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Harmonization of International Valuation Standards and International Financial Reporting Standards

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ABSTRACT

As globalization continues to shape the modern economic landscape, there's a rising demand for consistent standards that can evaluate economic indicators across various countries. One of the universally accepted tools to gauge these indicators globally is the financial report aligned with the International Financial Reporting Standards (IFRS). This article delves into the genesis and stages of transition to these international reporting standards, shedding light on their implementation outcomes both globally and, as a point of comparison, in Uzbekistan. It further outlines the advantages and challenges of employing IFRS. Special emphasis is placed on the imperative of monitoring the effectiveness of IFRS integration, especially as seen in the Uzbek context. The International Accounting Standards Board (IASB), responsible for the IFRS, annually revises and refines these standards, keeping in step with the evolving economic situation and the needs of stakeholders. Public discussions are initiated to introduce new standards and modifications to existing documents. The timeliness of this research on IFRS alterations is anchored in aiding Uzbek enterprises' adaptation to the international market landscape. This study aims to assess the amendments enacted in January 2020. Findings offer an in-depth analysis of changes made by the IASB, touching upon financial instruments accounting (IFRS 9, IAS 39, IFRS 7), employee benefits accounting (IAS 19), and provisions for presenting additional report information (with a specific focus on materiality definition adjustments).

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1. INTRODUCTION

The globalization and internationalization of the world economy have objectively led to the need for harmonization across all disciplines and sectors associated with economic measurements: accounting, financial reporting, banking, investment analysis, valuation activities, and corporate analysis. This shift is not just a desire of specific professional organizations but a directive of the modern economy's evolving nature (Gazi *et al*., 2022a).

However, many years of evolutionary development of individual disciplines, which now form the core of this new economy, were required for this transition. The foremost changes took place within the International Valuation Standards (IVS). Researchers have frequently presented on this subject and published materials related to the evolution of IVS over the last decade.

The aim of incorporating substantive and conceptual changes into the IVS is to achieve deep international and interdisciplinary harmonization of valuation standards and other regulatory documents (Gazi *et al*., 2022b). A significant result of this international harmonization, which has been accomplished to date, is the unified understanding of fundamental valuation principles of assets, ensuring their alignment with the foundational principles (Framework) of the International Financial Reporting Standards (IFRS). Almost all national valuation organizations, including those with established independent valuation standards, now follow these principles. Even the world's oldest and most authoritative valuation organization, the Royal Institution of Chartered Surveyors (RICS, UK), endorsed the innovations of the International Committee on Valuation Standards in its recent edition of standards (often referred to as the "Red Book") for financial reporting and lending purposes.

It is worth noting that U.S. valuers hold a unique stance on this matter (Dhar *et al*., 2023). Lately, following in the footsteps of American accountants, they have been engaging in the convergence of their standards with both IFRS and IVS.

The globalization of the economy, the rapid growth of transnational companies, expansion into external markets, and other factors have underscored the necessity of employing IFRS in financial statement preparation. The shift in emphasis from accuracy to the relevance of disclosed information has made it more comprehensible and transparent for users.

The significance of this topic is underlined by the fact that financial accounting reports are the sole accessible source of information for users about an organization's financial position. The details disclosed within these financial reports serve as a foundation for decisions regarding potential collaborations with enterprises (Sherzod & Akram, 2020).

The research aims to study the recent changes incorporated into the current IFRS and to evaluate their impact on a company's accounting-analytical activities. The appropriateness of applying IFRS within the Republic of Uzbekistan has been explored in the writings of numerous local and foreign scholars. Among them, the most noteworthy, in our opinion, are the works of D.A. Endovitsky, K.V. Bakhtin, L.I. Khoruzhiy, A.E. Vyruchayeva, E.N. Smertin, A.V. Kapli, L.B. Trofimova, and others. Professor M.B. Chirkova points out that the application of IFRS in the process of preparing financial statements provides an opportunity to present information that reflects the asset position and financial performance of an organization, thus aiding in attracting foreign investors (Oyewo *et al*., 2020). In this context, IFRS acts as an efficient mechanism for transforming numerical indicators into an understandable and transparent information resource (Lombardozzi, 2022).

The interdisciplinary harmonization of IVS has culminated in the recognition of radical changes made to the IFRS over the past decade. These changes have been aligned with the international organization encompassing various national securities commissions (IOSCO).

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Back in 1995, the International Accounting Standards Board (IASB) entered into an agreement with IOSCO to finalize the core set of IFRS, which could later serve as a foundation for cross-border securities registration on global exchanges. By May 2000, IOSCO, and hence the United States Securities and Exchange Commission (SEC) as the world's major capital investment regulator, officially recognized the IFRS as this foundation (Dhar *et al*., 2023). In June 2000, the European Commission proposed that all companies listed on European Union (EU) exchanges should prepare their consolidated reports following IFRS. The EU subsequently ratified a regulation mandating that all companies registered on exchanges within the European Economic Area (including EU candidate countries) publish their reports according to IFRS from January 1, 2005.

This development enabled valuers from post-Soviet countries to undertake revaluation tasks in line with IVS and IFRS for enterprises aiming to have their shares traded on the European Economic Area's exchanges. It is worth noting that for an extended period, the U.S. SEC insisted on keeping the practice of registering firms in the U.S. according to U.S. accounting provisions, rather than IFRS. The core of their objections lay in the fact that U.S. accounting standards did not recognize the fair value agreement, and assets were accounted for at amortized historical costs (Shaturaev, 2022). A similar situation prevailed in most companies in Uzbekistan, Ukraine, Kazakhstan, and other nearby countries.

In October 2005, IOSCO announced that it would establish a regulatory information system for its members and other independent entities. This system aims to accumulate international experience, coordinate efforts, and facilitate the transition to IFRS. While every national regulator will retain the autonomy to address issues individually, this system will significantly aid by retaining decisions already made by regulators regarding IFRS application in a database. This database will serve as an informational resource for future regulatory decisions and enhance communication between regulators. IOSCO planned to have this database operational by the second half of 2006.

In recent times, the IVS has gained widespread recognition and adoption largely due to its collaboration with the IFRS. This collaboration represents the views of the progressive segment of the accounting community, which favors accounting based on fair (including revalued) value rather than the traditional "historical cost" metrics, determined by the actual costs incurred in the past for the acquisition of an asset (Dhar *et al*., 2022). This shift is driven by a change in economic thinking among various financial and economic professionals such as accountants, auditors, financial analysts, and most importantly, "decision-makers" (property owners and their top asset management managers) - moving from a "cost-based" to a "valuation-based" approach.

In essence, the universally acknowledged priority of economic substance over legal form is reflected in the preference for an appraiser's judgment in measuring the current value of the property (taking into account rights to it) rather than relying on formally presented historical data, termed factual (Dhar *et al*., 2022).

David Alexander and his colleagues suggest that the IASB has always operated under the belief that strict adherence to historical cost is not necessarily obligatory, and even recognized the possibility of abandoning reporting based on historical cost as a primary basis. They highlight that in recent years, the fair value concept has become increasingly prevalent.

Over the past two decades, the fair value concept has evolved. By early 2005, it was defined as the amount at which an asset can be exchanged or a liability settled in a transaction between informed, interested, and independent parties. Although the use of the fair value concept somewhat violates one of the accounting principles, namely the comparability principle, revaluations are still necessary. As it is argued, a recent assessment of land or a plant provides a more accurate result of the value than valuing these fixed assets at amortized historical cost.

The point is that in accounting theory and methodology, apart from historical cost, several other types of values can be considered for use in financial statements to indicate book value (Gazi *et al*., 2022a). Thus, introducing the concept of fair value offers the choice to use one of the types of value (market, current, net realization value) depending on the type of asset and circumstances.

