational efficiency. For instance, in the secondary market where stocks are continuously traded, a change in the value of a stock may occur with new information which either changes profitability or risk or both. With a

change in value, there is price adjustment. In an efficient market, this reaction would be instantaneous and accurate. Only then the equality between price and value would be maintained at all times. Informational efficiency implies that there are no lags in the dissemination and assimilation of information and is a prerequisite to pricing efficiency.

Another prerequisite to pricing efficiency is operational efficiency, which implies that transactions should be executed at minimal costs. High transaction costs prevent price adjustment to take place instantaneously and accurately.

From the above, it is clear that any move or regulation that reduces transaction costs, simplifies trading system, increases the availability and accuracy of information, improves information processing by participants is a step towards improving the allocational efficiency of the system.

Instantaneous and accurate price adjustment also presupposes that intense competitive pressures force all participants to react without any lag and that the markets are dominated by rational investors who would not overreact or underreact. An efficient market is also a stable market where violent price swings due to irrational behavior of the participants is ruled out.

3. Stock Market Ethics

3.1 Norms of Ethics in Mainstream Finance

Recent studies on stock market ethics focus on investor rights. The idea of ethics or fairness in the market is generally discussed within a framework of entitlements. Baruch Lev (1988, p1-22) defines ethics and fairness as entitlement to equality of opportunity, whereby all parties in a fair market are entitled to equal access to information relevant for asset valuation. In another study Shefrin and Statman (1993, p4-6) present a much broader framework and identify seven classes of financial market fairness - freedom from coercion, freedom from misrepresentation, right to equal information, right to equal processing power, freedom from impulse, right to transact at efficient prices, and entitlement to equal bargaining power. It should be recognized at the beginning that the norms cited above, might often be in conflict with each other, and a regulation may involve a trade-off between some of these.

3.1.1. Freedom from Coercion

This freedom implies that investors have the right not to be coerced into a transaction. A transaction is fair if it is backed by the free will of all the parties to the contract. Another dimension to this freedom is the right not to be prevented from entering into a transaction. This freedom may also imply the right to search for information and at the same time, not to be forced into making specific disclosures.

3.1.2. Freedom from Misrepresentation

This freedom implies that all investors have the right to rely on information voluntarily disclosed as truthful. This does not imply any kind of compulsion to reveal information. However, a case of deliberate disclosure of inaccurate information involves a claim against the provider of information.

3.1.3 Right to Equal Information

This right entitles all investors equal access to a particular set of information. A party in possession of a specific set of value-relevant information is forced to disclose it to others. For example, at the time of an Initial Public Offer (IPO), the promoters may be forced to reveal all value-relevant information known to them to the market. Similarly, investors with privileged access to “inside information” are prevented from using such information in their transactions. The mandatory disclosure norms, as also the insider trading regulations obviously negate the freedom against coercion of a market participant.

3.1.4. Right to Equal Information Processing Power

This right entitles all investors not only to equal access to a common set of information but also to a "competency floor" of information processing ability and protection against `cognitive errors'. This right may take the form of compulsory disclosure of information in a "processed" form or prohibition of certain transactions where certain groups of investors may be at an information-processing disadvantage.

3.1.5. Freedom from Impulse

This right entitles all investors protection from imperfect self-control. This ensures that an investor is prevented from making mistakes, which are harmful to his own interest. For example, the regulatory authority may ask the sellers to provide a three day "cooling off" period during which they can cancel an impulsive transaction.

While providing for the rights to equal processing power and to freedom from impulse, the regulator assumes a paternal role and seeks to protect the investors.

3.1.6. Right to Trade at Efficient Prices

This right entitles all investors to trade at prices they perceive as efficient or correct. The alternative is to let prices adjust by whatever amount necessary to equate supply and demand by investors, even if this process creates excessive volatility.

