



TOWARD GLOBAL INTEGRATION: ANALYZING THE OPPORTUNITIES AND CHALLENGES OF IFRS IMPLEMENTATION IN UZBEKISTAN

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<https://doi.org/10.5281/zenodo.10649155>

ARTICLE INFO

Qabul qilindi: 05-February 2024 yil
Ma'qullandi: 08- February 2023 yil
Nashr qilindi: 12- February 2023 yil

KEY WORDS

Integration, Financial report, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Standards on Auditing (ISA), Certified International Professional Accountant (CIPA), Association of Chartered Certified Accountant (ACCA), Certified Public Accountant (CPA), Diploma in International Financial Reporting (DipIFR), Accounting, Auditing.

ABSTRACT

The main mission for the development of NAS assigned to the Office of accounting methodology and audit of the Ministry of Finance of the Republic of Uzbekistan with the participation of the National Association of Accountants and Auditors of Uzbekistan and with the support of international organizations", In 2010, the President of the Republic of Uzbekistan has adopted a Decree supporting adoption of IFRS in Uzbekistan. Moreover, the Central Bank has adopted IFRS for the banking sector in Uzbekistan. However, IFRS has not yet been fully implemented for banks, to be completed by 2020. National Association of Accountants and Auditors of Uzbekistan (NAAAU) now requires all listed and unlisted banks, financial sectors and insurance companies to use IFRS, but all other entities, irrespective of their size, are required to use the local NAS as issued by NAAAU (IFRS, 2020).

Introduction

In an increasingly interconnected global economy, the adoption of International Financial Reporting Standards (IFRS) has become a crucial step for nations seeking to align their financial reporting practices with international norms. For Uzbekistan, a country with a rapidly developing economy and aspirations for greater integration into the global financial community, the implementation of IFRS represents both a significant opportunity and a complex challenge.

This article explores the journey of Uzbekistan toward global financial integration through the lens of adopting IFRS. By delving into the opportunities and challenges associated with this transition, we aim to provide a comprehensive analysis of the potential impact on the Uzbekistani financial landscape.

The decision to embrace IFRS reflects Uzbekistan's commitment to enhancing transparency, comparability, and credibility in financial reporting, thereby fostering investor confidence and stimulating economic growth. However, this transition is not without its obstacles. Adapting to IFRS entails substantial changes in accounting practices, financial infrastructure, regulatory

frameworks, and professional expertise. Moreover, cultural, institutional, and technological factors may further complicate the implementation process.

Against this backdrop, this article seeks to address key questions: What are the opportunities presented by the adoption of IFRS in Uzbekistan? How can Uzbekistan leverage these opportunities to drive economic development and attract foreign investment? What are the challenges that Uzbekistan must overcome to successfully integrate IFRS into its financial reporting regime? And what strategies can Uzbekistani policymakers, businesses, and accounting professionals employ to navigate these challenges effectively?

By analyzing the opportunities and challenges of IFRS adoption in Uzbekistan, this article aims to provide valuable insights for stakeholders involved in the country's financial transformation journey. Through a balanced assessment of the benefits and complexities inherent in this process, we endeavor to contribute to informed decision-making and facilitate the smooth transition toward global financial integration.

Development and entry into the international markets are carried out using the performance of the directions which promote economic development. The intensification of production and increase of its efficiency becomes the main direction of the development of the national economy. In decisions of the government need of consecutive improvement of management with the economy taking into account increasing scales of the production, becoming complicated economic relations, requirements of scientific and technical progress for the maximum use of opportunities of the economic capacity of the republic is emphasized

Background of the research

This study was about the implementation of international financial reporting standards in Uzbekistan. IFRS is currently a hot topic in the accounting community as the process of IFRS adoption goes on in many countries. Multiple researchers study IFRS and its influence on different aspects of business in general. The topic of earnings management has been also studied for a long time by academics and practitioners.

The process of IFRS implementation in different countries has been studied for a long time by multiple researchers. Most research papers state that the main goal of IFRS is to create better transparency in financial reporting and improve its quality (Tulahadjayeva. 2019, Dusmuratov R., and Menglykulov .2020). IFRS improves market infrastructure, decreases information processing costs, increases reporting quality, and, thus, attracts foreign investments.

It is a commonly known fact, that investors and analysts make their estimations based on companies' reported financial statements. Consequently, they are interested in the reliability of this information and its relevance. The information is considered of high quality if it is relevant and reliable. Otherwise, it is considered low-quality information and investors can not trust the reported data. Currently, the economies of the countries are becoming increasingly open and interconnected, which leads to the integration of the accounting system

Statement of the Problem

There are now 166 countries where businesses use IFRS as the basis of a common accounting language. Uzbekistan is still in the initial stage of adoption, caught between the need to attract foreign direct investment (FDI), which requires the country to join the international community and fully adopt IFRS.