2. LITERATURE REVIEW

Harmonization in financial reporting has become a focal topic for scholars and practitioners alike, especially in the age of globalization. For countries like Uzbekistan, aligning their national standards with international ones, such as IFRS, is crucial for ensuring transparency, reliability, and consistency in financial statements, thereby attracting international investments and fostering economic growth (Otto, 2020). Several points are in the following:

(i) Historical Context of Harmonization in Uzbekistan. Karimov in his work, outlined the evolution of financial reporting in Uzbekistan. Initially, Uzbek practices were profoundly influenced by the Soviet accounting system, which was fundamentally different from Western standards. Post-independence in 1991, there was a recognized need for reforms and adaption to internationally accepted accounting standards.

(ii) The Need for Harmonization. Emphasized the increasing cross-border activities of companies from Uzbekistan and the need for internationally recognized and understood financial statements. This international recognition becomes a necessity when Uzbek companies aim to attract foreign investments or list on foreign stock exchanges.

(iii) The Influence of Soviet Financial Reporting. Being a former Soviet republic, Uzbekistan's accounting and financial reporting practices were majorly influenced by Russian standards. Kuznetsov highlighted how the Russian GAAP has evolved, becoming more aligned with IFRS, but still maintaining its unique characteristics. As Uzbekistan moved towards IFRS adoption, understanding the nuances of Russian accounting practices and their convergence with IFRS became pivotal (Bandola-Gill *et al*., 2022).

(iv) The Process of Harmonization in Uzbekistan. The harmonization process in Uzbekistan has not been without challenges. Key concerns included the training of professionals in IFRS, updating educational curricula, and the lack of localized literature and guidance on IFRS application in the Uzbek context (Hines, 2007).

(v) IVS. IVS, provides guidelines for valuation professionals globally to ensure that valuation assessments are consistent and transparent. For countries adopting IFRS, harmonizing with IVS becomes increasingly important, given the emphasis IFRS places on 'fair value' measurements.

(vi) Fair Value Measurements and the Role of IVS. IFRS's preference for 'fair value' over historical costs, especially in asset valuations, was a fundamental shift from traditional Uzbek accounting practices. The work of Petrov detailed the complexities and nuances of fair value measurements, emphasizing the role IVS plays in ensuring consistent valuations.

(vii) Challenges Faced by Uzbek Valuation Professionals. The shift to 'fair value' and the adoption of IVS brought challenges for Uzbek valuation professionals. Initial resistance from professionals, the lack of training resources, and the need to balance international practices with local realities.

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(viii) The Benefits of Harmonized Standards. While challenges exist, there are clear benefits to harmonizing local practices with IFRS and IVS. According to a study by Rakhimova & Nosirova, harmonized standards bring about increased confidence among foreign investors, improved financial transparency, and better comparability of financial statements internationally.

(ix) Feedback from International Entities. The World Bank's report on Uzbekistan's economic reforms lauded the country's efforts in moving towards IFRS. It indicated that such measures were essential for Uzbekistan's ambitions of attracting more foreign direct investment and integrating more closely with the global economy.

(x) The Path Forward. Future harmonization efforts should consider the unique economic and cultural context of Uzbekistan. Adopting international standards doesn't mean forsaking local practices. Instead, it is about achieving a balance that best serves the national interest while being consistent with international expectations. The harmonization of IVS and IFRS in Uzbekistan is more than just an academic or professional exercise. It represents Uzbekistan's aspirations to be a significant player in the global economy, integrating its financial practices with international standards while acknowledging and respecting its unique context and challenges.

3. METHOD AND MATERIALS

The detailed method is explained in **Figure 1**.

3.1. Research Design

A mixed-method research design was used, comprising both quantitative and qualitative approaches. The quantitative approach involved the analysis of financial statements, while the qualitative approach encompassed interviews and focus group discussions.

3.2. Data Collection

3.2.1. Quantitative data

The collection of Financial Statements is in the following:

(i) Source: Financial statements of 100 companies listed on the Tashkent Stock Exchange (TSE) from the period 2019-2023.

(ii) Criteria: Companies that have adopted IFRS during the specified period.

(iii) Tools: Financial analysis software to assess the valuation techniques applied in the financial statements.

3.2.2. Qualitative data

Interviews are in the following:

(i) Participants: CFOs, accountants, and auditors from selected companies.

(ii) Structure: Semi-structured interviews, with open-ended questions about their experiences, challenges, and opinions on the harmonization process.

Focus Group Discussions are in the following:

(i) Participants: Representatives from regulatory bodies, accounting and auditing professionals, and university faculty from relevant disciplines.

(ii) Structure: Discussions centered around the progress, challenges, and future outlook of IVS and IFRS harmonization in Uzbekistan.

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3.3. Sampling

3.3.1. Quantitative sampling

Random sampling was used, selecting 100 companies from a list of companies listed on the TSE that have adopted IFRS.

3.3.2. Qualitative sampling

Purposive sampling was employed to select participants for interviews and focus group discussions, ensuring a diverse representation of stakeholders involved in the harmonization process.

3.4. Materials

Quantitative Materials are in the following:

(i) Financial statements of selected companies.
(ii) Financial analysis software to assess the valuation techniques and to identify patterns in financial reporting.

Qualitative Materials are in the following:

(i) Interview guides containing a list of open-ended questions.
(ii) Audio recording devices for capturing interviews and discussions.
(iii) Transcription software to transcribe the recorded data.

3.5. Data Analysis

3.5.1. Quantitative data analysis

Using the financial analysis software are in the following:

(i) Identify valuation techniques and approaches used in financial statements.
(ii) Compare valuation methods pre-IFRS and post-IFRS adoption.
(iii) Assess the degree of harmonization with IVS.

3.5.2. Qualitative data analysis

Thematic analysis was employed to:

(i) Transcribe and analyze interviews and focus group discussions.
(ii) Identify common themes, challenges, and insights regarding the harmonization process.
(iii) Compare and contrast stakeholders' perspectives.

3.6. Reliability and Validity

To ensure the reliability of the findings, we used

(i) Financial statements were cross-verified with annual reports and third-party audit reports.
(ii) Transcribed data from interviews and focus group discussions were validated by participants before analysis.

For validity, we used:

(i) A diverse range of stakeholders were engaged to obtain a comprehensive understanding of the harmonization process.
(ii) Multiple data sources (interviews, focus groups, and financial statements) were employed to triangulate and confirm the findings.

3.7. Ethical Considerations

For ethics, we used

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(i) Informed consent was obtained from all participants involved in interviews and focus group discussions.
(ii) Confidentiality and anonymity of participants were maintained. Names and identifiers were removed during the transcription process.

