

Financial Disclosure Practices of Private Commercial Banks in Bangladesh: A Compliance Study

Zarin Tasnim Rahman¹ and Appel Mahmud²

²Associate Professor

^{1&2}Department of Accounting and Information Systems, Begum Rokeya University, Rangpur (BRUR), Bangladesh
E-mail: ztasnim143@gmail.com, appel8070@gmail.com

Abstract - The study is based on analysis of compliance of prevailing accounting standards for the Private Commercial Banks in Bangladesh. This paper empirically analyzed the performance of disclosure in compliance with IFRS 7. 6 listed private banking companies taken as sample. To fulfill its objective, the annual reports and documents of all the sample banks are examined and obtained data from surveys. Since all of them are required to comply with the standard of IFRS 7 to disclose relevant financial information to uphold the stakeholders' interest, the extent of deviation from the standards in terms of disclosure practice is also examined. The study found that average compliance of the standards is 72.77% by the banks. The highest rate of compliance found from individual compliance status of those companies is 80% with a negative deviation from average. However, the practices of disclosure in reporting are considerably good. Therefore, it is recommended that the regulatory authority and central bank of Bangladesh should mandate the compliance of IFRS 7 for disclosure in financial reporting.

Keywords: IFRS, Compliance, Financial Disclosure, Private Commercial Bank

I. INTRODUCTION

Recently Bangladesh has moved from LDC to developing country. Its current GDP is about \$325 billion. One of the greatest contributing sectors of our economy is the Banking sector. At present, there are 57 banks in Bangladesh. Among those, 39 are private commercial banks which play an important role in this regard. They are virtually the catalyst of our socio-economic development. Since these business entities have a large number of beneficiaries, financial reporting in compliance with laws and regulations is critically important. The regulatory bodies direct different standards such as IFRS and IAS to financial institutions in order to disclose financial performance and position.

This paper is basically a compliance study. As IFRS 7 took the place of IAS 30, ICAB prescribed to comply with IFRS 7. IFRS 7 mainly deals with requirement of disclosures of company's financial instruments. The paper is intended to investigate the disclosure practices to interested parties by listed companies of Dhaka Stock Exchange and to give a favorable conclusion as to the degree of compliance. In addition, disinclination to disclose information through the financial statement of a company takes place due to firms' agitation for leakage of information to the competitors.

Other reasons may be the fear of criticism by the authority, creditors, shareholders and other users. As few studies have been done in this sector, none of them focused on determining the extent of disclosure in accordance with IFRS 7 in case of public or private commercial banks of Bangladesh. This study which is a greater attempt to discern the compliance of IFRS 7 will help both the external and internal users of accounting information to be beneficial. So, to ensure standardization and quality of reporting of the banking companies, fulfilling the requirement of IFRS 7 in disclosure of financial instruments is of high significance.

II. LITERATURE REVIEW

A few researches have been conducted particularly on related topics.

Kamardin, H., Ishak, R., & Zango, A.G. (2015) analyzed the IFRS 7 compliance by listed banks in Nigeria. The findings of this study reveal that bank compliance is above average although total compliance is the ultimate wish of the stakeholders. Taplin, R., Tower, G. and Hancock, P. (2002) took evidence from Asia-Pacific countries to study discernibility and compliance of accounting policies. This study showed a good level of compliance status of the policies in the countries. Bischof, J. (2009) analyzed the effects of IFRS 7 on quality of disclosure in the banks of European countries and found an improvement in disclosure quality in the financial statements and in the risk reports. Vojackova, H. (2015) represented a paper that focused on meeting disclosure requirements as per IFRS 7. This study found that most of the industry in Czech Republic considers standards defined in IFRS 7 and provides financial information which meet requirements in high standards.

Hodgdon, C., Tondkar, R. H., Harless, D. W. & Adhikari, A. (2008) investigated a weighted measure of IFRS disclosure compliance. This study shows a negative relationship between IFRS compliance and forecast error. Rotaru, C.S.F. reviewed the disclosure practice of Latin American Companies. Poor disclosure practices are problematic for capital flows, high cost of capital and poor valuation. The study analyzed the percentage of companies disclosing financial reports and found that there is limited disclosure of financial information. Hasan, M. T. &

Hossain, M. Z. (2015) analyzed the practices of mandatory and voluntary disclosure by the listed companies of Dhaka Stock Exchange. This study figured out that each of the companies doesn't react adequately to the regulatory compliance and practices both the mandatory & voluntary disclosure poorly. Hossain, M. K., Niaz, A. Z. M. & Huq, S. M. (2015) highlighted the extent of compliance of IASs and IFRSs in seventeen industries of Bangladesh. This study also focused on the reason behind non-disclosure of accounting standards by the listed companies of DSE. Ahmed, A. A., & Ahmad, M. (2009) developed an empirical analysis of performance measurement of the disclosure in corporate annual reports and they analyzed the quality of information & nature of reporting practices in the banking sector. This study tells how disclosure score relates with audit delay. Bhuiyaan, M. N. U. & Kamal, M. Y (2003) mentioned that banking companies in Bangladesh do not follow every standard in preparing their financial statements. Execution of International Accounting Standard influences the accounting & reporting of the companies.