3.1.7. Right to Equal Bargaining Power

This right entitles all investors equal power in negotiations leading to a transaction. Unequal bargaining power can occur when one party to the transaction has deficiencies in information processing or imperfect self-control. Unequal bargaining power may also otherwise exist, as in case of low-networth investors competing for allotment in an IPO with high-networth investors.

It may be noted that all the latter six norms negate the first, that is, the freedom from coercion.

3.2. Norms of Ethics in Islamic Finance

Islamic scholars have undertaken a thorough examination of relevant verses from the holy Quran and the *Sunnah* and have long established the basic principles, which govern the rights and obligations of participants in the stock markets. We present below some important norms of Islamic ethics as are applicable to stock markets. All these norms may form the basis of regulation and legislation relating to stock markets.

3.2.1. Freedom to Contract

Islam provides a basic freedom to enter into transactions. The holy Quran says: *Allah has made trade lawful*.(2:275). Further, no contract is valid if it involves an element of coercion for either of the parties. The holy Quran also says: *let there be among you traffic and trade by mutual goodwill* (4:29). However, this basic norm does not imply unbridled freedom to contract and may be sacrificed when there is a trade-off with other norms requiring specific injunctions as in the case of the framework for conventional finance highlighted above.

3.2.2. Freedom from *Al Riba*

All forms of contracts and transactions must be free from *riba*. This implies that there is no reward for time preference and under conditions of zero risk. The question of *riba* has been addressed in a large body of literature and there is a general consensus about the meaning and implications of *riba*.

kind of price manipulation (najas), it is essential to restrict the operational freedom of large financial houses with enormous financial power and encourage competition. As noted above, efficient markets are competitive markets.

Let us take a closer look at the primary market. Although all kinds of Islamically permissible stocks can be offered to the public for sale, permissibility of a particular offer may be a subject of regulation in the Islamic market. In general, there are two alternative forms of regulation. First, the promoter is free to make the offer but compelled to disclose all relevant information -say relating to the track record of the company and its promoter, to prospective investors. This alternative ensures the fundamental freedom to contract of both the parties. It does involve an element of coercion for the promoter but ensures freedom from misrepresentation and suppression of relevant information for the investors. Such an alternative also improves the informational efficiency of the market. Under the second alternative, the regulator itself processes all relevant information. If the track record is poor or nonexistent, permissibility is denied. This course of action violates the fundamental freedom to contract of both the parties and introduces an element of coercion. However, the regulator in this case assumes a paternalistic role and intervenes in the market to protect the interests of investors who either do not possess the requisite information processing skills or would harm themselves by their irrational behaviour. As noted earlier, such an alternative is desirable in public interest where the purpose of regulation is protection of investors from their own errors. As far as the efficiency question is concerned, the second alternative may be seen by some as adversely affecting allocational efficiency by restricting entrepreneurs from seeking funds from investors. However, when the purpose is to eliminate potential instability, such regulation is clearly consistent with the notion of efficiency.

With respect to pricing too, a regulator in an Islamic market may aim for more or less intervention depending upon its belief about investor rationality in the given market. One alternative is price fixation by the regulator taking into account all relevant information. It is advocated when the investors are too naive to undertake proper valuation and/or the entrepreneurs resort to overpricing (ghubn). The second alternative is free pricing with mandatory disclosure norms. Proponents of free pricing argue that the incidence of overpricing could be curbed with strict informational and other mandatory disclosure norms. In any case, marginal overpricing is permissible too. This course of action would improve informational and allocational efficiency. Further, under the first alternative, the regulator is likely to be quite conservative in its estimates and may underprice every offer. The outcome would be that too little capital would flow into enterprises hampering the allocational efficiency of market. Thus, the proper choice for the regulator seems to be to allow free pricing with mandatory disclosures and intervention is called for in public interest when overpricing becomes rampant.

