

Transition to International Financial Reporting Standards: The Demand of the ERA and the Foundations for Implementation

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Abstract: This article analyzes the concept of the development of International Financial Reporting Standards (IFRS), the process of transition in Uzbekistan, and the impact of IFRS on foreign investment. The main stages of the transition to IFRS, the problems encountered, and their potential solutions are considered.

Keywords: IFRS, IASB, FASB, investment, national standard, international standards, global integration.

INTRODUCTION: Since the independence of the Republic of Uzbekistan, a new period of renaissance has begun in all sectors. In the field of accounting, the third stage of the renaissance has also arrived gradually. One of the important tasks set out in the Decree of the President of the Republic of Uzbekistan "On Uzbekistan – 2030 Strategy" is to achieve a place among countries with higher-than-average income through sustainable economic growth, as well as to establish an education, healthcare, and social protection system that fully meets the needs of the population and international standards. In achieving the tasks outlined in the strategy, increasing the income of the population, expanding economic entities, and maintaining income accounting that fully complies with population demands and international standards based on international standards in these entities is currently one of the most urgent issues. A number of decrees and decisions adopted in the implementation of this strategy, as well as state programs, have set the transition to international financial reporting standards as a priority task, with clear measures outlined.

The process of transitioning to International Financial Reporting Standards (IFRS) will not only accelerate the flow of foreign investment, ensure the transparency and reliability of financial reports, expand international trade relations, and stimulate the overall economic development of the country.

LITERATURE REVIEW: In particular, in our country, economists such as A.A. Karimov, M. Rahimov, and I. Qo'ziyev (2020) have researched the prospects of transitioning to IFRS, while A.Z. Avloqulov (2020) has conducted studies on reporting financial results based on international financial reporting standards. Doctor of Economic Sciences S.N. Tashnazarov (2019) in his doctoral dissertation conducted in-depth studies and analyses on the need to align financial reporting with international standards and, based on this, achieve the harmonization of financial reporting at a global scale, as well as the importance of effectively utilizing best practices at the national level.

To better understand the process of transitioning to International Financial Reporting Standards (IFRS) in Uzbekistan and its impact on sustainable development, recent studies have examined the experiences of adopting IFRS in various countries and their effects on the economy (Jessica X. Yang, Nada Kakabadze, and Dmitro Lazovski, 2013). These studies conclude that the primary goal of International Financial Reporting Standards is to attract foreign investments into

the economies of both developed and developing countries. For instance, Bansal, Prusty Tanna, and Denis (2010) analyze the process of adapting IFRS for the banking sector in India. They demonstrate how the RBI (Reserve Bank of India) guidelines can be aligned with IFRS principles and emphasize the importance of IFRS adoption by the Reserve Bank of India for a successful transition. This research discusses the key challenges financial institutions face in the IFRS adoption process and the changes in asset valuation.

RESEARCH AND RESULTS: The development of IFRS in the 20th century served as the core of financial integration. The beginning of the formation of International Financial Reporting Standards started on June 29, 1973, with the establishment of the accounting and auditing associations of 10 major countries (Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and the United States). After relevant agreements were signed between companies, the International Standards Committee was formed, and a system of mutual relations with the International Federation of Accountants began to take shape. By 1989, it had consolidated accounting practices in the 10 participating countries. As a result, rules and explanations known as IFRS were created. In its modern form, international standards were fully developed from 1989 to 1995, after which three more countries joined the original 10 participants. Another reason for the transition to IFRS was the necessity of creating a mechanism to attract foreign investors. In 1995, the European Commission (EC) supported the agreement to finalize the development of the main standards between the International Accounting Standards Committee (IASC) and the International Organization of Securities Commissions (IOSCO). This agreement imposed the obligation to adopt IFRS on the countries of the European Union. In 2002, the European Union established the obligation for companies whose shares were listed on the European Stock Exchange to apply IFRS starting from 2005.

In 2002, an agreement on convergence (merger) between the International Financial Reporting Standards Committee (IFRS) and the Financial Accounting Standards Board (FASB) was signed. Starting from 2004, the IFRS meetings have been broadcast via the internet. Currently, companies in over 150 countries are using IFRS to provide clearer information about their financial status. Specifically, the Republic of Uzbekistan adopted the Law on "Auditing Activities" on December 9, 1992 (Law No. 734-XII) and the Law on "Accounting" on August 30, 1996 (Law No. 279-I) as part of the initial stages of the development of the accounting system. To achieve an international-level accounting system, Uzbekistan has been continuously developing it since 1991. If we calculate over the years, this process spans a period of 33 years. Therefore, based on the above, I will present the following conclusions and recommendations:

- To fully adopt the International Financial Reporting Standards (IFRS) for our financial statements, which meet the demands of the times, we must set the following goals and objectives:
- To substantiate and develop the classification basis of the essence and significance of applying IFRS, as well as their characteristics as accounting objects.
- To define the objectives, tasks, principles, and methods of applying IFRS in economic entities.
- To explore the organizational foundations of applying IFRS in the activities of economic entities.