Hossain, M. S. & Baser, A. A. (2011) analyzed the degree of compliance of IAS 30 and described that the compliance of IAS 30 in case of state-owned specialized banks is not satisfactory. Hossain, M. I. (2014) reviewed the existing reporting standards for nationalized banks and discovered that nationalized commercial banks of Bangladesh comply with IFRS 7 partially. Sufian, M. A. (2016) showed the magnitude of disclosure practice and quality of mandatory disclosure by Bangladeshi companies. The study found a little improvement over the years at a little variance. The companies taken as sample do not show full compliance status of mandatory disclosure practice in the annual report. However, the trend of disclosure is increasing over the years with a small variation in disclosure scores in the annual reports. The studies as aforesaid are made in this field in case of state-owned specialized banks of Bangladesh and nationalized commercial banks of Bangladesh. But there is no updated compliance study on private commercial banks of Bangladesh. So, this topic is analyzed with a view to exploring the practices.

III. METHODOLOGY

A. Nature of the Study: This research is descriptive in nature.

B. Sample Selection: Sampling technique used for this study is simple random sampling. The study deals with the private commercial banks listed by Dhaka Stock Exchange. At present there is 30 Bank in the list of DSE and the following six banks is considered as sample in this study. Arab Bangladesh Bank Limited, BRAC Bank Limited. Dhaka Bank Limited, Eastern Bank Limited, The City Bank Limited, United Commercial Bank Limited.

C. Source of Data: All the data that will be used for conducting this study will be collected from secondary sources like annual reports, different journals & articles on this issue, websites and so on. No field work and survey are related.

D. Data Analysis: This study is a survey of documents or reports published by banking companies. As this study will be conducted based on existing literature review of disclosure practices by the sample banks, all relevant data from the annual report will be analyzed as per compliance of International Financial Reporting Standard 7. The IFRS 7's entity requirements to provide disclosure in financial statements are examined. To detect the average percentage of compliance weight is given such that: 1 for compliance of each requirement, 0.5 for partial compliance of each requirement and, 0 for noncompliance of each requirement.

IV. ANALYSIS AND FINDINGS

A. Compliance Status

The six commercial banks taken as sample follow the IFRS 7 (BFRS 7) either fully or partly to present a standardized report. The study finds out the compliance level of IFRS 7 using the following checklist that is structured according to the disclosure requirements of IFRS 7.

TABLE I CHECKING OF LEVEL OF COMPLIANCE AS PER REQUIREMENTS

Disclosure Requirement of IFRS 7	EBL	ABBL	CBL	UCBL	DBL	BRAC
Classes of financial instrument (IFRS 7: 6 th para)	✓	✓	✓	✓	✓	✓
Financial position/balance sheet (IFRS 7: 7 th Para)	✓	✓	✓	✓	✓	✓
Categories of financial asset & liabilities (IFRS 7: 8 th Para)	✓	✓	✓	✓	✓	✓
Financial liability at fair value through profit and loss (IFRS 7: 10 th & 11 th para)	×	×	×	×	×	×
Re-classifications of financial instruments (IFRS 7: 12 th para)	✓	✓	✓	✓	✓	✓
Collateral financial assets(IFRS 7: 14 th & 15 th para)	✓	×	×	✓	✓	×
Reconciliation of the allowance account (IFRS 7: 16 th para)	✓	✓	✓	✓	✓	✓
Compound financial instruments (IFRS 7: 17 th para)	✓	✓	✓	✓	✓	✓
Items of income, expense, gain, loss in income statement(IFRS 7: 20 th para)	✓	✓	✓	✓	✓	✓
Other disclosures: Accounting Policies (IFRS 7: 21 st para)	✓	✓	✓	✓	✓	✓
Hedge accounting (IFRS 7:22 nd -24 th para)	✓	Partial	partial	partial	partial	✓

Qualitative disclosure (IFRS 7: 33 rd para)	✓	✓	✓	✓	✓	✓
Quantitative disclosure(IFRS 7: 34 th -42 nd para)	✓	Partial	partial	✓	partial	✓
Nature of transferred assets (IFRS 7: 42D para)	×	×	×	×	×	×
Transferred financial Assets derecognized (IFRS 7: 42E para)	×	×	×	×	×	×
Total requirement compliance	12	11	11	12	12	11

Source: Author’s compilation (Survey of data from annual report 2020)

The following table represents the empirical findings.

