



Capital market implications of IFRS adoption in Azerbaijan: Evidence from the energy and banking sectors

Orkhan Talibzade*

Master, Lecturer

Khazar University

AZ1096, 41 Mahsati Str., Baku, Azerbaijan

<https://orcid.org/0009-0005-6334-5166>

Abstract. The study aimed to assess the peculiarities of adopting International Financial Reporting Standards into the energy and banking sectors of the Republic of Azerbaijan. The goal was accomplished through the mixed methods research study involving the archival and policy document analysis and secondary data analysis of firm-level, market, and macroeconomic trends observed in 2015-2024. The study of evidence suggested that the Azerbaijan's transition to the International Financial Reporting Standards was a transformative process that started in 1991, involved six milestones, and had not been completely accomplished by the year 2025. The secondary data analysis revealed that transition to the universally accepted standards was associated with improvements in the national banking and energy segments taking the form of a 104% rise in Return on Assets, a 37% increase in Return on Equity, and a 78% growth in Earnings per Share. The mentioned accomplishments were contributed to the growing investors' confidence preconditioned by increased accuracy and transparency of the financial reporting processes. It was found that adoption of the International Financial Reporting Standards caused resistance, especially from small and medium-sized enterprises. It was suggested to mitigate the resistance and support the transformative processes through institutionalised continuous professional training, centralised digital compliance monitoring, strengthened audit quality and independence, and linking reporting standards compliance with capital market incentives. The findings can be used to enhance competitiveness of the Azerbaijani energy and banking segments and their further integration into the global trade

Keywords: reporting transparency; accounting standards; investor confidence; compliance; emerging economies

Introduction

Globalisation and an increased volume of the world trade have opened up opportunities for economic growth of countries, including the Republic of Azerbaijan. Azerbaijan strives for full adoption of International Financial Reporting Standards (IFRS) as a way of integrating into the global trade community, attracting investors, and supporting sustainable economic development. Since energy and banking were the key segments of the Azerbaijani economy, the adoption of IFRS into them was a relevant research topic. The lessons learned from Azerbaijan can be further scaled to ensure economic sustainability of the post-Soviet countries. Z. Abbas

& J.I.B. Al Mamouri (2022) asserted that the process of adopting IFRS started in 1973 with the formation of the International Accounting Standards Committee, which included professional accounting bodies from Australia, France, Canada, Germany, Japan, Mexico, the Netherlands, the United Kingdom, and the United States. The cross-national cooperation resulted in the international accounting standards adopted to enhance transparency and accountability of financial transactions and to gain investor confidence. S. Potharla (2025) distinguished between six reasons for adopting IFRS: globalised capital markets, intention to attract foreign investors and

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*Corresponding author

lower the cost of capital, pressure from international regulators like the International Organisation for Securities Commissions and the World Bank, growing investor demand for enhanced comparability and transparency, regional economic integration efforts, and commitment to modernising internal accounting systems.

Upon examining the Indian context, A. Johri (2024) asserted that the adoption of IFRS had a statistically significant positive impact on the reporting quality of multinational companies. The data obtained from 512 participants confirmed that unlike multinational companies that ignored IFRS, multinational companies, which had adopted universally accepted standards reported better quality financial reporting manifested through higher relevance, accuracy, understandability, comparability, and timeliness. I. Dutchak *et al.* (2024) emphasised the relevance of IFRS for small businesses striving competitiveness in the international context. As explained by researchers, increased competitiveness was preconditioned by enhanced financial transparency and improved comparability at the global scale. D. Taylor *et al.* (2024) pointed out that adoption of IFRS facilitated financial inclusion, which was significant for both developed and emerging economies striving to integrate into the global trade. Upon conducting research at micro and macroeconomic levels, the authors concluded that adherence to IFRS enhanced trust in the financial system and reduced perceived corruption. O. Alhato (2023) suggested the benefits of adopting IFRS were evident in the emerging economy of Jordan. The case of Jordan suggested that compliance with IFRS supported emerging economies by encouraging their adherence to quality standards that attract investors. Similar conclusions were made by M.A. Ibrahim & A.D. Gbadebo (2024), who examined the adoption of IFRS in the Nigerian context. The mentioned experts argued that the benefits of IFRS were associated with the increased financial, mainly institutional, investment.

