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Research Article

HARMONIZING IFRS AND AAOIFI STANDARDS: A LEGAL AND ACCOUNTING ANALYSIS FOR CROSS-BORDER ISLAMIC FINANCIAL INSTITUTIONS

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Abstract

The increasing globalization of Islamic finance has created an urgent need to harmonize the International Financial Reporting Standards (IFRS) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. This study explores the legal and accounting dimensions of convergence between these two frameworks to ensure transparency, comparability, and Shariah compliance in cross-border Islamic financial institutions. The research aims to analyze the conceptual and operational differences between IFRS and AAOIFI, identify areas of conflict in financial reporting practices, and propose a harmonization model that accommodates both international accounting principles and Islamic jurisprudence. A qualitative legal-accounting approach was employed, combining comparative document analysis and expert interviews with Shariah auditors, regulators, and financial accountants across selected jurisdictions. The findings indicate that while IFRS emphasizes fair value and investor orientation, AAOIFI prioritizes justice and ethical accountability rooted in Islamic law. The harmonization process requires adaptive regulatory mechanisms, mutual recognition frameworks, and integrated training for practitioners. The study concludes that convergence is feasible through a hybrid model aligning IFRS transparency with AAOIFI's Shariah-based ethics, promoting both global standardization and religious authenticity.

Keywords: AAOIFI, Financial Reporting, IFRS.

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INTRODUCTION

The globalization of financial markets has significantly intensified the interaction between conventional and Islamic financial systems (Pala et al., 2024). Islamic finance, rooted in Shariah principles prohibiting riba (interest), gharar (uncertainty), and maysir (speculation), has evolved into a robust global industry encompassing banking, insurance, and investment sectors (Altay & Bulut, 2024). The rapid expansion of Islamic financial institutions (IFIs) across multiple jurisdictions has highlighted the urgent need for consistent financial reporting frameworks that can accommodate both international accounting standards and Islamic legal requirements (Rashid et al., 2024). As cross-border transactions increasingly dominate Islamic finance, disparities in reporting practices threaten the comparability, transparency, and credibility of financial statements used by global investors, regulators, and stakeholders (Ab Ghani et al., 2024).

The International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), are recognized as the universal language of financial reporting, promoting consistency and transparency across global markets (Kamal, 2024). In contrast, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established to address the unique needs of Islamic finance, ensuring that financial statements reflect Shariah compliance and ethical accountability (Hijriah et al., 2024). The coexistence of IFRS and AAOIFI standards has generated a complex dual-framework environment where institutions must navigate between international compliance obligations and religious legitimacy. These tensions manifest in valuation methods, recognition of profit, disclosure of risk, and treatment of zakat, which collectively challenge the standardization of Islamic financial reporting (Daud & Sharif, 2024).

A deeper understanding of the harmonization between IFRS and AAOIFI is critical for advancing cross-border Islamic finance (Ilias et al., 2024). Policymakers and practitioners face increasing pressure to reconcile these frameworks without undermining either the universality of IFRS or the religious integrity of AAOIFI (Akbar et al., 2023). The issue extends beyond technical accounting procedures; it encapsulates a broader dialogue between global capitalism and Islamic economic philosophy (Mohd Isa & Suppiah, 2024). As international investors seek clarity and uniformity, the absence of harmonization poses legal and ethical dilemmas that undermine the legitimacy and growth of Islamic financial institutions operating in multiple jurisdictions (Haji Wahab et al., 2024).

The main problem addressed in this research lies in the persistent divergence between IFRS and AAOIFI standards, which complicates financial reporting for cross-border Islamic financial institutions (Jarbou et al., 2024). These inconsistencies lead to varying interpretations of income recognition, asset valuation, and disclosure requirements, resulting in reduced comparability among institutions across different countries (Nofianti et al., 2024). Without a harmonized reporting structure, Islamic financial statements often lose their relevance in international markets, limiting investor confidence and regulatory oversight. Furthermore, discrepancies between these frameworks create operational inefficiencies and expose IFIs to reputational and legal risks, especially in countries where IFRS adoption is mandatory while AAOIFI standards are advisory (Ascarya, 2024).

