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Enhancing Islamic Accounting Practices in Uzbekistan's Commercial Banks and Capital Market Institutions: A Comparative Analysis of AAOIFI and IFRS Standards

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Abstract: This article examines the prospects and mechanisms for enhancing Islamic accounting practices in Uzbekistan's commercial banking sector and capital market institutions through a comparative analysis of the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Financial Reporting Standards (IFRS). In the context of Uzbekistan's ongoing financial sector reforms, increasing integration into global capital markets, and growing interest in Islamic finance instruments, the need for harmonized, transparent, and Shariah-compliant accounting frameworks has become increasingly important. The study explores the theoretical foundations and practical applications of Islamic accounting, emphasizing its distinct principles such as prohibition of interest (riba), risk-sharing, asset-backing, and ethical financial reporting. It analyzes how AAOIFI standards are specifically designed to reflect these principles, ensuring compliance with Shariah requirements, while IFRS focuses on providing globally accepted, investor-oriented financial reporting frameworks based on transparency, comparability, and decision-usefulness of financial information. The paper highlights key conceptual and methodological differences between the two systems, particularly in areas such as recognition and measurement of financial instruments, treatment of profit-and-loss sharing arrangements (e.g., mudarabah and musharakah), zakat calculation and disclosure, and accounting for Islamic financial products like sukuk. Furthermore, the article evaluates the current state of accounting practices in Uzbekistan's commercial banks and emerging capital markets, identifying institutional, regulatory, and methodological gaps that hinder the effective adoption of Islamic accounting standards. Special attention is given to the challenges of dual reporting systems, lack of qualified специалистов in Islamic finance accounting, absence of unified regulatory guidance, and limited experience in applying AAOIFI standards within a predominantly IFRS-based financial system. Based on comparative analysis, the research proposes a set of practical recommendations aimed at improving the integration of Islamic accounting practices. These include the development of a hybrid accounting framework that aligns AAOIFI principles with IFRS requirements, capacity building through professional training and certification programs, strengthening the role of regulatory authorities in standard-setting and supervision, and promoting the development of Islamic financial instruments within the national capital market. The article also emphasizes the importance of digital transformation and fintech solutions in facilitating accurate and efficient implementation of complex Islamic accounting transactions. The findings of this study contribute to the broader discourse on financial system modernization in Uzbekistan by offering a structured approach to incorporating Islamic finance principles into existing accounting and reporting systems. The proposed mechanisms are expected to enhance financial transparency, attract foreign investment from Islamic finance markets, and support sustainable economic development by diversifying financial services. Overall, the article underscores the strategic importance of aligning national accounting practices with both international standards and Shariah-compliant frameworks in order to strengthen Uzbekistan's position in the global financial landscape.

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Keywords: Islamic accounting, AAOIFI standards, IFRS, Uzbekistan, commercial banks, capital market institutions, Shariah compliance, financial reporting, sukuk, mudarabah, musharakah, zakat accounting, interest-free finance, risk-sharing, accounting harmonization, financial transparency, regulatory framework, Islamic finance, accounting standards comparison, financial system reform.

Introduction

The rapid transformation of global financial systems, coupled with increasing demand for ethical, transparent, and value-based financial practices, has significantly elevated the importance of Islamic finance in both emerging and developed economies. Islamic financial institutions operate on principles derived from Shariah law, which prohibit interest (riba), excessive uncertainty (gharar), and speculative activities, while emphasizing risk-sharing, asset-backed financing, and social justice. In this context, Islamic accounting plays a fundamental role in ensuring that financial reporting and disclosure practices align not only with economic realities but also with religious and ethical requirements. The growing integration of Islamic finance into conventional financial systems has created an urgent need for harmonization and comparative understanding between Islamic accounting standards and internationally recognized frameworks such as the International Financial Reporting Standards (IFRS).[1]

In Uzbekistan, ongoing economic reforms and financial sector liberalization have opened new pathways for the development of Islamic banking and Islamic capital market instruments. As the country seeks to diversify its financial ecosystem and attract foreign investment from Islamic financial institutions, the necessity of establishing a robust regulatory and accounting framework becomes increasingly evident. Commercial banks and capital market institutions in Uzbekistan currently operate primarily under IFRS-based reporting systems, which are designed to ensure global comparability and transparency. However, IFRS does not fully address the unique conceptual foundations and operational principles of Islamic finance, particularly those related to profit-and-loss sharing arrangements, Zakat accounting, and Shariah compliance disclosure.[2]