Application of the IFRS in the Azerbaijani context was examined in previous research studies, including V. Mehdiyev (2024). Researcher stressed that the Republic of Azerbaijan was in the process of transition, which meant it will take some time to ensure full compliance of the national accounting policy with the IFRS. L. Guliyeva (2024) pointed out that the transition process was overseen by the National Accounting Council, which formulated national accounting policies and ensured their alignment with international requirements. Scientist further stressed that such alignment was expected in key aspects of financial reporting – revenue recognition, asset valuation, and disclosure requirements. E. Jafarov & N. Babayev (2024) examined an alignment with international reporting standards in the context of small and medium-sized enterprises in Azerbaijan. Based on the analysis of data collected in 2018-2023, the authors concluded that such alignment was associated with the quality of information as articulated in the Conceptual Framework for Financial Reporting (International

Accounting Standards Board, 2018). So, cited studies suggested that although IFRS adoption in the Azerbaijani economic context was a relatively research topic, little was known about market implications of such adoption in individual segments of economy. Considering the detected gap, the aim of the research was to study the market implications of IFRS adoption in the market and energy segment of Azerbaijan. The study involved such objectives as to examine the benefits and challenges of integrating IFRS into banking and energy segments and to suggest strategies to ensure further compliance of the national reporting standards with the international quality requirements.

Materials and Methods

This mixed methods research analysis utilised quantitative and qualitative data collection tools, namely, archival and policy document analysis and secondary data analysis. The archival and policy document study was carried out to get a contextual understanding of how accounting reforms were designed, implemented, and monitored, as well as how these processes shaped capital-market dynamics in the energy and banking sectors of the Republic of Azerbaijan. The specified method implied studying such materials as the Republic of Azerbaijan Accounting Law (2004), data from IFRS Foundation (n.d.), and the International Federation of Accountants (n.d.) report. The selected documents were subjected to the thematic, comparative, and contextual analysis aimed at identifying, how IFRS adoption was introduced, regulated, and enforced in the republic; examining cross-sector specific implications for energy and banking sectors, and connecting policy frameworks to such observable capital-market outcomes as transparency, investor confidence, and market liquidity.

Secondary data analysis involved integrating firm-level, market, and macroeconomic data from 2015-2024 – a decade of the full-scale integration of IFRS into various segments of Azerbaijani economy. Financial statements of the banking and energy segments were obtained from the Baku Stock Exchange (n.d.) filings, and the Central Bank of Azerbaijan (n.d.) and served as the primary source for evaluating changes in profitability, leverage, and earnings quality indicators such as Return on Assets, Return on Equity, and Earnings per Share. Market data, including share prices, bid-ask spreads, and trading volumes, from the Baku Stock Exchange and regional databases, such as Refinitiv Eikon (n.d.), were analysed to assess liquidity, volatility, and cost of capital before and after IFRS adoption. Macroeconomic indicators such as gross domestic product growth, inflation, oil prices, and exchange rates, sourced from the Central Bank of Azerbaijan (n.d.) and the Centre for Financial and Sustainability Reporting Reform (2018; 2019) reports, were incorporated to control for external economic effects unrelated to accounting reform. Auditor reports from firms such as EY (2024) or PwC (2025)

Azerbaijan complement the dataset by indicating audit quality and compliance levels, allowing assessment of whether IFRS alignment enhances reporting credibility. Statistical tools such as trend analysis, Pearson correlation coefficient, and fixed-effects panel regression were applied to identify, whether IFRS adoption correlated with improved market transparency and investor confidence. Cross-verification of audited data, inflation-adjusted metrics, and consistent temporal comparison ensure the reliability and validity of results. This method provided objective, measurable evidence of how IFRS-based reporting reforms influence financial performance, audit reliability, and capital-market efficiency in Azerbaijan's energy and banking sectors.

Results

Emergence and evolution of IFRS in Azerbaijan

The evolution of IFRS in the Republic of Azerbaijan had been a transformative process shaped by the country's post-Soviet economic transition, state-led modernisation, and international integration efforts. The analysis of key materials highlighted a structured pathway, through which the country moved from a centrally planned accounting model to one rooted in global standards of transparency, comparability, and accountability. Upon examining the selected documents, several milestones in the evolution of IFRS in the Republic of Azerbaijan were identified; these milestones were documented in the Table 1.

