

**THE ROLE OF EXCHANGE TRADED FUND TO DRIVE THE  
GROWTH OF THE MUTUAL FUND INDUSTRY IN THE  
CAPITAL MARKET ACCORDING TO  
A REVIEW OF ISLAMIC LAW**

***PERANAN EXCHANGE TRADED FUND UNTUK MENDORONG  
PERTUMBUHAN INDUSTRI REKSADANA DALAM PASAR MODAL  
MENURUT TINJAUAN HUKUM ISLAM***

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***Abstract***

*As a product that has just been listed on the stock exchange, this Exchange Traded Fund (ETF) has attracted the attention of various lines of capital market investors. ETF is known as one of the mutual fund product innovations as a follow-up to POJK No. 49/POJK.04/2015. This study is a descriptive study of this product with all the features and advantages and uniqueness it has as a form of diversification of existing mutual fund products. This study also seeks to explore the strengths and weaknesses of ETFs both internally and externally. Interestingly, this descriptive study presents data on investor enthusiasm for ETF products. One of the main attractions of this product is that apart from being traded on the stock exchange, the price is also very cheap. Not only explaining in terms of products and their uniqueness, but this study also discusses the review of Islamic law on ETF transactions on the stock exchange. When compared with the practice of buying and selling, there are many similarities. And there are several other interesting factors to observe regarding the considerations of investors in choosing mutual fund instruments, especially ETFs as an alternative to new investments in the capital market.*

**Keywords:** *exchange traded fund; mutual fund; Islamic law*

### **Abstrak**

Sebagai produk yang terhitung baru melantai di bursa, Exchange Traded Fund (ETF) ini menarik perhatian berbagai lini investor pasar modal. ETF dikenal sebagai salah satu inovasi produk reksadana sebagai tindak lanjut dari POJK No. 49/POJK.04/2015. Studi ini merupakan kajian deskriptif tentang produk ini dengan semua fitur serta keunggulan dan keunikan yang dimilikinya sebagai salah satu bentuk diversifikasi produk reksadana yang sudah ada. Studi ini juga berusaha mengeksplorasi kekuatan dan kelemahan yang dimiliki oleh ETF baik secara internal maupun secara eksternal. Menariknya, kajian deskriptif ini menyajikan data-data mengenai antusiasme investor terhadap produk ETF. Salah satu yang menjadi daya tarik tersendiri dari produk ini adalah selain dapat diperjualbelikan di bursa efek, harganya pun sangat murah. Tidak hanya menjelaskan dari sisi produk dan keunikannya, studi ini juga membahas mengenai tinjauan hukum Islam terhadap transaksi ETF di bursa efek. Apabila dikomparasikan dengan praktik jual beli, terdapat banyak kesesuaian. Dan ada sejumlah faktor lain yang menarik untuk dicermati terkait pertimbangan para investor untuk memilih instrumen reksadana, khususnya ETF sebagai alternatif investasi baru di pasar modal.

**Kata kunci:** exchange traded fund; reksadana; hukum Islam

## **A. INTRODUCTION**

As an alternative source of funding (Bakhri, 2018), the capital market is seen as effective in accelerating a country's development (Setiawan, 2015). Through the capital market, governments that need funds can issue bonds/debt securities and make sales to the public (Nasution, 2015). So do not be surprised if the progress of the country's economic development can't be separated from the development of the capital market. The more developed and growing the capital market in the country, the economy will also grow. This means that the dynamics of the capital market is a very good indicator to measure the progress/regression of a country. In a global economy that is already very open, the stock price index in each country can be known and will be an indication of the dynamics of the global economy.

The indicator in measuring the level of progress of a country's capital market lies in the level of variation of the available instruments. The more advanced, the more varied the instruments traded in the capital market. It seems that the development of the capital market in Indonesia has shown rapid development over the last almost a decade.

This is because the data show that there is an increasing demand for key instruments in the capital market such as stocks, bonds, foreign exchange, etc (Fardiansyah, 2002).

The capital market does not only have stock products but also has other products such as mutual funds (Kutra, Azhara & Gulo, 2019). Mutual funds are known and liked by the people of Indonesia, and have shown significant developments during the period 2000 to 2004. Total assets under management at that time also reached Rp 110 trillion. However, since March 2005, the NAV curve for mutual funds has begun to slope, until it has decreased by almost 70% (seventy percent) and this is referred to as the point of saturation, thus requiring innovations in developing mutual funds (Pratomo, 2009).

