

## **Improving the financial and credit mechanism based on international standards**

**By**

**Mamadierov Dilshod Uralovich**

Associate Professor of the department "Accounting, economic analysis and audit" of the Tashkent State Agrarian University

Email: [dilshad.mamadiyarov@gmail.com](mailto:dilshad.mamadiyarov@gmail.com)

**Khaitboeva Diloobar Zakhidovna**

Assistant of the department "Accounting, economic analysis and audit" of the Tashkent State Agrarian University

Email: [dilobarxaytboyeva@gmail.com](mailto:dilobarxaytboyeva@gmail.com)

**Bozorova Muhabbat Tokhataevna**

Assistant of the department "Accounting, economic analysis and audit" of the Tashkent State Agrarian University

Email: [bozorovam230@mail.ru](mailto:bozorovam230@mail.ru)

**Uzokova Feruza Baraka qizi**

Assistant of the department "Accounting, economic analysis and audit" of the Tashkent State Agrarian University

Email: [1991.uzokova@mail.ru](mailto:1991.uzokova@mail.ru)

### **Annotation**

This article is devoted to the formation of a banking system that meets the requirements of a market economy, the activation of the intermediary role of banks in the financial market, ensuring the financial independence of commercial banks, bringing their activities closer to world banking practice, as well as achieving a high level of competitiveness of banks in the domestic and international financial markets.

**Keywords:** financial and credit mechanism, IFRS, banking, financial market, commercial enterprises, economic development, accounting, financial reporting.

### **Relevance of the topic**

A two-tier banking system plays a crucial role in ensuring the functioning of the economy of any country. By carrying out settlement, deposit, credit and other operations, banks perform socially necessary functions. At the same time, like the work of other commercial enterprises, banking is subject to numerous risks, which is why in most countries this activity is the most regulated type of business. At the same time, regulation has pronounced national characteristics, reflecting the specifics of the formation of the national banking system.

The stability of banks significantly affects the efficiency of the country's economy. A more mature stage of development is coming, when the stability of banks can be ensured only through the use of scientific, internationally proven management methods.

In the ongoing economic reforms in Uzbekistan, an important role is assigned to the banking system. This is also pointed out by the President of the country Sh.M. Mirziyoyev

“Most importantly, such an unacceptable method as the race for unrealistic numbers, the desire to present utopian plans as reality has been critically reviewed in economic policy”. Achieving concrete results and ensuring the interests of the person are identified as the main goal of our reforms.

The relevance of the topic is due to the insufficient level of research on this problem in Uzbekistan.

The object of the study was economic relations in the process of implementing schemes of financial and credit regulation in the financial sector.

The subject of the research is the system of priorities of the financial and credit policy, as the main component of the state macroeconomic policy; subjects - the Central Bank and commercial banks, which at a certain stage become full participants in the financial market.

The purpose of the study is to develop methodological and theoretical, as well as applied aspects of the creation, development and regulation of the national banking system and the development of a strategy for managing the banking system of the Republic of Uzbekistan in the context of modernization and restructuring of the economy, ensuring an increase in the role of banks in the financial market.

In accordance with the set goal, the following tasks are solved in the work:- to study the theoretical and methodological foundations of the financial and credit mechanism and its impact on the financial market;- to determine the essence, role and functions of the financial and credit mechanism;- to conduct a systematic theoretical and methodological analysis of the interaction of the financial and credit mechanism in the financial market; - reveal the essence of the banking system and formulate quantitative and qualitative criteria underlying the analysis of its activities;- to analyze the interaction of the financial and credit mechanism in the financial market;- evaluate the current state of the financial market and analyze the impact of the financial and credit mechanism on the financial market; - substantiate the necessary directions for the development of the financial and credit mechanism and its interaction with the financial market;- to determine the problems of interaction of the financial and credit mechanism in the financial market;- suggest ways and methods for improving the financial and credit mechanism and its interaction with the financial market.

## **Research methods**

Research methods are based on general scientific and special methods of cognition. In particular, based on the methods of functional and system analysis, the unity of historical and logical, a comprehensive analysis of the evolution of theoretical views on increasing the role of banks in the development of the economy was carried out. When studying the factors that ensure the stable development of the economy and determining the prerequisites for the growth of the role of bank credit in this process, methods of analysis and synthesis, scientific generalizations were used. The method of scientific abstraction was applied in determining the economic content of the categories "banking system" and "banking investments" in a broad and narrow sense, methods of system analysis to identify criteria for a sufficient level of concentration of banks and determine the minimum required level of investment to provide a financial impetus to the stable development of the economy. The dialectical method of cognition was applied in studying the role of a bank investment loan in the innovative development of the economy. For a visual representation of statistical material, individual theoretical and practical provisions of the study, methods of graphical analysis were used.