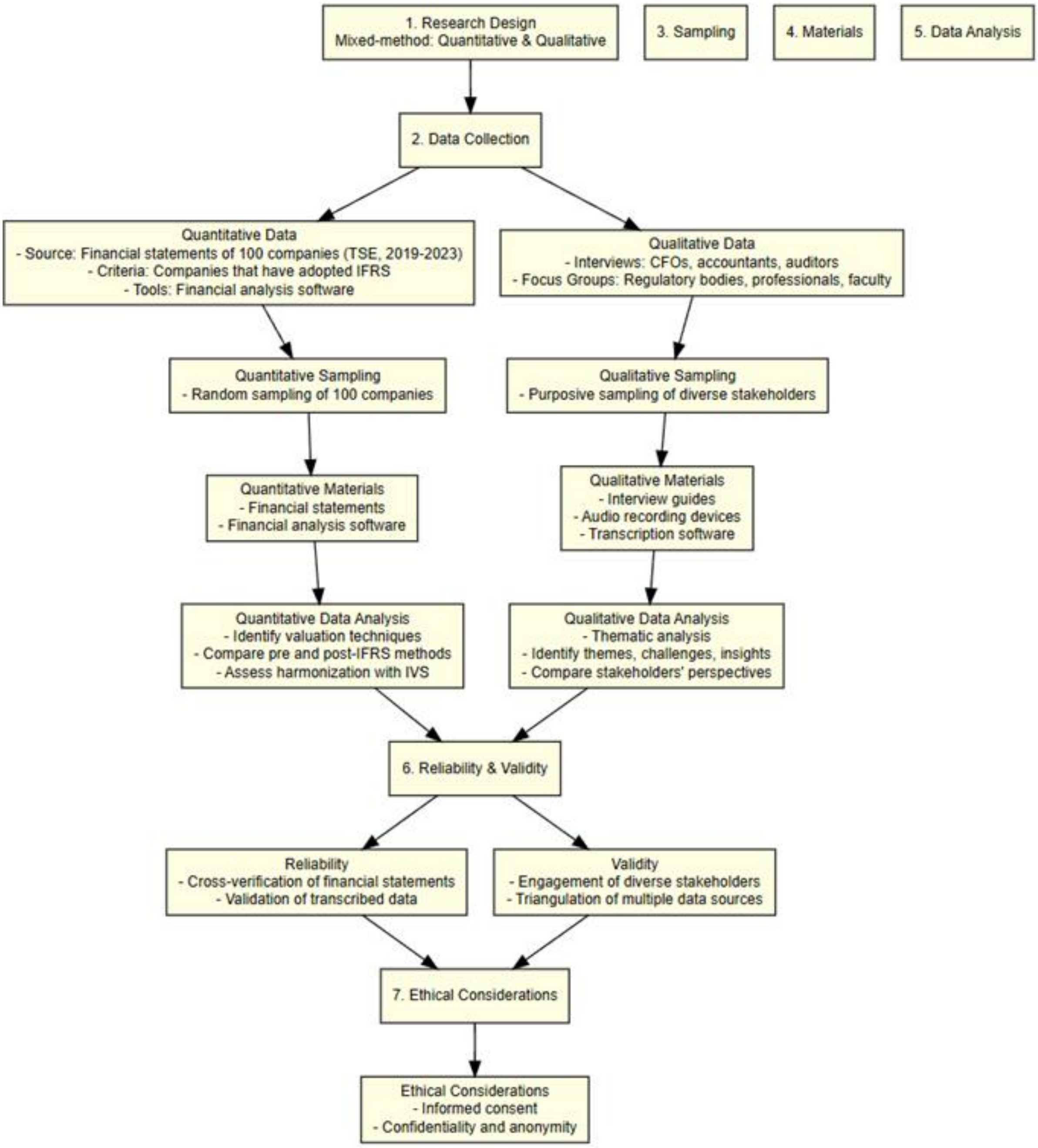

Figure 1. Research Design and Methodology Diagram.

4. RESULTS

As stipulated in IFRS 16, if a company's accounting policy adopts the revaluation model, then according to paragraph 31, the revalued amount calculated on the revaluation date represents the fair value of the fixed asset recognized as an asset. These innovations in the financial reporting system were reflected in the latest (seventh) edition of the IVS.

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In the preface to the IVS 2005, the former Chairman of IVS, John Edge, wrote that "IVS is committed to creating standards that support reporting formats developed by other international organizations, including IFRS. The concepts of fair and market value are widely and universally applied in IFRS; however, for their consistent application, they require support in the form of reliable international valuation standards." As a result, in 2005, IVS updated and made several additions to the IVSto ensure compliance with IFRS provisions. Notable changes in the seventh edition of IVS (2005) include:

(i) A near-complete review of IVS Practice 1 "Valuation for Financial Reporting," in response to improvements and changes made to IFRS in 2004;

(ii) IVS's recognition of depreciated replacement costs ("residual replacement cost" as per the standards prevalent in the region) as a market-based methodology. This led to the need for a new development of IVS Practice 8, now titled "Cost Approach for Financial Reporting."

These documents provide a specified definition of fair value. While it closely mirrors the definition of market value, the terms are not always synonymous. This is because fair value, being a broader accounting concept, can be defined as market value for non-specialized assets or in terms of depreciated replacement costs, which serve as an acceptable surrogate for market-related costs, especially for specialized property assets and assets with a limited market.

Before 2005, this approach was only declared in IVS (particularly in IVS Practice 1). In earlier versions of IFRS 16, the use of depreciated replacement costs was only allowed during the revaluation of machinery and equipment. However, paragraph 32 of the new edition of IFRS 16 (effective from 01.01.2005) states that for plots of land, buildings, machinery, and equipment, the fair value is generally determined as market value. Paragraph 33 further notes: "In the absence of market indicators of fair value due to the specific nature of the fixed asset and the fact that such assets are rarely sold separately from an entire operating enterprise, the buyer may need to estimate the fair value using the income approach or based on depreciated replacement costs."

This guidance broadens the scope for valuers since it permits the use of depreciated replacement costs when evaluating industrial real estate, something not present in previous versions. It is in such nuances that the practical significance of harmonizing IVS and IFRS becomes evident.

A notable development in recent economic measurements is the creation of specialized standards for the public sector. In financial reporting, this is captured by the IFRS Public Sector Code, while in IVS, it translates to guidelines for appraising public sector entities in line with the IFRS for the Public Sector. Both accountants and valuers are shifting from profit and cash flow criteria to criteria centered around productive potential and remaining service life.

The newly elected chairman of the IVS Council (IVSC), Joseph Vella, who assumed his role on October 30, 2005, articulated the objectives and immediate tasks of the IVSC in his article "The Key to Success: The Valuation Profession is Unified in its Opinion." The core points from this visionary article are:

(i) It is crucial to develop and adopt international agreements on the hierarchy of valuation standards. This hierarchy should include: a) IVS – These should be both comprehensive and universally applicable, while also being specific on agreed-upon matters. b) National Valuation Standards – These should be constructed as "additional standards" and applied when local (country-specific) legislation mandates or results in deviations from international standards.

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(ii) All valuation standard developers should actively participate in the IVSC's standard-writing activities, collaborate, and fully back both international and national standards as outlined above. There should be a collective understanding and acknowledgment that standard creation isn't a competitive act but an international collaborative effort. Since IVS integrates best practices from all standards, they are deemed as "belonging to everyone." National valuation bodies should recognize these as "their" standards, which they've contributed to and supported.

From its inception, the IVSC recognized the increasing significance of the development of International Accounting Standards, now known as IFRS. The IVSC made a pivotal strategic decision in 2000, ensuring that wherever any asset's fair value was measured in line with IFRS, the measurement standard should be guided by the International Valuation Standards. Remarkably, this decision proved astute. By the beginning of 2005, almost 100 countries had either directly adopted IFRS or were aligning their national standards with IFRS.

It is noteworthy that there's a current trend in the examination of economic environments and the actual behavior of economic participants, which is guiding economics back to its scientific roots. Nowadays, each professional valuation report is expected to represent independent scientific research. This has led to a significant interdisciplinary value of professional valuation activities, especially in connection with financial reporting, auditing, investment analysis, and corporate governance.

If valuers from neighboring countries achieve this synergy, they can echo the sentiment expressed by the former Chairman of the IVSC, J. Edge, after harmonizing IVS and IFRS: "This is our moment, accountants need us." However, the ongoing international harmonization, or convergence, of standards doesn't lead to a full merger of these two professions but instead emphasizes their distinct differences. This distinction pertains to both methodologies applied and the end purpose of the results: whether they're for transactional purposes, managerial decision-making, or to inform investors and the broader public about market or investment valuations.

