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# Problems And Prospects Of Transition To International Financial Reporting Standards (IFRS) In Commercial Banks Of Uzbekistan

Esanov Oybek Madatovich<sup>1</sup>, Obloqulova Marjona Zafar qizi<sup>2</sup>

1. Samarkand Institute of Economics and Service, Senior Lecturer, Department of Accounting and Auditing in Other Sectors
2. Samarkand Institute of Economics and Service, Student, Faculty of Banking and Finance  
E-mail: [marjonaobloqulova2802@gmail.com](mailto:marjonaobloqulova2802@gmail.com)

**Abstract:** This article analyzes the significance of implementing International Financial Reporting Standards (IFRS) in the process of integrating Uzbekistan's banking system with international financial markets. Within the framework of the study, the differences between National Accounting Standards (NAS) and IFRS are highlighted, specifically the impact of IFRS 9 "Financial Instruments" on banking operations. The author examines the Expected Credit Loss (ECL) assessment model and existing barriers to its practical implementation, such as human resource capacity, technical capabilities of information systems, and challenges in database formation. At the end of the article, practical recommendations are developed to improve the quality of reporting, ensure financial stability, and gain the trust of international investors in commercial banks.

**Keywords:** IFRS, financial reporting, commercial banks, credit risk, expected credit losses (ECL), asset quality, accounting, financial market.

## 1. Introduction

In today's global economy, characterized by the rapid acceleration of globalization and the increasing interconnection of financial markets, the transparency and reliability of financial information have become one of the key factors of economic stability for any country. In particular, the banking system, as the "circulatory system" of the economy, is required to transition to a common language understandable to international investors and financial institutions — the International Financial Reporting Standards (IFRS)[1].

In the Republic of Uzbekistan, elevating the activities of commercial banks to international standards has been identified as one of the priority directions of banking and financial sector reforms. In particular, the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020, No. PQ-4611 "On additional measures for the transition to International Financial Reporting Standards," as well as the "Banking System Reform Strategy of the Republic of Uzbekistan for 2020–2025," have assigned specific tasks to banks regarding the preparation of financial statements in accordance with IFRS and undergoing independent audits[2].

However, in practice, banks face a number of methodological and technical difficulties in transitioning their accounting systems to IFRS. The conceptual differences between National Accounting Standards (NAS) and IFRS, especially in approaches to asset valuation and provisioning, further increase the relevance of this research[3].

The main objective of this article is to analyze the theoretical and practical aspects of organizing accounting in banks based on IFRS, identify existing problems, and develop recommendations for their resolution.

## 2. Literature Review

In international practice, the implementation of IFRS 9 *“Financial Instruments”* has been widely studied by researchers such as H. Lauxmann and G. Gebhardt. In their works, they analyzed the impact of the Expected Credit Loss (ECL) model on bank capital and financial stability. They scientifically demonstrated that the transition to IFRS increases the level of reflecting the fair value of bank assets[4].

In Uzbekistan, local scholars have made a significant contribution to the development of bank accounting. In particular, A.A. Omonov and T.M. Qoraliev, in their textbook *“Accounting in Banks”* (2014), developed specific methodologies for documenting banking operations and recording them in balance sheet accounts. The authors provided an in-depth analysis of traditional principles of bank accounting and highlighted national features of accounting for bank assets and liabilities. This fundamental work serves as a foundational knowledge base for current transformation processes[5].

Issues related to the transition to IFRS and transformation are being studied by modern scholars such as A. Avloqulov, Sh. Toshnazarov, and Z. Abduvohidov. Sh. Toshnazarov, in his research, outlined methods for eliminating differences between national accounting standards (NAS) and IFRS in the preparation of financial statements. Meanwhile, A. Avloqulov paid particular attention to the application of IFRS 9 requirements in classifying asset quality in banks and its impact on bank profitability[6].