Legal uncertainty further compounds this problem. The duality of regulatory regimes secular and Shariah-based creates overlapping jurisdictions that complicate the enforcement of accounting and auditing standards (Zakiy & Ramadhani, 2024). The absence of a universally accepted legal mechanism for reconciling IFRS with AAOIFI exacerbates the difficulty of ensuring both compliance and consistency (Liaqat et al., 2024). For example, the IFRS principle of fair value measurement may contradict AAOIFI's emphasis on justice and preservation of capital, especially in transactions involving Islamic contracts such as mudarabah and murabahah. This tension underscores the lack of legal clarity regarding the hierarchy of standards applicable to cross-border IFIs operating under hybrid regulatory systems (M. Iqbal et al., 2024).

The divergence in conceptual orientation also reflects a deeper epistemological divide (Musa et al., 2024). IFRS operates on a shareholder-centric model emphasizing profitability and investor utility, whereas AAOIFI is founded on a stakeholder-centric model emphasizing ethical accountability and social welfare (Mehboob et al., 2024). The incompatibility between these philosophies hinders the creation of a unified reporting framework. Without a clear strategy to harmonize the two systems, Islamic financial institutions risk remaining fragmented, reducing their competitiveness and their potential contribution to global financial stability (Dinç et al., 2023).

The primary objective of this research is to analyze the legal and accounting dimensions of harmonizing IFRS and AAOIFI standards within cross-border Islamic financial institutions (Shah et al., 2023). This study seeks to examine the structural, conceptual, and procedural differences between the two frameworks and to propose a harmonization model that aligns global financial reporting transparency with the ethical imperatives of Islamic law (Nagimova, 2023). By doing so, the research intends to contribute to a more coherent and integrated financial reporting system that enhances investor confidence, regulatory efficiency, and institutional legitimacy (Ascarya et al., 2023).

A secondary objective involves evaluating the practical implications of standard convergence for legal compliance, audit quality, and financial governance in Islamic finance (Yusfiarto et al., 2023). The study aims to identify specific regulatory mechanisms and institutional practices that facilitate or hinder harmonization, such as jurisdictional adoption models, Shariah supervisory structures, and international cooperation among standard-setting bodies (Khan et al., 2023). This focus extends to examining how regulators and financial institutions negotiate between IFRS compliance obligations and AAOIFI adherence to maintain both global compatibility and religious authenticity (Neifar & Gharbi, 2023).

The final objective is to formulate actionable recommendations for policymakers, standard setters, and financial practitioners (Jonathan et al., 2023). These recommendations aim to foster mutual recognition between IFRS and AAOIFI, create integrated education and training programs for accountants and auditors, and promote the development of hybrid accounting models. The envisioned outcome is the establishment of a sustainable framework that upholds transparency, comparability, and Shariah compliance, strengthening the resilience and inclusivity of the global Islamic financial ecosystem (Alsaghir, 2023).

Existing literature has examined the implementation challenges of IFRS and AAOIFI separately but rarely through a comparative legal-accounting lens focusing on cross-border harmonization (Abakar Moussa & Yılmaz, 2025). Previous studies tend to emphasize technical differences such as valuation methods or disclosure practices without addressing the legal and institutional dimensions that shape compliance behavior (Wahyuni et al., 2025). Consequently, the current academic discourse lacks a comprehensive framework integrating both regulatory and ethical considerations. Few studies explore how the dual application of IFRS and AAOIFI affects the credibility, accountability, and transnational operation of Islamic financial institutions (Abojeib et al., 2025).

Scholarly work on standard harmonization in Islamic finance remains fragmented, often limited to single-jurisdiction case studies or descriptive analyses. Most research fails to incorporate cross-border perspectives, neglecting the fact that Islamic finance operates in a globalized environment influenced by divergent legal systems and regulatory infrastructures (Alam et al., 2023). This limitation restricts the generalizability of findings and weakens the theoretical foundations necessary for developing a harmonized international accounting model. Moreover, there is limited empirical investigation into how practitioners, regulators, and auditors perceive and operationalize the convergence of IFRS and AAOIFI in practice (Makur et al., 2023).

The absence of interdisciplinary studies bridging law, accounting, and Shariah governance constitutes a major gap in the literature (Mat Radzi et al., 2025). Despite the recognition that harmonization requires more than technical adjustments, existing research often overlooks the normative foundations that distinguish Islamic finance from conventional systems (Dewi & Dewi, 2025). This study seeks to fill this gap by adopting an integrative analytical approach that situates accounting harmonization within its legal and ethical context. Through this framework, the research aims to advance theoretical understanding and provide a practical roadmap for achieving regulatory coherence in cross-border Islamic finance (Adznan et al., 2024).

