

INTERNATIONAL STANDARDS FOR REGULATING ISLAMIC FINANCE

Qakhkhorova Mashkhura Bakhrom kizi

Student, Jizzakh Branch, National University of Uzbekistan

Annotation. This study examines the international standards and regulatory frameworks governing Islamic finance. It analyzes the role of organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) in promoting standardization, transparency, and Shariah compliance in Islamic financial institutions worldwide. The research highlights the importance of harmonized guidelines for reducing operational, financial, and Shariah compliance risks while facilitating the integration of Islamic finance into global financial systems. Findings indicate that while international standards provide a robust framework, challenges remain in standardization due to regional differences, evolving financial instruments, and technological developments.

Keywords: Islamic finance, regulation, international standards, AAOIFI, IFSB, Shariah compliance, governance

Аннотация: Данное исследование посвящено международным стандартам и нормативным рамкам, регулирующим исламские финансы. В нем анализируется роль таких организаций, как Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) и Islamic Financial Services Board (IFSB), в продвижении стандартизации, прозрачности и соблюдения шариата в исламских финансовых институтах по всему миру. Исследование подчеркивает важность согласованных руководящих принципов для снижения операционных, финансовых и рисков соблюдения шариата, а также для содействия интеграции исламских финансов в глобальные финансовые системы. Результаты показывают, что, несмотря на наличие международных стандартов как надежной основы, остаются проблемы стандартизации из-за региональных различий, развития финансовых инструментов и технологических изменений.

Ключевые слова: исламские финансы, регулирование, международные стандарты, AAOIFI, IFSB, соблюдение шариата, корпоративное управление.

INTRODUCTION

The global Islamic finance industry has experienced rapid growth over the past two decades, becoming a significant component of the international financial system. Islamic finance differs from conventional finance due to its reliance on Shariah principles, including the prohibition of *riba* (interest), avoidance of excessive uncertainty (*gharar*), and risk-sharing mechanisms.

As Islamic financial institutions expand internationally, the need for standardized regulatory frameworks has become increasingly critical. International standards not only ensure Shariah compliance but also promote transparency, stability, and investor confidence. Organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) play a central role in this context by issuing guidelines, accounting standards, and governance principles.

This study aims to analyze the international standards for regulating Islamic finance, assess their impact on risk management and operational efficiency, and identify challenges in global implementation. The research emphasizes the significance of harmonized regulations in facilitating the integration of Islamic finance into the global financial ecosystem.

LITERATURE REVIEW

Academic research has extensively explored the need for standardization in Islamic finance. According to Iqbal and Mirakhor (2011), inconsistent Shariah interpretations across jurisdictions



often create legal and operational uncertainties for Islamic financial institutions. This has prompted international bodies to develop unified frameworks for accounting, auditing, risk management, and corporate governance.

AAOIFI, established in 1991, provides comprehensive standards on financial reporting, Shariah compliance, governance, and ethics for Islamic financial institutions. Its standards cover areas such as Murabaha, Ijara, Musharaka, Mudaraba, Sukuk, and Takaful, offering detailed guidance on contracts, documentation, and profit/loss recognition.

IFSB, on the other hand, focuses on prudential regulation and supervision, providing standards for capital adequacy, risk management, liquidity management, and governance. Its guidelines aim to ensure financial stability while facilitating the adoption of Shariah-compliant financial practices globally.

Recent studies (Dusuki, 2020; Khan & Bhatti, 2008) emphasize the role of international standards in mitigating operational, market, and Shariah compliance risks. They also highlight challenges such as the diversity of legal systems, regional Shariah interpretations, and the rapid evolution of financial instruments including digital platforms and FinTech innovations.

METHODOLOGY

This research adopts a qualitative and comparative approach. A systematic review of literature, AAOIFI and IFSB standards, and regulatory reports from various jurisdictions was conducted. The study combines document analysis with a comparative framework to assess the alignment of international standards with regional regulatory practices.

Key methodological steps include:

1. Reviewing primary sources, including AAOIFI and IFSB standards and guidelines.
2. Analyzing secondary literature on Islamic finance regulation, risk management, and governance.
3. Comparing the implementation of standards across selected countries with significant Islamic finance sectors (e.g., Malaysia, UAE, Bahrain, and Indonesia).
4. Identifying gaps, challenges, and best practices in harmonizing international standards with local regulations.

DISCUSSION AND RESULTS

The results of this study indicate that international standards for regulating Islamic finance play a crucial role in ensuring the stability, transparency, and Shariah compliance of financial institutions. Standards developed by international organizations such as AAOIFI and IFSB not only enable financial institutions to monitor financial operations and manage risks but also serve as a key tool for integrating them into the global financial system.

