



## ALIGNMENT OF FINANCIAL REPORTING PRACTICES IN THE BANKING INDUSTRY WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THEIR INCORPORATION INTO SYSTEMS OF BUDGETARY CONTROL.

**Abdujalilova Dilnoz Abdusattorovna**

Associate Professor of the «Budget Accounting and Treasury»  
Department of Tashkent State University of Economics, Uzbekistan  
E-mail: [dilnoz.abdujalilova.84@mail.ru](mailto:dilnoz.abdujalilova.84@mail.ru)  
ORCID: 0009-0003-5169-4233

**Abstract.** *This article examines the harmonization of financial reporting in the banking sector with International Financial Reporting Standards (IFRS) and its alignment with budgetary oversight mechanisms. As global financial markets become increasingly interconnected, adopting IFRS has become essential for ensuring transparency, comparability, and reliability of financial information. For banking institutions, IFRS implementation enhances the accuracy of asset valuation, risk assessment, and income recognition, thereby improving the quality of financial disclosures provided to regulators and stakeholders. At the same time, effective budgetary oversight requires consistent, timely, and standardized reporting to support fiscal discipline and informed decision-making. By integrating IFRS-based reporting with budget control systems, governments can achieve greater accountability, improve monitoring of financial risks, and strengthen macroeconomic stability. The study highlights the theoretical foundations, practical implications, and institutional requirements needed to ensure coherent alignment between IFRS adoption in the*

*banking sector and modern budgetary governance frameworks.*

**Keywords:** *International Financial Reporting Standards (IFRS), Financial Reporting Harmonization, Banking Sector Transparency, Budgetary Oversight, Fiscal Governance, Regulatory Compliance, Public Financial Management (PFM), Financial Disclosure Quality, Accounting Standardization.*

### Introduction

In recent years, the Republic of Uzbekistan has prioritized the modernization of its financial sector as part of a broader strategy aimed at strengthening macroeconomic stability, improving regulatory governance, and integrating into the global financial architecture. Ensuring transparency, comparability, and reliability of financial information has become particularly important as the banking sector expands its role in supporting economic reforms, developing financial markets, and facilitating both public and private investment flows [1]. In this context, the harmonization of financial reporting practices in commercial banks with International Financial Reporting Standards (IFRS) has emerged as a core policy direction

designed to elevate the quality of financial disclosures and strengthen the credibility of the banking system in the eyes of domestic and international stakeholders [2].

At the same time, Uzbekistan is intensifying efforts to enhance fiscal discipline and strengthen budgetary oversight through modernized public financial management (PFM) mechanisms. The transition toward international standards in accounting and auditing-both in the private and public sectors-requires consistent, transparent, and timely financial data that serve as a reliable basis for fiscal monitoring, risk assessment, and regulatory interventions. As the banking system becomes increasingly interconnected with state-funded programs, public debt servicing, and government-guaranteed credit operations, aligning IFRS-based reporting with budgetary oversight frameworks has become a strategic necessity [3].

The introduction of IFRS across the banking sector not only improves asset classification, risk measurement, and income recognition but also reinforces the institutional foundation for effective budget monitoring, fiscal planning, and macroprudential supervision [4]. With Uzbekistan deepening its market reforms and adopting international best practices recommended by the World Bank, IMF, and other development partners, the creation of a unified, transparent, and internationally comparable financial reporting environment is critical. This direction is further strengthened by the government's commitment to enhancing the accountability of financial institutions, expanding

supervisory capacity, and integrating modern digital reporting tools into the public financial management system [5].

Given these developments, examining the harmonization of bank financial reporting with IFRS and its alignment with budgetary oversight mechanisms is both timely and essential. Such analysis provides insights into the institutional reforms required, the challenges faced by banks during IFRS implementation, and the broader implications for fiscal discipline, transparency, and financial sector stability in Uzbekistan. [6]

### **Materials and Methods**

The harmonization of financial reporting in the banking sector with International Financial Reporting Standards (IFRS) and its integration with budgetary oversight has been widely examined in global academic and institutional research. Across the literature, scholars and international organizations emphasize transparency, comparability, and fiscal accountability as the central pillars underpinning IFRS adoption and public financial management reforms.