The current projects proposed—both separately and jointly—by international and American financial reporting standards boards, incorporate different versions of the "fair value hierarchy," which include four or five levels, addressing various professional valuation concerns to varying degrees. These IFRS projects are currently under active discussion worldwide.

From the IVSC leadership, there has been a public, albeit diplomatically put, statement on the need for a clear understanding that the composition of "fair value" for financial reporting might merge market value with value-in-use and other non-market-based valuation types. Additionally, academic representatives, particularly a few professors from English and American universities, have provided substantive criticism of the asset valuation methods proposed in these projects when applied to liability valuation in accounting balances.

Therefore, in 2006, in-depth research and discussions on the fundamental principles of property valuation are expected to continue, involving members of the accounting and valuation communities, as well as representatives from the academic world. In many Eastern European countries, there's a growing understanding of the need to delve not only into formal aspects but also into the substantive issues of valuation activities. This is done to align national standards with international standards and actively participate in their further refinement.

Comparing the calculated results of the financial stability coefficients according to the balance sheet and the financial statement for PJSC “Oxygen” 2017-2020 (Figure 2), we can form an opinion that PJSC “Oxygen” is a financially stable organization according to both UAS

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(Uzbekistan Accounting Standards) and IFRS. However, significant differences in the trends of the analyzed coefficients are noticeable. This comparison illustrates the broader context of the ongoing harmonization of IVS and IFRS in Uzbekistan, showcasing the varying financial narratives presented under different accounting frameworks." Detailed information is explained in **Figure 2**.

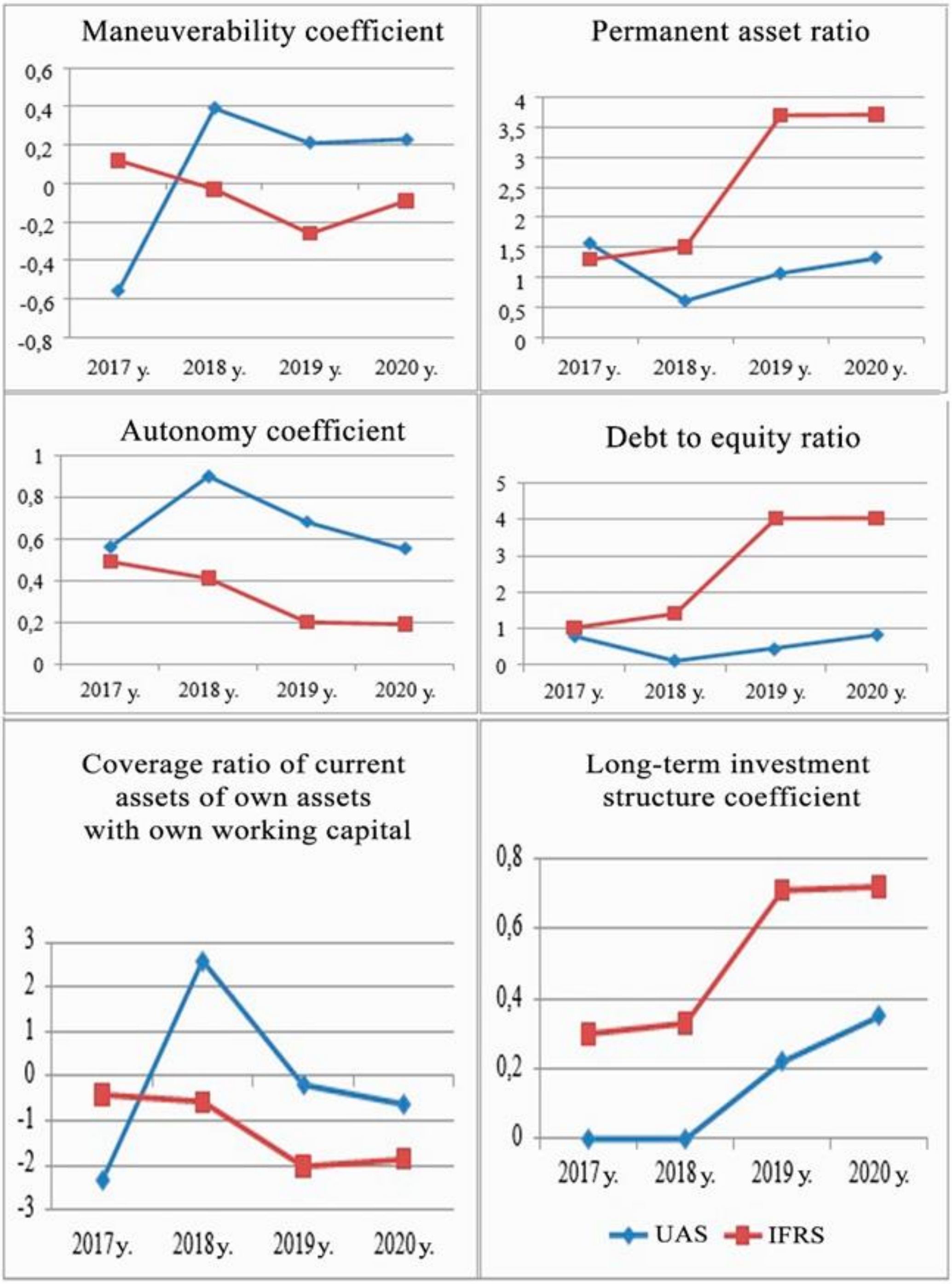

Figure 2. Financial stability ratios of PJSC "Oxygen"

The coefficient of fixed assets reflects the portion of non-current assets funded by an organization's equity capital. In analyzing the indicators of self-sufficiency in the UAS format, it is evident that the organization demonstrates financial stability and solvency, with non-current assets fully covered by equity funds. However, in 2018, this coefficient significantly

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decreased, indicating the attraction of new loans to renew the fixed assets fund. Substantial discrepancies in coefficients primarily result from initially different data in the compiled reports.

Calculating the coefficient of fixed assets for the reporting year, both according to UAS and IFRS, revealed that a significant share of the organization's financial sources is directed towards covering the main part of the organization's production potential. In the reporting year, the maneuverability coefficient amounted to 0.23 points according to UAS and -0.09 according to IFRS. According to the standards of the Republic of Uzbekistan, it is within the norm, indicating the organization's good ability to maintain the level of its working capital. A negative value of this coefficient according to IFRS calculations means low financial stability; possibly, the organization's funds are invested in slowly realized assets, and working capital is formed at the expense of borrowed funds.

The magnitude of the autonomy coefficient also varies significantly because the "equity capital" indicator reflected in international reporting significantly exceeds the similar indicator reflected in reporting according to the standards of the Republic of Uzbekistan. This trend is associated with the shortcomings of compiling Uzbekistan reporting and an accounting judgment institute that has not yet been fully formed. Thus, in the reporting year according to UAS, the coefficient is within the norm, 50% of assets are covered by equity capital, while the calculation according to IFRS shows that only 19% are covered by equity capital.

A fundamental difference is also observed in the calculations of the coefficient of the ratio of borrowed and own funds. Thus, the value calculated according to Uzbekistan reporting in 2020 indicates the organization's independence from borrowed capital and obligations, while according to IFRS, the coefficient exceeds one, meaning there is a risk of a shortage of funds.

In the context of Uzbekistan, the harmonization of IVS and IFRS is crucial. The discrepancies highlighted in the coefficients between UAS and IFRS underscore the importance of aligning these standards to ensure that organizations in Uzbekistan accurately reflect their financial standing and stability, paving the way for improved transparency and international investment.

The coefficient indicating the extent to which working assets are secured by a company's own circulating funds determines the level of an organization's financial stability based on its self-sufficiency. Both under IFRS and UAS, this coefficient takes a negative value, implying the organization's working assets are formed at the expense of borrowed funds, indicating a high dependency on creditors. In 2020, based on Uzbekistan reporting data, the structure coefficient of long-term investments shows a weak ability to attract long-term loans and borrowings, while according to IFRS, it demonstrates the possibility of providing reliable collateral.

