

PRACTICAL OPPORTUNITIES AND CHALLENGES OF APPLYING IFRS S1 AND S2 IN UZBEK ENTERPRISES

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Abstract. *The adoption of IFRS S1 and IFRS S2 by the International Sustainability Standards Board aims to improve the consistency and usefulness of sustainability reporting by standardizing disclosures on climate-related and ESG risks. These standards support better investor decision-making and encourage the integration of sustainability considerations into corporate governance and risk management.*

In Uzbekistan, the gradual alignment of state-owned and private enterprises with IFRS standards creates opportunities to enhance transparency, attract international investment, and strengthen risk management practices. However, implementation remains constrained by limited technical capacity, weak ESG data systems, and insufficient assurance frameworks. This article examines these opportunities and challenges and proposes recommendations to support the

effective adoption of IFRS S1 and S2 in Uzbek enterprises.

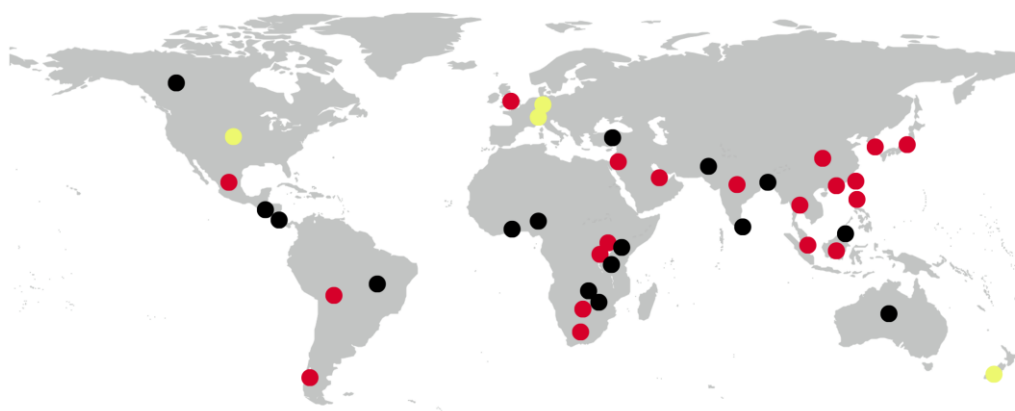
Keywords: *IFRS S1, IFRS S2, sustainability reporting, climate-related disclosures, ESG.*

Introduction. Sustainability reporting – the structured disclosure of environmental, social, and governance (ESG)-related financial information – is becoming a cornerstone of modern corporate governance. As global investors increasingly demand transparency on climate risks and long-term sustainability strategy, the International Sustainability Standards Board (ISSB) responded by issuing IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) in 2023. These standards aim to establish a globally consistent baseline for sustainability reporting and help integrate ESG risks and opportunities into financial statements. This map depicts the countries which adopted ISSB-based standard:

Which jurisdictions have adopted or plan to adopt ISSB-based standards?

Hover over each jurisdiction for more information

● Adopted ● Plans to adopt ● Other jurisdictions with related disclosure standards



In Uzbekistan, aligning with international financial reporting standards has become a key part of broader economic and institutional reforms. For instance, in an academic study, Shodiyev and Tojiboyev (2025) highlight a significant gap between national accounting practices and IFRS requirements in real-sector enterprises, noting institutional readiness and capacity constraints.

Another study by Mamadiyrov (2025) points out both the transparency and investor confidence benefits of IFRS adoption, but also warns of the costs and earnings volatility that may arise during the transition. (4) Meanwhile, Farida Kilicheva, Bazarova, and Irmukhamedova (2024) argue that IFRS adoption is crucial to attract foreign investment and improve corporate governance, because IFRS prioritizes economic substance and transparency over mechanical recognition. (5)

Furthermore, the implementation of IFRS in Uzbekistan is not just theoretical: in the banking sector, Arziboeva (2025) shows that adopting IFRS has measurably improved the quality and reliability of financial reporting, though infrastructure and professional skills remain significant challenges(6). The shift also demands

risk-management innovations: as Abdushukurbek Marupov and Sherzodbek Kamoliddinov (2024) discuss, hedging strategies (such as forwards, options, swaps) are increasingly being considered in Uzbek companies to handle the financial uncertainties created by the IFRS transition(7).

