

## Standardization in Interest-Free Finance: Importance, Challenges and Future Perspectives

Faizsiz Finansta Standartlaşma: Önemi, Zorluklar ve Gelecek  
Perspektifi

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## Abstract<sup>1</sup>

*Standardization is a process aimed at enhancing consistency, quality, and efficiency by establishing common rules, criteria, and methods within a specific field. Applied across a wide range of areas—from manufacturing to the service sector, from technology to healthcare—it plays a vital role in ensuring reliability, minimizing errors, and strengthening international competitiveness. At the same time, by facilitating global cooperation, it promotes progress not only in economic and technological development but also in social, environmental, and cultural domains; thus, it makes significant contributions to the construction of a sustainable, inclusive, and orderly global system. Interest-free finance is a system that encompasses financial transactions structured in accordance with shari'a principles, and it can be implemented in various forms depending on the legal frameworks and institutional structures of different countries. This diversity complicates the establishment of standardized frameworks in accounting and auditing, leading to uncertainties in transparency and compliance. The aim of this study is to evaluate the necessity and impacts of standardization in the interest-free financial system. In this context, the standardization efforts of international organizations such as AAOIFI, IFSB, and IIFM are examined, and a comparative analysis is conducted through the example of Turkey. The study is based on a qualitative method involving literature review and institutional comparisons.*

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**Keywords:** Standardization, Interest-Free Finance, AAOIFI, IFSB, IIFM.

## Öz

*Standardizasyon, belirli bir alanda ortak kurallar, ölçütler ve yöntemler belirleyerek uyumu, kaliteyi ve verimliliği artırmayı amaçlayan bir süreçtir. Üretimden hizmet sektörüne, teknolojiye kadar pek çok sahada uygulanan bu süreç, güvenilirliği sağlamak, hataları en aza indirmek ve uluslararası rekabeti güçlendirmek açısından hayati öneme sahiptir. Aynı zamanda, küresel iş birliğini kolaylaştırarak yalnızca ekonomik ve teknolojik gelişimi değil, sosyal, çevresel ve kültürel alanlarda da ilerlemeyi teşvik etmekte; böylece sürdürülebilir, kapsayıcı ve düzenli bir küresel sistemin inşasına önemli katkılar sunmaktadır. Faizsiz finans, şeriat prensiplerine uygun olarak yapılandırılmış finansal işlemleri kapsayan bir sistemdir ve bu sistem, farklı ülkelerdeki yasal çerçeveler ve kurumsal yapılar doğrultusunda çeşitli uygulama biçimleriyle hayata geçirilebilmektedir. Bu çeşitlilik,*

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<sup>1</sup> This article is derived from the PhD dissertation of “Katılım Bankacılığı Uygulamalarının AAOIFI Şeriat Standartları Çerçevesinde Çok Kriterli Karar Verme Yöntemleri ile Değerlendirilmesi”, prepared by Dr. Zeynep ŞİMŞEK BİNGÖL under the consultancy of Prof. Dr. Bünyamin ER.

*muhasabe ve denetim mekanizmalarında standart bir çerçevenin oluşturulmasını zorlaştırarak şeffaflık ve uyumluluk açısından çeşitli belirsizlikler doğurmaktadır. Bu çalışmanın amacı, faizsiz finans sisteminde standartlaşmanın gerekliliğini ve etkilerini değerlendirmektir. Bu bağlamda, AAOIFI, IFSB ve IIFM gibi uluslararası kuruluşların standartlaşma çabaları incelenmiş, Türkiye örneği üzerinden karşılaştırmalı analiz yapılmıştır. Çalışma, nitel bir yöntemle literatür taraması ve kurumsal karşılaştırmalar temelinde gerçekleştirilmiştir.*

**Anahtar Kelimeler:** Standardizasyon, Faizsiz Finans, AAOIFI, IFSB, IIFM.

### **Geniştirilmiş Özet**

Standardizasyon, finansal sistemlerin şeffaflığını, verimliliğini ve istikrarını artırmak amacıyla oluşturulan bir uyum sürecidir. Faizsiz finans sektörü, şeriat ilkelerine dayalı olarak faaliyet gösterdiği için geleneksel finans sistemlerinden farklı dinamiklere sahiptir. Farklı mezheplerin ve bölgesel düzenlemelerin varlığı, faizsiz finans uygulamalarında tutarsızlıklara neden olmakta ve küresel entegrasyonu zorlaştırmaktadır. Bu nedenle, uluslararası düzeyde uyumlu standartların oluşturulması faizsiz finansın sürdürülebilirliği açısından büyük önem taşımaktadır.

Faizsiz finans sisteminde standartlaşma hem hukuki uyum hem de 617 finansal istikrar açısından kritik bir konudur. Şeriat uyumluluğunun sağlanması için belirli kurallar ve çerçevelerin oluşturulması gerekmektedir. Standartlaşma, finansal raporlamaların güvenilirliğini artırırken, yatırımcı güvenini de güçlendirmektedir. Faizsiz finans sektöründe standartların olmaması, ürünlerin farklı yorumlarla şekillenmesine neden olmakta ve piyasalar arasında tutarsızlıklara yol açmaktadır. Standartların belirlenmesi, faizsiz finans kuruluşlarının risk yönetimi ve denetim süreçlerini daha etkin bir hale getirmesine olanak tanır. Bu sayede, finansal şeffaflık artar, piyasa güveni güçlenir ve uluslararası yatırımcıların faizsiz finans sektörüne ilgisi artar. Bununla birlikte, standardizasyonun sağlanamaması durumunda, farklı ülkelerde uygulanan yöntemler arasında ciddi farklılıklar ortaya çıkmakta ve bu da yatırımcılar açısından belirsizliğe neden olmaktadır.

Faizsiz finans alanında standardizasyon sürecine yön veren uluslararası kuruluşlar arasında AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions/İslamî Finansal Kuruluşlar Muhasebe ve Denetim Kurumu), IFSB (Islamic Financial Services Board/İslamî Finansal Hizmetler Kurulu) ve IIFM (International Islamic Financial Market/ Uluslararası İslami Finans Piyasası Kurumu) öne çıkmaktadır. AAOIFI, şeriat uyumlu muhasabe ve denetim standartları

geliştirirken, IFSB düzenleyici çerçeve ve risk yönetimi konularında çalışmalar yürütmektedir. IIFM ise faizsiz finans piyasalarında işlem gören ürünlerin ve sözleşmelerin standardizasyonunu sağlamaktadır. Bu kuruluşlar, faizsiz finans ürünlerinin güvenilirliğini artırmak ve küresel finans sistemine entegrasyonunu kolaylaştırmak için çeşitli çalışmalar yürütmektedir. Ancak, bu standartların farklı ülkelerde benimsenme seviyeleri değişiklik göstermektedir. Örneğin, Malezya ve Körfez ülkeleri AAOIFI standartlarını doğrudan benimserken, diğer ülkeler kendi ulusal düzenlemelerini oluşturmayı tercih etmektedir. Bu durum, uluslararası yatırımcılar açısından belirsizlik yaratmakta ve faizsiz finans ürünlerinin farklı pazarlarda kabul edilmesini zorlaştırmaktadır.

Standartlaşma süreci, bazı temel zorluklarla karşı karşıyadır. Öncelikle, İslam hukukunun farklı mezheplere göre değişen yorumları ve ülkeler arasındaki yasal ve düzenleyici çerçevelerin farklı olması, faizsiz finans ürünlerinin küresel ölçekte ortak bir yapıya kavuşmasını engellemektedir. Ayrıca, küçük ve orta ölçekli faizsiz finans kuruluşları için uluslararası standartlara uyum sağlamak ek maliyetler doğurabilmektedir. Faizsiz finans sisteminin uluslararası arenada daha güçlü ve rekabetçi bir konuma gelebilmesi için bu zorlukların aşılması gerekmektedir.