After analyzing the coefficients, it is evident that the organization lacks equity, and working assets are primarily formed through borrowed funds, suggesting a high dependency on lenders. Therefore, the conducted studies conclude that differences in the valuation of assets and liabilities, stemming from the variance in requirements for compiling accounting (financial) statements according to UAS and IFRS, are significant and lead to strong discrepancies in the results of indicators' analysis. A primary reason for this discrepancy is the difficulty in quickly and accurately forming professional judgments by Uzbek accountants regarding balance sheet items following IFRS requirements. Hence, when making investment decisions, reliance on both forms, viewing them as complementary, is advised. In 2021-2022, new federal accounting standards will be introduced, significantly aligning the accounting of stocks and fixed assets in Uzbekistan with international standards, making IFRS knowledge even more sought after.

Initially, IFRS was applied only to large organizations, as the primary role is to reflect the essence of business activities rather than compiling reports in the interests of legal forms. IFRS standards explicitly emphasize the importance of professional judgment, and the overall trend toward the complexity of standards increases the role of professional judgment in preparing reports. Significant changes in accounting are anticipated soon: new UAS on fixed assets and financial instruments will bring Uzbekistan accounting closer to IFRS. Key concepts underpinning international accounting will become increasingly relevant.

In the context of Uzbekistan, aligning IVS and IFRS is pivotal for ensuring transparency, reliability, and consistency in financial reporting. The discrepancies noted between UAS and IFRS underscore the necessity for harmonization to provide a more accurate reflection of an organization's financial health and to facilitate international cooperation and investment in the region. The impending changes and introduction of new standards signify a step towards aligning national and international practices, further emphasizing the significance of such harmonization in Uzbekistan.

5. DISCUSSION

Amid economic crises and complex international dynamics, Uzbekistan's in global financial markets remains paramount. The country's position and role in the global economic arena, its journey towards WTO membership, active participation in BRICS, and collaboration with international financial institutions, are still pertinent issues. Experts highlight Uzbekistan's pressing need for market diversification and strengthening ties with partner countries.

One fundamentally significant matter for the country is the transition to IFRS. Historically, IFRS is understood as a globally accepted uniform accounting standard. IFRS reporting, which primarily caters to investors' needs, has always aimed at safeguarding their interests by providing accurate data on an organization's financial performance and asset position.

Years of effort in shaping and refining IFRS based on international best practices underscore its reliability in ensuring accurate reporting. This presumption underpins the incorporation of IFRS into Uzbekistan's accounting system (UAS). The inherent quality of IFRS is formally affirmed in the Uzbek accounting development concept, which states that international experience proves the efficacy of either directly employing IFRS or using them as the foundation for a national accounting and reporting system. Uzbekistan's transition to IFRS, which began in 1998, aimed to attract additional investments to the country. Uzbekistan needs to assess the efficacy of IFRS implementation. This topic is equally crucial for all countries adopting IFRS.

The genesis of the IFRS was deeply intertwined with the economic crisis of 1929–1933. The 1929 stock market crash, which precipitated a prolonged global recession in industrially developed nations, underscored the inadequacy of the prevailing accounting and financial reporting systems. Because financial reporting principles varied across countries and even among businesses within the same country, the data was often non-comparable and inconsistent, leading to ambiguous and erroneous conclusions about the financial health and performance of reporting entities.

In the early 1930s, the U.S. began formulating a set of national Generally Accepted Accounting Principles (GAAP). Over time, these standards evolved into the modern U.S. GAAP system. Today, the U.S. Securities and Exchange Commission mandates all major companies listed on American stock exchanges to adhere to GAAP.

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European countries, on the other hand, took a route mandating the use of national accounting charts based on a model developed by the renowned Austrian accountant, E. Schmalenbach. Before World War II, European nations primarily depended on internal sources for financing. However, the post-war scenario drastically changed, with international capital markets witnessing a significant surge, driven in part by special programs aimed at rebuilding war-torn nations. To account for Gross Domestic Product (GDP) and other national economic statistics after the Second World War, a system of national accounts emerged from Schmalenbach's accounting charts.

The GAAP, originating in the US, found traction in Mexico, Canada, England, Italy, and other nations. While each country's GAAP had its peculiarities, they all ensured a degree of stability and uniformity in accounting and financial reporting, guaranteeing comparability with other national entities. This approach enhanced the accuracy and reliability of financial information, thereby bolstering trust among various stakeholders.

National GAAP (Generally Accepted Accounting Principles) was steadily and inevitably supplanted by IFRS. While IFRS integrated many of the "generally accepted accounting principles," it advanced further in devising standard norms for reflecting new financial and economic phenomena in financial reports.

The development of IFRS began in the 1960s under the aegis of the United Nations Centre on Transnational Corporations. In the early 1960s, during a speech at the United Nations General Assembly, U.S. President John F. Kennedy drew global attention to the evolving international economic relationships built around transnational corporations. He emphasized the need for a "universal business language" for these relationships. He identified accounting and financial reporting, understandable to all stakeholders, as this language.

Following this, the UN Centre on Transnational Corporations commenced work on IFRS. Later, in 1973, the International Accounting Standards Committee (IASC) or IFRS Committee was established in London. This committee was created by professional accounting bodies from several countries as an independent private-sector entity. The member countries included the USA, Canada, Australia, France, Ireland, the Netherlands, Mexico, the UK, Germany, and Japan.

From 1983, all member organizations of the International Federation of Accountants became part of the IFRS Committee. The committee's objective was to standardize accounting principles used by companies globally for financial reporting. In its essence, the IFRS Committee is an independent private organization aimed at formulating unified accounting principles utilized by businesses and other entities worldwide.

Until 1989, the committee worked on consolidating accounting practices from 10 countries. As a result, they published a document consisting of a set of rules and explanations titled "International Accounting Standards".

The years 1989-1995 are generally regarded as the period during which IFRS took its modern shape. During this period, several more countries, including Cyprus, Singapore, and Malaysia, joined the initial 10. Another reason for the emergence of IFRS was recognized - the need for a specific mechanism to attract foreign investments. The universality and transparency of the new standards indeed facilitated an increase in the inflow of foreign capital.

From 1995-2000, key sets of IFRS were introduced. There was increased collaboration with esteemed international organizations. European countries began to integrate IFRS into their legislative frameworks, even though national standards remained paramount.

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"Starting from the year 2000, there has been a convergence between international and national standards, leading to the globalization of financial standards. The International Standards Committee transformed: its functions were transferred to the IASB, which ultimately became part of the IFRS Foundation or IASCF. The trustees of this foundation are limited to only 22 individuals.

In Uzbekistan, the driving force behind the adoption of IFRS was the transition from a planned economy to a market economy that took place in the 1990s. The cornerstone of accounting reforms at the government level was defined by the IFRS. The onset of these reforms was marked by a seminar on joint venture accounting issues, hosted by the UN Center for Transnational Corporations and the USSR Chamber of Commerce and Industry in Moscow in June 1989. Here, significant differences between Uzbek and international accounting practices were identified, with paths laid out for the adaptation and integration of Uzbekistan's accounting system into international accounting practices.

However, the reform process for the national accounting system lagged behind the overall economic reforms in Uzbekistan:

(i) It was only in 1998 that an Accounting Reform Program was approved.
(ii) In 2003, a directive from the Central Bank of the Republic of Uzbekistan mandated that the banking sector would transition to IFRS starting January 1, 2004.
(iii) In 2004, one of the mandatory requirements for inclusion in the Level A quotation list was for issuers to have annual financial statements, verified by an audit, prepared according to IFRS and/or US GAAP.