Table 1. Emergence and evolution of IFRS in the Republic of Azerbaijan

Period	Milestone	Key features/outcomes
1991-2000	Post-independence accounting under Soviet legacy	Bookkeeping focused on tax compliance, lack of transparency, limited investor orientation
2004	Adoption of the Law on Accounting	Legal recognition of IFRS for public-interest entities, creation of dual reporting system
2005-2008	Capacity-building and initial application	Development of training programmes, translation of IFRS standards, issuance of Ministry of Finance guidelines
2009-2015	Expansion and enforcement	Broader application of IFRS, alignment with auditing standards (ISA), introduction of monitoring mechanisms
2016-2020	Institutionalisation and convergence	Integration of IFRS into university curricula, digitalisation of reporting, link with corporate governance reforms
2021-2025	Sustainability and public sector alignment	Early steps toward IFRS for SMEs and IPSAS, ongoing updates to reflect new IFRS editions

Note: ISA – International Standards on Auditing; IPSAS – International Public Sector Accounting Standards; SMEs – small and medium enterprises

Source: based on Republic of Azerbaijan Accounting Law (2004), Centre for Financial and Sustainability Reporting Reform (2018; 2019), International Federation of Accountants (n.d.), IFRS Foundation (n.d.)

The Table 1 suggested that Azerbaijan's movement towards the adoption of the IFRS started in 1991 and was largely preconditioned by the collapse of the Union of Soviet Socialist Republics. During the early 1990s, Azerbaijan inherited a Soviet-style accounting system, heavily focused on compliance and tax reporting rather than providing useful information for investors and decision-makers (Niftiyev & Ibadoghlu, 2022). As the country began to open its economy to foreign trade and investment, the limitations of this model became apparent. According to the IFRS Foundation (n.d.) report, Azerbaijani government recognised that alignment with international standards was necessary to attract foreign capital, particularly in sectors with export orientation and state participation. By the early 2000s, The Chamber of Auditors of Azerbaijan Republic (2009) initiated the first policy discussions on harmonising Azerbaijan's accounting legislation with IFRS. This phase coincided with broader institutional reforms aimed at strengthening financial governance and corporate accountability. The introduction of the Republic of Azerbaijan Accounting Law (2004) marked the country's formal commitment to adopting IFRS as the main framework for public-interest entities. The law provided a dual-structure system that

distinguished between the entities required to apply IFRS and the entities allowed to use simplified national standards derived from IFRS principles. The legislative architecture of Azerbaijan's accounting reform reflected a phased approach to IFRS adoption. As stated in the IFRS Foundation (n.d.) report, the 2004 Accounting Law was followed by a series of decrees, implementation guidelines, and monitoring procedures that gradually expanded the coverage of IFRS across sectors. The Ministry of Finance assumed the central regulatory role, which was responsible for both standard-setting and enforcement, while the Chamber of Auditors was charged with ensuring audit quality and compliance verification.

Although the process of IFRS implementation in Azerbaijan was characterised by strong government involvement, the country faced challenges typical of transitional economies. According to the Centre for Financial and Sustainability Reporting Reform (2018), the initial implementation period (2005-2008) was marked by limited professional capacity, inadequate translation of complex standards, and an absence of localised guidance. In response, the Ministry of Finance partnered with international organisations to establish training programmes for accountants and auditors, introducing

certification and continuing education requirements. The progress in transition was associated with the creation of the Accounting Standards Committee (World Bank, 2006), operating under the Ministry of Finance, which became responsible for issuing interpretative guidance and monitoring IFRS compliance. The International Federation of Accountants (n.d.) report emphasised that this institutional coordination was a decisive factor in sustaining the reform's momentum. Moreover, the Chamber of Auditors played a supervisory role by ISA, thereby strengthening the credibility of IFRS-based financial statements. Despite these advances, the examination of relevant documents identified persistent disparities between large, internationally oriented companies and smaller domestic enterprises (IFRS Foundation, n.d.). Large entities were often early adopters due to foreign ownership or listing ambitions, while smaller firms delayed compliance, citing resource limitations and the perceived complexity of IFRS. This divide underscored the need for a proportional application framework, which led to the later introduction of simplified standards for SMEs.

The integration of IFRS into Azerbaijan's accounting infrastructure also reflected the influence of international cooperation and technical assistance. The IFRS Foundation (n.d.) noted that Azerbaijan benefited from several capacity-building initiatives supported by the World Bank's Centre for Financial and Sustainability Reporting Reform and regional partnerships through International Federation of Accountants (n.d.). These programmes provided methodological support, training materials, and technical expertise to accelerate IFRS implementation. The Centre for Financial and Sustainability Reporting Reform (2018; 2019) reports highlighted that such cooperation contributed not only to improving the technical accuracy of financial reporting, but also to fostering a professional culture grounded in ethical standards and accountability. Knowledge transfer mechanisms, including IFRS translation projects, professional workshops, and academic curricula reform, played a crucial role in building local expertise. By 2020, IFRS principles had been embedded in major accounting programmes at leading Azerbaijani universities, signalling a shift toward long-term sustainability of reforms.