Faizsiz finansın küresel ölçekte daha sağlam ve istikrarlı bir yapıya kavuşabilmesi için bazı adımlar atılması gerekmektedir. Öncelikle, AAOIFI ve IFSB standartlarının küresel ölçekte benimsenmesi teşvik edilmelidir. Ulusal ve uluslararası finans kurumları, bu standartların uygulanmasını kolaylaştırmak için iş birliği yapmalıdır. Ayrıca, bölgesel şariat kurulları arasında uyum sağlanarak farklı fikhî yorumların yarattığı belirsizlikler en aza indirilmelidir. Standartlara uyumu artırmak için eğitim ve bilinçlendirme programları düzenlenmeli, faizsiz finans alanında çalışan profesyonellerin standardizasyon konusunda bilgi sahibi olması sağlanmalıdır. Teknolojik altyapının güçlendirilmesi de bir diğer önemli faktördür. Standartlara uygunluk süreçlerinin daha hızlı ve etkin yönetilebilmesi için dijital denetim sistemleri geliştirilmeli ve yaygınlaştırılmalıdır. Böylece, faizsiz finans kuruluşlarının şeffaflığı artırılabilecek ve uluslararası yatırımcıların ilgisini çekecek bir yapı oluşturulacaktır.

Türkiye’de faizsiz finans alanında standartlaşma süreci, uluslararası entegrasyonu güçlendirmek için daha aktif bir şekilde yürütülmelidir. Türkiye Katılım Bankaları Birliği (TKBB) Danışma Kurulu, AAOIFI ve IFSB standartlarıyla uyumu artırmak için daha fazla çalışma yapmalı ve yerel düzenlemelerin uluslararası standartlarla daha fazla örtüşmesini

sağlamalıdır. Türkiye’de faizsiz finans alanındaki standartlaşma çabalarının artırılması, uluslararası yatırımcıları çekme potansiyelini yükseltecek ve ülkenin bu alandaki rekabet gücünü artıracaktır. Standartların benimsenmesi, faizsiz finans kuruluşlarının şeffaflığını artırırken, müşteriler ve yatırımcılar için daha güvenilir bir sistemin oluşmasını da sağlayacaktır. Türkiye’de ayrıca, faizsiz finans kuruluşlarının uluslararası pazarlara erişimini kolaylaştırmak adına regülasyonlar, eğitim programları ve teknolojik altyapı yatırımları desteklenmelidir. Standartlaşma sürecine devlet kurumları ve özel sektör iş birliği yaparak destek vermelidir.

Faizsiz finans sektöründe standardizasyon, küresel piyasalarla entegrasyonu hızlandırarak finansal istikrarı güçlendirmektedir. AAOIFI, IFSB ve IIFM gibi kuruluşlar, uluslararası standartların oluşturulmasında kritik bir rol oynamaktadır. Ancak, farklı mezhep yorumları, yasal çerçeve farkları ve uyum maliyetleri gibi faktörler, standartlaşma sürecini karmaşık hale getirmektedir. Gelecekte, faizsiz finans sektörünün büyümesini desteklemek için standartların daha geniş bir çerçevede benimsenmesi, uluslararası kuruluşlarla iş birliğinin artırılması ve teknoloji destekli denetim mekanizmalarının geliştirilmesi gerekmektedir. Türkiye’nin, faizsiz finansın küresel standartlara uyum sağlaması konusunda proaktif bir rol üstlenmesi, uluslararası yatırımcı çekme potansiyelini artırarak sektörde rekabet gücünü yükseltecektir. Aynı zamanda, finansal kurumlar arasındaki iş birliği artırılarak, ortak uygulama rehberleri ve yönetim mekanizmaları oluşturulmalıdır. Türkiye, faizsiz finans alanında lider ülkelerle ortak projeler geliştirerek, bu süreçte daha etkin rol oynayabilir.

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Bu bağlamda, uyum süreçlerinin hızlandırılması ve küresel ölçekte kabul gören standartların benimsenmesi, faizsiz finansın geleceği açısından kritik bir adım olacaktır. Uluslararası standartların benimsenmesi, faizsiz finans kuruluşlarının daha sağlam bir yapı oluşturmaya imkan verecek, uluslararası pazarlarda daha geniş bir kitleye hitap etmelerine yardımcı olacaktır. Türkiye’nin de bu süreçte, faizsiz finans ekosistemini güçlendirecek düzenlemeleri hayata geçirmesi ve sektör paydaşlarıyla yakın iş birliği içinde olması, uzun vadede büyük kazanımlar sunacaktır. Faizsiz finansın küresel standartlarla uyumlu hale getirilmesi, yatırımcı güvenini artırırken, aynı zamanda daha kapsayıcı ve sürdürülebilir bir finansal sistemin inşa edilmesine katkı sağlayacaktır.

### Introduction

Standardization plays a crucial role in financial markets by promoting transparency, efficiency, and stability. In the realm of interest-free finance,

which operates under *sharī'a*-compliant principles, the lack of globally accepted standards has posed significant challenges. Variations in accounting practices, auditing frameworks, and regulatory guidelines across different jurisdictions create inconsistencies that hinder the sector's integration into the global financial system.

The absence of unified regulations affects investor confidence, complicates cross-border transactions, and limits the growth potential of interest-free financial institutions. Efforts by international organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) aim to address these disparities. However, achieving harmonization remains a complex endeavor due to differences in local regulatory frameworks, *sharī'a* interpretations, and market dynamics.

This study examines the standardization process in the interest-free financial system, its importance, and its impact on the sector's sustainability. By analyzing historical developments and current challenges, the research aims to highlight the necessity of standardized financial practices and propose recommendations for enhancing global integration.

This study was conducted using a descriptive qualitative method to evaluate the development of international standards in the field of interest-free finance and their impact on the sector. The research is based on a comprehensive literature review, focusing on reports and publications of relevant institutions, primarily AAOIFI, IFSB, and IIFM. In addition, the practices implemented in Turkey were analyzed through a comparative approach.

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## **1. Historical and Conceptual Framework**

### **1.1. Standardization**

Standardization is a systematic approach developed to ensure consistency in products, services, processes, or measurements across various sectors within defined rules and criteria. This concept aims to harmonize activities conducted in different geographies or organizations, enhance quality, and optimize efficiency. From the Industrial Revolution to the digital transformation, standardization has played a critical role in numerous fields, including production lines, software development, healthcare, and international trade.

Standardization is the process of establishing common usage

provisions to bring optimal order to existing or potential problems within a specific context. The outcome of this process is defined as standards: rules, guidelines, or specifications based on consensus and approved by recognized institutions. For example, ISO standards or industrial protocols facilitate global communication, reduce costs, and pave the way for the widespread adoption of innovative solutions. In short, standardization is a fundamental tool that makes the complex systems of the modern world manageable (ISO/IEC Guide 2, 2004, 3-4). Standards ensure harmony and integrity in business and processes while guiding users, defining achievable goals (Çağlar - Kılıç, 2008, 49), enhancing efficiency, reinforcing institutional success, and making individuals' lives more practical, safe, and healthy (Bahadır, 2019, 30).

Standards are predominantly established at the international level, with national standardization bodies collaborating with international actors to execute this process. These regulations may manifest as legally binding protocols or informal, voluntary recommendations. Standardization serves a critical function in enabling the effective dissemination of knowledge, improving the coordination of activities, and simplifying processes. Additionally, it strengthens international collaboration and coordination by creating consistency and homogeneity among individuals and institutions in geographically diverse locations. This enhances the clarity of communication, guarantees process quality, and minimizes the risk of critical information being overlooked (Lhotska et al., 2013, 752; Brunsson - Jacobsson, 2002, 48).