Nevertheless, technical and organizational barriers persist. According to Kholikova (2024), reformatting the statement of financial position to meet IFRS requirements raises practical issues in Uzbekistan, particularly regarding valuation, transparency, and foreign investment readiness(8). And Djumanov & Khamrokhuaeva (2025) underline that although there is strong motivation to adopt IFRS, challenges such as legal harmonization, staff training, and legacy reporting systems remain major impediments.

Given this context, this paper explores the practical opportunities and challenges of applying IFRS S1 and S2 in Uzbek enterprises. Drawing on national academic research, regulatory reform, and sectoral experiences, it aims to recommend a realistic roadmap for adoption, capacity building, and stakeholder engagement for

sustainable and globally comparable reporting.

Literature Review

Since its issuance in June 2023, IFRS S1 and IFRS S2 have gained considerable global traction, signaling a shift toward a unified sustainability reporting baseline. The IFRS Foundation notes that 36 jurisdictions have either adopted or are aligning with the ISSB (International Sustainability Standards Board) Standards, as presented in their latest jurisdictional profiles.⁽¹⁾ According to a recent S&P Global report, by July 1, 2025, 16 jurisdictions had fully adopted IFRS S1/S2 on either a mandatory or voluntary basis, while 20 more jurisdictions were planning adoption in the near future. KPMG's analysis in its report *"Two years in: Adoption of the ISSB Standards"* confirms this momentum, stating that "over 30 jurisdictions—representing more than half of global GDP—have taken steps toward the adoption or other use of the ISSB Standards⁽¹⁰⁾ The IFRS Foundation's 2024 Annual Report further supports this trend, highlighting the organization's capacity-building efforts and noting that by the end of 2024, 35 jurisdictions had embarked on introducing the standards into their regulatory frameworks. (1) The speed and scale of adoption underscore that IFRS S1/S2 are increasingly being recognized not just as voluntary guidelines, but as essential tools for comparability and transparency in global capital markets.

In Uzbekistan, the move toward IFRS is not merely regulatory but deeply tied to economic reform, professional capacity development, and sustainability ambitions. Shamsitdinova (2023) offers a comprehensive assessment of Uzbekistan's transition to IFRS, documenting how

national accounting practices (NAS) diverge from international norms and highlighting institutional and regulatory obstacles in aligning with global standards⁽¹¹⁾ Her research underscores that while IFRS adoption promises greater transparency and comparability, many Uzbek firms—and regulators—lack the infrastructural and human capacity to implement complex IFRS rules effectively. This aligns with findings by Shodiyev and Tojiboyev (2025), who examine real-sector enterprises and reveal a notable "gap between national practices and IFRS," emphasizing constraints such as limited professional IFRS expertise, resistance from legacy reporting systems, and high costs of conversion.⁽³⁾

Professional capacity challenges are a recurring theme in the literature. Saidov (2023) explores how IFRS adoption affects the accounting profession in Uzbekistan, identifying major training needs, regulatory compliance burdens, and the demand for ongoing professional development to ensure accountants can effectively apply IFRS principles.⁽¹²⁾ Meanwhile, Khasanova (2025) presents empirical data from a survey of 120 Uzbek enterprises, revealing persistent methodological issues: "inconsistencies in revenue recognition, asset valuation, and disclosure practices" remain widespread under local standards, thereby undermining financial information's reliability and comparability.

