

Regulatory Compliance of IFRS # 7 of the Banks' Disclosures: A case study on of the Nationalized Commercial Banks of Bangladesh

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Abstract

This paper is aimed to scrutinize the existing reporting standard for the Nationalized Commercial Banks in Bangladesh and find out the extent of compliance by them. Banking industry's nature of operation is totally different from others. Recognizing this aspect some specific IFRSs (International Financial Reporting Standards) have been prescribed for them. One of which is IFRS # 7 (Financial Instruments: Disclosures) which was formulated by IASB in 2004 and obliged to comply from on after 1st January, 2007 in the Annual Reporting. Institute of Chartered Accountants of Bangladesh (ICAB) prescribed to comply with IFRS # 7 from on or after 1st January, 2010 in Bangladesh. Hence compliance of IFRS 7 is of immense importance here. Scrutinization has been operated on 4 Nationalized Commercial Banks. As per requirement, all the Nationalized Commercial Banks are required to comply with the standard to uphold the stakeholders' interest in spite possessing the large portion ownership by the Government. And the result of the study shows that all of the Nationalized Commercial Banks compliance almost 61.36% of the IFRS # 7 requirements. Finally this study recommend on the degree of compliance for the Nationalized Commercial Banks financial reporting.

Keywords: Compliance, IFRS, Bank, Nationalized Commercial Banks

1. Introduction

The word *bank* was borrowed in Middle English from Middle French *banque*, from Old Italian *banca*, from Old High German *banc*, *bank* "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths. (Martim, 1855: 431). One of the oldest items found showing money-changing activity is a silver Greek drachm coin from ancient Hellenic colony Trapezus on the Black Sea, modern Trabzon, C, 350–325 BC, presented in the British Museum in London. The coin shows a banker's table (*trapeza*) laden with coins, a pun on the name of the city. In fact, even today in Modern Greek the word Trapeza (*Τράπεζα*) means both a table and a bank. (See, Bank – Wikipedia). Banking in the

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modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Lucca, Siena, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. One of the most famous Italian banks was the Medici Bank, set up by Giovanni di Bicci de' Medici in 1397. The earliest known state deposit bank, Banco di San Giorgio (Bank of St. George), was founded in 1407 at Genoa, Italy. The oldest bank still in existence is Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472. It is followed by Berenberg Bank of Hamburg (1590) and Sveriges Riksbank of Sweden (1668). A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses.

Due to their influence within a financial system and the economy, banks are highly regulated in most countries. Banking in its modern sense evolved in the 14th century in the rich cities of Renaissance Italy but in many ways was a continuation of ideas and concepts of credit and lending that had its roots in the ancient world. In the history of banking, a number of banking dynasties have played a central role over many centuries. The oldest existing bank was founded in 1472. Now-a-days, