



**CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL
REPORTING TRANSPARENCY: INSTITUTIONAL ANALYSIS AND THE
UZBEKISTAN EXPERIENCE**

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Abstract

The corporate governance system exerts a direct influence on the transparency of financial reporting by ensuring corporate accountability, protecting investor rights, mitigating conflicts of interest, and reducing information asymmetry. This article establishes the correlation between corporate governance and transparency within the theoretical frameworks of Agency Theory, Information Asymmetry, and Signaling Theory. It synthesizes disclosure and accountability requirements established by international benchmarks, specifically the G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises. Against the backdrop of institutional reforms in Uzbekistan aimed at modernizing corporate governance structures and aligning financial reporting with international standards (IFRS), this study analyzes the mechanisms that facilitate enhanced information disclosure and corporate responsibility. The empirical-analytical section provides practical conclusions on the impact of corporate governance on transparency, utilizing public data concerning capital market infrastructure, the dynamics of joint-stock companies with state ownership, foreign direct investment (FDI) volumes, and prevailing information disclosure practices.



Keywords: Corporate governance, financial reporting, transparency, information disclosure, supervisory board, audit committee, investors, information asymmetry, IFRS, capital market, foreign direct investment (FDI).

Introduction

In the modern economy, a firm's access to external financing, investor confidence, and the cost of capital are largely determined by the reliability and transparency of its financial reporting. Transparency extends beyond the mere submission of reporting forms; it entails the full, timely, and comparable disclosure of information in a format suitable for informed decision-making. This objective is operationalized through corporate governance institutions, including the supervisory board, audit committee, internal control and external audit functions, information policy, and compliance frameworks [1][2].

Since 2017, Uzbekistan has pursued a path of comprehensive economic reform, resulting in significant shifts within the realms of corporate governance and financial reporting transparency. Notably, in 2023, the country recorded a 6% growth in GDP, with Foreign Direct Investment (FDI) reaching \$7.2 billion—nearly double the volume of 2022 [US State Department, 2024]. Given that FDI reached \$12 billion in 2024, the practical significance of strengthening transparency and accountability mechanisms has become even more paramount [Eurasian Star, 2026].

At the international level, the G20/OECD Principles of Corporate Governance identify information disclosure and transparency as the core of effective governance: companies must fully disclose material information regarding financial results, ownership structure, governance, and risks [1]. Furthermore, the OECD Guidelines on Corporate Governance of State-Owned Enterprises emphasize the necessity of rigorous transparency, accountability, and independent audit requirements for organizations with state participation [2].

Several theoretical frameworks underpin the correlation between corporate governance and financial reporting transparency. From the perspective of Agency Theory, the misalignment of interests between owners (principals) and executive management (agents) exacerbates risks such as information withholding, artificial "earnings smoothing," and subjectivity or manipulation in the valuation of assets and liabilities [4]. According to Information Asymmetry Theory, external investors and



creditors face heightened uncertainty because they lack comprehensive data regarding a company's internal status, risk profile, and actual financial performance [5]. Conversely, Signaling Theory suggests that firms voluntarily adopt transparent reporting policies, independent audits, and advanced corporate governance standards to signal their high quality, stability, and responsible management practices to the external market [2].

The enhancement of corporate governance and reporting transparency has become a focal point of public policy in Uzbekistan. Presidential Decree No. PQ-4611, adopted in 2020, systematically introduced requirements for large taxpayers, joint-stock companies, commercial banks, and insurance organizations to prepare financial statements in accordance with IFRS [6][7]. World Bank reports highlight that in 2020, over 2,000 state-owned enterprises (SOEs) were operational, accounting for 32% of the national GDP; consequently, corporate governance reforms are particularly critical within this sector [World Bank, 2025].

The objective of this research is to analyze—both theoretically and empirically—how corporate governance mechanisms influence the transparency of financial reporting. Based on the institutional landscape and statistical data of Uzbekistan, this study seeks to formulate practical conclusions and develop recommendations for implementation.

Methods

This study was conducted using desk research (a systematic review of secondary sources) and a comparative-institutional approach. The methodological framework focuses on elucidating the correlation between corporate governance institutions (rules, regulatory bodies, and enforcement mechanisms) and financial reporting transparency through the conceptual chain of: "regulatory requirements → institutional implementation → quality of information disclosure."