Numerous researchers have illustrated the expected impact of IFRS adoption in

developing countries, but none have critically explored the adoption of IFRS in Uzbekistan. This is the primary motivation of this study. The study examines IFRS adoption in the country's financial sector – so far, the only sector to have adopted the standards –to uncover the barriers to and benefits of implementation. Unlike previous studies of IFRS adoption (Avlakulov, 2019), this study was conducted during the implementation process (IFRS, 2019). It should also be noted that the above studies were undertaken in non-banking sectors. This study, while using the previous research as a base, differs in its objectives as it aims to find out why Uzbekistan shifted from its standards to embrace the partial adoption of IFRS; no research has yet been conducted into the institutional pressures that influenced Uzbekistan to follow this path. Further, the study aims to explore how users of accounting information in Uzbekistan perceive the convergence to IFRS. Lastly, the study's use of mixed methods has allowed it to generate richer information about the current challenges and opportunities associated with IFRS adoption in a country whose social, legal, political, and cultural structures differ greatly from those of countries backing international accounting standards.

Uzbekistan was chosen because of its enormous natural resources, which have helped the country to play a vital role in ensuring world economic stability. However, as the oil revenue is declining and with the country's aim to reduce its dependence on attracting more investment, the adoption of IFRS is important to promote different investments opportunities in the country and the trust of investors. Therefore It is not appropriate to generalize other cases with Uzbekistan because it differs greatly in terms of its particular characteristics. The study addresses a gap in the accounting and finance literature on emerging economies and Gulf countries by exploring the problems that arise as a result of some banking and insurance companies using

Financial statements prepared based on international standards are necessary for the effective management of the organization. The main purpose of the transition to international standards is to enter the international market and attract investment. International standards also make an important contribution to the qualitative development of the country's economy (Avlakulov A, 2019). The use of international financial reporting standards in the preparation of financial statements by the business entity allows them to increase their competitiveness in the struggle for funding sources. It is necessary to develop new standards in the financial reporting of the country, taking into account the views of public organizations to ensure unity with international standards, with particular emphasis on the professional opinions of experts in the field of accounting and financial accounting.

METHODS AND METHODOLOGY

A pragmatic approach, combining quantitative and qualitative methods, was considered the most suitable for the study. A questionnaire was deployed to uncover the perceptions of the chosen group towards the implementation of IFRS in Uzbekistan.

Research Design: The research design must enable the researcher to capture the data needed to meet the articulated objectives. According to Bryman and Bell (2015), this involves choosing between the quantitative, qualitative, and mixed methods approach. The following sections discuss the quantitative and qualitative research approaches and describe the approach adopted in the current study.

Advantages of IFRS over NAS	Disadvantages of IFRS over NAS
clear logic for building standards	standards imply a generalized nature and diversity of accounting methods, which leads to additional costs for analyzing the "quality" of profits
standards are developed based on international accounting and financial reporting practices	The official language of the standards is English, which makes it difficult to translate
recommendatory character and strengthening the role of professional judgment	lack of detailed explanation of the application of standards
Financial statements prepared following with IFRS should be understandable to all interested qualified users	standards are constantly changing and refining
increasing transparency, improving the comparability of indicators, increasing analysis capabilities and, facilitating access to international capital markets	the complexity of the transformation of financial statements from NAS to IFRS, the growth of management costs
The transition of large companies to IFRS will also affect the structure of the labor market of accounting and financial services, the need for specialists in international financial reporting standards will grow	The difficulty of perceiving an IFRS text is that in many cases, instead of the direct instructions customary to an accountant, IFRS contains the logic of making professional judgment

Table 1. Advantages and disadvantages of IFRS to National Accounting Standards

The IASB develops international accounting standards that can be applied to all financial statements of all businesses around the world. Table 2-1 shows the number of countries using IFRS, for at least some purposes, in the 166 profiled jurisdictions by region, as in April 2018.

Table 2: Analyses of the use of IFRS in the 166 profiled jurisdictions by region

Region	Number of Jurisdictions				
	Jurisdictions in the region	Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities	Jurisdiction that require IFRS standards as % of total jurisdictions in the region	Jurisdictions that permit or require IFRS standards for at least some (but not all or most) domestic	Jurisdiction that neither require nor permit IFRS standards for any domestic publicly accountable entities

				publicly accountable entities	
Europe	44	43	98%	1	0
Africa	38	36	95%	1	1
Middle East	13	13	100%	0	0
Asia- Oceania	34	25	74%	3	6
Americas	37	27	73%	8	2
Totals	166	144	87%	13	9
As % of 166	100%	87%	-	8%	5%

Table 3: The degree of adoption and implementation of IFRS in different countries