## 1.2. The History of Standardization

The Industrial Revolution fundamentally transformed the concept of standardization with the proliferation of industrial production processes. Mechanization and mass production not only reshaped the economic and social structures of Western societies but also laid the foundations of modern standardization. Practical challenges encountered during this period necessitated the universalization of standards. For instance, in 1798, the U.S. Army commissioned firearms manufacturer Eli Whitney to develop an "interchangeable parts" system to enable rapid replacement of damaged components. The workshop Whitney established for this purpose became a pioneering step in standardization for mass production. Similarly, during the 1904 Baltimore fire, the incompatibility of fire hoses sourced from different regions starkly exposed the dangers of the "lack of common standards." These events highlighted the urgent need for harmonized international standards, contributing to the evolution of today's understanding of standardization. In essence, technological advancements and industrial demands elevated

standardization from a mere efficiency tool to a global imperative (Kerey, 1990, 18).

Following industrialization, the rise in production and exports paved the way for standardization laws targeting agricultural products like cotton and wheat in many countries. However, the 1929 Great Depression negatively impacted these standardization efforts, preventing the anticipated increases in agricultural productivity due to the crisis. The subsequent outbreak of World War II further disrupted standardization initiatives by destabilizing national economic and industrial structures. In the postwar era, aided by technological advancements and recovery efforts, countries prioritized standardization at the national level and began pursuing international harmonization (Yurtoğlu, 2018, 245-254).

In Turkish history, the earliest institutional example of standardization is considered to be the Guild Organization (Lonca Teşkilatı), established to regulate production, quality, and pricing. This organization aimed to prevent fraudulent practices in commercial activities and standardize product quality to streamline production processes (Kerey, 1990, 19). Reflecting this ethos, the Law Code of Market Regulation in Bursa (Kanunnâme-i İhtisâb-ı Bursa), issued by Bâyezîd II in 1502, is regarded as one of the world's earliest 622 standardization texts. This code specified detailed standards for garment production, including dimensions, weights, durability periods, and other technical criteria for clothing and textiles (Kerey, 1990, 19; Yurtoğlu, 2018, 243).

In the 20th century, private standardization organizations began spearheading standard development activities. Aligned with advancements in business sciences, companies adopted not only internal standards but also those established by trade associations and national or international bodies. Modern standardization emerged as a management tool to address challenges such as low efficiency, quality issues, resource waste, and rising costs. During the late 19th and early 20th centuries (Note: This phrasing may reflect a contextual inconsistency; likely intended as "late 19th and early 20th centuries"), industrialization and the acceleration of international trade led to a proliferation of standardization organizations. Some operated as non-profit civil society organizations, while others were directly organized and managed by governments. The rise of national and international standardization bodies paralleled the global expansion of industry and commerce, with these institutions playing a critical role in ensuring product compatibility and technical standardization in international trade. Notably, the International

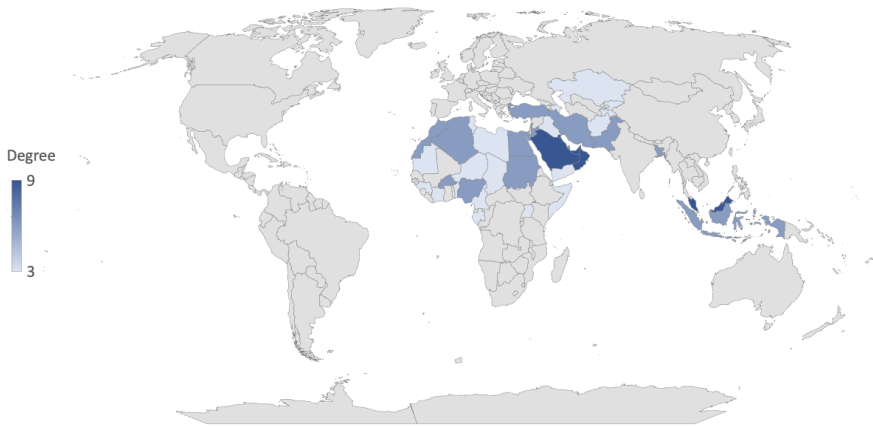


Organization for Standardization (ISO), founded in 1947, became pivotal in developing and implementing global standards. According to the World Trade Organization (WTO), non-profit standardization organizations are more prevalent in developed countries, whereas government-supported entities are more active in developing nations. By the 20th century, modern standards began to be globally implemented through a structured hierarchy at national, regional, and international levels (Ping, 2011, 16; Bektaş, 2024, 35).

## 2. Standardization Process in Interest-Free Finance

From Islam's earliest period, commercial transactions were regulated through *sharī'a* texts derived from the *Qur'ān* and *Sunnah*. In the formative years of Islam, differences in commercial practices among traders were resolved through the Prophet's clear rulings, yet the need for standardization was emphasized. After the Prophet's passing, his Companions (*ṣaḥāba*) collectively interpreted his actions in similar situations, forming the concept of consensus (*ijmā'*). This consensus is seen as an effort to standardize the understanding of *sharī'a* texts among the Companions. These efforts continued throughout the era of the Four Rightly Guided Caliphs, further developing Islamic jurisprudence. As the Islamic state expanded, diverse schools of jurisprudence (*madhāhib*) emerged, leading to a divergence from standardization. Subsequent Islamic states faced similar challenges (Oseni, Umar A. et al., 2016, 111). During the Ottoman period, particularly under the Ottoman Civil Code (*Mecelle*) based on the *Ḥanafī* school of jurisprudence, the need for jurisprudential standardization became evident. Efforts between 1850 and the late 1880s to standardize civil law—encompassing private law, commercial transactions, and financial practices—are recognized as significant initiatives, albeit national in scope. 623

Figure 1: Degree of Standardization in Islamic Finance in OIC Member Countries



Source: Aysan, 2022.

In the 19th century, within the Islamic world—particularly in the Ottoman Empire—*waqfs* (Islamic endowments) played a significant financial role. These endowments were utilized to fund social services and commercial activities (Çizakça, 2019, 74–78), and this system was standardized as a key component of interest-free finance. These efforts later laid the groundwork for the development of modern interest-free finance, paving the way for its emergence. By the 20th century, interest-free finance began gaining prominence in the global economy. Its core objective is to establish an economic system compliant with *sharīʿa* principles through interest-free financial transactions. However, due to divergent practices across regions and schools of jurisprudence (*madhāhib*), the need for standardization became increasingly apparent. Toward the end of the 20th century, growing international acceptance of interest-free finance accelerated standardization efforts. International banks and financial institutions began introducing interest-free financial products to global markets, emphasizing the critical importance of *sharīʿa* compliance and harmonized standards in this process.

The need for Islamic accounting standards has paralleled the development of interest-free financial products. New financial instruments, especially those requiring institutions to prepare annual financial statements, demand appropriate accounting practices. However, the rapid growth of interest-free financial institutions since the 1970s has made it challenging for accounting standards to keep pace. Moreover, during the Islamization of

financial products, the focus remained largely on developing institutions and instruments, with insufficient attention paid to establishing a corresponding regulatory framework (Vinnicombe, 2010, 56). The complex and diverse nature of financial transactions, coupled with the lack of adequate legal regulations—particularly in Islamic countries due to academic and political factors—has underscored the importance of standardized regulatory norms. These standards, in effect, fill the existing legal void, serving as a model for states seeking to codify laws in the field of interest-free finance. In this context, the establishment of standards is viewed as a positive development, both legally and politically. Furthermore, the internationalization of trade and finance has amplified the need for such standards. Today, many institutions operate across borders, opening branches and forming joint ventures. In this environment, the existence of globally accepted common standards—transcending country-specific legal and administrative infrastructures—ensures a more robust and orderly operational framework. Consequently, the formulation of these standards has become imperative for internationalization. While minor differences exist among institutions, significant similarities are observed in their structures, institutionalization, customer bases, and challenges. In the post-globalization era, the confinement of institutional structures to narrow scopes has further heightened the necessity for these standards (Cebeci, 2020, 20–22).