A substantial body of research from international organizations - including the IMF (2019), World Bank (2020), BIS (2018), and OECD (2021) - demonstrates that IFRS adoption contributes significantly to financial stability. The IMF highlights that standardized reporting improves the reliability of macroprudential indicators, enabling regulators to evaluate the soundness of banks, strengthen fiscal oversight, and detect emerging risks. Similarly, World Bank analyses show that consistent IFRS implementation enhances transparency and

investor confidence in developing economies, particularly where financial governance systems are undergoing modernization. The BIS underscores that the quality of reporting under IFRS directly influences financial sector policy outcomes, including risk-weighted asset management and the measurement of expected credit losses. OECD research further connects high-quality financial reporting with improved public accountability, demonstrating how standardized reporting facilitates budgetary control and aligns government financial statistics with international norms [7].

Academic studies reinforce these institutional findings. Barth, Landsman, and Lang provide empirical evidence that IFRS adoption improves accounting quality by reducing earnings management and increasing value relevance-factors that are especially critical for banks that operate under complex regulatory constraints. Carmona and Trombetta highlight the challenges of global convergence, emphasizing the need for strong regulatory support and institutional capacity to ensure effective IFRS implementation. Hopper et al. (2017) explore accountability in emerging economies, arguing that international standards can only be successful when supported by institutional reforms in governance and oversight [8].

Several other scholars in economics have noted that Carmona, S., & Trombetta, M. «The IFRS standards have gained global acceptance and implementation. Countries using rules based systems (e.g., Germany) as well as those employing principles-based systems (e.g., the United Kingdom) apply IAS/IFRS standards. At the same time,

common law countries (e.g., Australia and New Zealand) and those with a civil-law tradition (e.g., Italy and Spain) also implement these standards» [9].

Sector-specific analyses by major audit firms (PwC, 2022; KPMG, 2021; EY, 2023) illustrate practical challenges faced by banks during IFRS transition, including the operationalization of IFRS 9, the integration of digital reporting tools, and the alignment of internal risk models with regulatory expectations. These reports show that banks in emerging markets often face capacity, technology, and data-quality constraints, which shape the effectiveness of IFRS-based reporting [10], [11], [12].

Research in public sector accounting also contributes to understanding the integration of IFRS with budgetary oversight. Chan and Jones (2007) argue that fiscal transparency depends on consistent and reliable reporting systems that link budget execution with financial statements. OECD's (2020) work on budgetary governance emphasizes the importance of harmonizing financial reporting with budgeting processes to support fiscal discipline, performance measurement, and accountability [13].

Finally, studies focusing on transitional and emerging economies Kostyuk et al., 2020 highlight that successful IFRS adoption requires both regulatory commitment and institutional readiness. These findings are particularly relevant for countries like Uzbekistan, where financial sector modernization, increased supervisory capacity, and improved governance structures are central to ongoing reforms [14]. The Central Bank of Uzbekistan (2022) echoes these perspectives, outlining national

guidelines for IFRS transition and emphasizing the importance of coordination between banks, regulators, and fiscal authorities [15].

Collectively, the literature indicates that harmonizing banking sector reporting with IFRS strengthens the integrity of financial information, supports effective budgetary oversight, and enhances macroeconomic stability. However, the success of these reforms depends on institutional capacity, regulatory alignment, and the integration of modern reporting technologies across both the financial and public sectors.

### Results

International Financial Reporting Standards (IFRS) have effectively become the global language of financial reporting: companies in more than 140 jurisdictions are

now required to use IFRS Accounting Standards for publicly traded entities, including banks.

According to an IFRS Foundation Pocket Guide, a survey of 150 jurisdictions shows that: 126 jurisdictions (84%) require IFRS for all or most domestic listed companies and financial institutions, 13 jurisdictions (9%) permit or require IFRS for some listed companies and only 11 jurisdictions (7%) do not require or permit IFRS for domestic listed companies. This widespread adoption means that, for the banking sector, IFRS-based financial statements are the main input for prudential supervision by central banks, macro-fiscal analysis by ministries of finance and budgetary oversight and audit by supreme audit institutions and treasuries (tab.1).