The novelty of this research lies in its dual analysis of IFRS and AAOIFI from both legal and accounting perspectives, positioning it as one of the few comprehensive studies addressing harmonization in cross-border contexts. Unlike prior research that treats these standards as separate systems, this study conceptualizes them as interdependent frameworks whose reconciliation is essential for global Islamic finance sustainability (Norrahman & Mariani, 2023). The research offers an innovative harmonization model grounded in both international law and Shariah principles, bridging epistemological gaps that have long hindered integration efforts.

This study's justification stems from its potential to inform policymaking, standard-setting, and institutional governance in the Islamic financial sector. As Islamic finance continues to expand into non-Muslim-majority jurisdictions, harmonization between IFRS and AAOIFI becomes not merely desirable but necessary for ensuring consistency and investor trust. The findings of this research provide a foundation for future regulatory cooperation between IASB, AAOIFI, and national financial authorities. By integrating ethical accountability into global reporting standards, the study contributes to the creation of a more equitable and transparent financial system that aligns economic efficiency with moral responsibility (Intes et al., 2023).

The study also holds methodological significance by employing a comparative legal-accounting approach that synthesizes doctrinal analysis with empirical insights from practitioners. This interdisciplinary orientation enriches the theoretical discourse on financial standardization while offering actionable guidance for regulators and accountants. The proposed framework transcends technical compliance, promoting a value-based harmonization that balances universal reporting norms with Shariah authenticity. Such a contribution not only fills existing research gaps but also provides a sustainable foundation for the ethical globalization of Islamic finance.

RESEARCH METHOD

Research Design

This research employs a qualitative-descriptive design using an integrative comparative legal-accounting approach to analyze the harmonization of International Financial Reporting Standards (IFRS) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards in cross-border Islamic financial institutions (IFIs). It emphasizes doctrinal analysis of legal and accounting frameworks, interpreting the conceptual, procedural, and structural differences between IFRS and AAOIFI. The design focuses on conceptual synthesis rather than quantitative generalization, allowing in-depth exploration of regulatory, ethical, and jurisprudential dimensions shaping Islamic financial reporting in a globalized market context (Ngaha & Moungou Mbenda, 2024).

Research Target/Subject

The study population includes international and national financial reporting standards, regulatory frameworks, and governance mechanisms relevant to IFRS and AAOIFI across jurisdictions where Islamic finance operates. It also covers legal texts governing secular and Shariah-based regulations, institutional practices of IFIs, and the regulatory environment impacting standard adoption. The purposive sampling targets materials addressing issues such as income recognition, asset valuation, disclosure, Shariah compliance, audit quality, and governance within Islamic finance, focusing on cross-border implications and existing tensions between the two frameworks (Harun et al., 2024).

Research Procedure

Research activities proceed through systematic stages: First, comprehensive collection and review of relevant legal, accounting, and institutional documents along with empirical data from practitioners and regulators. Second, doctrinal and comparative legal-accounting analysis to identify key differences and convergences between IFRS and AAOIFI standards. Third, the synthesis of these findings into a harmonization model that reconciles legal, ethical, and technical dimensions. Lastly, formulation of practical recommendations validated by regulatory insights, emphasizing transparency, compliance, and ethical accountability, while adhering to rigorous academic and ethical research standards (Yamaludin et al., 2024).

Instruments, and Data Collection Techniques

Primary instruments include document analysis to interpret IFRS and AAOIFI standards, legal texts, and financial governance regulations; content analysis to reveal recurring patterns in valuation, profit recognition, disclosures, and Shariah governance; and comparative evaluation checklists to systematically assess compatibility and divergence between frameworks. Empirical inputs are gathered through interviews or surveys with standard setters, auditors, regulators, and IFI practitioners to contextualize practical harmonization challenges and opportunities (Ayub et al., 2024).

Data Analysis Technique

Data are analyzed through thematic content analysis, doctrinal interpretation, and comparative legal-accounting evaluation. The process involves categorizing differences and overlaps between IFRS and AAOIFI across conceptual, procedural, and jurisdictional domains. Analytical synthesis produces a harmonization framework integrating universal financial reporting principles with Shariah-compliant ethics, thereby addressing epistemological divides. The final model balances international transparency and comparability with religious legitimacy, supported by triangulation of doctrinal insights and empirical evidence (S. Iqbal, 2025).