TABLE II EMPIRICAL FINDINGS

Number of Private Commercial Banks	6
Number of requirements in IFRS 7	15
Maximum complied requirements	12
Minimum complied requirements	11
Average number of compliances	11.5

From the above table, it can be said that among those 15 requirements of IFRS 7, complying 12 requirements is considerably a good performance since all of the requirements in IFRS 7 are not followed by the banks in Bangladesh according to the regulation of the central bank. However, the empirical findings indicate the maximum and minimum number of compliance where the average number of compliances is 11.5.

TABLE III SUMMARY OF COMPLIANCE AND DEVIATION FROM THE INDUSTRY BY INDIVIDUAL BANKING COMPANIES

Complying Banks	Total Requirement	Number of Requirements Fulfilled	(%) Compliance*	Deviation From The Industry Average
EBL	15	12	80%	(7.23%)
ABBL	15	10	66.66%	6.11%
CBL	15	10	66.66%	6.11%
UCBL	15	11.5	76.66%	(3.89%)
DBL	15	11	73.33%	(0.56%)
BRAC	15	11	73.33%	(0.56%)

Source: Author’s compilation

*(%) compliance = Requirement fulfilled/total requirement

B. Deviation from Standard

The analysis points out that, EBL complies 12 requirements fully out of 15 (80%), ABBL complies 9 requirements fully, 2 requirements partially, total 10 (66.66%), CBL complies 9 requirements fully, 2 requirements partially, total 10 (66.66%), UCBL complies 11 requirements fully, 1 requirement partially, total 11.5 (76.66%), DBL complies 10 requirements fully, 2 requirements partially, total 11 (73.33%), BRAC complies 11 requirements fully, total 11 (73.33%).

Average percentage of compliance of the standards is 72.77% that is obtained through dividing the total percentage by number of sample banking companies. Thereafter, the deviation from industry average is found by subtracting the percentage of compliance by each bank from the average rate of compliance of standard.

Of the six banks, EBL and UCBL have higher positive deviation from the industry average, DBL and BRAC also have positive deviation and other two banks have large negative deviation.

TABLE IV WEIGHTED SCORE OF COMPLIANCE STATUS

Compliance Status	Number of Requirements	Weight	Weighted Score
Complied the requirements completely	9	1	9
Complied the requirements partially	3	0.5	1.5
Not Complied	3	0	0
Total	10.5		

Here, the weight 1 is for complete compliance, the weight 0.5 is for partial compliance and the weight 0 for non-compliance.

Weighted Score= 10.5/15=70%



Fig. 3 Disclosure in line with the compliance of IFRS 7

TABLE V ANALYSIS OF THE COMPLIANCE OF INDIVIDUAL DISCLOSURE REQUIREMENTS

Requirement/Disclosures	Number of Banking Companies Complied	Percentage of Individual Requirement Compliance
Classes of Financial Instrument [IFRS 7-Para 6]	6	100%
Financial Position/Balance Sheet [IFRS 7-Para 7]	6	100%
Categories of Financial Assets and Liabilities [IFRS 7- Para 8]	6	100%
Financial Liabilities at fair value through Profit or Loss [IFRS 7- Para 10, 11]	0	0%
Reclassifications of financial instruments [IFRS 7- Para 12]	6	100%
Collateral Financial Assets [IFRS 7- Para 14 and 15]	3	50%
Reconciliation of the allowance account [IFRS 7- Para 16]	6	100%
Compound financial instruments [IFRS 7- Para 17]	6	100%
Items of income, expense, gains, and losses in the Income Statement [IFRS 7- Para 20]	6	100%
Other Disclosures: Accounting policies [IFRS 7- Para 21]	6	100%
Disclosure of Hedge accounting [IFRS 7- Para 22-24]	6 (Fully: 2, partly: 4)	66.67%
Qualitative disclosures: risk exposures for each type of financial instrument, management's policies, and processes for managing those risks and changes from the prior period [IFRS 7- Para 33]	6	100%
Quantitative disclosures: [IFRS 7- Para 34-42] (Credit Risk, Liquidity Risk, Market Risk)	6 (Fully: 3, Partly: 3)	75%
The nature of the transferred assets [IFRS 7- Para 42 D]	0	0%
Transferred financial assets that are derecognized in their entirety [IFRS 7- Para 42E]	0	0%
Total		1091.67%
Average compliance of the above 15 requirements		72.78%

In addition to numerical findings, the elaborated view of compliance findings is stated as follows.