As far as the secondary market is concerned, prices must not deviate significantly from their intrinsic worth or value in order that allocational efficiency is ensured. This is also the requirement of Islamic norms of ethics. However, another criteria for efficiency relates to improving liquidity and reducing transaction costs. The regulators of Stock Exchanges have always accorded a lot of emphasis to this latter dimension of efficiency and the microstructure of Stock Exchanges around the globe also reflects this thinking.

The trading mechanism in Stock Exchanges is devised keeping in mind the overwhelming concern about imparting liquidity and reducing transaction costs. Liquidity is high when the volume of transactions is high. For this reason, regulators around the globe seem to believe that the presence of speculators on the Stock Exchange is desirable. With only investors with a long time horizon as participants in the market, the volume of transactions would be extremely low resulting in low liquidity and high transaction costs.

3.2.3. Freedom from *Al Gharar* (Excessive Uncertainty)

All forms of contracts and transactions must be free from excessive *gharar*. This implies that contracting under conditions of excessive uncertainty is not permissible. Islamic scholars have identified the conditions and highlighted situations that involve excessive uncertainty and consequently, disallow a contract.

3.2.4. Freedom from *Al-Qimar* (gambling) and *Al-Maysir* (Unearned Income)

As highlighted so well in the study under review, contracting under excessive uncertainty or gharar is akin to gambling (*al-qimar*). And uninformed speculation in its worst form, is also akin to gambling (*al-qimar*). The holy Quran and the traditions of the holy prophet explicitly prohibit gains made from games of chance which involve unearned income (*al-maysir*).

Here it may be noted that the term speculation has different connotations. It always involves an attempt to predict the future outcome of an event. But the process may or may not be backed by collection, analysis and interpretation of relevant information. The former case is very much in conformity with Islamic rationality. An Islamic economic unit is required to assume risk after making a proper assessment of risk with the help of information. All business decisions involve speculation in this sense. It is only the gross absence of value-relevant information or conditions of excessive uncertainty that makes speculation akin to a game of chance and hence, forbidden.

3.2.5 Freedom from Price Control and Manipulation

Islam envisages a free market where prices are determined by forces of demand and supply. There should be no interference in the price formation process even by the regulators. It may be noted here that while price control and fixation is generally accepted as unIslamic, some scholars, such as, Imam Ibn Taimiya admit of its permissibility. Such permissibility is subject to the condition that price fixation is intended to combat cases of market anomalies caused by impairing the conditions of free competition.

It is a requirement that the forces of demand and supply should be genuine and free from any artificial element. Islam therefore, condemns any attempts to influence prices through creating artificial shortage of supply (*ihtikar*). Similarly, any attempt to bid up the prices by creating artificial demand is considered unethical. Such an action of bidding up the price without an intention to take delivery is termed as *najas* and is not permissible.

3.2.6 Entitlement to Transact at Fair Prices

Prices that are an outcome of free play of forces of demand and supply without any intervention or manipulation are believed to be fair. However, in some instances, pricing is based on a valuation exercise. In such cases the difference between the price at which a transaction is executed and the fair price (as per the opinion of valuation experts) is termed as *ghubn*. The presence of *ghubn* makes a transaction unethical.

3.2.7 Entitlement to Equal, Adequate and Accurate Information

Islam attaches great importance to the role of information in the market. Release of inaccurate information is forbidden. The concealment of vital information (*ghish*) also violates the norms of Islamic ethics and according to the traditions of the holy prophet, the informational disadvantaged party at the time of the entering into the contract has the option to annul the contract. The traditions refer to price information in the market as well as other information relevant for valuation of the commodity.

Islamic scholars are of the opinion that a transaction must be free from *jahalah* or misrepresentation to be considered Islamic. The institution of a transparent market is, thus, quite important and transactions should be executed within the market after taking into account all relevant information. It may be noted that the holy traditions that deal with the issue, refer to a commodity transaction. In case of a commodity transaction, the commodity in question is subject to inspection and both the parties can be reasonably sure about the benefits that are going to flow from future possession of the commodity. Unlike a commodity, however, the benefits from possession of a stock are in the form of expected cash flows. These expected cash flows are also subject to continuous revision as new events occur. Hence, Islamic ethics requires that all information relevant to expected cash flows and asset valuation should be equally accessible to all investors in the market. It is consistent with the investors' right to search information, freedom from misrepresentation, and right to equal information.