While legislative alignment with IFRS had been achieved, document analysis revealed that enforcement and quality assurance remained evolving areas. As specified in the International Federation of Accountants (n.d.) report, systematic inspections conducted by the Chamber of Auditors revealed inconsistencies in IFRS application, particularly in areas involving fair value measurement, impairment testing, and disclosure requirements. Some entities continued to use hybrid models combining local and international standards, which affected comparability and transparency. However, the establishment of mandatory electronic filing systems under the Ministry of Finance had significantly

improved compliance and data accessibility. The IFRS Foundation (n.d.) profile indicated that since 2021, Azerbaijan had increasingly adopted digital tools for reporting and audit oversight, thereby enhancing traceability and regulatory supervision. These digitalisation initiatives aligned with global trends in financial transparency and served as a bridge toward integrating sustainability and environmental, social, and governance reporting frameworks.

The cumulative outcome of Azerbaijan's IFRS adoption was visible in improved investor confidence, enhanced financial transparency, and greater access to international capital. The reviewed documents consistently emphasised that the reform had facilitated the transformation of financial reporting into a strategic instrument for economic governance. The Centre for Financial and Sustainability Reporting Reform (2018) attributed this transformation to the synergy between legal reform, institutional collaboration, and international engagement. The ongoing convergence of IFRS with emerging reporting frameworks, such as IFRS for SMEs and the IPSAS, positioned Azerbaijan to extend transparency reforms beyond corporate entities into public financial management. This marked the next phase in the country's accounting modernisation, reinforcing accountability at all levels of governance. Therefore, it was discovered that the Republic of Azerbaijan strives for integration into the global trade community through adopting universal reporting standards. The transformation of Azerbaijan's accounting system started in the early 1990s and continues in the year 2025. The protracted transformation process indicated obstacles to full adoption of IFRS across different levels of state economy. Considering these obstacles, it was decided to analyse the implications of IFRS adoption across specific segments of national economy, namely banking and energy sectors.

IFRS adoption in Azerbaijani banking and energy segments

Full-scale integration of IFRS in Azerbaijan between 2015 and 2024 had produced improvements in transparency, credibility, and performance of financial reporting across major economic sectors. The data derived from the Baku Stock Exchange (n.d.) filings showed that the transition to IFRS-compliant reporting corresponded with measurable gains in profitability indicators such as Return on Assets, Return on Equity, and Earnings per Share. The calculations suggested that the average Return on Assets of major listed firms increased from 2.1% in 2015 to 4.3% in 2024, while average Return on Equity rose from 8.6% to 11.8%. These gains were most notable after 2018, coinciding with the introduction of IFRS (2025c) and IFRS (2025a), which standardised recognition and improved comparability across firms. The progress was assessed through comparison of key financial indicators at the pre-full and full IFRS integration (Table 2).

Table 2. Changes in key financial indicators in the banking and energy segments before and after full IFRS integration

Indicator	2015-2017 (Pre-full IFRS)	2018-2024 (Full IFRS integration)	% change
Return on Assets (%)	2.1	4.3	+104
Return on Equity (%)	8.6	11.8	+37
Earnings per Share (AZN)	0.23	0.41	+78
Leverage (Debt-to-Equity)	2.7	2.1	-22
Audit Compliance (IFRS adherence score)	0.68	0.92	+35

Source: based on Baku Stock Exchange (n.d.), Central Bank of Azerbaijan (n.d.)

The increased profitability and reduced leverage suggested that enhanced reporting transparency under IFRS had contributed to better capital allocation and risk management. For example, after IFRS (2025c) implementation, banks reported more accurate provisioning for credit losses, reducing volatility in earnings and boosting investor confidence. Similarly, the energy sector saw improved cost recognition and asset valuation,

leading to more stable performance measures. Market-level indicators from the Baku Stock Exchange (n.d.) and Refinitiv Eikon (n.d.) databases indicated that IFRS integration coincided with higher liquidity and reduced bid-ask spreads. From 2016 to 2024, average daily trading volumes in listed equities rose by 43%, while bid-ask spreads narrowed from 1.8% to 1.1% indicating a reduced information asymmetry (Table 3).

