



SHARIAH GOVERNANCE AND THE COUNCIL FOR ISLAMIC FINANCE IN UZBEKISTAN: CHALLENGES OF ALIGNMENT WITH AAOIFI STANDARDS

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ABSTRACT:

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Uzbekistan legalised Islamic banking through Law No. ZRU-1126 of 27 March 2026, which came into force on 29 June 2026. The law places Shariah governance at the core of the new dual banking system. It creates a national Council for Islamic Finance under the Central Bank of Uzbekistan (CBU) and requires every Islamic bank and window to maintain its own Shariah council. This thesis examines how far this emerging two-tier model is aligned with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Using a qualitative review of the new legislation, CBU regulations and international standards, and a comparison with Malaysia, Bahrain and Kazakhstan, the study identifies four alignment challenges: the legal status of AAOIFI standards, accounting and reporting, Shariah audit, and the independence and supply of qualified scholars. It concludes with policy recommendations for the CBU and the Council.

1. Introduction

Shariah governance is what separates an Islamic bank from a conventional bank that simply renames its products. It is the set of institutional arrangements through which a financial institution ensures that its products, contracts and operations comply with Islamic law (IFSB, 2009). Where this system is weak, the industry faces Shariah non-compliance risk, reputational damage and, ultimately, the loss of depositor trust on which the whole sector depends (Hasan, 2012).

Uzbekistan has only recently entered this field. Law No. ZRU-1126, signed on 27 March 2026 and effective from 29 June 2026, created the legal framework for Islamic banking and finance (KPMG, 2026). The law allows the CBU to approve Islamic finance standards and to



establish a Council for Islamic Finance under its authority. It also obliges every bank conducting Islamic operations to set up its own Shariah council (KPMG, 2026; Black Swan Consulting, 2026). The Council was formed in July 2026, and licensing rules for Islamic banks and Islamic windows were approved in the same month (Olzhabekova, 2026; Muslim Network TV, 2026).

In parallel, Uzbekistan has moved closer to international standard-setters. The CBU became a member of the IFSB on 24 December 2024 (Kun.uz, 2024) and a regulatory member of AAOIFI on 27 May 2026 (Olzhabekova, 2026). An official Uzbek translation of AAOIFI's 61 Shariah standards is also under way (AAOIFI Centre for Islamic Finance Development, 2026).

The framework therefore exists on paper. The open question is how it will work in practice and how closely it will follow AAOIFI. **The aim of this thesis** is to assess the alignment of Uzbekistan's Shariah governance model with AAOIFI and IFSB standards and to propose measures that close the remaining gaps. It addresses two questions:

1. Which Shariah governance model has Uzbekistan adopted, and how does it compare with international practice?
 2. What institutional obstacles stand in the way of full alignment with AAOIFI standards?
2. Shariah Governance Models and International Standards

The literature distinguishes two broad approaches to Shariah governance (Hasan, 2012; Grassa, 2013). In the **decentralised model**, typical of most GCC countries until recently, each institution appoints its own Shariah supervisory board and the regulator plays a limited role. This gives flexibility but leads to conflicting fatwas, "fatwa shopping" and weak comparability across banks. In the **centralised model**, pioneered by Malaysia, a national Shariah authority sits above the institutional boards. The Shariah Advisory Council of Bank Negara Malaysia was given statutory power under the Central Bank of Malaysia Act 2009, and its rulings bind both financial institutions and the courts.

The international standards support a layered structure. AAOIFI's governance standards define the appointment, composition and reporting of Shariah supervisory boards, internal Shariah review and the external Shariah audit. AAOIFI has issued 117 standards in total, including 59 Shariah, 35 accounting, 8 auditing and 14 governance standards. They have been adopted or used as guidance in more than 40 jurisdictions (Malik, 2022). AAOIFI officials describe the target architecture as three tiers: AAOIFI at the global level, a central Shariah board in each country, and Shariah boards in each institution (Oxford Business Group, 2019).