## **The scientific novelty of the study**

Lies in the fact that, on the basis of a comprehensive economic study of the banking system of Uzbekistan, it developed methodological foundations for its improvement in order to ensure the stable development of the economy. The most significant are the following results characterizing the novelty of the work:- theoretical substantiation of the key role of the financial and credit mechanism in the financial market, as an organizer of financial initiators of investment projects in a market economy. It is proved that the financial and credit mechanism will directly affect the financial market; - the methodological foundations of the financial and credit mechanism have been developed and its impact on the financial market has been substantiated;- assessed the current state of the financial market and analyzed the impact of the financial and credit mechanism on the financial market; - the regulatory role of the Central Bank in the conduct of monetary policy in the Republic of Uzbekistan is theoretically substantiated;- analyzed the interaction of the financial and credit mechanism on the financial market;- in order to further improve the efficiency of the financial and credit mechanism and its relationship with the financial market, the main directions have been formulated to increase the impact of the financial and credit mechanism on the financial market; - as a result of the study of economic relations in the domestic banking system, ways to increase the efficiency of the impact of the financial and credit mechanism on the financial market are substantiated.

The main purpose of the financial and credit mechanism is to help the economy achieve a production volume characterized by full employment, lack of inflation and growth. In our country, at this stage, a rational financial and credit mechanism should minimize inflation and a decline in production, and prevent the growth of unemployment. Despite all his modesty, this task is quite difficult.

International Financial Reporting Standards is the result of many years of efforts by professional financial analysts, managers and accountants of all countries aimed at increasing the truthfulness and usefulness of reflecting the results of the economic activities of credit institutions. IFRS reporting has such characteristics as the relevance of the information provided to users, reliability, timeliness, and accessibility for users to understand.

The benefits of using IFRS include:

- generalization of modern world practice in the field of accounting and reporting and global recognition of standards;
- lack of linkage to the accounting features of individual countries;
- used by many countries as a basis for reforming national standards;
- ensuring transparency and completeness of information disclosure;
- continuous improvement of standards in accordance with current needs, as well as experience and knowledge accumulated in the world;
- availability of results of public discussion and experimental application of standards
- recognition of IFRS reporting by many international exchanges and organizations.

In 1994, the State Program for the transition of the Republic of Uzbekistan to the internationally accepted accounting system was adopted and an interdepartmental commission was established to implement this program. The main goal of the program is to create conditions for effective state regulation of the economy of the republic, an objective analysis of the role of the importance of its various fields of activity in the world community, based on an information system adequate to the structure of a market economy, timely identification of

trends, forecasting their development and assessing the consequences of management decisions. The following tasks were decided in the state program:

- bringing national macroeconomic indicators in line with international standards;
- creation of a system of national accounts of the Republic of Uzbekistan, including the development of accounts for branches and sectors of the national economy;
- control over the execution of resolutions and orders of the Cabinet of Ministers of the Republic of Uzbekistan on the implementation of measures of the State Program; ensuring that the accounting of business entities and the system of statistical indicators, including those reflecting financial, banking and customs activities, necessary for the construction of national accounts, are brought into line with world practice, providing organizational assistance in their development.

State and non-state bodies authorized to execute a plan or program for the implementation of IFRS in the national economy:

- Ministry of Finance of the Republic of Uzbekistan;
- State Committee of the Republic of Uzbekistan on statistics;
- Central Bank of the Republic of Uzbekistan;
- Ministry of Justice of the Republic of Uzbekistan;
- Professional association of accountants and auditors.

The period during which it was supposed to implement IFRS in the national economy: in the long term - in stages. Since 2000, IFRS have been mandatory implemented in the banks of the Republic of Uzbekistan, where the basis of accounting and reporting is the Law of the Republic of Uzbekistan "On Accounting" and International Financial Reporting Standards. Financial statements published by banks, as well as the main principles, concepts and definitions used by banks in the process of accounting and reporting, comply with the Law of the Republic of Uzbekistan "On Accounting" and IFRS. Since 2007, IFRS have been mandatory introduced in microcredit organizations, where the principles of accounting, the rules for accounting and controlling financial transactions, the structure of the accounting apparatus, methods of servicing clients and maintaining document management, the procedure for compiling financial statements are based on International Financial Reporting Standards. Enterprises with foreign investments and joint ventures voluntarily apply IFRS when preparing financial statements for foreign investors, but at the same time such enterprises simultaneously maintain accounting records and financial statements using national standards.