Approach	Country examples	More detail on the approach
Pure adoption	South Africa	Regulators require the use of IFRS as issued by the IASB for listed companies. This implies that any future changes that happen to the standard by the IASB are automatically adopted.
Standard-by-standard endorsement by public authorities	European Union	Each standard is assessed before endorsement; this sometimes leads to delay and can lead to differences (e.g. IAS 39). Companies use the “endorsed” versions of international standards that are appended to the Regulation. Endorsing many different language versions of the IASB’s output. The law says that companies should prepare their financial statements according to IFRS as adopted by the EU, which complies with the legal requirements and IFRS.
Optional implementation, with majority take-up	Switzerland	Extensive voluntary adoption. They have the choice either to obey IFRS book with no changes, to obey US Generally Accepted Accounting Principles (GAAP) or to obey Swiss standards.

Optional implementation, with minority take-up	Japan	Increasing voluntary adoption.
Partially converged	China	Their standards are approximately based on the 2006 edition of IFRS, with few changes until 2014. In some cases, the Chinese standards are very close to the equivalent IFRS, but in other cases they are not (where there is a lot of deviation).
Loosely based on IFRS	Pakistan	Major adjustments to the content of IFRS.
Fully converged	Australia	Minor additions to the content of IFRS. This involves changing the designation of the standards by adding references, inserting departures, adding a few disclosure requirements or deletion of a number of options from IFRS.
Rubber stamping in the private sector	Canada	Restricted scope of mandatory application of IFRS. Will make no changes (apart from translation) to "IFRS as issued by the IASB".

Source: Prepared by the author, using Zeff and Nobes (2010)

CONCLUSION

To the best of the researcher's knowledge, this is the first study to investigate the challenges and opportunities of IFRS implementation in Uzbekistan using the financial (e.g. banking) sector as a case. The questionnaire survey in this study can vassed the views of a large number of the preparers of financial information in the country's banking sector, but future research may generate other interesting findings by focusing in companies listed in the Uzbekistan stock market.

The companies operating in Uzbekistan's financial sector tend to be large; research investigating the challenges and opportunities of implementation in smaller and medium-sized companies in the country may generate very different findings.

Both quantitative and qualitative research is required into the challenges and opportunities associated with updating Uzbekistan's educational system to bring it into line with IFRS. The findings of these future studies will be crucial to developing both the country's accounting system and a better understanding of the relevance of IFRS in emerging economies such as Uzbekistan.

One finding of this study is that IFRS implementation in Uzbekistan has been impacted by the lack of competent specialists. Another subject for future research, therefore, is how the move to international accounting standards has affected the accounting profession in emerging economies. Such research would provide deeper insight into how accounting practice is affected by professionalisation.

Contribution to Knowledge

The current research contributes to the literature regarding IFRS adoption and

implementation in developing countries in several ways. **Firstly**, it addresses an information gap by investigating the reasons why the application of IFRS in Uzbekistan has been only partial. The conceptual framework provides new understanding of IFRS adoption in Uzbekistan, a context which is still largely unexplored, and which is unique in terms of cultural, religious and business environment and regulatory framework.

Secondly, the study explores the external and internal pressures that led a rich country with well-established local standards to give up these standards and adopt IFRS. The findings of the study contribute to the institutional theory-based literature by offering an explanation and understanding of the coercive, mimetic, and normative pressures operating on and within Uzbekistan as it adopts IFRS.

Thirdly, the study contributes to knowledge by exploring the extent to which Uzbekistan has experienced/is experiencing the same opportunities that have been associated with IFRS adoption in other developing countries, despite having different legal, economic, cultural and educational structures. The study also contributes to the accounting literature by exploring the benefits that adoption offers to investors and managers.

The fourth contribution lies in the study's illustration of the current barriers to IFRS implementation in Uzbekistan, as perceived by key stakeholders themselves (that is, senior figures in the banking sector, external auditors, financial analysts and academics), and in its analysis of how these challenges have affected the level of adoption.

Fifthly, by uncovering the challenges and benefits of IFRS adoption in the Uzbekistan financial (e.g. banking) sector, it facilitates an easier and smoother transition to IFRS in the country's other economic sectors. Its investigation of the challenges experienced by the banking sector may be particularly helpful in showing companies and accounting professionals what to expect and how they might avert or at least mitigate the impact of these challenges. The results may be of importance to those countries interested in discovering the current challenges and opportunities associated with IFRS implementation, especially in emerging countries such as Uzbekistan.

Finally, the research contributes to the knowledge by providing new evidence (and a different perspective) from a context that is culturally, socially, legally, politically and educationally different from other countries. In general, this study deploys the new institutional theory to contribute to the knowledge. NIT was used as a tool to explain factors influencing the adoption of IFRS in Uzbekistan.

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