Table 3. Capital-market indicators in the energy segments before and after IFRS integration

Metric	2015-2017 (Pre-integration)	2018-2024 (Full IFRS period)	% change
Average Daily Trading Volume (million AZN)	1.05	1.50	+43
Bid-Ask Spread (%)	1.8	1.1	-39
Market Volatility (σ of monthly returns)	0.14	0.09	-36
Cost of Equity (CAPM-based)	10.5	8.7	-17
Foreign Investor Share (%)	18	29	+61

Source: based on Baku Stock Exchange (n.d.), Refinitiv Eikon (n.d.)

Liquidity improvements reflected higher investor confidence and lower perceived risk, supported by consistent audit quality. Audit reports from EY (2024) and PwC (2025) showed a rising proportion of “unqualified” opinions, indicating that firms adhered more closely to IFRS requirements. For instance, PwC (2025) Azerbaijan’s sectoral analysis highlighted a 25% increase in IFRS disclosure completeness compared to 2016. Moreover, market volatility decreased as information quality improved. The IFRS Foundation (n.d.) noted that enhanced comparability of financial statements reduced speculative uncertainty and promoted stable pricing. This trend aligned with international findings that IFRS integration tended to lower firms’ cost of capital and increase cross-border investment (International Federation of Accountants, n.d.). The study of auditor reports further supported the conclusion that IFRS adoption improved the credibility of financial reporting. Between 2015 and 2024, the share of listed Azerbaijani firms receiving “clean” audit opinions rose from 65% to 93% (EY, 2024). The Chamber of Auditors attributed this improvement to enhanced internal controls and consistent use of IFRS-compliant templates for valuation, revenue recognition, and impairment testing. In addition, the Centre for Financial and Sustainability Reporting Reform (2018) emphasised that IFRS convergence strengthened institutional trust by aligning local audit practices with ISA (International Standards on Auditing). Evidence from 2021-2024 emphasised an increase in external audit

rotations, indicating a reduction in auditor-client familiarity risk and improved independence. These developments collectively contributed to higher market discipline and transparency in financial reporting.

Oil prices were further incorporated into the analysis to gain an understanding of external influences, macroeconomic indicators such as gross domestic product growth, and inflation. The results suggested that, while Azerbaijan’s gross domestic product growth (averaging 2.8% annually) and oil price recovery after 2020 contributed positively to firm performance, the structural improvement in reporting quality cannot be solely attributed to macroeconomic recovery. Panel regression analyses, controlling for gross domestic product growth and inflation, indicated a statistically significant positive correlation between IFRS adoption (dummy variable = 1 post-2017) and financial transparency indicators. The fixed-effects model produced an average coefficient of +0.27 ($p < 0.05$) for the relationship between IFRS adoption and Return on Assets, and -0.31 ($p < 0.05$) for bid-ask spreads, confirming that IFRS integration independently explained part of the variance in profitability and liquidity improvements. Cross-verification across multiple data sources, including the Baku Stock Exchange (n.d.) and Central Bank of Azerbaijan (n.d.), ensured the validity of results. Inflation-adjusted figures confirmed the robustness of observed profitability gains and market stability trends. The triangulation of financial data, auditor evaluations, and macroeconomic indicators revealed

a coherent pattern of institutional strengthening during the IFRS integration decade (2015-2024). EY (2024) reported that fair value accounting and enhanced disclosure under IFRS increased transparency in asset valuation and provisioning. Similarly, PwC (2025) found that IFRS-aligned financial statements improved the predictive accuracy of financial ratios, reducing discrepancies between reported and market-implied firm values. This consistency between financial and market data provided further evidence that accounting reform produced real, measurable improvements in capital-market efficiency.

The study further revealed that in the context of digital transformation, the implementation of international standards served as a critical mechanism for ensuring transparency, operational efficiency, and effective risk management. Nevertheless, the evolving nature of financial and energy markets necessitated not only the adoption of such standards, but also their continuous monitoring and adaptation in line with technological advancements and regulatory developments. Consequently, successful implementation increasingly relied on data-driven decision-making, cross-sectoral coordination, and alignment with broader sustainability and governance objectives. A key emerging dimension in this process was the integration of artificial intelligence (AI) into the implementation and operationalisation of international standards. AI-based systems enhanced the efficiency, accuracy, and responsiveness of compliance mechanisms through automated data processing, anomaly detection, and predictive analytics. Within the banking sector, AI facilitated advanced credit risk assessment, real-time fraud detection, and automated regulatory reporting, thereby improving both precision and timeliness. In the energy sector, AI applications contributed to predictive maintenance, intelligent load management, and the optimisation of renewable energy integration. Accordingly, the strategic deployment of AI in standardisation processes not only strengthened institutional resilience and accountability, but also promoted transparency, innovation, and sustainable development across the financial and energy domains.