**Table 1.**  
**Global use of IFRS for listed companies and financial institutions<sup>1</sup>.**

Category of jurisdiction (≈2017)	Number of jurisdictions	Share of sample (%)
IFRS required for all/most listed companies and financial institutions	126	84%
IFRS permitted/required for some listed companies	13	9%
IFRS not required or permitted for domestic listed companies	11	7%
<b>Total</b>	<b>150</b>	<b>100%</b>

<sup>1</sup> Source: IFRS Foundation Pocket Guide to IFRS Standards; IFRS "Use around the world" profiles.

Table 1 shows that financial reporting in the banking sector is already highly harmonized at the global level. For most banks that are publicly accountable, IFRS is either mandatory or at least permitted. This creates a strong basis for integrating banking information into national systems of budgetary oversight (treasury operations, fiscal risk analysis, public debt management, etc.). The distribution clearly demonstrates that IFRS has become the dominant global framework for financial reporting, especially for publicly accountable entities such as banks, insurance companies, and listed corporations. The fact that 84% of jurisdictions require IFRS either fully or substantially indicates the strong international consensus regarding the relevance, comparability, and transparency of IFRS-based reporting.

This widespread acceptance provides a unified accounting language that enhances cross-border comparability, facilitates international investment flows, and establishes a consistent foundation for financial stability assessments. The largest category comprises 126 jurisdictions that mandate IFRS for all or most listed companies and financial institutions. This category represents the global mainstream, where IFRS is embedded within the national regulatory and supervisory architecture.

Several empirical studies specifically examine IFRS adoption by banks and its effect on transparency, risk reporting and

performance. European Union banks - loan loss provisioning and income smoothing - a study of banks in twelve EU countries around mandatory IFRS adoption finds that IFRS significantly changed the recognition and measurement of loan loss provisions. After IFRS adoption, income smoothing through loan loss provisions decreased, and loss recognition became more timely.

Pakistan – IFRS adoption and banking sector efficiency a 2022 study on Pakistan's banking industry (data 2000–2019) uses quantile regression to evaluate the joint effect of accounting quality and IFRS adoption. The results show that IFRS adoption is positively associated with banking sector efficiency, especially at higher efficiency quantiles.

Iraq – earnings quality in listed banks research on 42 Iraqi banks that first adopted IFRS in 2016 compares earnings quality before and after adoption. The study concludes that earnings quality improved after IFRS adoption, with reduced manipulation and more reliable reported profits.

Developing countries – credit risk provisions and resilience a recent study on Vietnamese commercial banks finds that IFRS implementation increased credit risk provisions and reduced earnings management, thereby enhancing the resilience of banks but also making performance figures more conservative (tab 2).



**Table 2.**

**Empirical evidence on IFRS adoption in the banking sector<sup>2</sup>**

Study / Region	Period & sample	Main IFRS-related finding in banks
EU banks (12 countries)	Pre- vs post-IFRS, early–mid 2000s	Loan loss provisioning became less discretionary; income smoothing decreased, loss recognition became timelier.
Pakistan banking sector	2000–2019, time-series	Positive and significant link between IFRS adoption and banking efficiency; higher efficiency at upper quantiles.
Iraqi listed banks	42 banks, IFRS adoption in 2016	Earnings quality improved after IFRS adoption; less manipulation of reported profits.
Vietnamese commercial banks	Banks applying IFRS-style credit risk rules	Higher credit risk provisions and lower earnings management, contributing to greater resilience.

Across very different jurisdictions (EU, Pakistan, Iraq, Vietnam), the direction of the results is similar IFRS reduces discretion in key banking estimates (loan loss provisions), improves earnings quality and transparency and and in several cases is associated with better efficiency or resilience. For budgetary oversight bodies, this means that IFRS-based bank data are more reliable for assessing fiscal risks (for example, contingent liabilities from state-owned banks, guarantees, or bank recapitalization needs).

The table summarizes empirical evidence from four different regional and national contexts-Europe, Pakistan, Iraq, and Vietnam-each examining the consequences of IFRS adoption or IFRS-aligned reporting requirements in the banking sector. Despite differences in geographic, institutional, and economic environments, the results converge on a consistent conclusion: IFRS adoption

improves the quality, transparency, and reliability of banks' financial reporting, and in several cases enhances operational efficiency and financial resilience. This section provides an expanded analytic interpretation of these findings.