At the global level, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed specialized standards that govern Islamic accounting, auditing, governance, and ethical principles. AAOIFI standards are widely recognized in countries with well-developed Islamic financial sectors, such as Malaysia, the Gulf Cooperation Council (GCC) countries, and parts of the Middle East and South Asia. These standards aim to provide a comprehensive framework that ensures Shariah compliance while maintaining financial transparency and accountability. The coexistence of AAOIFI and IFRS frameworks has generated ongoing academic and professional debates regarding compatibility, convergence, and the feasibility of dual reporting systems in Islamic financial institutions operating within conventional regulatory environments.[3]

The comparative analysis of AAOIFI and IFRS is particularly relevant for Uzbekistan, where the financial sector is in a transitional phase and regulatory adaptation is ongoing. The potential introduction and expansion of Islamic banking services require a careful assessment of how existing IFRS-based accounting practices can be aligned or supplemented with Islamic accounting standards without compromising financial reporting quality or regulatory consistency. Moreover, capital market institutions face additional challenges in structuring Shariah-compliant instruments such as sukuk, Islamic investment funds, and equity-based financing mechanisms, all of which require specialized accounting treatment under AAOIFI guidelines.[4]

This study therefore aims to examine the conceptual and practical differences between AAOIFI and IFRS standards and assess their implications for commercial banks and capital market institutions in Uzbekistan. It also explores the feasibility of integrating Islamic accounting practices within the current regulatory framework, identifies key challenges in implementation, and evaluates potential benefits in terms of financial

inclusion, investor confidence, and market diversification. By doing so, the research contributes to the broader discourse on financial standard harmonization and provides policy-relevant insights for regulators, practitioners, and academic researchers interested in the development of Islamic finance in emerging markets.

Ultimately, the introduction of Islamic accounting practices in Uzbekistan represents not only a technical accounting adjustment but also a strategic economic initiative aimed at enhancing the country's integration into the global Islamic financial system. A well-structured comparative analysis of AAOIFI and IFRS standards is therefore essential for ensuring that financial reporting practices remain both internationally credible and religiously compliant, thereby supporting sustainable growth in Uzbekistan's banking and capital market sectors.[5]

Methodology

This study is based on a qualitative and comparative research methodology aimed at analyzing and enhancing Islamic accounting practices in Uzbekistan's commercial banking sector and capital market institutions through a systematic comparison of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards and International Financial Reporting Standards (IFRS). The research focuses on identifying key conceptual and practical differences between these two accounting frameworks and assessing their applicability within the national financial system of Uzbekistan, which is currently dominated by IFRS-based reporting.[6]

The research design is primarily descriptive and comparative in nature. It does not involve experimental manipulation of variables; instead, it examines existing accounting frameworks, regulatory documents, and institutional practices. The comparative approach is used to evaluate differences in recognition, measurement, presentation, and disclosure requirements between AAOIFI and IFRS standards. In addition, the study applies a conceptual analysis to understand the philosophical and ethical foundations of Islamic accounting, particularly its emphasis on Shariah compliance, prohibition of interest (riba), risk-sharing principles, and social justice in financial reporting.[7]

Data for the study are collected from multiple secondary sources. These include AAOIFI standards, IFRS publications issued by the International Accounting Standards Board (IASB), regulatory documents from the Central Bank of Uzbekistan, legal frameworks governing banking and capital markets, as well as annual reports and financial disclosures of selected commercial banks and financial institutions. Academic articles, monographs, and policy reports on Islamic finance and conventional accounting systems are also used to support the analysis. The use of secondary data ensures that the study is grounded in internationally recognized standards and official institutional documentation.[8]

The sampling strategy is purposive, focusing on commercial banks operating in Uzbekistan that either provide Islamic finance products or are potentially capable of integrating Islamic banking principles into their operations. In addition, capital market institutions involved in the issuance or regulation of Islamic financial instruments, such as sukuk, are included. This selection is based on relevance to the research objective and availability of publicly accessible financial reporting information.

The analysis is conducted using several qualitative techniques. Content analysis is applied to examine AAOIFI and IFRS standards in detail, identifying differences in accounting treatment and reporting structure. Thematic analysis is used to categorize these differences into key areas such as financial reporting principles, governance structure, ethical compliance, and risk management. Furthermore, gap analysis is employed to determine the extent to which current IFRS-based practices in Uzbekistan differ from Islamic accounting requirements and to identify areas where adaptation or harmonization is necessary. A comparative institutional analysis is also used to evaluate the readiness of Uzbekistan's financial system for the implementation of Islamic accounting standards,

considering regulatory support, institutional capacity, and human resource preparedness.[9]

To ensure the reliability and validity of the findings, data triangulation is applied by comparing information from multiple credible sources, including international standard-setting bodies, government institutions, and academic literature. This approach enhances the accuracy and consistency of the analysis.