3.2.8. Freedom from *Darar* (Detriment)

This refers to the possibility of a third party being adversely affected by a contract between two parties. If a contract between two parties executed with their mutual consent is detrimental to the interests of a third party, then it may enjoy certain rights and options. A case in point is the pre-emptive right (al-shufa) of a partner in joint ownership. This pre-emptive right may be extended by analogy, to a situation where existing minority shareholders are being adversely affected by any decision of the controlling shareholders, such as, to sell additional stocks to the public, to effect a change in management, asset sale, mergers and acquisitions etc.

The list of norms of Islamic ethics stated above is by no means exhaustive. It differs from the norms of mainstream financial ethics significantly - in imposing injunctions against *al-riba, al-qimar*, *and al-maysir*. In so far as the rights relating to information are concerned, there is a lot in common between Islamic and mainstream financial ethics. Of course, the rights are much more aggressively and explicitly ensured in the Islamic framework, with a provision of rights or options for the informationally disadvantaged party to reverse its position.

The next important question is how to prioritize various norms of Islamic financial ethics when there is a possible conflict or trade-off. The Islamic ethico-legal system has a clear scheme of priorities in legislation. Where there is a clear injunction in the holy *Quran*, for example, in the form of prohibition of *riba* and games of chance, these must be observed at all costs. Next in importance are the norms that follow from the *Sunna* or traditions of the holy prophet, and *ijma* or consensus, in that order. For example, the basis of the right of pre-emption (*al-shufa*) and the principle of freedom from *darar* is *Sunna* and hence, is accorded lower priority than prohibition of *riba*. There may be certain areas however, which are "unrestricted" by *Shariah*. What should be the guiding principle for the regulator in establishing a system of priorities in these areas?

For example, if the regulator believes that majority of investors are naive and irrational, can it take a paternal approach and protect them just as parents protect their children? It is quite possible that investors may lack information-processing ability and even if all relevant information were made available to them, they would not be in a position to assimilate and interpret these information and take rational investment decisions. Similarly, investors may overreact to information and behave in an irrational way. In such cases, can the regulator deny permissibility to specific transactions? How would the nature and extent of intervention by the regulator be determined?

3.2.9 *Maslahah Mursalah* (Unrestricted Public Interest)

Problems such as above may be resolved in the framework of *maslahah mursalah* or "unrestricted" public interest, which is a valid framework of Islamic legislation. The framework is called "unrestricted" public interest on account of its being undefined by the established rules of *Shariah*. *Maslahah* consists of "considerations which secure a benefit or prevent a harm but are, in the mean time, harmonious with the objectives (*maqasid*) of *Shariah*. These objectives consist of protecting five essential values, namely, religion, life, intellect, lineage and property, which have a much wider scope and meaning. For instance, protecting the right to live includes protecting the means, which facilitate an honorable life, such as, freedom to work and travel. Protection of property requires defending the right of ownership. It also means facilitating fair trade and lawful exchange of goods and services in the community. Any measure which secures these values falls within the scope of *maslahah* and anything which violates them is *mafsadah* (evil), and preventing the latter is also *maslahah*". (Kamali, 1988, p288) For example, any attempt to curb monopolistic tendencies or block the fee flow of information in the market place is a step to secure a *maslahah*. Further, an act which implies the attaining of a *maslahah* and the warding off a harm should not be forbidden even if it were, from another aspect, to negate a *maslahah* and to bring about a harm, as long as the secured *maslahah* outweighs the harm that results from the act or the *maslahah* that may be negated in consequence of it". (Hussein Hamid Hassan, 1994, p53) Thus, the framework essentially involves a comparison of benefits and costs at a macro-level. And needless to say, this principle of ensuring maximum net social benefits is clearly accorded a lower priority than principles emanating directly from the holy *Quran* and the *Sunna*. Of course, this specific norm ensuring maximum net social benefits is a valid, and at the same time, a dynamic basis of regulation and legislation in the Islamic framework. It is dynamic, because it can meet the challenges of ever-changing circumstances facing a Muslim society. The nature and intensity of factors affecting social benefits and costs are likely to vary across space, and time.