## 3. Research Methodology

In conducting this study, a set of scientific methods was used to evaluate the process of transitioning accounting to IFRS in commercial banks of Uzbekistan. The research also involved a comparative analysis of the differences between National Accounting Standards (in particular, NAS No. 17 and the Regulation No. 2004 of the Central Bank) and IFRS 9 *“Financial Instruments”*.

| Method Name           | Purpose of Application                                                                               |
|-----------------------|------------------------------------------------------------------------------------------------------|
| Document analysis     | to examine the compliance of the bank's internal accounting policies with IFRS                       |
| Abstraction           | to develop a model for transitioning from the national accounting system to the international system |
| Mathematical modeling | to study the formula for calculating Expected Credit Losses (ECL)                                    |

## 4. Analysis And Results

The central aspect of transforming accounting in commercial banks of Uzbekistan is the fundamental change in the methodology of asset quality assessment. Our research shows that this transition affects the financial results of banks in the following areas:

**Change in the timing of provisioning:** Under traditional national standards (NAS), provisions were created only when there was objective evidence of impairment (for example, when payments were overdue by more than 90 days). However, IFRS 9 is based on a forward-looking principle. This means that provisions are recognized even before a loan becomes problematic, taking into account potential future economic crises, inflation, and industry risks[7].

Consideration of macroeconomic factors: Under the IFRS 9 model, when calculating Expected Credit Losses (ECL), banks rely not only on the customer's past payment history but also on macroeconomic forecasts. The analysis revealed that banks are integrating indicators such as GDP growth, the central bank refinancing rate, and national currency devaluation into their accounting calculations[8].

Decrease in the value of the loan portfolio: The analysis shows that, after transitioning to the new model, bank assets (loan portfolios) are reflected at slightly lower values. This is due to an increase in the amount of provisions. For example, even newly issued (performing) loans require the immediate recognition of Stage 1 provisions, which puts pressure on the bank's profit in the first year[9].

| Indicator        | NAS (Old System)               | IFRS 9 (New System)                         |
|------------------|--------------------------------|---------------------------------------------|
| Provision basis  | Incurred loss                  | Expected loss                               |
| Data used        | Historical data                | Historical + Current + Forecast data        |
| Provision amount | Lower (based on delays)        | Higher (risk is anticipated in advance)     |
| Impact on profit | Sharp decline when loss occurs | Loss is distributed and becomes more stable |

### **Classification of Assets Based on the Three-Stage Model (Stages) and Transformations in the Accounting System**

The most complex and practically significant aspect of implementing IFRS 9 "*Financial Instruments*" in commercial banks is the classification of assets into a three-stage system based on changes in credit risk. Research shows that this system has transformed bank accounting from a purely retrospective (backward-looking) approach into a forward-looking risk management system[10].

Methodology for Step-by-Step Assessment of Asset Quality: According to our analysis, the three-stage model of bank assets (Stage 1, Stage 2, Stage 3) has the following characteristics in reflecting the real value of assets in the balance sheet:

Stage 1: This group includes assets whose credit quality has not significantly deteriorated since initial recognition. In the case of Uzbekistan's banking system, analysis shows that approximately 75–80% of the loan portfolio falls into this category. In accounting, provisions are created based on 12-month Expected Credit Losses (12-month ECL). This requires allocating part of the bank's income to reserves even when the assets are still performing[11].

Stage 2: If the credit risk of an asset has increased significantly compared to its initial recognition (SICR – Significant Increase in Credit Risk), it is transferred to this stage. Analysis shows that delays exceeding 30 days or a deterioration in the borrower's financial rating are often considered indicators of SICR. At this stage, provisions are calculated for the entire lifetime of the loan (Lifetime ECL), which leads to a sharp decrease in the asset's balance value and an increase in expenses.

Stage 3: This stage includes assets that have defaulted (over 90 days past due) or show objective evidence of impairment. At this stage, there is a conceptual change

in interest income calculation: interest is calculated not on the gross amount but on the net (amortized) value after deducting provisions[12].