Phase 1: Normative-Institutional Analysis. This phase involved the synthesis of international guidelines on corporate governance and disclosure, specifically the G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises. Additionally, the study systematized the primary transparency requirements derived from national decrees and corporate governance codes aimed at aligning financial reporting with international standards in Uzbekistan [6][10].



Phase 2: Synthesis of Scholarly Literature. The mechanisms through which corporate governance impacts reporting transparency were conceptualized by reviewing foreign empirical studies, scholarly works by regional researchers, and analyses by Uzbek authors. Consequently, a logical model was developed: "corporate governance institutions → reduction of information asymmetry → quality and transparency of reporting → investor confidence" [11][12].

Phase 3: Analysis of Open-Source Statistical Data. Practical insights were derived from an analysis of official data concerning the composition of capital market participants (by exchange issuers), the dynamics of joint-stock companies with state ownership, Foreign Direct Investment (FDI) inflows, and stock market capitalization. Data sources included:

- Financial stability reviews from the Central Bank of Uzbekistan;
- Reports from the Central Securities Depository;
- Investment climate assessments provided by the World Bank and the U.S. Department of State [8][9].

Results

The findings of this analysis demonstrate that the corporate governance factors influencing financial reporting transparency can be categorized into five interconnected functional blocks. These blocks provide the institutional framework for the generation, verification, approval, and disclosure of information, thereby mitigating information asymmetry and strengthening corporate accountability.

1. The Supervisory Board: Strategic Oversight and Accountability Architecture.

The Supervisory Board serves as the strategic oversight body responsible for the reliability of financial reporting and the integrity of disclosure policies. It influences transparency by evaluating the quality of reporting, reviewing significant estimation uncertainties (e.g., asset valuation, provisions, and major contractual liabilities), discussing audit findings, and ensuring the accountability of the executive organ. International frameworks, such as the **G20/OECD Principles**, define the Board's mandate as establishing a robust disclosure system, ensuring the efficacy of internal controls and risk management, and maintaining high-level responsibility for the accuracy of financial statements [1][4].



2. The Audit Committee and External Audit: Infrastructure of Trust and Quality Assurance. The Audit Committee monitors the selection of accounting policies, critical accounting estimates, and professional judgments made during the financial statement preparation process. It also assesses the technical merits and independence of the external auditor's opinion. The primary function of this mechanism is to systematically mitigate risks related to errors, manipulation, and incomplete disclosure. Empirical research consistently demonstrates a positive correlation between Audit Committee activity and the level of corporate transparency [13]. In practice, the committee acts as a "control point," presenting audit results to the Board and mandating executive compliance with disclosure standards.

3. Internal Control and Risk Management: Systems for Compliance and Reliability. To minimize the risk of reporting errors and manipulation, a robust internal control framework—encompassing document flow, delegation of authority matrices, risk registers, and internal audit procedures—is essential. Internal control provides systematic verification during the data generation phase, thereby enhancing the reliability of the final reports. Under international principles, the accurate identification and transparent disclosure of risks are viewed as integral components of overall transparency [2]. Inadequate risk management increases the likelihood of "delayed" or "selective" disclosure, which erodes investor confidence.

4. Information Policy and Disclosure Channels: Timeliness, Comparability, and Public Access. Corporate governance codes establish explicit requirements for disclosure: companies must publish financial statements, annual reports, material events, related-party transactions, and governance structures through designated channels. According to the EBRD Corporate Governance Survey for Uzbekistan, joint-stock companies (JSCs) are required to disclose annual reports via the regulator and their corporate websites, while listed companies must also utilize the stock exchange's disclosure systems [14]. Information policy defines not only the content of transparency but also its delivery infrastructure, which facilitates comparability and cross-verification.



5. Ownership Structure and Stakeholder Relations: The Question of Accountability. In environments characterized by concentrated ownership, high state participation, or complex corporate groups, the question of whose interests are prioritized and the extent of disclosure becomes critical. Given that in 2020, over 2,000 state-owned enterprises (SOEs) accounted for 32% of Uzbekistan's GDP [World Bank, 2025], the urgency of institutional reforms in this area is particularly high. The OECD Guidelines for SOEs recommend strengthening the role of independent directors, implementing competitive selection for management, and expanding requirements for independent audits and public disclosure to address these challenges [2].