In the banking sector, Arziboeva (2025) finds that IFRS implementation has significantly enhanced the quality and transparency of accounting. Her study shows that banks adopting IFRS report more reliable financial statements, but also face structural barriers: infrastructure limitations and insufficiently trained personnel continue to impede full compliance⁽¹³⁾. Moreover,

Rakhimova (2024) discusses the broader socioeconomic implications of IFRS adoption, arguing that regulatory reform, technological upgrades, and educational initiatives are critical to ensuring that IFRS contributes to sustainable economic growth in Uzbekistan.

From a sustainability perspective, Ochilov and Hamroyeva (2025) analyze Uzbekistan's "green accounting" strategy, explicitly referencing **IFRS S1 and S2**. Their research highlights both obstacles and promising opportunities: the integration of environmental costs, resource depletion, and climate risk into financial reporting could support Uzbekistan's broader development goals, but requires strong institutional frameworks and technical capacity for measurement and disclosure(15).

Additionally, the legal and regulatory foundation for IFRS adoption is well documented. According to government-media reports, decree **No. 4611** (February 24, 2020) made IFRS mandatory for certain large entities (banks, joint-stock companies, large taxpayers), and by late 2022, more than 60 IFRS standards were formally recognized for use within Uzbekistan after an expert commission reviewed the texts. This formal recognition and translation of IFRS into the Uzbek state language was a key step in enabling implementation, especially for companies unfamiliar with English-language IFRS texts.

Overall, the literature suggests that Uzbekistan's IFRS adoption is advancing, but not without friction. Key challenges include capacity building, methodological alignment, and institutional support. At the same time, there is significant opportunity—not only for financial transparency and foreign investment (as noted by Mamadiyorov, 2025)—but also for

embedding sustainability into corporate reporting through "green accounting" models underpinned by IFRS S1/S2 (Ochilov & Hamroyeva, 2025). (15)

This national IFRS context provides a solid foundation for considering IFRS S1 and S2 implementation: Uzbekistan already grapples with IFRS transition issues (capacity, training, regulatory alignment), and these challenges will directly shape how well the country can adopt sustainability disclosure standards.

Analysis. The adoption of IFRS S1 and S2 by Uzbek enterprises presents a combination of promising opportunities and significant challenges rooted in Uzbekistan's existing IFRS transition dynamics and institutional capacity. On the opportunities side, one of the most important advantages is **enhanced transparency and governance**: research by Bayjanov (2025) demonstrates that joint-stock companies in Uzbekistan, by transitioning to international financial reporting standards, significantly improve their transparency and accountability for both domestic and foreign investors. Additionally, the work of Ziyat Kurbanov (2025) argues that sustainability-related financial reporting standards like IFRS S1 and S2 represent a theoretical foundation for integrating long-term ESG risks and opportunities into the financial statements of Uzbek companies. These standards could thereby serve as a bridge between financial accounting and broader sustainability objectives, aligning corporate reporting with the goals of Uzbekistan's national green economy strategy. Halilov (2025) further supports this by showing how carbon emissions ("uglerod chiqindilari") can be integrated into accounting systems to reflect environmental liabilities and make companies more attractive to ESG-minded investors. From a

risk-management perspective, the research of Marupov and Kamoliddinov (2024) indicates that hedging strategies such as forwards, options, or swaps help Uzbek firms manage financial volatility during the IFRS transition; by applying S1/S2, companies could better manage climate-related financial risks, especially if hedging instruments are linked to emissions or energy prices. Furthermore, adoption of S1/S2 offers strong **capacity-building benefits**: as local accounting professionals learn to apply sustainability disclosure, they acquire new competencies in ESG risk assessment, scenario analysis, and integrated reporting, improving the overall quality of corporate reporting.