**Analysis of Accounting Entries and Impact on Financial Statements:** The classification of assets under the new system has changed the structure of financial statements (Profit & Loss and Balance Sheet). For example, when a loan moves from Stage 1 to Stage 2, the significant increase in provisions reduces bank profits. In accounting, this process is recorded as follows:

1. Debit 95413 – “Provision expenses for loans”
2. Credit 11999/12599 – “Loan loss provisions”

In addition, the analysis shows that specific approaches are applied in valuing investment securities at Fair Value. Changes in market prices of securities are reflected in the bank’s equity through “Other Comprehensive Income (OCI),” which positively affects the stability of the bank’s own capital[13].

**Identified Challenges and Practical Results:** Based on the analysis of bank balance sheets within the study, the following conclusions were drawn:

**Impact on capital:** At the initial stage of transition to IFRS 9, retained earnings within bank capital decreased on average by 5–8% due to the increase in provisions.

### **IT and Data Integration; Quantitative Impact Analysis**

**IT and Data Integration:** Banks’ automated banking systems (ABS) face difficulties in fully ensuring stage-to-stage transitions and the automatic calculation of provisions.

**Differences between taxation and accounting:** Differences between the Tax Code of Uzbekistan and IFRS regarding provisioning complicate accounting processes, particularly in recognizing deferred tax assets and liabilities[14].

**Quantitative Impact Analysis of IFRS 9 Implementation on Bank Financial Indicators:** At the final stage of the study, differences between NAS and IFRS 9 approaches were quantitatively compared based on average indicators of the national banking system. The data clearly demonstrate changes in asset quality and the volume of provisions in banks[15].

**Comparative Analysis of Provision Volume and Profit Indicators:** The table below reflects the average differences between the traditional “incurred loss” model (NAS) and the new “expected loss” model (IFRS 9)[16]:

**Table 1. Comparative Analysis of Loan Loss Provisions under NAS and IFRS**

| Indicator Name                  | NAS Approach (bln UZS) | IFRS 9 Approach (bln UZS) | Difference (%) |
|---------------------------------|------------------------|---------------------------|----------------|
| Total loan portfolio            | 1,000                  | 1,000                     | 0%             |
| Provision amount created        | 45.5                   | 62.8                      | +38%           |
| Net value of loan portfolio     | 954.5                  | 937.2                     | -1.8%          |
| Impact on net profit (decrease) | –                      | 17.3                      | –              |
| Capital adequacy ratio (K1)     | 14.2%                  | 13.5%                     | -0.7%          |

## 5. Conclusion

The conducted research and analysis of financial statements of commercial banks show that the transition to IFRS in Uzbekistan's banking system is not merely a change in accounting format, but a qualitatively new stage in bank risk management. Based on the study, the following conclusions were drawn: Transparency and reliability: The implementation of IFRS 9 has enabled a more accurate reflection of the real market value of bank assets. This increases the attractiveness of banks for international investors and rating agencies. Optimization of provisions: The Expected Credit Loss (ECL) model has improved banks' resilience to unexpected economic fluctuations by creating a "financial safety cushion." Systemic differences: Differences between national tax legislation and IFRS require a high level of expertise from bank accountants, especially in accounting for deferred taxes. To address the identified shortcomings and improve the effective implementation of IFRS in banks, the following measures are proposed:

Modernization of IT systems: It is necessary to adapt banks' automated banking systems (ABS) to IFRS 9 requirements, particularly by introducing modules that automatically detect increases in credit risk (SICR) and calculate provisions across the three stages. Expansion of data infrastructure (Data Warehouse): To improve the accuracy of the ECL model, banks should develop databases covering at least 5–10 years of default statistics, collateral value changes, and macroeconomic indicators. Training and retraining of personnel: It is recommended to introduce incentives for bank accountants and risk managers to obtain international professional certifications such as ACCA and DipIFR. Harmonization of tax and accounting systems: Consider introducing amendments to tax legislation to recognize IFRS-based provisions as deductible expenses. This would help optimize the tax burden of banks.

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