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## **2.1. Role of International Standardization Organizations**

There are several prominent organizations that develop common regulatory standards for interest-free financial institutions. These include the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM), and the International Islamic Rating Agency (IIRA). These organizations establish international standards by publishing guidelines and best practice recommendations in the field of interest-free finance, playing a significant role in advancing the development of Islamic finance.

### **2.1.1. AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions**

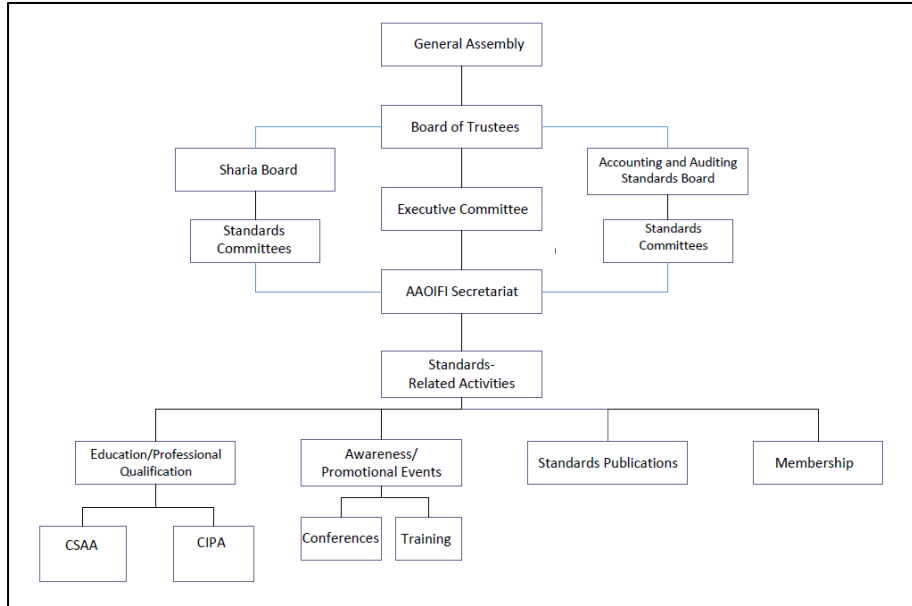
Established in 1991 in Bahrain, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) is an international non-profit organization that pioneers developing and publishing standards for the global Islamic finance sector. Committed to the standardization and harmonization of international Islamic finance practices and shari‘a-

compliant financial reporting standards, AAOIFI has established three specialized boards for its standard-setting process. These include the Sharī'a Board (19 members) for Islamic finance standards, the Accounting Board (15 members) for developing accounting standards, and a Governance and Ethics Board (15 members) responsible for governance and ethical guidelines (Figure 1), (AAOIFI, 03 November 2024).

AAOIFI has published a total of 128 standards in the fields of sharī'a (61), accounting (50), audit, and governance (17) for Islamic finance. Additionally, it has established an ethical framework that ensures principles such as justice, equity, and transparency are reflected in Islamic finance transactions, while regulating the moral conduct of employees at these institutions and all stakeholders engaged with them. The ethical standards cover a wide range of issues, including conflict of interest, protection of client and institutional data, prevention of fraud and deception, zero tolerance for bribery and corruption, fair competition, and social responsibility (AAOIFIa, n.d.).

AAOIFI is supported by institutional members from over 45 countries, including central banks, regulatory authorities, financial institutions, accounting and audit firms, and law firms. AAOIFI standards are currently followed by all leading Islamic financial institutions worldwide and play a pivotal role in harmonizing international Islamic finance practices (AAOIFib, n.d.).

Figure 2. AAOIFI Organizational Structure



Source: <https://aaoifi.com/structure/?lang=en>

Prior to the establishment of AAOIFI, interest-free financial institutions formed internal Shari‘a Advisory Boards (SABs) to ensure their practices complied with Islamic law. These boards typically operated as permanent advisory bodies, though some smaller institutions temporarily appointed independent consultants. While maintaining SABs was not a legal requirement for Islamic banks, in some countries—such as Bahrain—their existence was mandatory to obtain a licensing permit. SABs reviewed, modified, and recommended appropriate accounting practices across various matters, including the preparation of financial statements. Most Islamic financial institutions facing similar challenges conducted their own studies to determine suitable accounting practices, leading to significant workloads and resource inefficiencies. Before AAOIFI introduced standards for SABs, there were no guidelines on how these boards should operate or how institutions should establish them. Additionally, disparities among SABs and the lack of standardization resulted in significant variations in accounting practices across institutions and even within the same institution over time. Due to these challenges, Islamic financial institutions recognized the need to unify accounting standards by creating a single overarching body to develop acceptable accounting practices for diverse issues. To address these problems,

Islamic financial institutions spearheaded the establishment of AAOIFI, ensuring the standardization of practices across the sector (Vinnicombe, 2010, 56). Beyond standardization, AAOIFI provides professional capacity-building programs and workshops to stakeholders at various levels—such as regulators, executives, Shari‘a scholars, and other practitioners—to educate them on implementing its standards and to promote greater professionalism within the industry.

AAOIFI, which was initially established as an organization to publish accounting standards, has also become a reference source to ensure compliance with shari‘a principles in the operations and products of these institutions, alongside the growth of the interest-free finance sector and the increasing number of Islamic banks. Furthermore, to ensure consistency among the fatwas and decisions issued by different shari‘a/advisory committees, shari‘a standards have also been incorporated into AAOIFI's scope (Güçlü - Kılıç, 2020, 85).

Country / Jurisdiction	Shari‘a Standards (SHA)	Accounting Standards (ACC)	Governance / Auditing Standards (GOV)
<b>Afghanistan</b>	Guidance	Guidance	Guidance
<b>Astana Financial Services Authority</b>	Guidance	-	-
<b>Bahrain</b>	Full	Full	Full
<b>Bangladesh</b>	-	Voluntary	-
<b>Dubai International Financial Centre</b>	Guidance	Secondary reporting	Guidance
<b>Indonesia</b>	-	Based on national standards	-
<b>Iraq</b>	Guidance	Guidance	-
<b>Islamic Development Bank Group</b>	Guidance	Guidance	-
<b>Jordan</b>	Full	Full	Full
<b>Kazakhstan</b>	Based on	Based on	-

	national standards	national standards	
<b>Kuwait</b>	Guidance	Guidance	-
<b>Kyrgyz Republic</b>	Full	Full	Full
<b>Lebanon</b>	Guidance	Guidance	-
<b>Libya</b>	Guidance	Guidance	-
<b>Malaysia (Labuan)</b>	-	Secondary reporting	-
<b>Maldives</b>	-	Secondary reporting	-
<b>Mauritius</b>	Full	Full	Full
<b>Nigeria</b>	Full	Full	Full
<b>Oman</b>	Full	Full	Full
<b>Pakistan</b>	Full	Full	Full
<b>Palestine</b>	Guidance	Guidance	-
<b>Qatar</b>	Full	Full	Full
<b>Qatar International Financial Centre</b>	Full	Full	Full
<b>Sudan</b>	Full	Full	Full
<b>United Arab Emirates</b>	Full	-	-
<b>Yemen</b>	Full	Full	Full