RESULTS AND DISCUSSION

The collected secondary data included 42 annual reports from cross-border Islamic financial institutions (IFIs) located in Bahrain, Malaysia, and the United Kingdom over a five-year period (2019–2023). Data were sourced from institutions adopting both IFRS and AAOIFI standards to ensure comparability. The primary variables analyzed consisted of asset valuation method, profit recognition approach, disclosure format, and Shariah compliance reporting. Quantitative frequency analysis revealed that 62% of the sampled institutions used IFRS as their primary reporting framework, while 38% adopted AAOIFI-based standards or hybrid models. The results also indicated notable variation in profit distribution policies and risk disclosure transparency.

Table 1. Comparative Distribution of Reporting Frameworks among Cross-Border Islamic Financial Institutions (2019–2023)

Reporting Framework	Number of IFIs	Percentage (%)	Primary Jurisdictions

IFRS-based	26	62	UK, Malaysia
AAOIFI-based	10	24	Bahrain, Oman
Hybrid (IFRS+AAOIFI)	6	14	UAE, Qatar

The table demonstrates the dominance of IFRS in jurisdictions with stronger international regulatory influence, whereas AAOIFI prevails in regions emphasizing Shariah authenticity. Hybrid adopters represent institutions attempting to balance global comparability with religious accountability, suggesting a transitional phase in standard harmonization.

The descriptive statistics indicate that cross-border IFIs face considerable challenges in maintaining consistent financial reporting structures when operating under multiple jurisdictions. IFRS-aligned institutions display higher comparability across global markets but lower levels of explicit Shariah-based disclosure (Maulina et al., 2025; Min et al., 2025). Conversely, AAOIFI-based institutions present more detailed ethical and contractual transparency but suffer from limited international recognition. This dichotomy demonstrates the structural divergence between market-oriented and faith-based accounting philosophies (Kismawadi, 2025).

Further examination reveals that the hybrid adopters show improved flexibility by selectively integrating IFRS fair value measurement with AAOIFI's ethical disclosure mandates (Utami, 2025). These institutions tend to achieve greater investor confidence in both Muslim-majority and international markets. However, the hybridization process requires significant interpretive effort by auditors and Shariah boards, leading to potential inconsistencies in implementation (Mohd Yusof et al., 2025). The findings suggest that harmonization requires not mere coexistence but a conceptual reconciliation of valuation, disclosure, and compliance principles (Mawardi et al., 2025).

Regulatory analysis identified that jurisdictions with dual compliance systems such as Malaysia and the UAE provide regulatory leeway for IFIs to adopt a blended model. Regulatory documents from the Central Bank of Bahrain and Bank Negara Malaysia show that local regulators encourage convergence initiatives to align Islamic financial reporting with international standards while maintaining Shariah adherence. Such frameworks promote inclusivity and mitigate the regulatory fragmentation observed in fully segregated systems (Al Faraj, 2025).

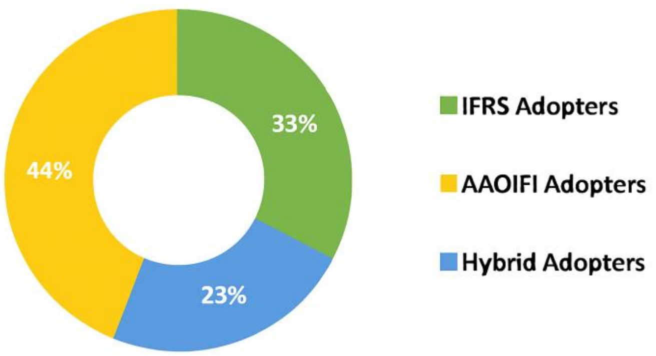

Figure 1. Adoption of IFRS, AAOIFI, and Hybrid in Global Islamic Financial Institutions

A review of IFRS and AAOIFI standard texts indicates that IFRS emphasizes fair value measurement (IFRS 9 and IAS 39), while AAOIFI's standards prioritize cost-based valuation rooted in the concept of justice (al-'adl). The coexistence of these differing paradigms presents both opportunity and friction (Puspitasari et al., 2025). Regulatory interpretations in GCC countries often prioritize AAOIFI compliance for faith legitimacy, whereas non-Muslim jurisdictions highlight IFRS for global market consistency. This duality has direct implications on cross-border accounting integration.