Overall, the analysis demonstrated that IFRS adoption in Azerbaijan improved economic performance in banking and energy segments through reshaping market behaviour and institutional expectations. Enterprises began to prioritise reporting integrity as a strategic factor for competitiveness and capital access. The trend toward greater disclosure quality and reduced earnings management strengthened both internal and international investor trust. While these outcomes aligned with global empirical evidence (IFRS Foundation, n.d.; International Federation of Accountants, n.d.), the Republic of Azerbaijan's experience also underscored the importance of regulatory enforcement and professional training. So, a list of recommendations was created to facilitate Azerbaijan's alignment with IFRS across various sectors of economy. One suggestion was to

institutionalise continuous professional IFRS training as a precondition to compliance with universal reporting standards. This recommendation was rooted in The Chamber of Auditors of Azerbaijan Republic (2009) Action Plan suggesting that participation in structured IFRS training facilitated higher compliance and faster adaptation of reporting standards. The recommended strategy implied mandatory annual IFRS certification for chief accountants and auditors through the Chamber of Auditors and accredited universities. The suggestion also involved developing sector-specific IFRS modules, for example, IFRS (2025c) for financial institutions or IFRS (2025b) for transport segment. Such modules imply contextualised reporting analysis for a more precise application of reporting standards and effective involvement of investors.

Another recommendation was to establish a centralised IFRS compliance monitoring platform for overseeing all segments of the state economy. The suggested strategy was preconditioned by an understanding that fragmented reported oversight between the Central Bank of Azerbaijan (n.d.), Ministry of Finance of Republic of Azerbaijan (n.d.), and the Baku Stock Exchange (n.d.) undermined investors' trust due to limited identification of misstatements. Considering the detected issue, it was suggested to create a national digital platform for submitting IFRS financial statements and audit opinions. It was further recommended to enable automated validation tools to flag inconsistencies in disclosures, such as differences between balance-sheet and cash-flow data. Timely detection of inconsistencies was required to avoid systematic errors, avoid fraudulent activities, and enhance investors' trust in individual enterprises or segments of economy. In addition to these suggestions, it was recommended to strengthen audit quality and independence considering that smaller Azerbaijani enterprises lack standardised review mechanisms. In contrast to SMEs, the Big 4 affiliates, including EY and PwC, have accumulated experience in conducting unbiased audit, which might inform the design and employment of standardised review tools. The recommendation involved introducing tiered quality-control audits for local audit firms based on IFRS complexity in their client portfolio. It was also suggested to encourage joint audits combining one international and one local enterprise to transfer technical knowledge. The recommended joint audits aim at upskilling internal auditors, while ensuring audit quality in IFRS reporting.

The document analysis further revealed that limited access to accurate-Azerbaijani-language versions of IFRS might hinder their adoption, especially by SMEs. Considering the detected issue, it was recommended to expand the translation and localisation of IFRS guidance by involving the Ministry of Finance and bilingual IFRS help-desks. Ministry of Finance of Republic of Azerbaijan (n.d.) was suggested to coordinate annual updates of official IFRS translations and distribute simplified summaries

of standards among SMEs. Bilingual helpdesks were encouraged to assist practitioners with technical queries that might arise, when putting the IFRS to practice. It was recommended to link IFRS compliance to capital-market incentives considering that firms with higher IFRS transparency tend to benefit from improved investor confidence and lower cost of capital. This recommendation concerned Baku Stock Exchange (n.d.) that could offer reduced listing fees and tax incentives for companies achieving full IFRS compliance verified by independent audit reviews; the suggestion also applied to environmental, social, and governance disclosure templates aligning with IFRS standards. The recommended strategy was rooted in the idea that state stock exchanges link corporate governance ratings, including IFRS transparency, to preferential treatment in state investment programmes. Considering this assumption, revised criteria for participation in government programmes can become a tool to facilitate companies' compliance with IFRS.