The study covering banks in twelve European Union countries around the mandatory adoption of IFRS in the early–mid 2000s reveals substantial improvements in financial reporting behavior. Specifically, loan loss provisioning became less discretionary, and banks' use of provisions for income smoothing declined following IFRS implementation (BIS Working Paper). This outcome is theoretically consistent with the shift from national GAAP to IFRS, which imposes stricter guidance on impairment recognition and requires more granular disclosures of credit risk.

The Pakistani time-series analysis (2000–2019) establishes a positive and

<sup>2</sup> Source: IFRS Foundation Pocket Guide to IFRS Standards; IFRS "Use around the world" profiles.

statistically significant relationship between IFRS adoption and banking efficiency (PMC study). The quantile regression approach reveals that the effect is strongest among banks with higher levels of efficiency, suggesting that IFRS benefits are amplified when institutions already possess relatively robust managerial and governance structures.

The analysis of 42 Iraqi banks that adopted IFRS in 2016 provides clear evidence of enhanced earnings quality, manifested through reduced earnings manipulation and more reliable profit reporting (UAL OJS study). Given Iraq's developing institutional environment and historically weak financial oversight systems, this result is particularly noteworthy.

The study on Vietnamese commercial banks, which applied IFRS-style credit risk rules under IFRS 9 concepts, documents an increase in credit risk provisions and a decline in earnings management practices (Conscientia Beam archive). This reflects the forward-looking expected credit loss (ECL) model embedded in IFRS 9, which requires banks to recognize expected losses rather than waiting for credit deterioration to occur.

### **Discussion**

The empirical evidence and global adoption statistics examined in this study highlight several critical dimensions of IFRS harmonization in the banking sector and its implications for budgetary oversight. Across diverse jurisdictions—including advanced EU economies, emerging markets such as Pakistan and Vietnam, and post-conflict environments like Iraq—the adoption of IFRS consistently yields improvements in transparency, reporting quality, and risk

recognition within the banking industry. The discussion below synthesizes these insights, contextualizing them within broader debates on financial governance, regulatory harmonization, and fiscal risk management. The collective evidence demonstrates that IFRS adoption strengthens transparency, improves risk reporting, and enhances fiscal oversight capacity. Although benefits differ across institutional contexts, the direction of impact is consistently positive. Given the central role of banks in transmitting economic and fiscal shocks, IFRS harmonization emerges as a critical component of financial stability and sustainable public-sector governance.

### **Conclusion**

The evidence presented in this study demonstrates that the harmonization of financial reporting in the banking sector with International Financial Reporting Standards (IFRS) produces significant improvements in transparency, reporting quality, and fiscal oversight. The global adoption data, showing that 84% of jurisdictions mandate IFRS for most listed entities, illustrates the extent to which IFRS has become the dominant international reporting framework and a foundational component of global financial governance.

Collectively, these findings highlight the crucial role of IFRS in supporting both microprudential supervision and macroeconomic stability. For budgetary oversight authorities—such as ministries of finance, treasuries, and supreme audit institutions—IFRS-based bank reporting provides more accurate, comparable, and forward-looking information. This enables earlier identification of fiscal risks, better

evaluation of contingent liabilities, and more credible public-sector financial planning.

In sum, the harmonization of bank reporting with IFRS enhances the integrity of financial data, strengthens the link between financial regulation and public financial management, and contributes to improved fiscal discipline and economic resilience. Based on the findings of this study, the following suggestions are proposed to strengthen the implementation of IFRS and maximize its benefits for banking supervision and budgetary oversight IFRS adoption is most effective when accompanied by robust regulatory enforcement. Countries should invest in supervisory training for central bank and treasury staff, enhanced review mechanisms for IFRS-compliant statements,

and alignment of prudential regulations with IFRS principles.

Central banks, ministries of finance, and supreme audit institutions should establish joint oversight committees, data-sharing protocols, and integrated risk assessment frameworks. Such coordination ensures that IFRS-generated information is fully utilized in fiscal policy and macroprudential supervision.

The transition toward comprehensive and well-enforced IFRS adoption should be viewed not only as an accounting reform, but as a strategic investment in financial stability, fiscal transparency, and sustainable economic governance. Policymakers should therefore prioritize IFRS-based harmonization as a core element of national economic reform agendas.

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