1. *Classes of Financial Instrument*: From the analysis, it is found that all of the banks completely comply with this requirement by demonstrating all of the classes of financial instrument. Hence, the status of compliance of this requirement is 100%.
2. *Financial Position/Balance Sheet*: All of the 6 banks show the classes of assets, liabilities and equity in balance sheet. So, the compliance status is 100% for this specific standard.
3. *Categories of Financial Assets and Liabilities*: All of the six banks represent disclosure through individual assets and liabilities and maturities. So, for full compliance, the status is 100%.
4. *Financial Liabilities at Fair Value through Profit or Loss*: Due to the rules and regulations of Bangladesh Bank, no bank complies with the requirement. For that reason, the status is 0%.
5. *Reclassifications of Financial Instruments*: Since, all of the banks categorize and reclassify the financial instruments thoroughly, the status of compliance is 100%.
6. *Collateral*: Out of six private commercial banks, only three states collateral in accordance with IFRS 7 in their annual reports. The rests do not show collateral. Thus, compliance status is 50% for this requirement.
7. *Reconciliation of the Allowance Account*: Since all of the banks fulfill this requirement completely, the status of compliance is 100%.
8. *Compound Financial Instruments*: All the six banks show every non-derivative financial instrument and these financial instruments have a liability and an equity component. This requirement is fully (100%) complied in their annual reports.
9. *Items of Income, Expense, Gains, and Losses in the Income Statement*: In their annual report, the banks show multiple steps of the classification of income and expense. The income statements clearly mention revenue, expense, gain and loss. Therefore, this requirement is 100% complied.
10. *Other Disclosure*:
 - a. *Accounting Policies*: Out of six banks, five banks disclose their accounting policies. According to the standard, these banks state asset valuation and depreciation policy. Besides that, impairment of assets is also mentioned in their reports. Therefore, the status of compliance is 83.33% for this particular standard.
 - b. *Hedge Accounting*: EBL and BRAC fully complied with this requirement and the other 4 sample banks

complied partly. So, the weighted compliance rate is 66.67%.

11. *Qualitative Disclosure*: Every sample bank fully (100%) complied with this requirement.
12. *Quantitative Disclosure*: EBL, UCBL & BRAC have full compliance and the other three banks have partially compliance of this particular requirement. Then the compliance status is 75%.
13. *Nature of the Transferred Assets*: The status of the compliance of this standard is 0%. Because, nothing is stated about the nature of transferred assets in the reports.
14. *Transferred Financial Assets that are Derecognized in their Entirety*: None of the banks mentions about the transferred financial assets derecognized in their entirety. That is, the status of compliance is 0%.

C. Effect of Compliance and Non-Compliance

IFRS 7 covers presentation standards for financial instruments of an entity. Providing the users with adequate information for the evaluation of financial position is the main purpose that helps them in better understanding of banking operations. The compliance of standard plays a role in the following way.

1. With the intention to provide accurate depiction of the entity to the external users of information, the compliance of the requirements of IFRS 7 increase the reliability of the information provided.
2. Compliance of IFRS is required by the legal framework of state
3. This compliance helps in credit rating and investment from outsiders.
4. Compliance of financial reporting standards creates accountability of management and thus leads to a systematic way to fulfill its purposes.
5. Compliance with required standard is necessary to solve financial problem by issuing share in the capital market
6. It helps in convincing the public regarding transparency.

Noncompliance with the standards creates negative results. Clearly, the noncompliance will work as an obstacle in accomplishing the fundamental objectives of financial reporting. It leads to the following problem.

1. Increase management's scope of corruption.
2. Unjustified to be listed in the capital market
3. Infringement of laws as per Companies Act 1994 and related to punishment as stated in section# 211-218 of the act.
4. Diminish the effectiveness of financial information to the users.
5. Inappropriate valuation creates difficulty in consolidation
6. Corporate social responsibility will not be sustainable.