One of the innovations of developing mutual funds is by developing mutual funds so that they can be traded on an exchange, known as an Exchange Traded Fund (ETF). In summary, it can be seen that ETFs are mutual funds whose performance refers to an index and are traded on the stock exchange floor like stocks. Global ETF developments are allegedly continuing to experience significant developments (Azmiana & Muhammad, 2021). Likewise, with developments in Indonesia, ETF-type mutual funds have continued to experience rapid increases over the last three years, of which until February 2021 more than 40 products have been owned (Mahardika, 2020).

The above phenomenon is of course in line with the advice of Islam which indirectly orders Muslims to prepare for a better tomorrow, one of which is by investing (Azis, 2010). That recommendation has been stated in the QS. An-Nisa': 9, QS. An-Nisa': 29 and QS. Az-Zalzalah: 1-3, that the wealth should be turned over rather than hoarded, thus opening up new jobs in the investment sector. ETF mutual funds as an alternative to investing that are currently developing would need to be discussed further, so that we can know together with their role in the mutual fund industry and an overview of Islamic law regarding this investment method.

## **B. METHODOLOGY**

This study uses descriptive qualitative research methods, namely research that describes phenomena from the point of view of the informant. Then this study also uses a triangular approach to find the relationship between a phenomenon from different perspectives and perspectives.

Data collection techniques used are interviews, observations, field notes, study documentation, and identify reports on ETFs which can be accessed through the official websites of the Indonesia Stock Exchange and the Financial Services Authority ([www.IDX.co.id](http://www.IDX.co.id) and [www.ojk.go.id](http://www.ojk.go.id)). 18 informants were involved in this study and grouped them into four categories, namely practical academics (4 people), students (12 people), Self Regulatory Organizations (1 person), and academics and Islamic leaders (1 person). Data processing in this study used the help of the NVivo version 12 application.

## **C. LITERATURE REVIEW**

### **1. Capital Market**

According to Kasmir, a capital market is a meeting place for sellers and buyers to conduct transactions to obtain capital. Buyers in the capital market are companies that need capital (issuers), so they sell securities in the capital market. While the buyer (investor) is a party who wants to buy capital in a company that he thinks is profitable (Kasmir, 2014).

The purpose of the capital market is basically to bridge the flow of funds from investors to companies that need funds, both for business expansion and improvement of the company's capital structure. The relatively large capital requirements of companies, as well as the high public interest in investing, prompted the government to establish the Indonesia Stock Exchange (IDX).

Experts divide the capital market into several types. Tandelilin divides the capital market into two types, namely the primary market and the secondary market. The primary market is the market when the issuer sells its securities to investors for the first time. And the secondary market is a market where trading occurs by and between investors after the issuer is sold in the primary market (Tandelilin, 2017).

The presence of the capital market facilitates investors and companies that need additional capital. Both are symbiotic mutualism, and both view the capital market as a medium to achieve investment goals (financial goals) under the rules that have been determined by institutions and professions related to securities (Fauzan & Suhendro, 2018).

## **2. Indonesia Stock Exchange (IDX)**

The Indonesia Stock Exchange (IDX) or Indonesia Stock Exchange (IDX) was established, to conduct regular, fair, and efficient securities trading. To achieve the above objectives, the stock exchange is required to provide supporting facilities and supervise the activities of the members of the Stock Exchange.

The vision of the Indonesia Stock Exchange is to become a competitive stock exchange with world-class credibility, with a mission to provide infrastructure to encourage orderly, fair, and efficient securities trading that is easily accessible to all stakeholders. As an example of infrastructure, since March 2, 2009, IDX has used a trading system called the Jakarta Automated Trading System (JATS-NextG), replacing the previous JATS system and the manual system.

Stock exchanges also should establish regulations related to membership, listing, trading, securities equivalence, clearing and settlement of stock exchange transactions, and other matters relating to the stock exchange.

## **3. Mutual Fund**

Linguistically, mutual funds are composed of two concepts, namely "mutual" which means guard/maintain and "fund" which means (collection of) money. Thus, mutual funds mean money that is maintained (Soemantri, 2009). According to Law No. 8 of 1995 article 1 paragraph (27) mutual funds are containers used to collect funds from the investor community to be further invested in securities portfolios by investment managers. Mutual funds are an alternative investment for the investor community, especially small investors who do not have much time and expertise in calculating the risk of their investment.