Source: AAOIFI

The shari‘a standards published by the AAOIFI Shari‘a Committee are prepared to ensure that the methods applied by interest-free financial institutions, their fund collection and financing instruments, and other products and services offered comply with Islamic law. These standards identify critical points to prevent elements contrary to Islamic law and are evaluated within the framework of Islamic jurisprudence (Ağkan, 2018, 241). Globally, these standards have been adopted as mandatory regulatory requirements in many countries and jurisdictions, including Bahrain, Jordan, the Kyrgyz Republic, Mauritius, Nigeria, Qatar, the Qatar Financial Centre, Oman, Pakistan, Sudan, Syria, the United Arab Emirates, and Yemen. In

addition to regulatory authorities, these standards are implemented by numerous shari'a advisory bodies, interest-free financial institutions, educational and training organizations, and non-banking entities. For example, in countries like Kazakhstan, national standards have been developed based on AAOIFI shari'a standards, while in jurisdictions like Kuwait, they are recommended as guidelines. Furthermore, AAOIFI shari'a standards are followed by many shari'a advisory firms, auditing firms, takāful/insurance companies, non-banking financial institutions, capital market organizations, educational institutions, and shari'a scholars worldwide. Countries/regions that implement AAOIFI shari'a standards fully, partially, or as guidelines include Afghanistan, the Astana Financial Services Authority, Bahrain, the Dubai International Financial Centre, Iraq, the Islamic Development Bank Group, Jordan, the Kyrgyz Republic, Lebanon, Libya, Mauritius, Nigeria, Oman, Palestine, Pakistan, Qatar, the Qatar Financial Centre, Sudan, Syria, the United Arab Emirates, and Yemen (AAOIFI). In Türkiye, according to the Turkish Participation Banks Association's (TKBB) Decision No. 8 dated February 28, 2019, participation banks must comply with the decisions and standards issued by the TKBB Advisory Board in all their activities. For matters not yet addressed by the Board's published standards or decisions, the previous advisory committee's rulings remain valid. For transactions not covered by these rulings, AAOIFI principles and standards are applied as the basis (CCIFBPS, 2019).

In the AAOIFI standard issuance process, the Fiqh Board selects one of the urgent regulatory issues in the Islamic finance sector and focuses on it. During this process, one or more researchers with in-depth expertise in both fiqh (Islamic jurisprudence) and modern finance are commissioned to prepare a comprehensive research report on the topic. This research is then discussed in one of the committees affiliated with the Fiqh Board, and the relevant committee assigns the researcher(s) the task of drafting the standard. The draft standard is first presented to the committee for detailed review. Subsequently, the committee submits both the draft standard and the research report to the Fiqh Board. The Board deliberates on each paragraph of the draft individually and, if deemed necessary, instructs one of its members to conduct further research on specific provisions requiring additional analysis. Once the Board approves the general framework of the draft standard, the text is published on the Board's official website to solicit feedback and evaluations from Islamic finance experts. Additionally, the draft is discussed in open sessions held in at least three different countries. These sessions are open to participation by Islamic finance practitioners, researchers, legal



experts, academics, and university students. Feedback from the discussions and open sessions is compiled and presented to the Fiqh Board. The Board then evaluates these considerations, objections, and reservations through a rigorous scholarly deliberation process, revising all provisions of the draft standard. At this stage, the Board finalizes its approval of the draft text and refers it to a Drafting Committee, composed of select members, to initiate the printing and publication process for the final version of the standard (AAOIFC, 2024, 15).

For Islamic finance institutions, the process of seeking a fatwā (religious ruling) and the relevant board issuing it is regarded as an indispensable responsibility. This approach differs from the classical understanding of fatwā issuance (iftā'). These institutions are bound solely by the decisions of their own advisory boards and must comply with guidance outside juristic rulings (fiqhī decisions). The relevant standards explicitly outline the juristic competencies required of audit board members. However, to ensure healthier and more comprehensive decision-making processes, it is recommended that experts in fields such as economics, law, and sociology provide advisory input to the board. In Islamic finance institutions, fatwās are confined strictly to financial practices, and it is emphasized that ijtihād (independent juristic reasoning) and fatwas must align with the opinions of jurists (fuqahā') specialized in specific domains. The validity of a fatwā issued by a jurist specializing only in a particular area of fiqh, such as economic matters, is rooted in the Ḥanbalī school's view that ijtihād and fatwā issuance can be compartmentalized (AAOIFC, 2024, 718). However, Cebeci (2020, 30) argues that possessing expertise solely in financial matters and deeming this sufficient for issuing fatwās indicates a lack of foundational knowledge in fiqh and a holistic perspective, which could lead to erroneous conclusions. In this context, he asserts that specializing only in a specific contract or transaction does not contribute to solving core issues in the Islamic finance sector; instead, challenges must be addressed through a broader perspective.

It is stipulated that Islamic finance institutions cannot conduct transactions based on external fatwās (religious rulings) without the approval of their own Audit Board. This restriction is grounded in two primary justifications. First, there are methodological concerns: external fatwas may conflict with talfiq (combining juristic opinions from different schools) or undermine consistent juristic licenses (rukḥṣas), which should be avoided. Second, there is a risk that external fatwās may not align with the specific requirements of the institution's context, as they might be issued without adequate consideration of differing circumstances or methodologies.

Therefore, since external fatwās may fail to accurately analyze the practical realities (wāqī‘) of the issue, institutions must not act on such rulings without their Audit Board’s approval. While it might initially seem permissible to obtain a fatwa from another authority, the Fiqh Board responsible for overseeing the institution’s operations must bear the responsibility for these decisions, ensuring stability and coherence in rulings. Additionally, the independence of the institution’s fatwā mechanism is emphasized: fatwās must fall under the authority and responsibility of the Audit Board, independent of the country’s official school of thought ( madhhab) or the legal fatwā institution’s affiliated school. However, if national legal frameworks are based on a specific madhhab and the matter may later be brought to court, this consideration must be factored in. Finally, it is underscored that in resolving economic issues, fatwās should not be sought exclusively from a single madhhab. Instead, modern economic challenges require evaluating schools of thought holistically, reflecting a supra-madhhab approach. Nonetheless, it is acknowledged that exceptions may arise in practice, particularly if legal proceedings are anticipated (Cebeci, 2020, 33).

AAOIFI's current standards are continuously reviewed and revised to align with market needs. In the context of capacity building, training programs, workshops, and partnerships have been prioritized to develop human resources. Additionally, AAOIFI collaborates with regulators to conduct joint research projects in areas such as assessing the impact of standards, knowledge sharing, and Islamic finance policy development. AAOIFI's future plans include maintaining a significant role in the sector's growth by harmonizing standards with international best practices, fostering collaborations, advancing human resource development, and ensuring shari‘a compliance (Ansari, 2024, 5). 632

### **2.1.2. IFSB: Islamic Financial Services Board**

The Islamic Financial Services Board (IFSB) is an international standard-setting body officially established on 3 November 2002, commencing operations on 10 March 2003. Headquartered in Kuala Lumpur, Malaysia, the IFSB works to ensure the soundness and stability of the Islamic financial services industry, which spans banking, capital markets, and insurance. By developing new standards aligned with shari‘a principles or adapting existing international standards, the IFSB promotes prudent and transparent growth in the Islamic finance sector. The IFSB’s mission is to foster a globally reliable and stable Islamic financial services industry. Through international collaboration, it aims to harmonize Islamic finance

with conventional financial systems and contribute to global financial stability. As of December 2024, the IFSB has 185 members, including 84 regulatory and supervisory authorities, 10 intergovernmental organizations, and 91 market participants (financial institutions, professional firms, industry associations, and exchanges). Operating across 60 countries, these members position the IFSB as a pioneer in transforming Islamic finance into a global force. A key enabler of the IFSB's activities is the legal and diplomatic support provided by its host country, Malaysia. Under the Islamic Financial Services Board Act 2002, Malaysia granted the IFSB privileges and immunities akin to those of international organizations and diplomatic missions. This legislation has facilitated the IFSB's independent and effective operations. The IFSB plays a critical role in advancing the global expansion of Islamic finance as a trusted, transparent, and sustainable industry. Through its standards and international partnerships, the IFSB is increasingly recognized not only in Muslim-majority countries but also worldwide. Under Malaysia's leadership and support, the IFSB stands out as a pivotal institution driving the future growth and accessibility of Islamic finance (IFSBa, n.d.).