4. Ethics, Efficiency & Stock Market Regulation

The mainstream literature on stock market regulation views regulators as being governed by the twin concerns about ethics and efficiency. There are certain regulatory measures, which enhance both ethics and efficiency. For instance, mandatory disclosure norms reduce asymmetry of information (improve informational efficiency) and at the same time, ensure greater ethics through provision of freedom from misrepresentation and right to equal information. However, more often, regulations are seen as an outcome of a continuous tug-of-war between concerns about efficiency and ethics. We highlight several such instances below.

Merit regulations empower the regulator to deny permission to a promoter of a company to raise capital through public offers in the stock markets. These regulations by restricting entrepreneurs' and investors' choice, are believed to reduce allocational efficiency of a stock market, but are likely to enhance the right to equal processing power and freedom from impulse.

Margin regulations generally involve varying perceptions about their impact on ethics and efficiency. To many, these regulations by curbing speculation, ensure entitlement to equal processing power and freedom from impulse. Higher margin regulations are also perceived by many to reduce excessive volatility, thereby enhancing informational efficiency, though academician do not quite agree with this position. As Shefrin and Statman assert, "the impact (of margin requirements) on informational efficiency is still an open question. (Shefrin and Statman, 1993, p53)

Trading halts, circuit breakers, by ensuring a halt to panics and speculative bubbles, are perceived to enhance entitlements to correct prices and equal access to information, though the freedom from coercion is negated. Again, whether trading halts contribute to informational efficiency is an issue about which opinions differ.

The study under review quotes profusely from the writings of John Maynard Keynes highlighting the adverse impact of speculation on allocational, pricing and informational efficiency of the markets. Speculation certainly improves liquidity and operational efficiency of the markets by bringing down transaction costs. The net impact is clearly negative according to the Keynesian view. According to most present day financial economists, however, this may not be so. More recent theoretical and empirical studies do not, in general, find evidence of any adverse impact of excessive speculation on allocational, pricing, or informational efficiency. And given that speculation certainly enhances operational efficiency, the verdict is in favor of allowing free play to speculators. We may summarize the debate as follows. The impact of trading halts, circuit breakers, margin regulations and all such regulations that dampen speculation depends on whether informational efficiency is achieved in the absence of such market interventions. If prices at all times "fully reflect" all publicly available information, then such measures are seen to reduce the informational efficiency of the market by driving a wedge between price and value. If prices reflect not only information, but also panic, then such intervention could theoretically enable market participants to recover from the panic that is causing price to deviate from value. A large majority of academicians still believe in the inherent efficiency of modern markets that maintain equality between price and value almost at all times, barring exceptions, and hence any kind of intervention is unjustifiable. It may have utility only during abnormal time periods, such as, during the stock market crisis of 1930s or 1987.

In an Islamic stock market priorities for the regulator are quite clear. Efficiency issues are clearly in the nature of *maslaha* or public benefits and must be addressed as such. In other words, these merit lesser importance than the incidence of *al-riba* or *al-qimar*. The problem for the regulator is no longer assessing whether speculation has adverse impact on efficiency. Instead, it boils down to forming a general idea about the motives of the market participants at a macro level. It should be noted that judging the intentions of an individual investor can indeed be difficult, but might not be so for the aggregate market. The regulator may follow some broad indicators, such as, the proportion of total volume of transactions that are settled in price differences; the average time horizon of the investors even when dematerialized stocks quickly get transferred in an automated system; the proportion of same-day or same-week trade reversals etc. The regulator through an effective market surveillance mechanism can always judge whether and when and for which category of participants, speculation degenerates into gambling, and then move to curb such practices.