Discussion

The key idea of this research study was that adoption of IFRS was an integral part of the strategic development of enterprises, segments, and economies striving for international integration. This idea was examined in the context of the Republic of Azerbaijan, whose refusal from the Soviet bookkeeping legacy manifested itself through adopting the Law on Accounting and adoption of the IFRS standards both at the level of individual enterprises and economic segments. The relationship between IFRS adoption and global integration was also confirmed in previous works, including S. Vyas (2024), whose systematic review was focused on accounting practices and financial reporting quality issues. The author argued that the integration of IFRS transformed bookkeeping practices, including revenue recognition, impairment testing, and fair value measurement, which was consistent with this work's findings. Despite the detected consistency, the study of S. Vyas (2024) had a wider research focus, which meant that the implementation of its findings required further verification in specific economy segments. The work of I.E.-S. Ebaid (2022) suggested that improved transparency regarding financial conditions was among the key benefits of adopting IFRS. Conclusion of this research was consistent with the findings, according to which the Republic of Azerbaijan rejected the post-Soviet bookkeeping legacy, whose lack of transparency undermined international investors' confidence. Upon applying Altman Z-score model, I.E.-S. Ebaid (2022) concluded there was a statistically significant positive correlation between IFRS adoption of financial reporting transparency. Application of the T-test and Wilcoxon test, however, did not reveal any statistically significant correlation. From this perspective, there was an inconsistency between the work of I.E.-S. Ebaid (2022) and this research study, which reported statistically significant correlations regardless of the tools applied. The

inconsistency was also detected between this research study and the work of M.H. Mohammad *et al.* (2024), according to whom, there was no statistically significant correlation between the IFRS mandatory application and such financial indicators as Return on Equity or Return on Assets. The detected discrepancy required further examination, considering that both the work of M.H. Mohammad *et al.* (2024) and this research study explored IFRS adoption by emerging economies.

The consistency was detected between this research study and the work of A. Malo-Alain *et al.* (2021), who measured the effect of IFRS adoption on investment decisions' efficiency. Similar to this research study, the work of A. Malo-Alain *et al.* (2021) compared key performance indicators before (2016) and after (2017-2018) adopting IFRS at the state level of Saudi Arabia. The comparison revealed a growing investors' involvement in the post-adoption phase, which was consistent with this research, where IFRS were examined in terms of international cooperation. I.N. Hasan (2024) attributed the growing investors' confidence to improved reporting that was devoid of errors, forgery, and fraud. Researcher's conclusion was consistent with this research study, which recommended to deploy a centralised IFRS compliance monitoring platform to oversee all segments of the national economy. In the context of banking and energy segments, ongoing quality monitoring was seen as a precondition to IFRS adoption and enhanced competitiveness.

This study acknowledged that IFRS adoption was a long process, mainly due to the need of addressing arising challenges. In Azerbaijani context, the process that had been going on for two decades was not yet fully completed in 2025. The obstacles to IFRS adoption across enterprises and segments were also reported in work of B. Dermaku (2024). Upon analysing the data from 96 large enterprises in Kosovo, the author concluded that IFRS adoption was hindered by ambiguity in the standards, insufficient professional training, limited technical support, and high implementation costs. The comparison of B. Dermaku's (2024) work and this research study revealed challenges to IFRS adoption in emerging economies, which do not vary considerably across industries and economic segments. E.F. Valderrama Barragán *et al.* (2025) argued that IFRS adoption was preconditioned by a nation's unique legal and economic environment. This conclusion was consistent with this research, where culture-specific features, including limited access to the Azerbaijani-language versions of IFRS, was named among the hindrances to implementing international reporting standards.

This research argued that limited resources were among the hindrances to IFRS adoption, especially in SMEs. Similar conclusions were made by A. Hossein *et al.* (2025), who named high deployment costs among the barriers to IFRS adoption in developing countries. Considering the detected consistency, a conclusion was made regarding the expediency of some recommendations

introduced in this research study. So, it was concluded that the recommended joint audits could be not only the source of expertise, but also resources needed for IFRS adoption. N. Poyda-Nosyk *et al.* (2024) argued that cross-national interaction could facilitate stakeholder interaction, the lack of which was another barrier to the IFRS implementation. The findings of this scientist confirmed the effectiveness of improving stakeholder interaction through providing enterprises with an equal access to accurate-Azerbaijani-language versions of IFRS, as it was recommended in this research. Also, it was asserted that providing equal access to resources required for the effective IFRS adoption implied state involvement, which was consistent with previously reported findings. A. Ultreras-Rodriguez *et al.* (2024) argued that enhanced institutional support was a major precondition for IFRS adoption, the usefulness of which was acknowledged by 77% of respondents. A. Morshed (2024) contributed to the discourse by suggesting that institutional support could help overcome enterprises' resistance to increased demands for transparency in selected Arab Gulf countries, including Saudi Arabia, United Arab Emirates, Qatar, Oman, Kuwait, and Bahrain. Despite varying geographical contexts, consistency was noted between this research study and the work of A. Morshed (2024), especially in terms of enterprises' resistance as a barrier to the IFRS adoption. The comparison of research findings revealed that the greatest resistance was seen from state and family-owned SMEs that lacked resources to support the transition process.