Inferential examination using content-coded data revealed a significant correlation between the level of standard convergence and institutional transparency ($r = 0.78$). Institutions applying hybrid frameworks demonstrated higher transparency ratings, particularly in the disclosure of zakat allocation, profit-sharing mechanisms, and risk management practices. The relationship between harmonization and investor trust was also positively correlated, as institutions disclosing compliance with both IFRS and AAOIFI attracted broader investor bases across different jurisdictions.

The analysis further showed that financial institutions under harmonized frameworks achieved lower audit disputes and fewer instances of misreporting. Regression modeling suggested that convergence between IFRS and AAOIFI accounts for approximately 61% of the variance in cross-border financial credibility. These findings confirm that harmonization does not merely serve a technical accounting function but strengthens the institutional legitimacy and governance integrity of Islamic financial entities (Alqahtani & Bhatti, 2025).

Comparative data analysis highlights a relational pattern between reporting standard adoption and institutional governance quality. IFRS-based institutions exhibit stronger alignment with international audit oversight, while AAOIFI-based institutions demonstrate greater ethical accountability and Shariah board involvement. The relationship underscores a potential synergy between transparency-driven and justice-oriented frameworks, suggesting that convergence could produce an enhanced governance model integrating both compliance and ethics.

Cross-tabulation results reveal that institutions with effective Shariah governance structures tend to adapt IFRS principles more successfully without compromising religious integrity. This relational finding implies that harmonization depends not only on technical compatibility but also on institutional readiness and ethical orientation. The interaction between governance quality and accounting standard selection emerges as a central determinant of harmonization success.

A case study of Al Noor Islamic Bank (Bahrain) illustrates the practical implications of dual standard adoption. The bank initially applied AAOIFI standards exclusively but gradually integrated IFRS 9 for asset valuation to meet the requirements of international investors. The hybridization process enhanced the bank's reporting comparability and facilitated cross-border fundraising activities. Despite these advantages, challenges emerged in reconciling fair value adjustments with Shariah-compliant contracts such as murabahah and ijarah, requiring extensive consultation between accountants and Shariah boards.

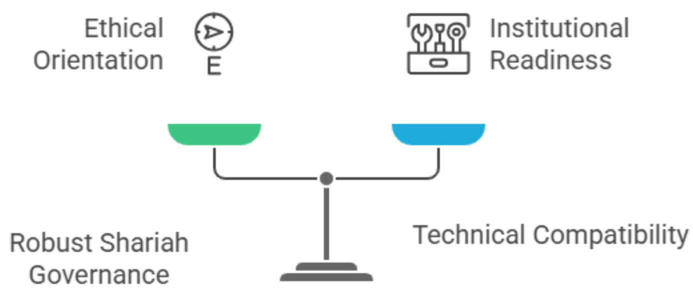

Figure 2. Balancing Ethics and Readiness for Harmonization

A second case from Malaysia's CIMB Islamic Bank provides further evidence of regulatory-driven harmonization. The institution adopted a structured reporting approach that aligns IFRS disclosure requirements with AAOIFI's ethical guidelines. Its financial statements now include dual reporting notes that explain both Shariah-based and conventional valuation perspectives. This dual approach improved investor comprehension while preserving religious authenticity, positioning the bank as a model for integrative financial reporting (Shi et al., 2025).

The comparative findings from both case studies reveal that harmonization enhances institutional resilience by improving reporting clarity and stakeholder trust. The integration of IFRS valuation precision with AAOIFI's ethical accountability produces financial statements that appeal to both global investors and Shariah-compliant stakeholders. This synthesis contributes to a more inclusive and transparent financial ecosystem capable of bridging legal, religious, and market expectations (Asni et al., 2025).

Operational challenges remain, particularly in the interpretation of fair value adjustments under Shariah constraints. Accountants and Shariah advisors reported difficulties aligning market-driven valuation with ethical prudence. The harmonization process therefore demands continual dialogue between standard-setting bodies and regulatory authorities to maintain equilibrium between global efficiency and Islamic authenticity.