The primary objective of the IFSB is to support the healthy, transparent, and sustainable development of the Islamic financial services sector. 633 Primarily, the IFSB encourages the development or adaptation of international standards to align with shari'ah principles. The adoption of these standards aims to ensure the Islamic financial services industry achieves a transparent and prudent structure. Another key goal is to provide guidance for the effective supervision and regulation of institutions offering Islamic financial products. To this end, the IFSB carefully addresses criteria for identifying, measuring, managing, and disclosing risks, as well as international valuation, income-expense calculation, and disclosure standards. The IFSB seeks to collaborate with international standard-setting bodies and support member countries' regulatory efforts to promote the stability and soundness of the global monetary and financial systems. This collaboration is part of broader efforts to strengthen the integration of Islamic finance with the global financial system. Additionally, the IFSB promotes initiatives and coordinates efforts to develop tools and procedures for effective operations and risk management, enabling the sustainable growth of the Islamic financial services industry.

Encouraging cooperation among member countries is one of the IFSB's core objectives. In this context, it supports the sharing of knowledge and expertise to advance the Islamic financial services sector. It also prioritizes training and staff development programs to enhance regulatory effectiveness

and market competency. To achieve this, capacity-building programs are organized for industry professionals, fostering a qualified workforce. The IFSB also undertakes research on the Islamic financial services sector, publishing studies, analyses, and surveys. These scholarly activities facilitate a deeper understanding of the sector's current state and the development of future strategies. The IFSB aims to create a comprehensive database encompassing Islamic banks, financial institutions, and sector experts. This database is critical for analyzing the sector's overall landscape and providing stakeholders with a robust resource (IFSB, 2018, 2).

To prepare new draft standards for the Islamic finance sector, the IFSB collaborates with a team comprising regulatory authorities and market players. During this process, the views and expertise of diverse stakeholders are consolidated. The Islamic Development Bank (IDB) requests the IFSB to submit the draft to the IDB's Shari'a Committee. The committee evaluates the draft's compliance with Islamic principles and grants approval. The IFSB's technical committee then publishes the draft for public consultation, which remains open for feedback for 3 to 6 months. The IFSB gathers input through public hearings and training workshops. The Board revises the draft based on constructive feedback from regulators and the public, ensuring the standards are comprehensive and widely acceptable. Training programs are organized to facilitate the implementation of published standards for financial sector users, enabling the IFSB to develop and apply globally recognized standards in Islamic finance (IFSBb, n.d.).

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The topics addressed in IFSB standards differ significantly from AAOIFI's shari'a standards (Cebeci, 2020, 55). The IFSB focuses primarily on regulation, risk management, and corporate governance. While AAOIFI conducts detailed juristic (fiqhī) analyses for each financial product or transaction, the IFSB does not engage in direct juristic analysis but ensures its standards do not conflict with shari'a principles (Iqbal - Mirakhor, 2011, 21). The IFSB's requirement to seek approval from its juristic board during public consultation phases—such as submitting drafts to external juristic experts, obtaining input from internal juristic advisors for the Arabic version, and including a juristic acceptance clause in finalized texts—demonstrates the board's active involvement and responsibility throughout the process (Cebeci, 2020, 54).

AAOIFI focuses directly on juristic analysis, scrutinizing the shari'a compliance of Islamic financial products and transactions in detail. In contrast, the IFSB addresses shari'a alignment at a macro level, emphasizing

financial system stability and supervision. AAOIFI ensures the direct application of juristic rulings (aḥkām) and specifies detailed juristic criteria for individual products or transactions. The IFSB, however, focuses on macro-level implementation of shari'a principles, aligning the financial system's overarching structure with Islamic tenets. While AAOIFI examines the juristic validity (maṣlaḥa) of micro-level products and transactions like ṣukūk and muḍāraba, the IFSB prioritizes capital adequacy, risk management, and financial stability. AAOIFI provides guidance for shari'a boards, Islamic financial institutions, and juristic advisors, whereas the IFSB develops standards for regulatory authorities, auditors, and international financial institutions.

### 2.1.3. IIFM: International Islamic Financial Market Corporation

IIFM is a global standard-setting body for the Islamic financial services industry. IIFM focuses on standardizing shari'a-compliant financial contracts and product templates, aiming to enhance the efficiency and harmonization of Islamic finance markets worldwide. Headquartered in Bahrain, IIFM was established under Royal Decree No. 23 issued by the Kingdom of Bahrain in 2002. The organization operates as a neutral, non-profit international Islamic infrastructure institution. The IIFM Board of Directors comprises founding and permanent members, as well as representatives from various Islamic and international banks. Within IIFM, a 14-member Shari'a Board oversees compliance matters (IIFMa, n.d.).

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The Shari'ah Board plays a critical role in ensuring that interest-free financial transactions and documents comply with shari'ah principles. The Board carefully monitors the compliance of IIFM's main contracts and related documents with shari'ah rules. In this process, each clause in the documents is examined for conformity with the fundamental sources of Islamic law, namely the Qur'ān, sunnah, ijma' and qiyās. The Board provides necessary guidance and consultation on issues related to IIFM's projects and initiatives. In this context, evaluating projects from a shari'ah perspective and providing opinions on relevant matters are among the Board's responsibilities. When necessary, the IIFM Shari'ah Board collaborates with other shari'ah boards to conduct joint efforts aimed at ensuring the compliance of interest-free financial transactions. IIFM may invite members of the Shari'ah Board to attend working group meetings when required. These meetings ensure that general opinions are gathered and projects are assessed from a shari'ah perspective. The Shari'ah Board has the right to access necessary information and resources from the IIFM secretariat to effectively carry out its duties.

Additionally, it has the authority to access all details used in the development or structuring of IIFM documents and to reject or amend any clauses in the main contracts or related documents that are contrary to shari‘ah rules, ensuring that these clauses are made compliant with shari‘ah teachings. This also ensures that the documents are fully aligned with Islamic principles (IIFMb, n.d.).

IIFM is an organization aimed at harmonizing Islamic capital and money markets and standardizing documents for international transactions. To achieve this goal, IIFM collaborates with institutions operating in both the interest-free finance and conventional finance sectors. These collaborations demonstrate that IIFM plays a significant role in ensuring that the interest-free finance markets operate more effectively and are more integrated on a global scale. IIFM has developed standard contract forms for interest-free finance transactions. To date, IIFM has created a total of nineteen standard contracts. These contracts aim to ensure consistency in documenting interest-free finance transactions and reduce transaction costs (Ercanbrack, 2020, 859).

The standard development process at IIFM consists of several stages that ensure each standard is created meticulously and comprehensively. The process begins with the approval of the standardization project by the IIFM Board of Directors (composed of 15 members). Following this, a concept document is prepared, and a wide-ranging meeting is organized with the participation of Islamic jurisprudence experts. Next, a global working group is established, consisting of professionals from various areas of expertise, to address the issues related to the standard being developed. The IIFM Secretariat typically prepares the product structure and initial draft documents based on specific documents and product templates provided by certain institutions. The draft texts are then submitted to external legal advisors for necessary improvements, after which they are distributed to the working group for extensive consultations. Finally, the approval of the standard for international use is completed with the guidance and approval of the IIFM Shari‘ah Board, which consists of approximately 11 distinguished Islamic jurisprudence experts. This process ensures that IIFM standards are firmly grounded both technically and in terms of Islamic legal principles.

Table 2: Comparison of Different Approaches of Three Standard-Setting Institutions

#	STAGES	AAOIFI	IFSB	IIFM
1.	Preliminaries	Work Plan or Agenda	Terms of Reference	Concept Paper

2.	Development	Preliminary Study	Issue Paper	Concept Paper finetuned by external legal counsel
3.	External Contributions	Consultation Note	Initial Study Report	Global Working Group
4.	Public Consultation	Exposure Draft	Exposure Draft issued	Legal Drafting and consultation
5.	Final Approval	Relevant Standards Board	Council	<i>Sharī'ah</i> Board

Source: Aysan, 2022.