However, the challenges are substantial. Institutions in Uzbekistan face **limited technical capacity and data infrastructure**: many companies currently struggle with basic IFRS adoption, let alone the additional data requirements of S1/S2. Shamsitdinova (2023) highlights in her review of the adoption of IFRS in Uzbekistan that institutional readiness remains uneven, with many firms lacking robust internal reporting systems or qualified accounting staff. In the banking sector, Ravzakhon Arziboyeva (2025) finds that while IFRS adoption has improved financial statement quality, banks still face infrastructural and human resource barriers to full compliance. Another methodological challenge relates to the **valuation and measurement** of non-financial, sustainability-related items: Halilov (2025) argues that integrating carbon emissions into accounting requires both quantitative tools and institutional frameworks, which are currently underdeveloped in Uzbekistan. In addition, the transition to IFRS exposes firms to **earnings volatility and training costs**. As

shown in Mamadiyorov's (2025) econometric analysis, the increased transparency brought by IFRS goes hand in hand with the risk of earnings fluctuations, and the cost of training and implementing new accounting and reporting processes may be significant for many companies. Regulatory complexity also remains a critical hurdle: although Uzbekistan's law requires certain large entities to adopt IFRS (as noted in multiple studies), the integration of sustainability-specific standards like S1/S2 will necessitate further regulatory development to define materiality, reporting boundaries, and assurance practices.

The practical implication of these findings is that **Uzbekistan needs a phased and strategic approach** to integrating IFRS S1 and S2. First, it would be logical to pilot these standards in larger and better-resourced enterprises (e.g., banks, SOEs, joint-stock companies) that already have IFRS reporting experience. In parallel, the government and professional bodies should significantly ramp up capacity building: universities, accounting professional associations, and regulators need to develop training programs focused specifically on sustainability reporting, ESG risk measurement, and scenario analysis. Second, Uzbekistan should invest in data infrastructure: establishing ESG data collection systems, internal controls, and possibly external assurance mechanisms (e.g., auditors trained in sustainability assurance) will be crucial for credible S1/S2 reporting. Third, regulatory guidance must be developed to align national reporting frameworks with S1/S2 requirements: this would involve defining materiality thresholds, required disclosures, and transition measures so companies can adopt the standards in a structured way.

In addition, hedging strategies (as discussed by Marupov & Kamoliddinov) might be integrated into an enterprise's risk management framework to mitigate financial risks associated with climate exposure, aligning financial instruments with sustainability reporting goals. Over time, as ESG reporting matures, Uzbek enterprises could leverage sustainability disclosures to access green finance or ESG-linked loans, further integrating their financial and sustainability strategies. Ultimately, successfully adopting IFRS S1 and S2 could not only enhance reporting quality but also reinforce Uzbekistan's economic competitiveness by aligning its corporate governance with global sustainability norms.

Results. The analysis of IFRS S1 and S2 adoption in Uzbek enterprises reveals several practical outcomes. First, there is a clear opportunity to **enhance transparency and corporate governance**. According to Bayjanov (2025), joint-stock companies in Uzbekistan that adopt IFRS improve accountability and financial clarity, laying the groundwork for consistent ESG disclosures. Second, alignment with global standards is progressing, as Ziyat Kurbanov (2025) emphasizes that IFRS S1 and S2 provide a structured framework for integrating sustainability reporting into corporate financial statements, helping Uzbek firms comply with international investor expectations. Third, there is growing **support for Sustainable Development Goals (SDGs)**; Ochilov & Hamroyeva (2025) note that integrating environmental, social, and governance metrics into reporting can strengthen corporate strategies while supporting Uzbekistan's green economy initiatives. Fourth, the process contributes to **capacity building and professional development**, as accountants and finance