However, the study has certain limitations. The relatively limited development of Islamic banking infrastructure in Uzbekistan restricts the availability of empirical data. In addition, reliance on secondary data may limit the ability to capture real-time operational practices within financial institutions. Despite these limitations, the methodology provides a comprehensive framework for evaluating the feasibility and effectiveness of integrating AAOIFI standards into Uzbekistan's existing IFRS-based financial reporting system.[10]

Results and Discussion

The Table 1. analysis of Islamic accounting practices in Uzbekistan's commercial banks and capital market institutions shows that the sector is currently in a transitional stage of development, where Islamic finance operations are emerging within a predominantly IFRS-based regulatory environment. The results indicate that although Uzbekistan has introduced Islamic financial products in banking practice, their accounting treatment is still largely aligned with International Financial Reporting Standards (IFRS), while full implementation of AAOIFI standards remains limited. This creates a hybrid system in which Islamic financial transactions are recorded using conventional accounting logic, which does not always reflect the economic and ethical essence of Sharia-compliant operations.[11]

Table 1. Comparative Analysis of AAOIFI and IFRS Standards in Islamic Banking Context.

Criteria	AAOIFI Standards	IFRS Standards
Primary Objective	Ensure compliance with Sharia principles and Islamic financial ethics	Provide global financial reporting transparency and comparability
Concept of Interest (Riba)	Strictly prohibited	Not prohibited; interest-based transactions are allowed
Risk Sharing Principle	Based on profit-and-loss sharing (PLS) models such as Mudarabah and Musharakah	Risk allocation depends on contractual financial instruments
Asset Recognition	Focus on real, asset-backed transactions	Allows recognition of financial instruments and intangible assets
Revenue Recognition	Based on Sharia-compliant contracts and profit realization	Based on IFRS 15 revenue recognition principles
Governance Framework	Sharia Supervisory Board required	No Sharia governance requirement
Financial Reporting Focus	Ethical compliance and Islamic legitimacy	Economic substance and investor decision usefulness
Applicability	Islamic financial institutions only	Globally applicable across all sectors

The Table 2. findings demonstrate that commercial banks in Uzbekistan mainly apply IFRS principles when recognizing and measuring Islamic financial instruments. As a result, contracts such as murabaha, mudarabah, and ijara are frequently treated as conventional financial assets, receivables, or lease arrangements rather than as distinct Islamic contracts. This practice ensures regulatory compliance with national accounting requirements, but it reduces the level of Sharia-specific transparency required by AAOIFI

standards. In particular, profit-and-loss sharing mechanisms are often reported in simplified forms, without detailed disclosure of underlying risk-sharing structures, which limits the informational value for Islamic investors.[12]

Table 2. Application of AAOIFI vs IFRS in Uzbekistan's Financial Institutions.

Area of Application	AAOIFI-Based Islamic Finance Practice	IFRS-Based Conventional Practice
Commercial Banks	Islamic banking windows using Murabaha, Ijara, Mudarabah	Conventional lending and deposit operations with interest
Capital Market Instruments	Sukuk (Islamic bonds) based on asset ownership	Traditional bonds and equity securities
Risk Management	Asset-backed financing reduces speculative risk	Market-based risk management using derivatives
Accounting Treatment	Profit-sharing and asset-based valuation	Fair value and amortized cost measurement
Regulatory Environment in Uzbekistan	Developing Islamic finance regulations; pilot projects ongoing	Fully implemented IFRS-based reporting system
Investor Base	Faith-based and ethical investors	Global institutional and retail investors
Financial Reporting Transparency	Sharia compliance disclosure required	International financial transparency standards

A comparative analysis between AAOIFI and IFRS standards shows significant differences in conceptual foundations and reporting objectives. IFRS is designed to ensure comparability, reliability, and relevance of financial information for global investors, while AAOIFI focuses on compliance with Sharia principles, including prohibition of interest (riba), avoidance of excessive uncertainty (gharar), and promotion of asset-backed financing. This leads to differences in income recognition, asset classification, and disclosure requirements. For example, IFRS allows interest-based revenue recognition using the effective interest method, whereas AAOIFI requires income recognition based on actual profit-sharing outcomes. Similarly, IFRS classifies financial instruments based on control and contractual rights, while AAOIFI emphasizes the nature of Islamic contracts and their underlying ethical structure.[13]

The study also reveals that the capital market institutions in Uzbekistan are at an early stage of developing Islamic capital instruments such as sukuk. Where such instruments exist, they are generally reported under IFRS as debt-like securities rather than asset-backed investment certificates, as required by AAOIFI. This reduces the visibility of risk-sharing characteristics and limits the development of a fully Islamic capital market infrastructure. As a result, Uzbekistan's financial market remains more compatible with conventional global capital markets than with specialized Islamic finance ecosystems.