In February 2020, a significant event for the application of IFRS in Uzbekistan took place with the adoption of the Resolution of the Decree of the President of the Republic of Uzbekistan, No. PD-4611 dated 24.02.2020 "On additional measures for transition to international standards of financial reporting." Under this law:

(i) IFRS were given official status in the Republic of Uzbekistan.
(ii) The range of organizations required to prepare consolidated financial statements according to IFRS was defined, starting from the report for the year following the year in which the IFRS was recognized for use in Uzbekistan.
(iii) According to this law, in addition to credit and other organizations whose securities are admitted to organized trading, insurance organizations must also apply IFRS.

Cabinet of Ministers of the Republic of Uzbekistan, No.38 dated 26.01.2021 "Regarding the procedure for covering the costs of passing exams within the framework of training according to international standards of financial reporting and international certification of accountants". The scope of organizations was expanded and extended to:

(i) Private pension funds;
(ii) Management companies of investment funds, mutual funds, and private pension funds;
(iii) Clearing organizations. These organizations are required to prepare, submit, and publish consolidated financial statements."

Since the 2020s, there has been a convergence between international and national standards, leading to the globalization of financial standards. Russia's transition from a planned to a market economy in the 1990s set the stage for the adoption of the IFRS. The core of the accounting reform at the governmental level was based on these international reporting standards.

Moreover, the adoption of IFRS will be required for:

(i) State unitary enterprises, the list of which is approved by the Republic of Uzbekistan.
(ii) Public joint-stock companies whose shares are federal property and are listed by the Republic of Uzbekistan.

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These organizations are mandated to adopt IFRS starting from the year following their inclusion in lists approved by the Uzbek government. The ongoing accounting and reporting reform in Uzbekistan indicates that the country hasn't completely replaced its national accounting regulation with IFRS. Instead, it has chosen a balanced approach:

On one hand, there is a convergence of international standards into the Uzbek accounting standards system. Individual financial reports are compiled according to Russian standards, which in turn are developed based on IFRS.

On the other hand, there is a mandatory requirement for consolidated reporting in line with IFRS. Furthermore, an obligatory audit and publication of these reports are required. Consolidated financial statements of public companies are made following IFRS. Each IFRS document is adopted by a decision of Uzbekistan, which is preceded by a non-state expert body's examination of its applicability in the Republic of Uzbekistan.

This approach ensures that the government can directly regulate accounting and reporting in the country, with individual reports based on Uzbek standards. Additionally, it helps increase the attractiveness of the Uzbek market to foreign investors by requiring public companies to present consolidated reports according to IFRS.

It is worth noting that, as of now, most public Uzbek companies already compile reports in line with IFRS. Their motivations can be attributed to the presence of foreign investors, the need to attract external financing through IPOs or bond issues, a desire to consolidate the holding's financial reporting, and an interest in enhancing its positive image.

Over the years, the number of entities reporting under IFRS in Uzbekistan has steadily increased. Delve deeper into the global experience of using IFRS. As of January 2013, over 120 countries require or allow the use of IFRS. Based on the IFRS Foundation's website, we'll present a brief overview of the IFRS application in various countries (table to be provided).

The purpose of financial reporting is to provide information about the financial position, financial results of activities, and movement of funds of the company, useful for the wider circle of users when adopting economic solutions. The first of them (i.e. about financial position) is contained in the balance sheet, the second is in the income statement, and the third is in the statement of changes in equity and the statement of cash flow. The financial report also shows management results and resources entrusted to the company's management. Detailed information is explained in **Figure 3**.

That is, when generating reporting information taking into account the basic provisions of IFRS, an accountant should wives strive to achieve the main goal of financial owl reporting - supplying interested parties and users with useful information.

The company's financial position is revealed by providing information about its assets, liabilities, and capital (balance sheet data) and expenses contained in the income statement and losses; information about changes in monetary funds and their equivalents is contained in the report on cash flow (**Figure 2**).

In addition to the reports shown in **Figure 3**, a full set of financial statements prepared according to IFRS, includes explanations containing significant provisions of accounting policies, used in the preparation of financial statements parity, and other notes. IFRS does not directly establish correct information about the financial position than about financial results.

This is evidenced by strict requirements to the recognition of assets, and the requirement to value them at a fair cost. These differences give rise to the main features that determine the further development of the system.

IFRS topics:

(i) balance priority;

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(ii) rejection of historical value;
- replacing the concept of ownership with the concept of control (principle of property separation of an organization IFRS not declared);
- transition from property accounting to resource accounting, from gross estimates to net estimates;
- refusal to regulate accounting in favor of reporting regulation.

Based on the data, it can be concluded that in 2008, a decrease in the influx of foreign direct investments was characteristic of all countries under study, except for Japan and China. Overall, the dynamics of this indicator are positive – the share of foreign direct investments tends to increase. Determining the growth of this indicator in countries that have implemented IFRS (see **Figure 3**).

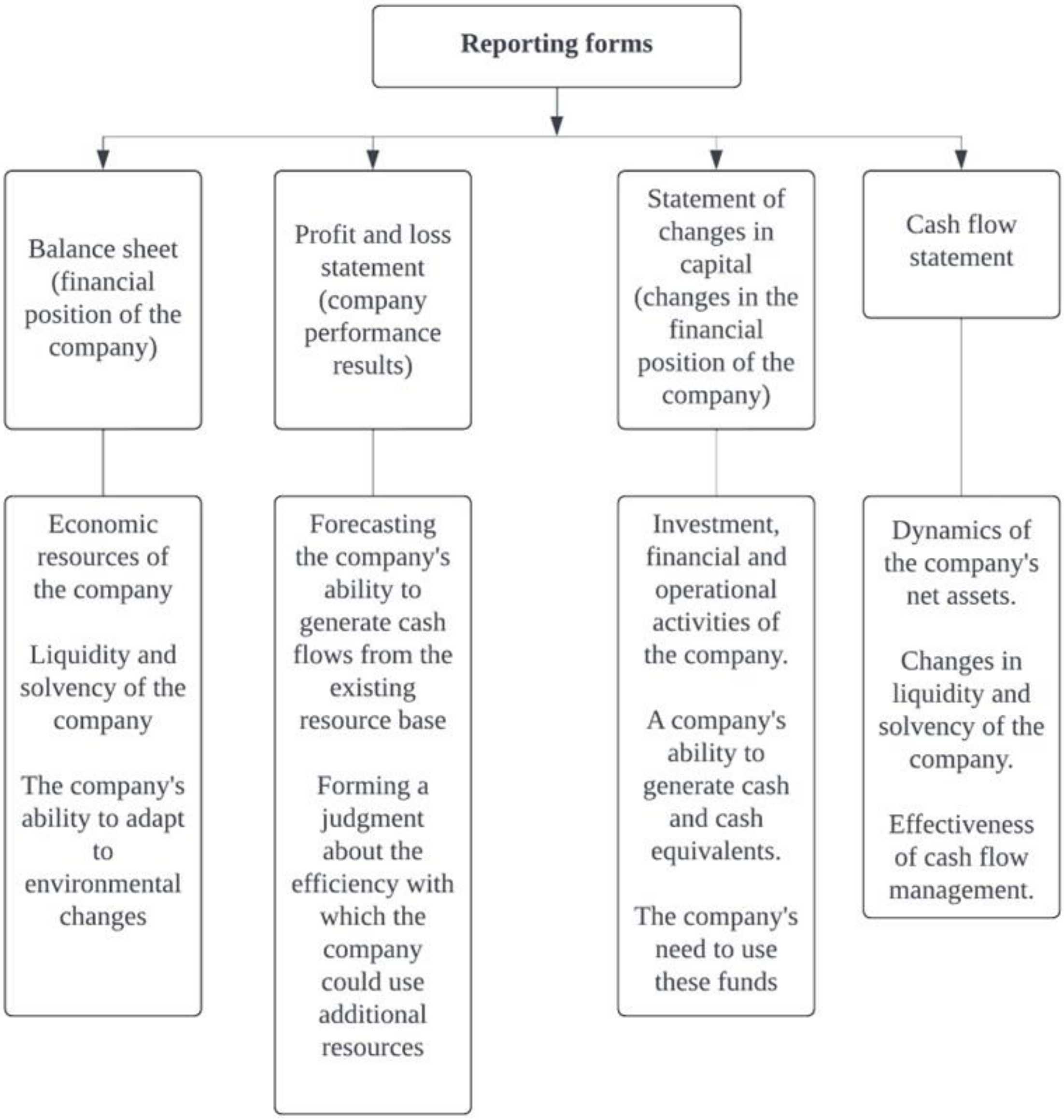

Figure 3. Information contained in reporting forms for users to make management decisions.