Mutual fund companies appear to coordinate investors, both large investors and small investors who want to offer their funds to various investment media and then the funds are managed professionally.

The types of mutual funds in Indonesia are quite diverse, ranging from Fixed Income Mutual Funds (RDPT), Money Market Mutual Funds (RDPU), Equity Mutual Funds (RDS), and many more. Understanding the types of mutual funds is very important for potential investors. This is because each type of mutual fund has different

characteristics, returns, and levels of risk. This needs to be understood so that investors can adjust their investment choices to the desired financial goals. Prospective investors can also determine the tolerance level for the level of risk that will be faced and adjust it to their respective financial conditions (Simatupang, 2010).

#### **4. Exchange-Traded Funds (ETFs)**

According to the Hong Kong Exchange and Clearing Ltd ETF is an investment product that represents a portfolio of securities designed to track the performance of an index, offering investors an innovative way to gain cost-effective exposure to a specific market or sector (HKEX, 2020), and traded on the exchange (Taunay, 2013). Meanwhile, the Indonesia Stock Exchange defines an ETF as a mutual fund investment instrument in the form of a Collective Investment Contract (KIK) whose participation units are traded on the Stock Exchange Indonesia 2020.

Legally, ETFs in Indonesia is regulated in various regulations, including the Financial Services Authority Regulation 49/POJK.04/2015 concerning mutual funds in the form of Collective Investment Contracts (KIK) whose participation units are traded on the stock exchange. As of April 2021, there are 48 ETF products listed on the Indonesia Stock Exchange, 8 Participating Dealers, and 22 Investment Managers. ETFs also have several advantages including being easy and flexible, low cost and risk, wide coverage, and transparency.

#### **5. Legal Basis and Terms of Sale**

Buying and selling in fiqh terms are referred to as *al-bai'* which means selling, replacing, and exchanging something for something else. *Al-bai'* pronunciation in Arabic is also interpreted as the word *ash syira* (buy). Thus, the word *al-bai'* means to sell, but at the same time, it also means to buy (Haroen, 2000). Based on QS. Al-Baqarah: 275 which means: "*And Allah has permitted trading and forbidden usury.*"

Based on this verse, it can be seen that Allah has justified buying and selling to His servants properly and forbade the practice of buying and selling that contains usury. It is also explained in QS. An-Nisa': 29, which means:

*"O you who believe, let us not eat each other's wealth by vanity, except using commerce which is mutually beneficial between us, and do not kill yourselves, verily Allah is Most Merciful to you."*

The verse above clearly emphasizes that the law of buying and selling is jaiz (permissible) and prohibits buying and selling carried out in a way that is not justified by Allah and is carried out based on consensual and mutual benefit. That means, the law of jaiz (permissible) in buying and selling does not rule out the possibility of changing the law of buying and selling itself, it may or may not depend on whether or not the terms and pillars of buying and selling are fulfilled (Susiawati, 2017). As for the number of scholars in (Susiawati, 2017), the pillars of buying and selling itself are divided into four, among others:

- a. *Akad (ijab-qabul)*. According to the Hanafiyah scholars, the definition of *ijab-qabul* is the determination of certain actions that show the pleasure spoken by the first person, either the person who gives or the recipient.
- b. *Muta'qidain* (two people who have a contract). According to fiqh scholars in (Syaifullah, 2014). It is stated that the person who transacts buying and selling must have aqil baligh and have the reason of his own will, and the person who carries out the transaction must be a different person in the sense that one cannot be a seller and a buyer at the same time.
- c. *Ma'qud 'alaih* (object) of buying and selling must be clean, can be used, belong to the person making the contract, and know the substance, form, nature, and price.
- d. There is a replacement exchange rate for goods