Another important finding is the presence of institutional and operational barriers that hinder the adoption of AAOIFI standards. These barriers include the absence of mandatory regulatory requirements for Islamic accounting, limited expertise in Islamic finance among accountants and auditors, and the dominance of IFRS in the national financial reporting system. In addition, the lack of a fully developed Sharia supervisory framework in financial institutions further restricts the application of Islamic accounting principles. These challenges collectively slow down the integration of AAOIFI standards into the national financial system.[14]

Despite these limitations, the study identifies several opportunities for improving Islamic accounting practices in Uzbekistan. The growing interest in Islamic finance, combined with ongoing financial sector reforms, creates favorable conditions for gradual harmonization between IFRS and AAOIFI standards. A dual reporting approach, where

IFRS is used for statutory reporting and AAOIFI-based disclosures are applied for Islamic transactions, could enhance transparency without disrupting regulatory consistency. This approach would also improve investor confidence, particularly among international Islamic financial institutions seeking Sharia-compliant investment opportunities.

The discussion further suggests that strengthening institutional capacity is essential for future development. This includes training programs for accountants and auditors in Islamic finance principles, establishment of Sharia advisory boards within financial institutions, and development of national guidelines for Islamic accounting practices. Such measures would facilitate better alignment between financial reporting and the specific requirements of Islamic finance.

The results show that Uzbekistan's Islamic accounting system is still evolving and requires structured reforms to achieve full compliance with AAOIFI standards. However, complete replacement of IFRS is neither practical nor desirable. Instead, a gradual integration model that combines the global compatibility of IFRS with the ethical and structural specificity of AAOIFI offers the most realistic and effective pathway for developing Islamic accounting practices in Uzbekistan's banking and capital market institutions.[15]

Conclusion

This study has examined the enhancement of Islamic accounting practices within Uzbekistan's commercial banking sector and capital market institutions through a comparative analysis of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards and IFRS (International Financial Reporting Standards). The findings highlight that while IFRS remains the dominant global financial reporting framework in Uzbekistan, its conventional structure does not fully capture the specific principles, ethical requirements, and Shariah-based financial treatment inherent in Islamic finance. In contrast, AAOIFI standards provide a more comprehensive and religion-compliant framework that aligns financial reporting with Islamic jurisprudence, particularly in areas such as profit-and-loss sharing contracts, prohibition of interest (riba), asset-backed financing, and zakat reporting.

The comparative analysis reveals that IFRS ensures high levels of transparency, comparability, and global integration, which are essential for attracting foreign investment and maintaining consistency in international financial reporting. However, IFRS lacks specific guidance on Islamic financial instruments such as murabaha, mudarabah, musharakah, and sukuk, often requiring Islamic financial institutions to apply additional interpretations or supplementary disclosures. On the other hand, AAOIFI provides detailed accounting treatments tailored to these instruments, ensuring that financial reporting reflects both economic substance and Shariah compliance. Nevertheless, AAOIFI's adoption is limited internationally, which creates challenges in cross-border comparability and integration with global capital markets.

In the context of Uzbekistan, where Islamic finance is gradually emerging alongside traditional banking systems, the integration of AAOIFI-based principles within IFRS-compliant reporting frameworks presents both an opportunity and a necessity. The study indicates that a hybrid reporting approach—where IFRS serves as the primary reporting standard and AAOIFI principles are applied for Islamic financial transactions—could significantly enhance the accuracy, transparency, and religious compliance of financial statements. This dual-framework approach would allow Islamic banks and capital market institutions to maintain international credibility while also meeting the ethical and religious expectations of stakeholders.

Furthermore, the development of Islamic accounting practices in Uzbekistan is closely linked to regulatory readiness, institutional capacity, and professional training. The research emphasizes that the successful implementation of Islamic accounting standards requires harmonization between national accounting regulations, central bank policies,

and Shariah governance frameworks. Without adequate institutional support, the application of AAOIFI principles may remain superficial or inconsistent. Therefore, capacity-building programs, professional certification in Islamic finance, and the introduction of specialized accounting curricula in higher education institutions are essential steps for sustainable development.

The study also identifies that the growing demand for Islamic financial products—particularly sukuk issuance, Islamic banking services, and Shariah-compliant investment funds—creates a strong foundation for expanding Islamic accounting practices in Uzbekistan's capital market. By improving disclosure quality and aligning reporting standards with Islamic ethical principles, financial institutions can attract both domestic and international investors seeking socially responsible and faith-based investment opportunities.

In conclusion, enhancing Islamic accounting practices in Uzbekistan requires a balanced and strategic approach that integrates the strengths of both AAOIFI and IFRS frameworks. The adoption of a harmonized reporting system will not only improve financial transparency and accountability but also strengthen Uzbekistan's position as a regional hub for Islamic finance. Future reforms should focus on regulatory alignment, institutional development, and international cooperation to ensure the sustainable integration of Islamic accounting standards into the national financial system.

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