Institutional Analysis in the Context of Uzbekistan: Empirical Data. The institutional foundations for ensuring corporate governance and financial transparency in Uzbekistan are taking shape through several complementary channels. This section analyzes current statistical indicators and regulatory frameworks.

a) Dynamics of the Joint-Stock Company (JSC) Market. According to data from the Central Securities Depository, as of October 2024, there were 680 active joint-stock companies in Uzbekistan—a 10% increase compared to the same period in 2023 [CSD, 2024]. Of these, 334 companies have foreign equity participation, with 99.2% of that share held by foreign legal entities. Table 1 below summarizes the dynamics of joint-stock companies and capital market indicators.

Table 1. Key indicators of joint-stock companies and the capital market of Uzbekistan

Indicator	Value	Source
Total number of joint-stock companies (2024)	680	CSD, 2024
Growth rate (2023-2024)	+10%	CSD, 2024
Number of JSCs with foreign equity participation	334 (49%)	CSD, 2024
Issuers on the stock exchange listing	117	Central Bank, 2024
Of which: commercial banks	17 (14.5%)	Central Bank, 2024
Stock market capitalization (as % of GDP)	~14%	Spot.uz, 2023
Free-float market capitalization (% of GDP)	~0.4%	Spot.uz, 2023



b) Foreign Direct Investment (FDI) and Economic Growth. The quality of corporate governance and the enhancement of transparency exert a direct influence on foreign investor confidence. The dynamics of FDI inflows into Uzbekistan clearly validate this correlation: in 2023, the country attracted \$7.2 billion in FDI—a twofold increase compared to 2022 [US State Dept., 2024]. By 2024, this figure reached \$12 billion [Eurasian Star, 2026]. Furthermore, in the first quarter of 2024 alone, FDI-related expenditures amounted to 33.3 trillion UZS, representing a 2.5-fold increase over the same period in 2023 [Stat.uz, 2024].

Table 2. Dynamics of foreign direct investment in Uzbekistan

Year	FDI Volume (USD billions)	GDP Growth	Notes
2022	~3.6	5.7%	Initiation of reforms
2023	7.2	6.0%	2x increase compared to 2022
2024	~12.0	6.5%	Record-breaking performance
2026 (target)	50.0	>7%	Government strategic plan

c) Policy on the Transition to International Financial Reporting Standards. Based on Presidential Decree No. PQ-4611, adopted in 2020, specific measures were established to implement the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) [6]. Data from the IFRS Foundation indicate that as of 2021, the preparation of IFRS-based reports became mandatory for large taxpayers, joint-stock companies, commercial banks, and insurance organizations [7]. This process enhances comparability by bringing reporting into a "unified conceptual language," facilitates data analysis, and serves to establish a reliable information environment for external stakeholders.

d) Capital Market Infrastructure and Issuer Composition. Strategic objectives for capital market development were defined by Presidential Decree No. PF-6207 in 2021, aiming to increase the share of free-float securities to at least 5% of the GDP and bring total capitalization to 45 trillion UZS [Lex.uz, 2021]. While the current stock market capitalization stands at 14% of the GDP, the free-float market capitalization accounts for a mere 0.4% [Spot.uz, 2023]. These figures remain significantly lower than those of Kazakhstan, Bulgaria, and Russia, indicating substantial untapped potential for growth in infrastructure and information disclosure.



e) State-Owned Enterprises (SOEs) and Accountability. An analysis of the performance of 31 strategically significant joint-stock companies and state enterprises during 2022–2023 revealed that 25 entities operated with a net profit, while 6 reported net losses [ASR, 2023]. As of January 1, 2023, the number of employees in the state enterprise sector totaled 424,000. Given the vast scale of the public sector, strengthening financial reporting transparency, independent auditing, and the oversight functions of the supervisory board is of paramount importance.

Discussion

International principles define disclosure as a central element of corporate governance; alongside financial statements, companies must disclose ownership structures, governance systems, risks, and material transactions. The OECD Guidelines further recommend strengthening transparency in organizations with state participation by developing the role of independent directors and professionalizing the state-ownership function [2].