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Analyzing the data in **Figure 4**, it can also be concluded that since the introduction of IFRS in the mentioned countries, there has been an increase in the inflow of foreign investments into the economies of these countries, except in 2008.

Projecting the period of IFRS implementation and the share of foreign direct investments in the GDP of these countries does not allow for a definitive answer to the question of whether the introduction of IFRS or many other factors led to the growth of this economic indicator.

However, it is undoubtedly possible to state the growth of this indicator in countries applying IFRS. Since the implementation of IFRS in all countries selected for the study, the share of foreign direct investments has increased, except for Japan, which has maintained this indicator at the same level.

Growth is observed throughout all the years, except for the period of the global financial crisis in 2008, which led to a significant reduction in the share of direct investments in all studied countries, except for Japan.

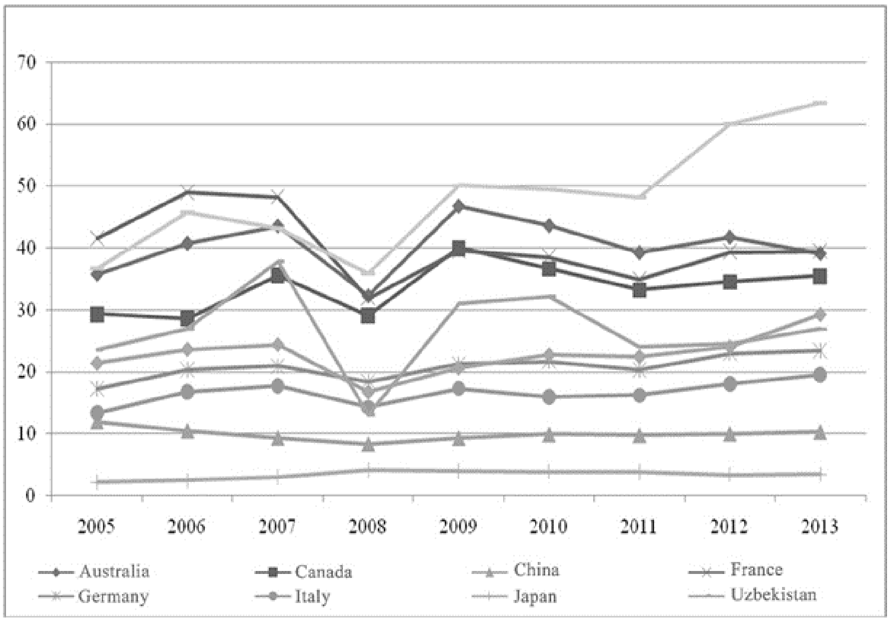

Figure 4. Share of foreign direct investment in GDP, %.

Relating this to the context of the harmonization of IVS and IFRS in Uzbekistan, it might explore how the adoption and harmonization of these standards. They could potentially impact foreign direct investment in Uzbekistan, drawing parallels with the observed trends in the aforementioned countries. Detailed information is explained in **Figure 5**. This could provide valuable insights into the potential benefits and challenges of implementing and harmonizing international standards in Uzbekistan's economic and financial landscape.

As an indicator, we selected the ratio of insurance premiums to Uzbekistan’s GDP (**Figure 6**). The analysis of the implementation of IFRS in Uzbekistan was based on the legislative obligation for banks and insurance companies to prepare reports according to IFRS. Since banks were the first entities required to apply IFRS, an analysis of banking activities from 2002 to 2014 will be conducted.

The ratio of bank assets to Uzbekistan’s GDP will be selected as the indicator. As can be seen in **Figure 6**, the proportion of bank assets to Uzbekistan’s GDP grows annually, and the financial indicators of banks have improved.

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It should be noted that a more complex study on the practice of IFRS application by Uzbek credit organizations using a multidimensional model of analysis was conducted by A.A. Daryakin in 2008. This specialist concluded that local banks are the most vulnerable as the transition process to IFRS is unpredictable for them.

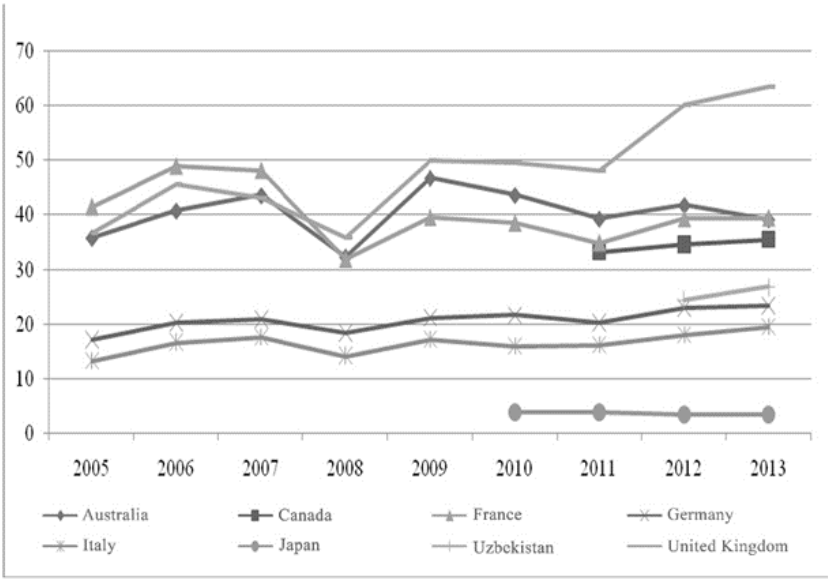

Figure 5. Share of foreign direct investment in countries' GDP since the transition to IFRS, %

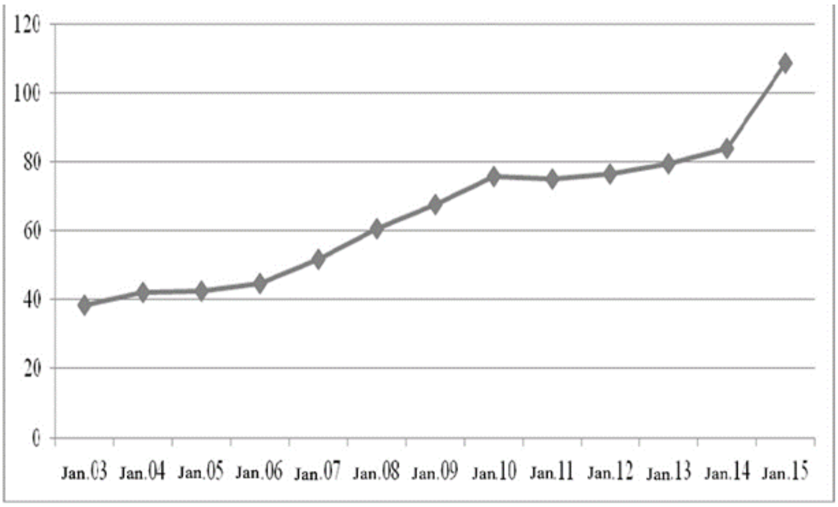

Figure 6. Share of bank assets to Uzbekistan's GDP, %.

