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# The Transition to International Financial Reporting Standards as a Factor in Increasing the Investment Attractiveness of Thecountry`S Economy

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**Abstract:** It has been established that the transition to International Financial Reporting Standards (IFRS) is an important element in the further development of both the economy as a whole and enterprises that are tasked with attracting private foreign capital, increasing competitiveness and entering international markets. It has been determined that the use of IFRS is necessary to simplify international comparisons on the elements of financial statements, allowing investors to make effective financial decisions, since they can reliably see and understand what is happening with the company in which they want to invest.

**Keywords:** International financial reporting standards, national accounting standards, transformation drivers, joint-stock companies, transparency, investment activity, personnel.

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## INTRODUCTION

The success of ongoing economic reforms in the country largely depends on the level of development of the entire infrastructure, including key elements and sub-elements of the financial and business infrastructure. The transition to International Financial Reporting Standards (IFRS) is an important element in the further development of both the economy as a whole and enterprises that are tasked with attracting private foreign capital, increasing competitiveness and entering international markets.

In 1973, in parallel with the creation of the Basel Committee on Banking Supervision, the purpose of which was to create uniform rules for organizing banking practices and supervision for the Central Banks of major countries of the world and to minimize the spread of systemic risks, the International Accounting Community formed the International Accounting Standards Committee (IASB), which began to develop and implement International Financial Reporting Standards in order to ensure transparency, accountability and economic efficiency of financial markets in all countries of the world.

## MATERIALS AND METHODS

The material for the study was the normative-legislative acts. Adopted in the Republic of Uzbekistan, national accounting standards and international financial reporting standards, information on the activities of the International Financial Reporting Standards Board, the results of a review of data from a single portal of corporate information in the Republic of Uzbekistan, a study of the national association of accountants and auditors.

In the process of research, general scientific methods and techniques of research were applied: dialectical and historical methods of cognition, comparative, economic and system analysis, statistical groupings, expert assessments.

## RESULTS AND DISCUSSION

Let's try to formulate the drivers that encourage the transition of the majority of microeconomic entities to IFRS, although, in any case, we hope that they are all united by the desire for change.

Firstly, these are regulatory requirements (requirements of regulatory and legislative acts). The issue of transition to IFRS has already been raised in the Republic of Uzbekistan. Thus, the Decree of the President of the Republic of Uzbekistan dated April 24, 2015 No. PK-4720 "On measures to introduce modern methods of corporate governance in joint-stock companies" provided for the transition of all joint-stock companies to the publication of annual financial statements and their external audit in accordance with the International Standards on Auditing and International Financial Reporting Standards during 2015-2018. How did this stage of transition to IFRS go, what are its results, we will consider below.

According to Article 102 of the Law of the Republic of Uzbekistan "On Joint Stock Companies and Protection of Shareholders' Rights" No. ZRU-223-I dated April 26, 1996, a joint-stock company is obliged to publish annual financial statements no later than two weeks before the date of the annual general meeting of shareholders prepared in accordance with International Financial Reporting Standards after its external audit in accordance with International Standards on Auditing.

Regulatory requirements also include the requirements of the Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. PKM-207 dated July 28, 2015 "On the introduction of criteria for evaluating the performance of joint-stock companies and other business entities with a state share". According to the Decree, the listed economic entities must, on a mandatory basis, calculate thirteen key performance indicators on a quarterly and annual basis, information on the first six of which is filled in after the transition to the publication of statements in accordance with international financial reporting standards. These are the indicators:

- earnings before interest, taxes and depreciation (EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization),
- cost-to-income ratio (CIR - Cost Income Ratio),
- return on capital employed (ROCE - Return on Capital Employed),
- return on equity (ROE - Return On Equity),
- return on investment of shareholders (TSR - Total Shareholders Return).

At the same time, in order to ensure transparency, companies enter information on key performance indicators on the official website of the State Assets Management Agency<sup>23</sup>.

It is important to note among the adopted normative acts the Decree of the President of the Republic of Uzbekistan dated August 1, 2018 No. UP-5495 "On measures to radically improve the investment climate in the Republic of Uzbekistan", in which, among the measures to improve the investment climate, it was supposed to harmonize national accounting standards with international financial standards. reporting.

The main motives for enterprises to switch to IFRS are:

1. For companies working with foreign partners - the desire to increase their export potential.
2. For companies in need of credit resources - increasing their investment potential, attracting investment resources on a long-term basis at preferential interest rates.
3. For companies with a developed system of corporate governance - the desire to increase their corporate value.

Today we can safely say that accounting information is important financial information. The focus is on the task of improving the quality of information generated in the process of accounting and financial reporting as the main source of information on the results of the company's activities for shareholders, creditors and partners; as a tool for making effective management decisions by the company's management.

## CONCLUSION

The transition to IFRS has both positive and negative sides for companies. The positive aspects are increased transparency, comparability of indicators, increased opportunities for high-quality management analysis and easier access to international financial markets, foreign direct investment.

Negative aspects of the implementation of IFRS in the Republic of Uzbekistan: the complexity of the transformation of financial statements from NAS to IFRS, the growth of management costs for parallel accounting, the lack of a sufficient number of highly qualified accountants and auditors with experience in preparing financial statements in accordance with IFRS.

The negative aspects include the inconsistency of legislation, the lack of understanding among the management of a number of companies of the need to switch to IFRS, and even the resistance of some of them to the reflection of complete and transparent information in financial statements; lack of an appropriate and working system of control over the implementation of IFRS and compliance with the requirements for the publication of company financial statements in accordance with IFRS.

On the positive side, the transition of large companies to the preparation of financial statements in accordance with IFRS will affect the change in the structure of the labor market. This will be an increase in demand for specialists working with international financial reporting standards and international auditing standards, which means that there will be an increase (albeit with a slight margin from the existing demand) and supply from the labor market of such specialists. The market for professional development of personnel will begin to develop (and is already actively developing). However, there are problems here too - the circle of accredited centers where you can get training is extremely narrow (so far there are only two of them in Uzbekistan). In addition, the cost of education in them is quite high.

It is also positive that companies will have an alternative - to form their own staff with specialists who meet all the requirements, or to use the services of freelance specialists, i.e. resort to outsourcing accounting services. The process of outsourcing, by the way, is now beginning to be widely introduced into the healthcare system of the Republic of Uzbekistan. So far, this applies to catering services, laundry, and laboratory research. However, in the near future, we predict that all medical institutions will completely transfer the functions of the accounting service to outsourcing.

Thus, it is necessary to understand that the process of transition to IFRS is a complex, multifaceted process that must occur in accordance with the pace of development of economic reality and correlate with the readiness of the current national accounting system and accounting practitioners for relevant innovations.

Summing up, we note once again that the main argument in favor of the transition to IFRS reporting for Uzbek companies is that such a transition should be an important step towards ensuring openness and transparency of domestic companies, increasing their competitiveness, and reducing the cost of borrowings they attract and foreign direct investment.

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