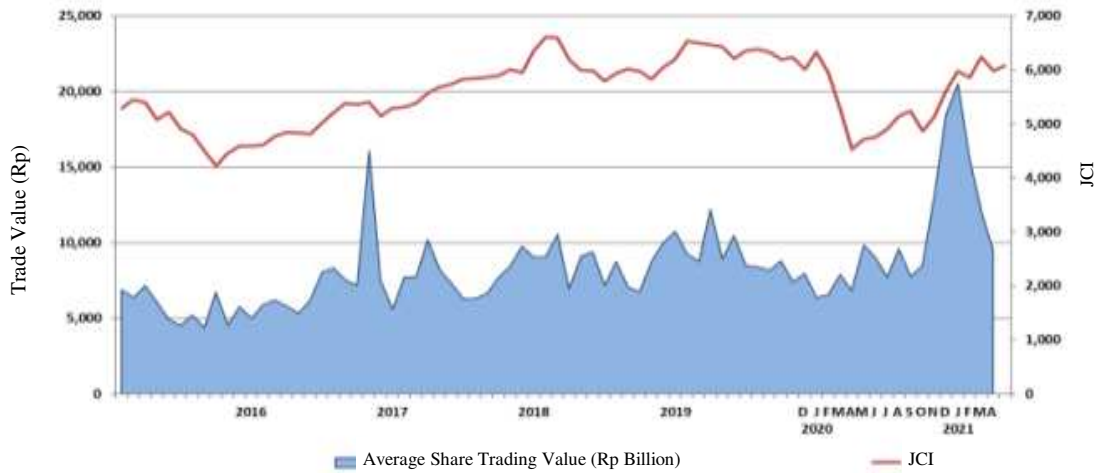
## **D. RESULTS AND DISCUSSION**

### **1. The Role of the Exchange Traded Fund (ETF) in Encouraging the Development of the Capital Market in Indonesia**

This pandemic did not dampen the enthusiasm of the investor community in Indonesia, in fact in 2020 the Indonesia Stock Exchange announced the number of new investors created throughout 2020 had grown to 53.47% of the number of investors in 2019. By the end of 2020 the number of stock investors had reached 1,695,268 Single

Investor Identification (SID). There was a growth of 590,658 SID when compared to the total number of stock investors of 1,104,610 SID at the end of 2019 (IDX, 2020).

**Figure 1. JCI ; Average daily trading value per month 2016 – 9 April 2021**



Source: Financial Services Authority, 2021

The development of the capital market and the phenomenon of the growing number of investors in Indonesia illustrate explicitly that investment is important. Jogiyanto defines investment as delaying current consumption to be used in efficient production for a certain period (Jogiyanto, 2015).

One of the new investment instruments listed on the Indonesia Stock Exchange is the Exchange Traded Fund (ETF). ETFs are mutual funds in the form of collective investment contracts whose participation units are traded on the stock exchange. So this ETF is a combination of stocks in terms of transactions and mutual funds in their management. The differences between stocks, mutual funds, and ETFs are as follows.

**Table 1. The Difference Between Stocks, Mutual Funds and ETFs**

	STOCKS	MUTUAL FUNDS	ETFs
<b>Trading</b>	Through the Stock Exchange	Through Investment Manager	• Through participating Dealers (Primary Market)
<b>Selling Agent</b>	Broker	Investment Manager, Bank, WAPERD	• Through the Stock Exchange (Secondary Market)
<b>Minimum Purchase/Sales</b>	1 lot (100 sheets)	1 Participation Unit	Broker, Investment Manager



	<b>STOCKS</b>	<b>MUTUAL FUNDS</b>	<b>ETFs</b>
<b>Price</b>	Real time	End of day	• Primary market: 1 Creative Unit (100,000 Participation Units)
<b>Participant Dealer</b>	Nothing	Nothing	• Secondary Market: 1 Lot (100 Participation Units)
<b>Portfolio information disclosure</b>	-	Usually delivered in fact sheet 10 big effects	Real time
<b>Settlement</b>	T+2 (two days after the transaction is made)	Depends on MI (Max. T+7)	There is
<b>Transaction Method</b>	Multiple, Netting	Single, Gross	Portfolio content must be published every day
<b>Unit Creation</b>	-	Cash-MI buy/sell shares (expense remaining holders)	T+2 (two days after the transaction is made)
<b>Taxation</b>	The share sale transaction is subject to 0.1% final tax (PPh Law Article 4 paragraph 2)	Mutual funds are excluded from the object of taxation (PPh Law Article 4 paragraph 3 point (i))	Multiple, Netting
<b>Dividend</b>	Issuers can distribute dividends to investors	Dividends obtained from the underlying securities are not distributed to investors, but will be reinvested into the mutual fund portfolio, thereby increasing the NAV value.	Securities-Shares exchanged for Units (Expense of buyers/sellers in primary market)

*Source: Indonesia Stock Exchange, 2020*

The differences in the picture above regarding stocks, mutual funds, and ETFs illustrate that ETFs have several advantages when compared to stocks and mutual funds. In addition to the advantages of ETFs that have been discussed previously, the authors found several other advantages in the results of observations with informants, including the following.