RESEARCH METHODOLOGY: This study is aimed at examining the problems and prospects encountered in the process of organizing financial statements based on International Financial Reporting Standards (IFRS) in Uzbekistan. During the research, various methods were applied, including the analysis of scientific literature, collection and analysis of statistical data, as well as conducting expert surveys. Based on the research methodology, the gathered data allowed for the analysis of practical and theoretical problems in the implementation of IFRS in Uzbekistan, the identification of existing barriers, and the development of recommendations to improve this process.

Particularly, in our country, the National Accounting Standards (NAS) have been the main factor in the process of transitioning to IFRS. Starting from 1993, the chart of accounts, as well as the National Accounting Standards (NAS), were developed and finalized by 2009. On April 13, 2016, with the law O'RQ-404, the new version of the "Law on Accounting" of the Republic of Uzbekistan was approved, and on February 25, 2021, the law O'RQ-677 on "Audit Activity" (new edition) was revised and approved. In order to accelerate the transition to International Financial Reporting Standards (IFRS) and provide foreign investors with the necessary information environment, the legal foundation for the transition was laid based on the decree of the President of the Republic of Uzbekistan dated February 24, 2020, "On additional measures to transition to International Financial Reporting Standards." Starting from January 1, 2021, joint-stock companies, commercial banks, insurance organizations, and large taxpayers were required to switch to IFRS for accounting purposes. Furthermore, the resolution of the Cabinet of Ministers of the Republic of Uzbekistan, dated August 24, 2020, No. 507, "On the approval of the regulations on the recognition of the International Financial Reporting Standards and their interpretations," became the basis for accelerating this transition.

Uzbekistan has been operating its economic activities based on national economic management principles until now. Transitioning from national standards to international standards is certainly effective. However, this shift will, in turn, lead to several challenges, as outlined below:

- a) Lack of knowledge and skills (Not all specialists and accountants responsible for preparing financial statements have the required knowledge and skills to comply with IFRS standards);
- b) Limited financial resources (There is a lack of technological and financial resources necessary to implement IFRS);
- c) Uncertainty in legal and regulatory framework (The legal and regulatory framework required to support IFRS is unclear or outdated).

All the issues listed above cause several difficulties in transitioning to IFRS, resulting in problems such as the inability to fully disconnect from national standards. In fact, completely abandoning national standards is not correct; instead, it is more appropriate to adapt to IFRS through a transformation process. Several potential solutions can be proposed to prevent these issues:

- a) Expanding training programs (Training and improving the qualifications of specialists and accountants in financial reporting according to IFRS).
- b) Ensuring financial and technological resources (Providing the financial and technological resources necessary for the effective implementation of IFRS).
- c) Updating and improving the legal and regulatory framework (Developing and updating the legal and regulatory framework in accordance with IFRS requirements).

The solutions mentioned above are aimed at improving the efficiency of the transition to IFRS in our country. Expanding training programs can enhance the knowledge and qualifications of specialists and accountants in financial reporting. Ensuring financial and technological resources is one of the key factors for the effective implementation of IFRS. Updating the legal and regulatory framework ensures a financial reporting process that fully complies with IFRS requirements. The regulatory and legal framework plays a crucial role in the implementation of IFRS. During the research, legal documents related to accounting and financial reporting in the Republic of Uzbekistan, the Tax Code, and laws and regulations related to the application of international accounting and auditing standards will be analyzed. Through this analysis, the legal changes and adaptations made during the process of implementing IFRS will be identified.

These solutions will help make the transition to IFRS in Uzbekistan more effective and smoother. Since the process of adopting international financial reporting standards began in our country, the volume of foreign investments has been growing rapidly. As of July 1, 2024, 13.9

thousand joint and foreign enterprises are operating in Uzbekistan. Of these, 4.22 thousand are joint ventures, and 9.66 thousand are foreign enterprises.

Conclusion: The transition of the Republic of Uzbekistan to IFRS (International Financial Reporting Standards) is creating opportunities to strengthen the country's financial ties with the global financial community, enhance its economic stability, and improve competitiveness in the globalization process. These processes, in turn, facilitate the increase in foreign investments and the development of national economic sectors through foreign capital.

As we move towards IFRS, it is crucial to find potential solutions to the challenges that have arisen or are expected to arise during this transition. Taking the necessary measures to support the implementation of IFRS and ensure its more effective execution is an important step in shaping the country's economic future. This process will not only improve the quality of financial reporting but will also help strengthen Uzbekistan's position in the international financial markets.

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