Empirical research frequently confirms the correlation between the independence of the supervisory board, the activity of the audit committee, and the quality of external audits with overall reporting quality and information disclosure [15]. However, some studies indicate that this impact is contingent upon the "institutional environment"—specifically the rule of law, enforcement discipline, investor protection, and the efficiency of the judicial system [1][2][14]. This is particularly relevant for Uzbekistan: in a nation ranked 83rd in the Global Innovation Index and 100th in the Index of Economic Freedom [Lloyds Bank, 2024], improving the quality of corporate governance can yield significant dividends reflected in these global ratings.

A particularly noteworthy aspect in the context of Uzbekistan is the low ratio of stock market capitalization to GDP (0.4% for free-float shares). For comparison, in Kazakhstan, trading turnover is 2.3 times the total capitalization, whereas in Uzbekistan, this ratio is inversely proportional by a factor of 18—meaning trading volume is 18 times smaller than capitalization [ResearchGate, 2025]. This indicator clearly illustrates the impact of transparency standards and corporate governance on investor confidence: market depth and liquidity are heavily dependent on the quality of disclosure.

Scholarly works by regional experts view information disclosure as a practical benchmark for corporate governance, linking "transparency" to investor trust, access



to capital, and the reduction of corporate disputes [3][5]. These approaches are highly relevant to the Uzbek context: it is no coincidence that the growth of FDI from \$7.2 billion in 2023 to \$12 billion in 2024 [Eurasian Star, 2026] occurred simultaneously with intensified corporate governance reforms.

To refine corporate governance and enhance financial reporting transparency in Uzbekistan, it is advisable to strengthen institutional practices across four priority areas:

– **First Area – Transitioning from "Rule-Setting" to "Implementation":** strengthening disclosure discipline by moving beyond the mere existence of rules to their practical enforcement. This includes the systematic monitoring of IFRS compliance and Corporate Governance Code requirements, alongside qualitative assessments of reports and the introduction of comparative benchmarks [14].

– **Second Area – Enhancing Institutional Capacity:** Increasing the institutional strength of supervisory boards and audit committees by expanding the participation of independent directors, clearly regulating the mandates and procedures of audit committees, and ensuring transparent selection processes for external auditors.

– **Third Area – Establishing Unified Disclosure Standards:** Developing a standardized information policy that systematically discloses not only financial statements but also material contracts, related-party transactions, risk profiles, and sustainability indicators. It is critical to implement a monitoring system for these requirements among the 117 listed issuers on the stock exchange [8].

– **Fourth Area – Strengthening Accountability in State-Owned Enterprises (SOEs):** Given that there were over 2,000 state enterprises impacting 32% of the GDP as of 2020 [World Bank, 2025], it is essential to professionalize the state-ownership function. This involves evaluating management based on performance-oriented indicators (KPIs) and stabilizing the practice of mandatory external audits for all such entities [9].

Conclusion

The results of this theoretical and institutional analysis confirm that the corporate governance system serves as the primary institutional pillar of financial reporting transparency. The supervisory board, audit committee, internal control, and information policy function interdependently to create a complex of mechanisms that coordinate the generation, verification, and timely disclosure of information. This



integration effectively mitigates information asymmetry while enhancing the reliability and comparability of financial statements.

By 2024, the presence of 680 active joint-stock companies in Uzbekistan, an FDI volume reaching \$12 billion, and the listing of 117 issuers on the stock exchange clearly demonstrate the escalating demand for financial reporting transparency. However, considering that free-float market capitalization accounts for a mere 0.4% of the GDP—a figure significantly lower than in emerging markets such as Kazakhstan—it is evident that improving the quality of corporate governance and reinforcing transparency standards remain essential prerequisites for deepening the capital market.

The analysis further indicates that the level of transparency is not limited solely to the existence of a regulatory framework; its efficacy depends on enforcement discipline, the operational functionality of monitoring systems, the independence of external audits, and the strengthening of accountability to stakeholders through real liability mechanisms. Consequently, to ensure result-oriented corporate governance, the priority remains the institutional strengthening of the "rules–execution–oversight–accountability" chain, the standardization of disclosure requirements, and the reinforcement of audit and internal control infrastructures.

Ultimately, such advancements in corporate governance will bolster investor confidence by increasing financial reporting transparency, thereby optimizing the cost of capital. These improvements will expand access to the financial resources necessary to realize Uzbekistan's strategy of attaining upper-middle-income country status by 2030.

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