**Figure 2. Advantages of ETFs**

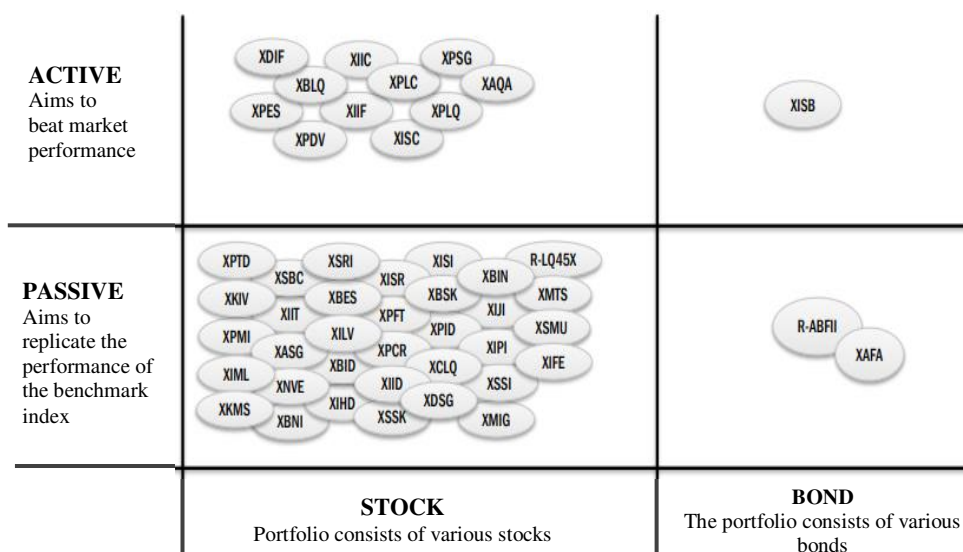


Source: NVivo analysis version 12, 2021 (data processed)

The results of observations regarding ETF products against informants said that ETFs were cheap. Then the next finding is that there are capital gains and dividends. ETF investors will still receive capital gains and dividends from the ETF units they buy.

There are two types of ETFs in Indonesia, namely active and passive ETFs. ETFs that are passive is more dominant in following the performance of the index that is the reference, whose purpose is to replicate the performance of the index. The performance of passive ETFs is usually apple to apple or closer when compared to the performance chart of the benchmark index. Meanwhile, those who are active tend to be active in their management, aiming to beat market performance.

**Figure 3. ETf Active and Passive**

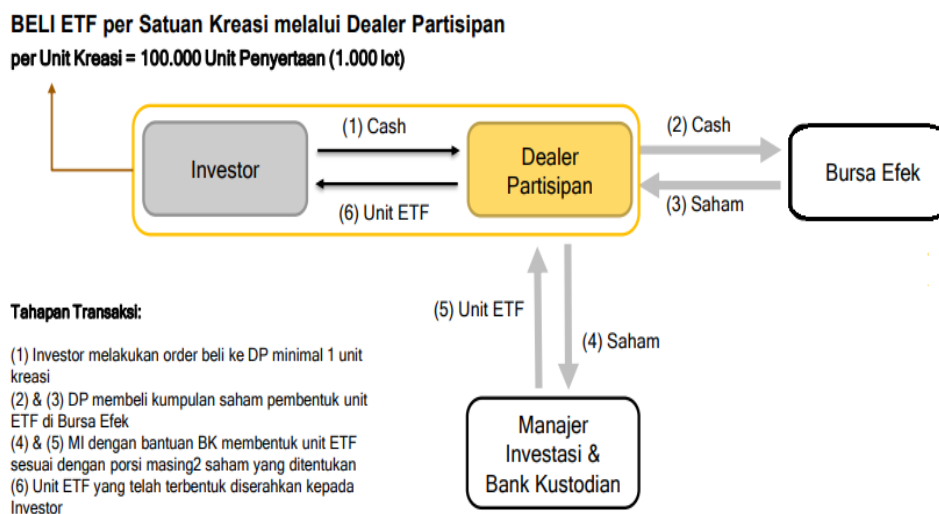


Source: Indonesia Stock Exchange

Currently, the most dominant ETF in Indonesia is the passive type with the underlying stock. As shown in the picture above, ticker codes are mostly passive types with underlying stocks,

The market division of ETF transactions is also divided into two, namely the primary and secondary markets. The following is how to trade on both markets.