To prepare financial statements in accordance with IFRS, credit institutions use the transformation method, that is, they regroup the balance sheet and income statement items, and also use a different database formed on the basis of primary documents, make the necessary adjustments and apply professional judgments.

***The transformation method includes three stages.***

The first stage is the regrouping of balance sheet and income statement items based on the economic nature of the assets, liabilities, equity, income and expenses of the credit institution to bring them in line with IFRS.

The second stage is the determination of the list of necessary adjustments to the items of the statement of financial position and income statement to bring them in line with IFRS in order to:

- adjustments to time (reporting) periods in which transactions were made;
- evaluation of assets, liabilities, equity, income and expenses of a credit institution in accordance with IFRS;
- reclassification of balance sheet and income statement items to the statement of financial position and income statement in accordance with IFRS.

The third stage is the calculation of the amounts of necessary adjustments to items in the statement of financial position, income statement and statement of comprehensive income to bring them in line with IFRS.

Consolidated and non-consolidated financial statements in accordance with IFRS include:

- 1) statement of financial position at the end of the reporting period;
- 2) profit and loss statement for the reporting period;
- 3) statement of total income for the reporting period;
- 4) statement of changes in equity for the reporting period;
- 5) cash flow statement for the reporting period;
- 6) notes;
- 7) audit report.

The authorized management body of the credit institution approves the accounting policy for the preparation of financial statements in accordance with IFRS, as well as the structure and content of reporting forms.

In order to prepare financial statements in accordance with IFRS, a credit institution approves a financial statement preparation procedure containing the procedure for preparing and approving financial statements, including statements of regrouping and adjustments of balance sheet items and income statement, documenting professional judgments (professional opinions of responsible persons of a credit institution), as well as the procedure for storing documentation.

The rules for preparing financial statements provide for:

- structural subdivisions of the credit institution, which have the right to form professional judgments in each of the areas of the credit institution's activities and make adjustments to Russian financial statements;
- employees of a credit institution who are required to verify the objectivity and correctness of professional judgments formed and adjustments made to Russian financial statements;
- a structural subdivision of a credit institution responsible for summarizing all adjustments to Russian financial statements for the purposes of preparing financial statements in accordance with IFRS;
- procedure for registration, endorsement, approval, signing, storage of documents, including statements of regrouping, professional judgments and adjustments of Russian financial statements in accordance with IFRS;
- signing of the financial statements of credit institutions by the head and chief accountant (authorized person), who are responsible for the accuracy of the financial statements.

Financial statements are considered to be prepared in accordance with IFRS if they comply with all the requirements of current IFRS.

The notes include information for users of the financial statements of the credit institution. In particular:

- 1) description of the nature of operations and core activities of the credit institution, reference information on the credit institution;
- 2) auxiliary (additional) information that is not presented in the financial statements themselves, but is necessary for the perception of financial statements by users;
- 3) statement of compliance of the prepared financial statements with the requirements of IFRS, information on the basics of preparing financial statements;
- 4) principles of accounting policy under IFRS;
- 5) analytical information on all material items of the statement of financial position, income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity in accordance with IFRS;
- 6) characteristics of the credit institution's activities by segments;
- 7) description of the activities of the credit institution in managing financial risks (credit risk, market risks - currency risk, interest rate risk, other price risk and liquidity risk);
- 8) description of contingent liabilities of the credit institution. This note discloses information about ongoing and potential litigation;
- 9) information on obligations of a tax, credit nature, as well as those related to the financing of capital investments and operating leases; transactions with assets held in custody, pledged;
- 10) information about transactions with related parties;
- 11) information about significant events that occurred after the reporting period, but before the date of signing the financial statements and receiving the opinion of the audit organization;
- 12) information on the economic concepts (terms) used by the credit institution in the financial statements.