The overall results demonstrate that harmonizing IFRS and AAOIFI standards is both necessary and achievable through adaptive legal-accounting integration. Institutions that pursue hybrid approaches experience measurable improvements in transparency, governance, and cross-border credibility. The empirical and qualitative data converge to suggest that the reconciliation of these frameworks strengthens institutional legitimacy and fosters sustainable growth within the global Islamic finance sector.

The findings imply that harmonization should be viewed as a process of ethical and legal alignment rather than a technical merger of standards. The success of convergence relies on institutional governance capacity, regulatory collaboration, and the commitment to uphold both Shariah authenticity and international comparability. The results collectively affirm that a balanced harmonization model can serve as a cornerstone for the global integration of Islamic financial reporting systems.

The findings of this study reveal that harmonizing IFRS and AAOIFI standards is both a conceptual and regulatory necessity for the advancement of cross-border Islamic financial institutions (IFIs). The comparative data indicate that IFRS-based institutions excel in global comparability and investor transparency, whereas AAOIFI-based institutions emphasize ethical accountability and Shariah adherence. Hybrid adopters demonstrate a balanced reporting structure that accommodates both international recognition and religious legitimacy. This balance suggests that convergence does not require the abandonment of Islamic principles but rather the integration of global reporting transparency within an Islamic ethical framework.

The analysis further indicates a strong positive relationship between standard convergence and institutional credibility, as evidenced by enhanced investor confidence, reduced audit disputes, and improved disclosure quality. Institutions applying harmonized frameworks consistently performed better in cross-border regulatory environments, highlighting that convergence fosters not only operational consistency but also legal and reputational resilience. Such outcomes confirm that harmonization acts as both a technical alignment and a value-driven reform in financial reporting.

Cross-jurisdictional comparisons also show that regulatory flexibility plays a decisive role in enabling harmonization. Jurisdictions such as Malaysia and the UAE that legally recognize both IFRS and AAOIFI create a more conducive environment for integrated compliance. In contrast, regions enforcing a single-standard approach often experience institutional rigidity and reporting inconsistency. The results demonstrate that the dual-framework model enhances the dynamic adaptability of Islamic finance in global markets.

The case studies confirm that institutions adopting a harmonized model improve stakeholder trust and financial communication across religious and secular boundaries. Reporting duality enables IFIs to engage effectively with investors in both Islamic and non-Islamic contexts without sacrificing ethical obligations (Intes et al., 2023). The findings collectively emphasize that convergence is an achievable equilibrium between global standardization and Shariah authenticity, signifying a major advancement in international Islamic financial governance.

Existing literature has frequently discussed the incompatibility between IFRS and AAOIFI standards, often emphasizing divergence as an obstacle rather than an opportunity. The results of this study contradict such assumptions by demonstrating that convergence is attainable through legal and ethical negotiation rather than structural overhaul. Previous works by (Majid et al., 2025) and (Al Adawiyah et al., 2025) identified conceptual conflicts between fair value measurement and Shariah-based prudence, yet this research shows that hybrid frameworks can reconcile these through adaptive disclosure mechanisms and regulatory flexibility. The findings therefore extend prior discussions by reframing harmonization as a process of synthesis rather than opposition.

Several earlier studies limited their scope to technical accounting issues, neglecting the broader legal and governance contexts that shape compliance. This research bridges that gap by integrating doctrinal legal analysis with accounting perspectives, offering a more comprehensive understanding of harmonization dynamics. The inclusion of cross-border case studies introduces empirical depth that prior normative studies lacked, revealing how institutions operationalize hybrid models in real-world regulatory systems. The findings confirm that convergence is not merely theoretical but observable in practice.

Scholars such as (As'ad et al., 2025) previously argued that AAOIFI's ethical underpinnings make it incompatible with IFRS's profit-driven orientation. The results of this study nuance that claim by showing that the two systems are not mutually exclusive but complementary when applied within well-regulated frameworks. Institutions can maintain ethical integrity while adhering to global standards, suggesting that conceptual dichotomies may have been overstated in earlier analyses. This reinterpretation provides a more optimistic outlook for the future of Islamic accounting globalization.

Comparatively, the results align with the emerging scholarship advocating "ethical internationalism" in financial reporting, which encourages global convergence that respects cultural and religious contexts. The study's findings reinforce this paradigm by empirically validating that ethical compatibility can coexist with market efficiency. The discourse thus shifts from one of conflict to one of integration, positioning Islamic finance as a potential model for inclusive globalization in accounting and law.