Analysis shows that Shariah and accounting standards set by AAOIFI enhance the transparency of financial reporting and establish uniform rules for instruments such as Murabaha, Musharaka, Mudaraba, Sukuk, and Takaful. This contributes to the reduction of operational and financial risks in Islamic finance and increases the confidence of investors and clients. IFSB standards, on the other hand, primarily focus on regulating capital adequacy, liquidity, risk management, and corporate governance of financial institutions, thereby ensuring systemic stability.

At the same time, the study results reveal several challenges in implementing international standards. Firstly, differences in Shariah interpretations across countries complicate the uniform application of these standards. For example, the risk and profit-sharing arrangements under a Musharaka contract in one country may be interpreted differently in another, complicating global standardization. Secondly, discrepancies in national legal and regulatory frameworks limit the full implementation of international standards.



Moreover, modern financial technologies — including FinTech, blockchain, digital financial platforms, and big data analytics — support the application of international standards but also introduce new types of risks. Specifically, cybersecurity threats, technological errors, and ensuring Shariah compliance on digital platforms have emerged as pressing challenges.

The analysis further indicates that the effectiveness of international standards largely depends on adapting them to national regulatory frameworks and strengthening institutional capacity. In some advanced Islamic finance markets, such as Malaysia and the UAE, AAOIFI and IFSB standards have been effectively integrated into national legislation and regulatory oversight. As a result, these countries demonstrate high levels of Shariah compliance, stable risk management systems in financial institutions, and strong investor confidence. In other countries, however, insufficient adaptation of standards adversely affects operational efficiency and global integration.

The results also show that international standards are an effective tool for systematically managing risks in Islamic finance. They enable financial institutions to identify, assess, and mitigate credit, market, liquidity, operational, and Shariah compliance risks. Additionally, these standards improve corporate governance, strengthen internal control systems, and enhance transparency.

Furthermore, the study highlights that the successful implementation of international standards is constrained by a shortage of qualified professionals, Shariah advisors, and regulators. Therefore, the effectiveness of these standards is closely linked to institutional capacity, technological adoption, and professional training.

Overall, the findings demonstrate that international standards have significant potential for regulating Islamic finance. Full implementation of these standards can enhance the stability of financial institutions, ensure Shariah compliance, and facilitate integration into the global financial system. At the same time, addressing challenges such as differences in Shariah interpretations, technological developments, and the shortage of skilled personnel is essential for their successful application.

CONCLUSION AND RECOMMENDATIONS

The results of this study indicate that the risk management system in Islamic finance significantly differs from conventional finance in terms of its theoretical foundations and practical mechanisms. The core principle of this system is not to place the entire risk on one party, but to distribute it fairly among participants in financial relations. Moreover, the linkage of financial operations to real assets, the prohibition of interest (Riba), and the restriction of speculative activities serve as key factors that help mitigate risk.

The study also revealed that Islamic financial institutions face general financial risks such as credit, market, liquidity, and operational risks, in addition to Shariah compliance risk, which is unique to this system. This risk affects not only financial losses but also institutional reputation and customer trust. Therefore, risk management in Islamic finance requires a comprehensive and multi-level approach.

Furthermore, the study confirmed that risk-sharing, asset-backed financing, collateral and guarantee mechanisms, and Takaful arrangements are effective tools for managing risks in Islamic finance. However, in practice, financial institutions tend to prioritize low-risk instruments, which results in the incomplete implementation of the risk-sharing principle. While this approach ensures financial stability, it may limit the system's development potential in the long term.



REFERENCES

1. AAOIFI. (2021). Shari'ah Standards for Islamic Financial Institutions. Accounting and Auditing Organization for Islamic Financial Institutions.
2. IFSB. (2020). Guiding Principles on Risk Management for Islamic Financial Institutions. Islamic Financial Services Board.
3. Usmani, M. T. (2002). An Introduction to Islamic Finance. Karachi: Idara Isha'at-e-Diniyat.
4. El-Gamal, M. A. (2006). Islamic Finance: Law, Economics, and Practice. Cambridge University Press.
5. Kamali, M. H. (2008). Shari'ah Law: An Introduction. Oneworld Publications.
6. Iqbal, Z., & Mirakhor, A. (2011). An Introduction to Islamic Finance: Theory and Practice. Wiley Finance.
7. Chapra, M. U., & Khan, T. (2000). Regulation and Supervision of Islamic Banks. Jeddah: Islamic Development Bank.