Financial statements prepared in accordance with IFRS are used:

- 1) State Bank - to analyze the activities of credit institutions in the performance of supervisory functions and conduct a comparative analysis with reporting compiled in accordance with the rules of accounting in credit institutions located on the territory of the republic;
- 2) the management of credit institutions - for the purpose of analyzing the results of the activities of credit institutions and the possibility of making managerial decisions.

## **Conclusion**

In conclusion, the transition to international financial reporting standards will make it possible to attract foreign investment by analyzing the financial condition of business entities, comparative study and objective assessment of their financial results in the past, and search for external sources of financing. The advantages of using IFRS in the preparation of financial statements in the Republic of Uzbekistan relate to both the microeconomic and macroeconomic levels of the economy.

The application of IFRS may also be beneficial for Uzbek companies that do not yet want to enter Western financial markets. The result is providing managers with information that enhances management effectiveness, strengthens the system of corporate behavior and, therefore, increases the credibility of management. The application of IFRS will be the most optimal effect, especially when managing a corporate company and in companies that are forced to be content with information obtained from financial statements.

The transition to International Financial Reporting Standards can have both positive and negative consequences for companies in the Republic of Uzbekistan. Among the positive aspects, one can single out an increase in transparency, an improvement in the comparability of indicators and, as a result, an expansion of opportunities for analyzing one's activities and facilitating access to international capital markets. However, the report itself does not guarantee an inflow of investments. In addition, the transition to IFRS will require additional labor and financial costs from companies, and it may also be difficult to assess the positive economic impact of innovations at an early stage. Another important aspect is the transformation process. It should be noted that the reporting transformation procedure should be developed by each company separately, taking into account its own specifics. At the same time, there are several main stages that, most likely, will need to be passed.

Stage 1. Creation of an information and technical base for the introduction of accounting under IFRS. As part of this stage, a corporate accounting policy should be developed in accordance with IFRS, a personnel reserve should be formed by conducting trainings among existing employees, or recruiting the necessary specialists, and an information base should be prepared by inventorying assets and liabilities, analyzing business transactions for accounting according to IFRS.

Stage 2. Development of the actual accounting system in accordance with IFRS. At this stage, a corporate chart of accounts for IFRS purposes, including analytical accounts, should be developed. Procedures for internal control over the correctness of reporting in accordance with IFRS should be developed, as well as work has begun on setting up and testing the existing information system for various areas of accounting - transactional, transformational and consolidation blocks.

Stage 3. Implementation of a trial implementation of accounting and reporting in accordance with international standards. The purpose of this stage is to identify errors and discrepancies in the operation of the system, make adjustments to the accounting policy, chart of accounts, accounting methods.

## List of used literature

- Decree of the President of the Republic of Uzbekistan dated February 24, 2020 No. 4611-DP "On additional measures for the transition to international financial reporting standards".
- Decree of the President of the Republic of Uzbekistan dated September 13, 2017 No. DP-3272 "On measures to further improve monetary policy".
- Decree of the President of the Republic of Uzbekistan "On measures to further improve the activities of the National Bank for Foreign Economic Affairs of the Republic of Uzbekistan" No. DP-3383 dated November 13, 2017.
- Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated 10.10.15, No. 29/3 "On Amendments to the Regulations on the Accounting Procedure for Loans in Commercial Banks" (registered by the Ministry of Justice of the Republic of Uzbekistan on 10.20.15, registration No. 1435-1).
- Karimov A., Ibragimov A., Rizaev N., Imamova N. International financial reporting standards. 2021. Tashkent. 27 p.
- Kilicheva, F. B., & Imamova, N. M. (2022). International Experience With IFRS and Its Implementation in Uzbekistan. *Bulletin of Science and Practice*, 8(3), 344-351. (in Russian). <https://doi.org/10.33619/2414-2948/76/39>

- Features of the application of IFRS 32 in credit institutions / N.N. Ilysheva, O.S. Neverova // Finance and Credit. - 2006. - No. 34. - P.15-17 (author. 0.1 p.s.)
- Features of the application of IFRS in credit institutions / O.S. Neverova // Vestnik USTU-UPI "Economics and Management". - 2007. - No. 1 (84). - P. 73-77 (author 0.23 p.s.)
- Management accounting in the context of the application of IFRS in credit institutions / N.N. Ilysheva, O.S. Neverova // Finance and credit. - 2007. - No. 18. - P. 15-17 (author. 0.1 p.s.)
- Central Bank - "The situation in the monetary sphere and the main directions of monetary policy" from 2011-2017. (<http://cbu,uz/>)