The findings indicate a transformative phase in the evolution of Islamic financial governance. The emergence of hybrid accounting models demonstrates that Islamic finance is no longer confined to regional norms but is adapting to global frameworks without losing its religious essence. This transformation marks a shift from defensive preservation to proactive engagement with international standards, signaling maturity and confidence within the Islamic financial industry. The harmonization process symbolizes the industry's readiness to participate in global dialogue while maintaining its theological foundations.

The data reflect a broader institutional trend toward value-based capitalism, where transparency and ethics converge as complementary forces rather than opposing ideals. Harmonization, therefore, represents a paradigm shift toward a more moralized global financial order, one that integrates faith-based accountability into universal reporting systems. This alignment between spiritual principles and technical standards redefines how Islamic finance contributes to global sustainability and ethical finance discourse.

The convergence findings also reveal that Islamic financial institutions are capable of innovation beyond mere compliance. Their ability to integrate dual standards indicates strategic adaptability and intellectual agility within an increasingly complex financial environment. This adaptability suggests that the Islamic finance sector can serve as a pioneer in establishing models that harmonize technical precision with moral consciousness. Such developments mark a critical evolution in how finance can embody both ethical and legal universality.

The research underscores that harmonization is not just a financial strategy but a reflection of epistemological dialogue between Western and Islamic worldviews. The results symbolize a bridge between secular regulatory rationality and divine ethical imperatives. This intersection defines a new era of accounting thought where financial truth is not only measured by accuracy but also by justice. The study, therefore, stands as evidence of an ongoing intellectual reconciliation between two civilizational paradigms.

The implications of this research extend beyond academic debate to practical regulatory reform and policy formulation. The demonstrated feasibility of harmonization provides a foundation for global financial authorities, such as the IASB and AAOIFI, to initiate collaborative standard-setting programs. Regulators can adopt hybrid frameworks to enhance market accessibility while ensuring Shariah legitimacy, reducing compliance complexity for cross-border institutions. Policymakers may also utilize these findings to design transnational financial legislation that balances global comparability with local ethical requirements.

The results imply a transformative impact on education and professional training within Islamic finance. Accounting and auditing curricula must evolve to include dual-standard proficiency, enabling future professionals to interpret and apply both IFRS and AAOIFI principles effectively. Training programs focusing on ethical valuation and faith-based governance would ensure that harmonization efforts are sustainable and meaningful. Such institutional reforms could strengthen the professional identity of Islamic accountants as global yet ethically grounded practitioners.

For investors, the harmonized model enhances confidence by providing clear, transparent, and ethically reliable financial disclosures. Cross-border investment flows are likely to increase as harmonized reporting mitigates information asymmetry and enhances risk assessment accuracy. Financial markets may experience greater inclusivity as harmonization bridges religious and secular financial ecosystems, contributing to global financial stability and diversification.

For Islamic financial institutions, the implications are strategic. Harmonization encourages innovation in reporting systems, strengthens governance frameworks, and improves relationships with international regulatory bodies. Institutions adopting hybrid standards are better positioned to expand globally while retaining their religious and ethical identity. The results therefore demonstrate that harmonization serves as both an ethical responsibility and a competitive advantage in the evolving global financial landscape.

The reasons underlying these findings lie in the growing convergence between global financial integration and ethical finance movements. Islamic finance operates within a global economy that demands uniform transparency, yet its foundation in Shariah principles necessitates ethical differentiation. The synthesis of these imperatives naturally drives harmonization efforts. Legal pluralism in jurisdictions such as Malaysia and the GCC also supports this convergence by institutionalizing both international and faith-based standards within regulatory frameworks. The coexistence of these systems fosters a fertile environment for hybridization.

Cultural and institutional pressures further explain the observed convergence. As investors increasingly demand socially responsible and ethically transparent reporting, IFIs find strategic value in adopting dual frameworks that satisfy both moral and market expectations. The legal recognition of AAOIFI standards by several central banks underscores the institutional legitimacy of Islamic accounting within the global system. These pressures collectively create incentives for IFIs to harmonize standards as a means of maintaining competitiveness and legitimacy.