### 3. The Importance of Standardization in Interest-Free Finance and Its Impact on the Financial Sector

In recent years, the interest-free finance sector has experienced rapid growth on a global scale. However, along with this growth, one of the most significant challenges the sector faces is the lack of standardization of interest-free finance products across different jurisdictions. Standardization is a critical factor for the transparency, cost-effectiveness, and stability of interest-free finance products. Ayub (2007, 181) notes that good financial standards should possess characteristics such as suitability, comprehensibility, verifiability, impartiality, timeliness, comparability, and integrity. Among these characteristics, the suitability and reliability of information are emphasized as fundamental qualities.

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The lack of standardization in interest-free finance has led to a deficiency in harmonized regulations and inconsistencies in the interest-free banking products and services offered globally. At the heart of this issue is the difference in opinions among Muslim jurists regarding the validity or invalidity of certain products offered by interest-free banks, which are based on the adopted schools of Islamic jurisprudence (Ḥanafī, Mālikī, Shāfi'ī and Ḥanbalī). Moreover, regional interpretations and fatwās based on different legal schools have become the main reason why a universal, standardized, and harmonized interest-free banking system has not been created. As a result of the multiple interpretations proposed by different schools of thought, significant variations arise in the acceptability of products. Consequently, the absence of a universal and unified fatwā leads to problems in the adoption of these products (Qadri, 2018, 7).

The differing opinions among sharī'ah scholars create confusion both among the general public and within banking circles. These differences are

not only observed in certain products but also in specific areas of Islamic banking operations. For example, there has been no consensus on the *mudharabah* contract used in business transactions. According to the Maliki and Shafi'i schools, *muḍāraba* should be limited to trade and trade-related activities and should not include manufacturing activities; manufacturing contracts should be considered within the exception of long-term contracts where the party undertaking the manufacturing is involved. However, the Ḥanafī school does not object to applying *muḍāraba* in manufacturing activities, while the Ḥanbalī school argues that these two separate contracts can be accepted as long as their terms do not conflict with one another. These differing views create uncertainty among bankers, customers, and the public regarding the norms to be applied in the Islamic banking sector. As a result, customers, unable to find clear information about what is "allowed" and "not allowed" in the sector, form their own interpretations, which leads to unhealthy outcomes in banker-customer relationships (Qadri, 2018, 17).

Since there are no universally adopted standards in interest-free finance, countries adopt different approaches regarding *sharī'ah* governance. For example, in Bahrain, there is both a *sharī'ah* governance committee at the institutional level and a National *Sharī'ah* Advisory Council within the Central Bank at the national level. However, the role of this council is limited to providing consultancy to the Central Bank. Malaysia and Indonesia, on the other hand, have higher national *sharī'ah* authorities to standardize *fatwās* and *sharī'ah* practices in international financial institutions. In Gulf countries such as Kuwait, the United Arab Emirates, and Qatar, in addition to internal *sharī'ah* committees, independent institutions like the Ministry of Endowments and Religious Affairs or the Ministry of Justice and Islamic Affairs also have the authority to oversee *sharī'ah* governance practices. High *sharī'ah* authorities in these countries intervene only when differences of opinion arise among *sharī'ah* scholars on *fatwā* issues. In Saudi Arabia, however, *sharī'ah* governance practices are left to the voluntary preference of interest-free financial institutions and market forces. This perspective has a negative impact on the stability of the Islamic finance sector, as *sharī'ah* authorities are insufficient in monitoring *sharī'ah* compliance in institutions. To address this issue, adopting an inclusive and flexible "Neo-Fiqh Approach" would be beneficial. This approach is based on the principles of facilitation in the *Qur'ān* and the expansion of jurisprudence and aims to create a structure compatible with all schools of thought, without following any specific school (Qadri, 2018, 35).



### 3.1. The Impact of Standardization on the Sector

In interest-free financial institutions, standards help make the operational processes of the institutions more efficient. Standardized procedures reduce error rates, speed up business processes, and allow more work to be done with fewer resources. They also facilitate training processes for employees and help prevent operational mistakes. In terms of customer satisfaction, they ensure more consistent and reliable services are provided to stakeholders. When customers know that certain products or services will always be provided with the same quality and in the same manner, they trust the banks more. Moreover, thanks to standardization, banks can resolve customer complaints more quickly and develop more effective strategies for improving processes. In standardized agreements, financial risks are minimized, and the rights of both parties are protected.

Interest-free finance is applied in different legal and regulatory frameworks across various countries. This creates barriers to international trade and investment. Standardization reduces these differences, ensuring global compliance and helping interest-free financial products gain easier acceptance in international markets. By providing a common language and framework, standardization ensures alignment or similarity in concepts and practices, preventing contradictions and inconsistencies between fatwās and practices. This facilitates information sharing and collaboration between institutions in different countries. Standards also encourage innovative approaches in the development of interest-free financial products, making it easier to offer similar products across different geographies, thereby contributing to the sector's growth. Furthermore, as standardization ensures transparency and clarity in interest-free financial transactions, it builds trust among investors and customers. Standards ensure consistency in financial reporting and product structures, preventing misunderstandings and fraudulent practices (Yaacob - Abdullah, 2012, 494-496).

Standardization allows regulatory bodies to supervise interest-free financial institutions more effectively. Common standards help reduce compliance and auditing costs, supporting the growth of the sector. A study conducted by Doğan and colleagues (2020, 1492) indicated that institutions with a high level of compliance with shari'ah audit standards had better financial performance. Specifically, profitability (ROA and ROE) and liquidity indicators showed more positive results in institutions with higher compliance levels. Furthermore, it was argued that the level of compliance with shari'ah audit standards in interest-free financial institutions

significantly impacts their financial performance, with institutions exhibiting higher profitability, better liquidity, and more robust risk management when their compliance level is high. Therefore, adopting international standards is shown to enhance the performance of both individual institutions and the sector as a whole.

Standardization also offers numerous benefits in terms of protecting investors' rights and ensuring a fair financial system. Investors can be confident that products adhering to standards are compliant with Islamic principles. Standards will increase trade and investment between markets, facilitate the easier sharing of capital flows and investment opportunities across large markets, and attract more investors and issuers to the *šukūk* market. The benefits of standardization for investors include reduced uncertainty, access to new markets and expansion in existing markets, decreased risk of investing in non-compliant instruments, and a lower likelihood of facing legal challenges. Regulator-approved standards encourage more issuances by reducing costs for investors and issuers. Additionally, since investors' knowledge, risk, and compliance investments will be applicable to future *šukūks*, it results in time and resource savings (Hawladar, 2017, 60).

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While standardization in interest-free financial institutions will fill a significant gap in terms of better integration into the global financial system and improving the efficiency of product development processes, it also presents some challenges due to differences in *sharī'ah* interpretations. Some argue that sectarian or regional differences may increase the risk of failing to achieve *sharī'ah* compliance and raise the risk of contracts not being recognized in a *fiqh* sense by all Islamic scholars (Ghoul, 2011). This prevents the global harmonization of interest-free financial products and slows down the growth of the sector. However, international organizations that lead the efforts for standardization in interest-free finance, such as AAOIFI and IFSB, have addressed these discussions by choosing a standardization model based on harmonization and flexibility. Through this approach, the differences between regional practices (which pertain to branches, not fundamentals) are considered, and the standardization of Islamic jurisprudence is redefined in terms of product structures, regulations, and documentation. To minimize significant differences in how *sharī'ah* rulings are formulated and applied, the underlying causes of disagreements in *sharī'ah* interpretations are identified, and strategies are developed to resolve these disputes (Aysan et al., 2022, 16). These approaches should embody a strategic vision, determination, and a commitment to preserving the uniqueness and integrity of interest-free

finance while integrating Islamic principles with global financial standards in a compatible manner (Shaukat, 2024, 63).