Conclusions

The study analysed the capital market implications of IFRS in the banking and energy segments of the Republic of Azerbaijan. Using market-level data from 2015-2024, it was established that IFRS integration corresponded with a 104% rise in Return on Assets, a 37% increase in Return on Equity, and a 78% growth in Earnings per Share. Leverage decreased by 22%, and the average IFRS audit-adherence score rose from 0.68 to 0.92, confirming substantial progress in compliance and reporting quality. Parallel changes were noted at the capital-market

level, where trading volumes increased by 43%, bid-ask spreads fell by 39%, market volatility declined by 36%, and the cost of equity dropped by 17%. The share of foreign investors on the Baku Stock Exchange expanded from 18% to 29%, indicating that enhanced reporting credibility and comparability under IFRS reduced information asymmetry and improved market liquidity.

Regression results confirmed the independent effect of IFRS adoption on financial outcomes: the post-2017 IFRS dummy variable was positively correlated with Return on Assets ($\beta = +0.27$, $p < 0.05$) and negatively correlated with bid-ask spreads ($\beta = -0.31$, $p < 0.05$), proving that accounting transparency had directly strengthened both profitability and liquidity. Audit data further supported these findings – between 2015 and 2024, clean audit opinions rose from 65% to 93%, while IFRS disclosure completeness increased by 25%, reinforcing market confidence and governance credibility. The research indicated that Azerbaijan's shift from Soviet-style bookkeeping to IFRS-based reporting represented a key governance reform aligning the country with global financial standards. Despite progress, challenges remained in ensuring consistent compliance, highlighting the need for continued professional training and stronger institutional mechanisms to enhance transparency and investor confidence. The study had some limitations, including its reliance on secondary quantitative data and document analysis, which may not fully capture firm-specific management practices influencing IFRS compliance. Subsequent studies are recommended to employ longitudinal interviews with financial managers and auditors across different sectors to evaluate behavioural, institutional, and digital transformation dimensions of IFRS implementation.

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None.

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Вплив впровадження МСФЗ на ринок капіталу в Азербайджані: дані з енергетичного та банківського секторів

Орхан Талібзаде

Магістр, викладач
Університет Хазар
AZ1096, вул. Махсаті, 41, м. Баку, Азербайджан
<https://orcid.org/0009-0005-6334-5166>

Анотація. Мета дослідження полягала в оцінці особливостей впровадження Міжнародних стандартів фінансової звітності в енергетичному та банківському секторах Азербайджанської Республіки. Ця мета була досягнута за допомогою змішаного методу дослідження, що включав аналіз архівних та політичних документів, а також аналіз вторинних даних про тенденції на рівні підприємств, ринку та макроекономіки, що спостерігалися в 2015-2024 роках. Аналіз даних показав, що перехід Азербайджану на Міжнародні стандарти фінансової звітності був трансформаційним процесом, який розпочався в 1991 році, включав шість етапів і не був повністю завершений до 2025 року. Аналіз вторинних даних показав, що перехід до загальноприйнятих стандартів був пов'язаний з поліпшенням ситуації в національних банківському та енергетичному сегментах, що виразилося у зростанні рентабельності активів на 104 %, рентабельності капіталу на 37 % та прибутку на акцію на 78 %. Ці досягнення сприяли зростанню довіри інвесторів, що було зумовлено підвищенням точності та прозорості процесів фінансової звітності. Однак було виявлено, що прийняття Міжнародних стандартів фінансової звітності викликало опір, особливо з боку малих та середніх підприємств. Було запропоновано пом'якшити опір та підтримати трансформаційні процеси шляхом інституціоналізованого безперервного професійного навчання, централізованого цифрового моніторингу дотримання вимог, посилення якості та незалежності аудиту, а також пов'язання дотримання стандартів звітності з стимулами на ринку капіталу. Висновки можуть бути використані для підвищення конкурентоспроможності енергетичного та банківського секторів Азербайджану та їх подальшої інтеграції у світову торгівлю

Ключові слова: прозорість звітності; стандарти бухгалтерського обліку; довіра інвесторів; відповідність; країни з перехідною економікою