For many other matters that defy a clear-cut policy prescription in conventional markets and continue to be debated, the Islamic framework provides a definite answer about their permissibility or otherwise. For instance, the issue of insider trading always involves a trade-off between pricing and informational efficiency on the one hand and right to equal information on the other. A curb on insider trading hinders efficiency but enhances ethics. As a result, insider trading is prohibited in certain markets and permitted in others. In an Islamic stock market however, the choice is between the right to equal information, which has *Shariah* backing and efficiency, a matter of *maslaha*. Insider trading clearly has no place in an Islamic stock market.

An Islamic stock market must be made free from *riba*, by disallowing *ribawi* bonds, *riba*-based leveraged transactions on margin etc. It must be made free from *gharar*, by disallowing extremely complex products of financial engineering that are little understood by the participants, ensuring flow of all value-relevant information through mandatory disclosures etc. It must be made free from *qimar* and *maysir* by disallowing settlement of price differences and insisting on transfer of ownership in general, and (where

speculation continues unabated), by insisting on a minimum holding period, effecting price bands, curbs on block trades etc. Many other regulatory matters fall within the dynamic area of *maslahah mursalah* that necessitate a macro comparison of social benefits and costs that flow from such measures. For example, a regulator may bring in merit regulations and fix offer prices for Initial Public Offerings in a very conservative manner. The regulation, thus, would entail huge benefits for the IPO investors, but only at the expense of raising the cost of equity for the firm. There would also be trade-offs in terms of introducing an element of coercion for the entrepreneurs and improved bargaining power of the small IPO investor. A proper regulation in the Islamic framework would thus demand that the benefits for the investors be weighed against the costs to the entrepreneurs and to the system as a whole in the form of distortions in the allocation process.

Similarly, the regulator may like to curb monopolistic tendencies in the financial market and encourage large number of local, small and low networth firms to function as brokers and investment bankers and at the same time, impose restrictions on the large foreign financial houses. But such small firms are also likely to have lower skills in discriminating a good project from a bad one and may under pressure of competition, bring in many low quality issues to the market. This may ultimately harm the small investor. There is also a greater likelihood of defaults resulting in instability in the market place. The right type of regulation in the Islamic framework (say, entry requirements, capital adequacy norms etc) would again depend on a careful comparison of social benefits and costs.

5. Concluding Remarks

In an Islamic stock market, by definition, concerns about Islamic ethics dominate all other concerns, including concerns about various types of market efficiency. However, this does not imply that an Islamic stock market would be less efficient than a conventional stock market. In fact, the concerns about efficiency are explicitly addressed within the Islamic ethico-legal framework; in the framework of *maslahah mursalah* or unrestricted public interest. The carefully outlined system of priorities in the Islamic ethico-legal framework requires that the norms that emanate directly from the holy *Quran, Sunna*, and *Ijma* must be accorded priority over concerns about *maslahah*. This means, one need not be bogged down by the endless and cyclical debates over the net impact of speculation on efficiency and consequently, the usefulness or otherwise of various forms of intervention by the regulator to curb speculation. When speculation tends to take the shape of gambling and generates unearned income, it must be curbed, irrespective of its impact on efficiency. The task can certainly be extremely demanding for the regulator. The regulator must also ensure that the transactions are free from *riba* and *gharar*. Once the *Shariah* requirements are met, the regulator is left with matters "unrestricted" and here the decision criteria is total net social benefits or *maslahah* associated with alternative courses of action. The regulator is required to be extremely vigilant and careful in analyzing and measuring the benefits and costs. The role of the regulator in the Islamic stock market can hardly be overemphasized.

6. References

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