The indicators are not as impressive as those of banks, but this is only after three years of applying IFRS. It is challenging to generalize the data of companies whose securities were listed in quotation list A and which have applied IFRS since 2004, as the composition of the companies changed during the specified period. Next, we will focus on analyzing insurance entities, which are also obliged to apply IFRS (see **Figure 7**).

Referring to the context of Uzbekistan and the harmonization of IVS and IFRS, this information provides insight into the challenges and benefits faced by entities in the transition to international standards. Drawing on the Russian experience, Uzbekistan might assess the vulnerabilities and potential areas of improvement in implementing and harmonizing IVS and IFRS, particularly focusing on the banking and insurance sectors, which are crucial for economic stability and development.

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Analyzing the growth and reliability of these sectors post-implementation, as observed in Russia, could offer valuable benchmarks for Uzbekistan in its journey toward harmonizing international standards.

Given that the primary objective of the IFRS is to standardize the principles and methods of accounting used by companies from various countries for financial reporting and enhancing the investment appeal of these nations, we will use the inflow of direct foreign investments as an indicator to assess a country's increased investment attractiveness. Direct foreign investments refer to capital allocations intended to secure a long-term economic interest in the host country, ensuring the investor's control over the capital deployment.

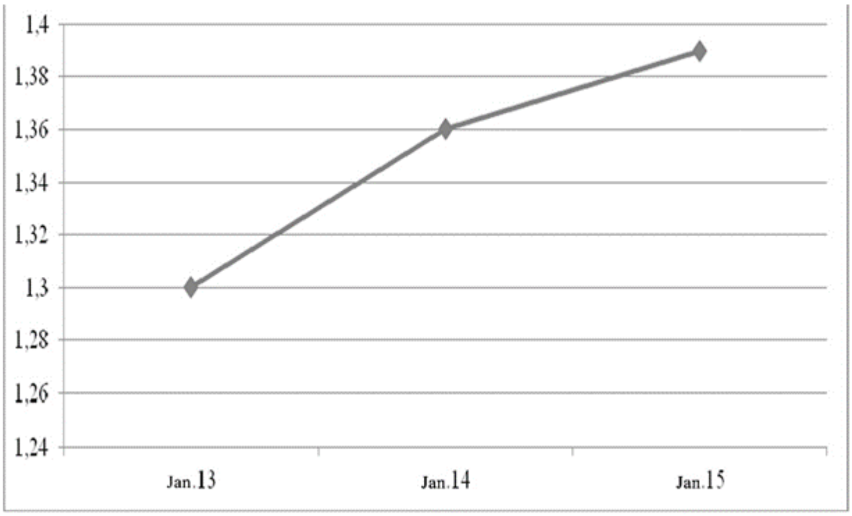

Figure 7. Share of insurance premiums to Uzbekistan's GDP, %.

Table 1 illustrates the annual inflow of direct foreign investments in countries, regardless of the date they adopted the IFRS. Meanwhile, **Table 2** shows the application of IFRS in several countries in the world.

Table 1. The main structures organizing the recognition and application of IFRS in Uzbekistan.

Structure	Functions
Ministry of Finance and Economics of the Republic of Uzbekistan	Adoption of acts on the entry into force and termination of documents of international standards on the territory of the Republic of Uzbekistan (in agreement with the Central Bank of Uzbekistan based on the conclusion of an expert body) Posting on the official website of documents of international standards put into effect on the territory of the Republic of Uzbekistan. Posting on the website documents of international standards being in the process of recognition and information about the stages of their recognition
Department of Accounting Regulation, financial reporting and auditing activities under the Ministry of Finance and Economics of the Republic of Uzbekistan	Preparation for approval in the prescribed manner of acts on the entry into force and termination of documents of international standards on the territory of the Republic of Uzbekistan Organization of recognition of documents of international standards for use on the territory of the Republic of Uzbekistan
Foundation "National Organization for Financial Accounting and Reporting Standards"	Organization of official translation of documents of international standards Participation in the examination of draft documents of international standards

Table 1 (continue). The main structures organizing the recognition and application of IFRS in Uzbekistan.

Structure	Functions
Central Bank of Uzbekistan	Participation in the examination of draft documents of international standards
National Bank of the Republic of Uzbekistan	Participation in the examination of draft documents of international standards
Interdepartmental working group on the application of IFRS	Identification of issues arising during the application of international standard documents in Uzbekistan and preparation of recommendations on them Generalization and dissemination of experience in the application of international standard documents Coordination of the work of relevant representatives participating from Uzbekistan in the activities of the IFRS Foundation
Committee of the Institute of Professional Accountants and Auditors Uzbekistan according to IFRS	Development and support of a training and certification program for IFRS Training, certification, and advanced training of teachers in IFRS Preparation of educational and methodological aids Interaction with authorized authorities (expert support), business representatives, professional and expert organizations, educational institutions on the subject IFRS

Table 2. Application of IFRS in some countries of the world.

Countries	Status of application of IFRS
Australia	IFRS is mandatory for the preparation of financial statements of all enterprises
Great Britain	private sector and as a basis for reporting by public enterprises
Germany	military sector since 2005
European Union	IFRS are mandatory as part of the procedures for their adoption and implementation in
Italy	European Union since 2005
France	IFRS are mandatory as part of the procedures for their adoption and implementation in
Japan	European Union since 2005
Canada	Since 2005, all EU Member States must apply
Uzbekistan	IFRS, which has been adopted by the EU for listed companies
USA	IFRS are mandatory as part of the procedures for their adoption and implementation in
China	European Union since 2005

6. CONCLUSION

In the context of Uzbekistan, aligning with the harmonization of IVS and IFRS, it is anticipated that valuation experts in the country will find opportunities for growth and recognition, akin to the experiences shared by former IVSC Chairman J. Eddge post the harmonization of IVS and IFRS. However, the ongoing international harmonization, or convergence, of standards doesn't lead to a complete merger of these two professions, but rather to an increasing clarity in the differences between them.

This applies both to the methodologies applied and the purposes for which the results are used: be it for transactions, managerial decisions, or informing investors and the general public about market or investment valuations.

Contemporary projects proposed by both international and American financial reporting standards board's contain varying versions of the "fair value hierarchy," including four or five

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levels, each affecting aspects of professional valuation to varying degrees. Currently, these IFRS projects are being actively discussed worldwide. The IVSC leadership has publicly, yet diplomatically, expressed the need for a clear understanding that the composition of "fair value" for financial reporting can integrate market value with the value of current use and other types of non-market-based value. From the academic sector, several professors from English and American universities have delivered substantial critiques on the proposed asset valuation methodologies for evaluating liabilities on the balance sheet, as outlined in the published projects.

Thus, in 2006, intensive studies and discussions on the fundamental principles of property valuation were continued globally, involving representatives from accounting and valuation communities, as well as academics. In most Eastern European countries, there is a growing understanding of the necessity to address not only formal but also substantial issues of valuation activities to align national standards with international ones and actively participate in their further refinement.

Applying this conclusion to Uzbekistan, the country must engage in these global conversations and research on harmonization of valuation and financial reporting standards. The Uzbek valuation and accounting professionals, along with academics, should explore the intricacies of these standards and partake in their ongoing development and adaptation, ensuring the national standards comply with international norms and contributing to the refinement of these global standards.

7. CONCLUSION

The authors declare that there is no conflict of interest regarding the publication of this article. Authors confirmed that the paper was free of plagiarism.

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