**Figure 4. How to Trade ETFs in the Primary Market**



Source: Indonesia Stock Exchange, 2021

**Figure 5. How to Trade ETFs in the Secondary Market**



Source: Indonesia Stock Exchange, 2021

The minimum unit purchase in the primary market is through the unit creation process, so that the minimum purchase is even greater, namely 1 unit creation or equal to 1000 lots. The price given is also cheaper than in the secondary market, but quite competitive. While the minimum number of purchases in the secondary market is smaller, namely 1 lot equal 100 Participation Units, and the transaction method is also easy, like stock transactions in general.

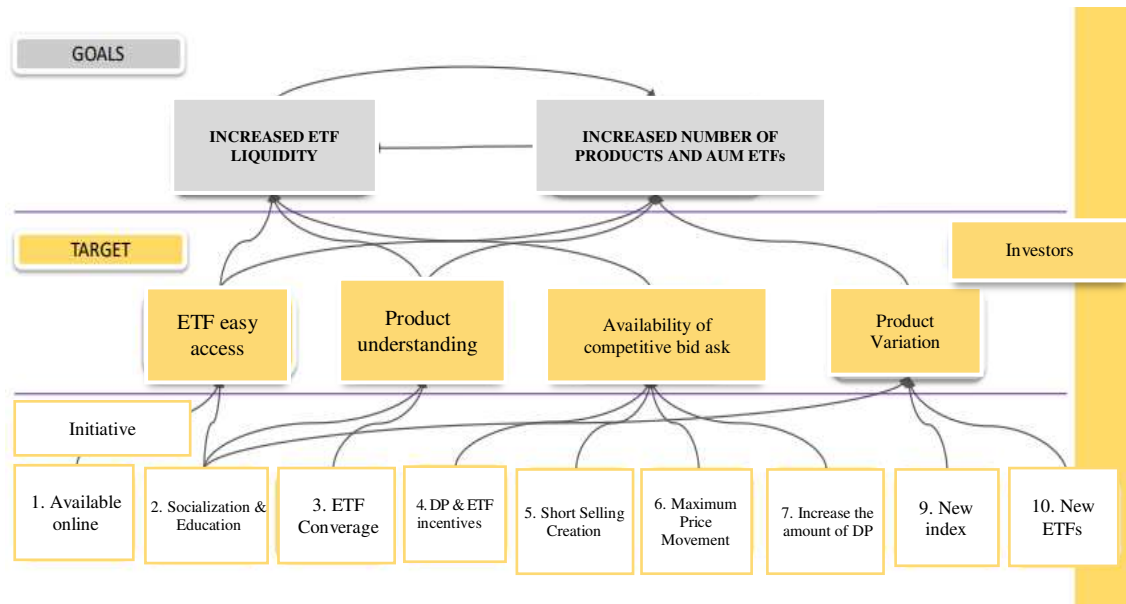
The good growth shown by ETFs in Indonesia illustrates the good potential for ETFs in the future. With the advantages possessed by ETFs, it is not impossible to create new investment trends other than stocks and crypto which are currently being discussed hype. When compared to several countries in Southeast Asia such as Singapore, Malaysia, the Philippines, and Thailand, Indonesia has a significant increase in its growth chart and ranks first for the ETF growth chart.

The trend of the JCI that continues to increase and the positive performance of the Indonesian economy in 2020 to 2021 is an opportunity for capital market growth which is a breath of fresh air for capital market investors. The involvement of ETFs in capital market developments also needs to be taken into account. As an investment instrument that is relatively new to the stock exchange, ETFs have shown their role to encourage capital market growth in Indonesia.

## **2. The Role of Exchange Traded Funds (ETFs) in Encouraging the Growth of the Mutual Fund Industry**

In the development of ETFs, the Indonesia Stock Exchange also has its role so that ETFs can grow well. IDX has made various efforts to develop ETF products, including the following.