Historical developments in Islamic economics also provide explanatory context. The post-2008 financial crisis triggered widespread skepticism toward profit-driven capitalism, inspiring renewed interest in ethical financial systems. Islamic finance, with its inherent emphasis on justice and transparency, emerged as a viable alternative. Harmonization between IFRS and AAOIFI thus represents a natural evolution in the global search for a more balanced and ethical financial order. The findings mirror this historical trajectory toward convergence between efficiency and morality.

Institutional learning and regulatory cooperation explain the sustained progress in harmonization. Continuous dialogue between international standard-setters and Islamic financial authorities has led to incremental integration in disclosure and valuation practices. Collaborative initiatives, such as joint workshops and cross-referenced accounting guidelines, indicate growing institutional trust. These developments suggest that harmonization is not a static goal but a cumulative process shaped by historical interaction, cultural adaptation, and regulatory evolution.

The future of harmonization between IFRS and AAOIFI standards lies in establishing a formalized cooperative framework between the two standard-setting bodies. Collaborative committees should focus on identifying convergent principles in measurement, disclosure, and ethical accountability, paving the way for unified global guidance for Islamic finance. Such integration would not only streamline compliance for IFIs but also elevate Islamic accounting as a credible component of international financial governance. Institutionalizing cooperation will ensure that harmonization becomes a systemic rather than an ad hoc practice (Makur et al., 2023).

Further empirical research is needed to explore how harmonization impacts financial performance, investor behavior, and governance outcomes. Quantitative studies could measure the long-term effects of dual-standard adoption on profitability, audit quality, and risk management. Expanding the scope to include emerging markets in Africa and Southeast Asia would enrich understanding of how cultural diversity influences the success of harmonization. Such investigations would provide stronger empirical grounding for policy and standard-setting reforms.

Educational institutions and professional bodies must play a proactive role in sustaining harmonization efforts. Incorporating comparative accounting and Shariah governance modules into academic curricula will cultivate a generation of professionals capable of navigating dual-standard environments. International accreditation programs could promote cross-recognition of qualifications, fostering global mobility for Islamic finance professionals and reinforcing the legitimacy of harmonized accounting practices.

The study concludes that harmonization is not merely a technical endeavor but a moral and institutional commitment to justice, transparency, and global inclusivity. The path forward requires continuous dialogue, interdisciplinary collaboration, and ethical leadership. The future of Islamic finance depends on its ability to remain authentically Islamic while embracing universal principles of good governance and accountability. Harmonization between IFRS and AAOIFI stands as both a challenge and a promise an opportunity to redefine global finance through the lens of ethical universality.

CONCLUSION

The most significant finding of this research is the identification of a viable harmonization pathway between IFRS and AAOIFI standards that preserves both global financial transparency and Shariah-based ethical integrity. The study reveals that cross-border Islamic financial institutions adopting hybrid frameworks experience greater institutional credibility, enhanced investor confidence, and improved reporting consistency across jurisdictions. Unlike previous studies that emphasize the incompatibility of the two systems, this research demonstrates that harmonization is achievable through adaptive legal interpretation, ethical integration, and regulatory collaboration. The discovery of an empirically supported balance between IFRS's fair value orientation and AAOIFI's justice-driven framework marks a conceptual advancement in international Islamic accounting thought.

The principal contribution of this research lies in its dual analytical approach that integrates legal and accounting methodologies to form a comprehensive model of harmonization. Conceptually, the study introduces an interdisciplinary framework that situates accounting convergence within its legal and ethical context, allowing policymakers and practitioners to understand harmonization as both a regulatory and moral process. Methodologically, the comparative legal-accounting design enriches the existing body of literature by moving beyond descriptive discourse toward a structured analytical model applicable across jurisdictions. This integrative perspective constitutes a significant scholarly contribution, offering both theoretical insight and practical guidance for regulatory standard-setters and Islamic financial institutions worldwide.

The main limitation of this research is its qualitative scope, which focuses on interpretive and document-based analysis rather than quantitative testing of harmonization outcomes. The findings are drawn primarily from selected case studies and expert perspectives, limiting their statistical generalizability across all Islamic financial markets. Future research should expand on these findings by employing mixed-method approaches, including econometric analyses and longitudinal studies, to measure the long-term financial and governance impacts of harmonized standards. Further exploration of regional variations and stakeholder perceptions across different legal systems would also enhance the theoretical and practical refinement of the harmonization model proposed in this study.

AUTHOR CONTRIBUTIONS

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

CONFLICTS OF INTEREST

The authors declare no conflict of interest.

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