Several studies (Mnif and Tahari, 2023; Elhalaby et al.,2022) have demonstrated a significant and positive relationship between the overall compliance with AAOIFI standards and two key performance indicators in Islamic banks. Furthermore, these studies indicate that banks adopting AAOIFI standards exhibit higher financial performance, adopt a more conservative approach, and engage in lower levels of earnings management compared to non-adopters. These findings suggest that adherence to AAOIFI standards enhances the quality of financial reporting, providing more reliable information to investors and other stakeholders. Additionally, factors such as corporate governance, inflation, and mandatory adoption of AAOIFI in certain countries have been identified as influential to these outcomes. In conclusion, the adoption of AAOIFI standards contributes to improved financial transparency and performance in Islamic financial institutions while restricting earnings management practices, thereby ensuring more reliable financial reporting.

### **3.2. Studies on Standardization in Interest-Free Finance in Turkey**

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In our country, the Advisory Board of the Participation Banks Association of Turkey (TKBB) takes on a significant burden from the advisory committees of the participation banks, thus providing time and cost savings. The Board guides participation banks by issuing standards and principles to ensure that their practices comply with Islamic rules. Since its establishment, TKBB has published six standards: "Issuance and Trading of Equity Certificates," "Tawarruq", "Murābaha", "Guarantee", "Muḍāraba" and "Income Not Compliant with Participation Finance Principles and Their Liquidation" (TKBB, 22 November 2024).

The standards published by the TKBB Advisory Board and those set by AAOIFI, although having a fundamentally similar purpose, exhibit differences in various aspects. The standards defined by the TKBB Advisory Board are aimed at regulating the activities of participation banks in Turkey and have been shaped in accordance with the country's local regulations, economic structure, and social needs. On the other hand, the standards issued by AAOIFI apply to interest-free financial institutions on a global scale and focus on financial transactions and products across a broader geographic area. AAOIFI's efforts for standardization aim to ensure consistency across different countries and increase the global acceptance of interest-free finance products. Participation banks in Turkey are subject to the country's financial

regulations and the legislation of regulatory authorities. In this context, TKBB standards have been designed to comply with local regulations and the country's specific economic conditions. Moreover, compliance with Turkey's legal framework (e.g., BDDK regulations) is prioritized. AAOIFI's standards, on the other hand, are designed to ensure compliance with the core principles of interest-free finance, that is, shari'a rules, and are largely based on Islamic jurisprudence (Fiqh). Since AAOIFI's priority is to ensure the shari'a-compliant provision of interest-free finance services on a global scale, the requirements of Islamic law are considered more than local regulations. The financial reporting processes of participation banks in Turkey must comply with local accounting standards. TKBB supervises these reporting processes to ensure their conformity with shari'a principles and alignment with the country's financial regulations. AAOIFI, however, sets specific accounting standards for interest-free finance institutions and provides guidance for financial reporting processes, focusing primarily on operations related to interest-free banking worldwide.

The adoption of AAOIFI standards by participation banks in Turkey offers various benefits both locally and internationally. First and foremost, in terms of global recognition, the adoption of these standards enables participation banks to conduct business in alignment with international investors, fund providers, and business partners, making the country more competitive on the global stage. International investors may view participation banks that comply with AAOIFI standards as a safer and more ethical investment option. This, in turn, allows the banks to attract more investment from external sources. Additionally, it facilitates easier access to markets where interest-free finance is common, such as the Middle East, Asia, and Africa. With international audit and traceability mechanisms in financial reports, institutions achieve a higher level of transparency. Standardization also helps participation banks implement more robust risk management practices, making them more resilient to financial crises and fluctuations.

Yelsiz and Yurtseven (2024) emphasized in their study that the most fundamental issue in the compliance process of participation banks in Turkey with AAOIFI standards is the lack of legal and regulatory infrastructure. As a solution, they proposed the establishment of an AAOIFI Compliance Office. This office could more effectively implement legal regulations in a centralized coordination to support the sector. Through this office, participation banks would have faster access to the updated standards set by AAOIFI, which could accelerate the compliance process and provide the opportunity to learn the implementation principles more quickly. Additionally, by benefiting from

professional consultancy services, banks could establish effective collaborations, receive guidance from experts and qualified personnel at various stages of the compliance process, and facilitate the resolution of complex issues, thereby speeding up the entire process.

Dinç (2016, 89) argued that central advisory boards reduce the burden on the advisory committees within banks, thus providing time and cost savings. In this way, the acceptance of international standards could also help the TKBB Advisory Board avoid time and cost waste. By playing an active role in making AAOIFI standards mandatory, the Board could develop a Turkey-specific implementation framework, taking into account the needs of participation banks and the country's financial structure, rather than simply publishing standards. By overseeing the implementation of AAOIFI standards, the Board could increase the credibility of the sector. With the adoption of international standards, participation banks could become more competitive with their international counterparts, especially enhancing collaboration opportunities with countries like Malaysia, Gulf countries, and other interest-free finance hubs. TKBB could also offer capacity-building opportunities for participation bank employees by providing training programs and guidance services on the implementation of AAOIFI standards.

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### **Conclusion and Recommendations**

Interest-free finance requires the use of financial instruments that comply with shari'a principles, distinguishing it from traditional financial systems. Products such as murābaḥa, muḍāraba, šukūk and ijāra have accounting and reporting processes that differ from standard financial practices. However, the adoption of different interpretations in various countries and institutions leads to issues related to compliance and transparency. The standardization process is crucial for ensuring that interest-free finance products are more easily accepted globally, strengthening financial stability and investor confidence, and increasing demand for the sector.

Organizations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) develop standards in areas such as accounting, governance, and shari'a compliance. AAOIFI provides standards that guide the accounting and auditing processes of interest-free financial institutions, while IFSB aims to harmonize the regulatory framework. However, regional differences in the implementation of these standards present a significant challenge. While the adoption of AAOIFI standards varies in countries like

Malaysia, Saudi Arabia, and the Gulf states, some countries tend to develop their own regulatory frameworks.

There are significant challenges in the standardization process of interest-free finance. The adoption of different interpretations by shari'a boards leads to the same financial product being evaluated differently in various regions. Additionally, the asset-based and complex nature of Islamic financial instruments makes it difficult to integrate them into traditional accounting systems.

On the other hand, the benefits of standardization for the interest-free finance ecosystem are considerable. Firstly, the expected growth of Islamic finance to \$3.7 trillion by 2030 could be accelerated through standardization. Moreover, the adoption of common accounting and auditing standards can enhance the management of liquidity and credit risks, thereby strengthening financial stability. As Islamic finance becomes more aligned with the global financial system, it becomes more attractive to international investors and can increase capital flows.

In this context, various proposals are being developed to ensure the standardization of interest-free finance. The convergence between AAOIFI and IFRS could facilitate the wider acceptance of Islamic finance in the global system. Increasing collaboration among regional shari'a boards and reducing differences in fatwās could ease the compliance process. Additionally, expanding interest-free finance education for employees working in Islamic finance institutions could help ensure the correct implementation of the standards.

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In Turkey, the TKBB Advisory Board guides the sector by developing standards that are in line with local regulations for the standardization of interest-free finance. However, the broader acceptance of AAOIFI standards could help interest-free finance institutions in Turkey align more effectively with international investors.

In conclusion, the global sustainability of interest-free finance as a system depends on the achievement of standardization at both technical and institutional levels. The adoption of international standards leads to positive developments in areas such as financial transparency, audit quality, and risk management. However, for this process to be effective, it is essential to increase cooperation with local regulatory bodies, ensure continuous updates of the standards, and address the local differences encountered during the compliance process. Among the policy recommendations are adapting

international standards to local dynamics, strengthening audit mechanisms, and enhancing cooperation among sector stakeholders. The collaboration of AAOIFI, IFRS, TKBB, and other regulatory bodies in developing common standards can ensure a balanced integration of sharī'a principles with the modern financial system. In this way, interest-free finance can continue its long-term growth, remaining true to ethical values while becoming an integral part of the international financial system.

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