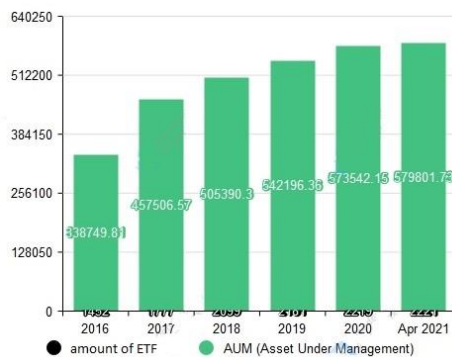
**Figure 6. IDX continues to develop ETF**



*Source: Indonesia Stock Exchange*

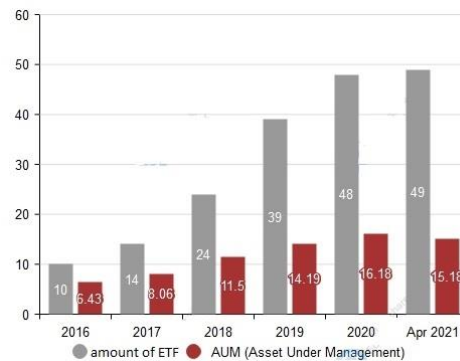
The choice of investing in this ETF product is very diverse, there is even a link between the investment objective and the type of ETF product. Goals such as getting high dividends, caring for the environment and society, value investing, following the JCI, and even investing according to Islamic law, there is an ETF option. This ETF option can also be adjusted to the investor's budget or minimum capital, because of its low cost, this ETF can be purchased for less than IDR 10,000.

**Figure 7. Mutual Fund Performance**



*Source: NVivo analysis version 12, 2021, data processed*

**Figure 8. ETF Performance**

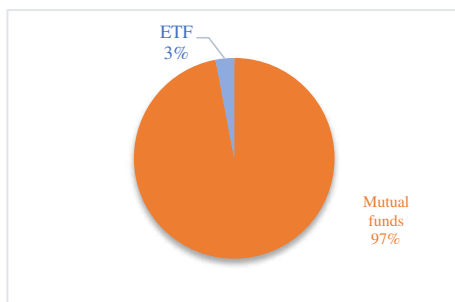


*Source: NVivo analysis version 12, 2021, data processed*

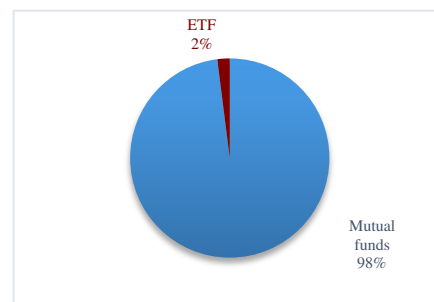
On the left graph, the asset under management (AUM) of investment managers for mutual funds has continued to increase from 2016 to the period of April 2021. Total assets were last listed in April 2021 of IDR 579.80 trillion with a total of 2,221 products. This shows that mutual funds still have the opportunity to continue to grow.

Meanwhile, the amount of ETF assets under management for investment managers and the number of products has continued to increase from 2016 to April. The last recorded amount of assets was Rp 15.18 trillion with a total of 49 products. Like mutual funds, which are still in demand by the public, ETFs are starting to be known and liked by investors.

**Figure. 9**  
Mutual Fund AUM vs ETF 2021



**Figure. 10**  
Number of Mutual Funds vs ETF 2021



Source: NVivo analysis version 12, 2021, data processed

Source: NVivo analysis version 12, 2021, data processed

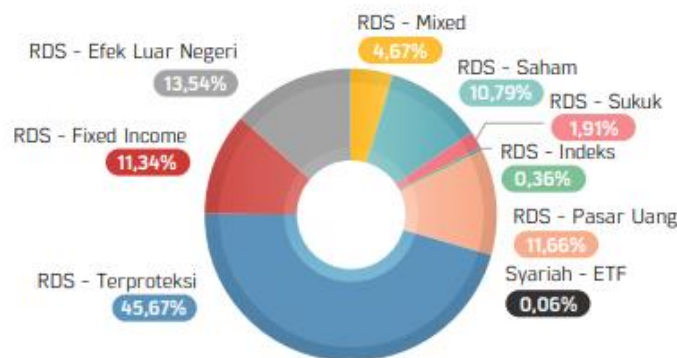
The number of ETFs that have been listed on the exchange is 49 products as of April 2021, so the number is only 2% when compared to mutual fund products as a whole. Meanwhile, the amount of assets managed by ETFs is IDR 15.18 trillion as of April 2021, so the percentage is 2% of the total assets managed by mutual funds. This figure is expected to continue to move significantly in the future if it is managed seriously, consistently, and professionally.