The IFSB complements this from the supervisor's side. IFSB-10 sets out the guiding principles of Shariah governance systems, including the competence, independence, confidentiality and consistency of Shariah boards (IFSB, 2009). IFSB-31, issued in July 2025, adds guidance on how supervisors should oversee these systems. It accepts that a jurisdiction may rely on a national Shariah authority, but notes that such an authority is usually independent of the regulator. It also requires a conflict-of-interest policy covering Shariah board members and an internal Shariah audit independent of the functions it audits (IFSB, 2025).



Table 1. Shariah governance frameworks: international comparison

Feature	Malaysia	Bahrain	Kazakhstan	Uzbekistan (2026)
National Shariah body	Shariah Advisory Council of the central bank, binding by statute	No single national board; CBB rules plus AAOIFI	None at national level; AIFC has its own rules and an advisory board	Council for Islamic Finance under the CBU
Institution-level board	Mandatory	Mandatory	Mandatory	Mandatory Shariah council
Status of AAOIFI standards	Own standards; AAOIFI reference	Adopted by default; CBB may override	Used as reference	CBU regulatory member; standards being translated and adapted
External Shariah audit	Required	Required since 2017	Not yet systematic	Mandatory annual audit

Sources: Hasan (2012); Oxford Business Group (2019); AIFC (2026); Lim (2026); Black Swan Consulting (2026).

3. Uzbekistan's Emerging Shariah Governance Framework

Uzbekistan has chosen a **centralised two-tier model** that is closer to Malaysia than to the GCC. At the top sits the Council for Islamic Finance, described as the highest collegial body on Islamic finance under the CBU (Black Swan Consulting, 2026). Its mandate covers four functions (Olzhabekova, 2026):

- preparing national Islamic finance standards;
- issuing regulatory and supervisory recommendations and advising institutions;
- clarifying complex issues and giving conclusions on disputes;
- representing the CBU before international standard-setters, including commenting on draft AAOIFI standards.

The Council has five members. Four are specialists of the Fatwa Center under the Muslim Board of Uzbekistan, and one is a financial and audit expert. It reports annually to the CBU Board, and its members must be approved by the CBU against education and experience requirements (Olzhabekova, 2026).

At the second tier, every Islamic bank and window must have its own Shariah council. Its members are vetted under the CBU's fit-and-proper rules and are personally responsible for Shariah compliance. They share liability for violations with the management and supervisory boards and are treated as related parties of the bank (Black Swan Consulting, 2026). The law also requires separate accounting for Islamic operations and an annual external Shariah audit.



Under the licensing rules, at least one member of an institutional council must hold an AAOIFI certificate, and from 1 July 2027 certification becomes mandatory for all members (Olzhabekova, 2026).

This design meets several AAOIFI and IFSB expectations from the start. It creates a single authority that can prevent conflicting fatwas, which Kazakhstan still lacks outside the AIFC (Lim, 2026). It also links professional certification to AAOIFI, which builds a direct channel for adopting its standards.

4. Challenges of Alignment with AAOIFI Standards

Despite this strong start, four challenges stand between the current framework and full alignment with AAOIFI.

4.1. Legal status of AAOIFI standards. Membership in AAOIFI does not by itself make its standards binding. The law gives the CBU the power to approve national standards, and the Council's task is to adapt international standards to local conditions (Olzhabekova, 2026). This leaves open whether AAOIFI standards will be adopted in full, as in Bahrain, or rewritten as national rules, as in Malaysia. Each path has a cost. Full adoption gives immediate credibility with Gulf investors but may clash with the Civil Code and Tax Code. Adaptation fits local law but risks producing a "national" version that foreign investors and rating agencies do not recognise. The status of the Council's own conclusions is also unclear: unlike Malaysia, where statute makes rulings binding on courts, the law does not yet say how courts should treat them.

4.2. Accounting and financial reporting. Uzbek banks report under IFRS, while AAOIFI has issued 35 separate financial accounting standards (Malik, 2022). The law requires separate accounting for Islamic operations (Black Swan Consulting, 2026) but does not say which framework applies. A window inside a conventional bank may therefore have to prepare two sets of figures for the same transaction, for example for an Ijarah contract or for profit-sharing investment accounts. Without clear CBU guidance, comparability between Islamic institutions will be weak.