teams gain competencies in ESG data collection, scenario analysis, and integrated reporting (Saidov, 2023). Fifth, IFRS adoption enhances **investor confidence and access to finance**, as KPMG (2024) documents that companies using IFRS standards enjoy greater trust from international investors and improved market credibility. Despite these opportunities, challenges persist. Limited institutional capacity, as reported by Shamsitdinova (2023), means many companies struggle to implement sustainability reporting fully due to inadequate systems, technical expertise, and regulatory support. Methodological barriers exist, particularly regarding climate-risk reporting and valuation of environmental liabilities, as highlighted by Halilov (2025). Training gaps are evident; ACCA Global (2025) notes that SMEs in Uzbekistan often lack awareness and skills necessary to produce high-quality sustainability disclosures (link). Data availability is also a limiting factor, especially for Scope 3 emissions, which require comprehensive supply chain reporting that is currently underdeveloped (IFRS.org, 2024, link). Finally, regulatory harmonization is needed; although decree 4611 mandates IFRS for large enterprises, S1 and S2 require additional guidance to align national reporting with global sustainability standards (UzDaily, 2022). Overall, the results indicate that **Uzbek enterprises are on a positive trajectory toward S1 and S2 adoption**, with measurable improvements in transparency, ESG alignment, and professional capacity, yet require structured regulatory support, enhanced technical infrastructure, and continuous training to fully realize the standards' benefits.

Discussion. The implementation of IFRS S1 and S2 within Uzbek enterprises

represents a multifaceted phenomenon encompassing significant opportunities and pronounced challenges. Empirical evidence indicates that adoption of these standards enhances transparency, strengthens corporate governance, and facilitates alignment with globally recognized financial reporting frameworks (Bayjanov, 2025, Ziyat Kurbanov, 2025,). The integration of IFRS S1 and S2 enables organizations to systematically disclose climate-related financial risks and environmental, social, and governance (ESG) metrics in accordance with Task Force on Climate-related Financial Disclosures (TCFD) recommendations (IFRS.org, 2024). Furthermore, these standards serve as a mechanism for supporting Uzbekistan's national sustainability agenda, promoting the incorporation of ESG considerations into corporate strategy, and thereby contributing to the achievement of Sustainable Development Goals (Ochilov & Hamroyeva, 2025,). The process of adopting these standards also yields considerable capacity-building benefits, as finance professionals acquire advanced competencies in sustainability reporting, scenario analysis, and integrated reporting, which collectively enhance the overall quality and reliability of corporate disclosures (Saidov, 2023). Despite these advantages, the empirical literature identifies substantial implementation challenges. Institutional readiness remains heterogeneous, with many small and medium-sized enterprises (SMEs) lacking both technical expertise and robust internal reporting systems necessary for the comprehensive application of IFRS S1 and S2 (Shamsitdinova, 2023, ACCA Global, 2025). Data acquisition, particularly with respect to Scope 3 emissions and broader ESG indicators, remains a critical constraint

due to underdeveloped supply chain reporting infrastructure (IFRS.org, 2024). Furthermore, regulatory harmonization is in progress but incomplete; while presidential decree 4611 mandates IFRS adoption for large enterprises, supplementary regulatory guidance is essential to ensure consistency between national reporting frameworks and ISSB standards (UzDaily, 2022). These findings collectively suggest that while the adoption of IFRS S1 and S2 presents significant strategic and operational benefits, successful implementation requires a structured, phased approach, complemented by institutional capacity building, professional training, and infrastructural development.

Conclusion. In summary, the adoption of IFRS S1 and S2 within Uzbek enterprises offers substantial opportunities, including enhanced transparency, improved governance structures, global standard alignment, ESG integration, and strengthened investor confidence. Nevertheless, these opportunities are counterbalanced by critical challenges encompassing limited institutional capacity, insufficient technical expertise, inadequate ESG data infrastructure, and the need for regulatory harmonization. To maximize the benefits of IFRS S1 and S2, a phased adoption strategy is recommended, prioritizing large, internationally oriented firms while simultaneously investing in professional development programs, technological infrastructure for ESG data collection, and regulatory guidance. Over the medium to long term, the comprehensive implementation of these standards has the potential to reinforce corporate governance practices, facilitate access to international capital, support sustainable development objectives, and position Uzbekistan

competitively within the global ESG reporting landscape. Therefore, the study underscores that the strategic adoption of IFRS S1 and S2, supported by systemic institutional reforms and capacity-building

initiatives, is critical to realizing the long-term advantages of sustainability-aligned financial reporting in Uzbek enterprises.

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