Based on the data that has been presented, we can see that ETFs are starting to become mutual fund products that are starting to be known and favored by investors because of their nature as mutual funds but their trading flexibility is like stocks. In addition, the role of ETFs in the mutual fund industry is a new investment alternative for investors, especially novice investors. ETFs can also be the first step before novice investors step into stocks directly.

### 3. Islamic Law's View on ETF Mutual Fund Transactions in Indonesia

Based on the Sharia Financial Development Report (LPKS), which was last issued by the OJK in 2019, the total sharia capital market products amounted to 920 products and the total amount of assets under management was IDR 4569 trillion. With the largest proportion, namely the category of sharia shares worth IDR 3744.82 trillion and the percentage of market share of securities value of 51.55%.

**Figure 11. Proportion of NAV of Sharia Mutual Funds**



*Source: Financial Services Authority, 2019*

In addition to the Islamic capital market as a whole, Islamic mutual funds with their various products also have a contribution in its development. The picture above is the proportion of sharia mutual fund products. The largest proportion is in protected sharia mutual fund products with a percentage of 45.67% and sharia ETFs in the last order with a percentage of 0.06%. This figure continues to improve with the potentials that have been present in Indonesia.

Investing in sharia instruments seems to be an obligation for every Muslim. However, when you want to invest a Muslim must pay attention to the principles of sharia. Adiwarmanto Karim in his writings "Implementation of Islamic Sharia in the Economy" put forward the principles of Islamic economics (Santoso, 2004), including:

- a. The principle of *aqidah*; Surah Al-Maidah: 17 which means, "To Allah belongs all that is in the heavens and the earth and what is between them".
- b. The principle of *al'is*; QS Al-Hujurat: 9 which means, "Verily Allah loves those who act justly".

- c. The principle of prophecy; QS Maryam: 56-57 which means, "everything from Allah and His Messenger must be true and only the truth".
- d. The principle of the caliphate; Surah Al-Hajj: 41 which means, "a leader who is guided will always encourage good and prevent evil".
- e. The principle of ma'ad, QS Al-Qashash: 77 which means, "Seek your afterlife and do not forget your world".

In terms of the pillars and the terms of the sale and purchase, first, the conditions for people who have a contract in Islam must be reasonable and carried out by different people. This requirement has been fulfilled because the ETF transaction that carries out the contract is a broker who is an expert in his field and is an adult. Likewise, the difference between people who make transactions because there are sellers/buyers and also brokers where the two parties are different. The second relates to the terms of the *ijab qabul* reflected in the signing of the agreement on the transaction in the terms of the form which explains that all transactions related to stock trading activities are fully submitted to the broker and the transaction takes place in one assembly, namely at the dealing place. Third, the terms of goods that can be delivered directly when a transaction occurs.

When compared with buying and selling activities, the practice of trading ETFs according to Islam, especially regarding the conditions found that many conformities will then be used as a reference in establishing trading laws carried out online.

In terms of non-physical goods that cannot be delivered directly, they have been represented by the transaction form, which functions as a sign of handover of goods. As discussed earlier, the majority of scholars have agreed on the legal status of such matters, namely permissible or permissible.

## **E. CONCLUSION**

Based on the description above, the following conclusions can be drawn: **First**, the rising trend of the JCI and other capital market opportunities has become a breath of fresh air for capital market investors. As an investment instrument that is relatively new to the market, ETFs can show their role. With a total of 49 ETF products and a total



managed fund of Rp 15.18 trillion, it is a passion for ETFs to continue to contribute to the development of the capital market.

**Second**, ETFs are starting to become mutual fund products that are starting to be known and favored by investors because of their nature as mutual funds, but their trading flexibility is like stocks. This is reflected in the increase in the number of products that have been listed on the exchange, as well as in the number of funds under management until April 2021.

**Third**, when compared with buying and selling activities, according to Islam, the ETF trading practice, especially about the terms, can be found conformity which can then be used as a reference in establishing trading laws carried out online. The process of the occurrence of transactions from the broker to trading until the liquid does not deviate from Islamic rules. So the status to make ETF transactions is permissible or permissible.

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