4.3. Shariah audit and supervisory capacity. The annual external Shariah audit is a strong requirement on paper. However, the market for qualified Shariah auditors in Uzbekistan is only forming. IFSB-31 requires both internal and external Shariah auditors to be independent and qualified and asks external auditors to report material findings directly to the supervisor (IFSB, 2025). The CBU itself will also need a dedicated Shariah supervision unit able to read audit reports critically rather than formally.

4.4. Independence, conflicts of interest and human capital. This is the most sensitive issue. IFSB-31 notes that a national Shariah authority is usually independent of the regulator (IFSB, 2025). In Uzbekistan, however, the Council sits under the CBU and reports to its Board, while four of its five members come from a single religious institution (Olzhabekova, 2026). This creates two risks: the Council's rulings may be shaped by supervisory priorities, and a



narrow pool of scholars may soon serve on both the national Council and the boards of individual banks.

The scholar shortage makes this second risk real. Globally, a small number of scholars sit on many boards at once, which raises well-known concerns about conflicts of interest and the quality of oversight (Grassa, 2013). As more banks open Islamic windows and AAOIFI certification becomes mandatory from July 2027, Uzbekistan could face the same problem. From an anti-corruption perspective, Shariah council members are exposed to classic conflict-of-interest situations: remuneration paid by the bank they oversee, multiple directorships, and personal financial interests in approved products. The law treats them as related parties (Black Swan Consulting, 2026), but it does not yet require public disclosure of their affiliations or set limits on the number of boards one scholar may join.

5. Recommendations

Based on this analysis, the following measures are proposed for the CBU and the Council for Islamic Finance:

1. **Adopt a clear “adopt-first, adapt-by-exception” rule.** AAOIFI Shariah and governance standards should apply in full by default. Any deviation should be published with its legal reason, so that investors can see exactly where Uzbek practice differs. This combines Bahrain’s credibility with Malaysia’s legal fit.

2. **Define the legal force of Council rulings.** Secondary legislation should state that Council conclusions are binding on licensed institutions and must be considered by courts in disputes over Islamic contracts.

3. **Issue accounting guidance for Islamic windows.** The CBU should specify how AAOIFI accounting standards interact with IFRS, starting with Murabaha, Ijarah and profit-sharing investment accounts, and require a standard disclosure template.

4. **Strengthen the Council’s independence.** Its regulations should separate its Shariah rulings from the CBU’s supervisory functions, diversify membership beyond one institution, and add at least one more expert in law or finance.

5. **Introduce a conflict-of-interest regime for Shariah scholars.** This should include an annual public declaration of interests, a cap on the number of institutional boards one scholar may join (for example, no more than three, and none in directly competing banks), and a ban on Council members sitting on institutional boards.

6. **Build human capital.** The CBU, the Banking and Finance Academy and universities should run AAOIFI certification programmes (such as CSAA and CPSS) in Uzbek, using the new official translation of the Shariah standards, so that the July 2027 deadline can be met.

6. Conclusion

Uzbekistan has built the core of a modern Shariah governance system in a very short time. Within three months of Law No. ZRU-1126 taking effect, it had a national Council for Islamic Finance, mandatory institutional Shariah councils, an annual external Shariah audit and a link to



AAOIFI through regulatory membership and certification. In structure, this centralised two-tier model is consistent with the three-tier architecture promoted by AAOIFI and with the IFSB principles.

Alignment, however, is still formal rather than substantive. The legal force of AAOIFI standards and of the Council's rulings, the accounting framework for Islamic windows, Shariah audit capacity, and the independence of a small pool of scholars remain unresolved. How these issues are settled in secondary legislation over 2026–2027 will decide whether Uzbekistan earns the trust of both domestic Muslim depositors and Gulf investors. Further research could test these conclusions empirically once the first Islamic windows publish their Shariah audit reports.

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