V. CONCLUSION

As users of accounting information heavily rely on disclosure of reliable information, financial statements presentation according to IFRS 7 is significant to the users. Generally, the banking companies in Bangladesh comply with the requirement on a large scale. It is seen through the analysis that internationalization enables them to capture the essence of the international requirements spontaneously and to be competitive in services and improve the degree of compliance with time. The analysis represents that every sample banking company follows related sections essential to comply with the IFRS 7 with a view to maintain transparent financial reports, and to disclose relevant and genuine information to the internal and external users. To conclude, the study figures out that preparation and presentation of financial statements of the private commercial banks in conformity with the IFRS 7 is moderate. Moreover, to dispel the deviation, the central bank and regulatory authority should take necessary steps to set up an identical standard for the financial reporting of the commercial banks and to ensure the full compliance with the standard to sustain quality of information. Although there is no significant deviation from the standards found, it can be mentioned that preparations of financial reports of the private commercial banks have been presented well in line with the IFRS 7.

REFERENCES

- [1] Ahmed, A. A. & Ahmad, M. (2009). An Empirical Analysis of the Performance Measurement of the Disclosure in Financial Reporting: A Study of Banking Sector in Bangladesh. *Proceeding's 2nd CBRC, Lahore, Pakistan*.
- [2] Bischof, J. (2009). The Effect of IFRS 7 adoption on bank disclosure in Europe. *Accounting in Europe*, 6(2), 167-194.
- [3] Bhuiyaan, M. N. U. & Kamal, M. Y. (2003). Standardization of Accounting and Financial Reporting Practices in the Banking Sector in Bangladesh: An Evaluation of the Implementation of IAS 30 by the Banks in the Private Sector. *Journal of Business Studies*, 24(2).
- [4] Dawd, I. (2018). Aggregate Financial Disclosure Practice: Evidence from the Emerging Capital Market of Kuwait. *Journal of Applied Accounting Research*, 19(04).
- [5] Hasan, M. T. & Hosain, M. Z. (2015). Corporate Mandatory and Voluntary Disclosure Practices in Bangladesh: Evidence from Listed Companies of Dhaka Stock Exchange. *Research Journal of Finance and Accounting*, 6(12), 2015.
- [6] Hodgdon, C., Tondkar, R. H., Harless, D. W. & Adhikari, A. (2008). Compliance with IFRS Disclosure Requirements and Individual Analysts' Forecast Errors. *Journal of International Accounting, Auditing and Taxation*, 17, 1-13.
- [7] Hossain, M. I. (2014). Regulatory Compliance of IFRS7 of the Banks' Disclosure: A Case Study on Nationalized Commercial Banks of Bangladesh. *13*(1).
- [8] Hossain, M. K., Niaz, A. Z. M. & Huq, S. M. (2015). The Application and Disclosures of IFRSs and IASs by the DSE Listed Companies of Bangladesh. *World Journal of Social Sciences*, 5(3), 157-175.
- [9] Hossain, M. S. & Baser, A. A. (2011). Compliance of IAS 30: A Case Study on the Specialized Banks of Bangladesh. *Research Journal of Finance and Accounting*, 2(4).
- [10] Kamardin, H., Ishak, R., & Zango, A. G. (2015). International Financial Reporting Standards 7 (IFRS 7) Compliance by Listed Banks in Nigeria. *Asian Journal of Applied Science*, 03(06).
- [11] Mahmud, A., Ding, D. & Hasan, M. M. (2019). Disclosure of Corporate Social Responsibility Practices. *Journal of Accounting and Finance in Emerging Economies*, 5(2), 2019.

- [12] Mahmud, A., Ding, D., Kiani, A. & Hasan, M. M. (2020). Corporate Social Responsibility Programs and Community Perceptions of Societal Progress in Bangladesh: A Multimethod Approach. *Sage Open*, 10(2).
- [13] Mahmud, A., Ding, D., Ali, Z. (2021). An Investigation of Employee Perception of Micro-Corporate Social Responsibility and Societal Behavior: A Moderated-Mediated Model. *International Journal of Emerging Market*. DOI: 10.1108/IJOEM-02-2021-0266.
- [14] Rotaru, C. S. F. A Review of Disclosure Practices of Latin American Companies. *Academy of Business Disciplines Journal*.
- [15] Sufian, M. A. (2016). The Quality of Mandatory Disclosure by Listed Companies in Bangladesh.
- [16] Taplin, R., Tower, G. & Hancock, P. (2002). Disclosure (discernibility) and Compliance of Accounting Policies: Asia-Pacific evidence. *Accounting Forum*, 26(2).
- [17] Vojackova, H. (2015). Financial Instruments: Meeting Disclosure Requirements Defined by IFRS 7, In Energy Industry in The Czech Republic. *16th Annual Conference on Finance and Accounting*, ACFA Prague 2015.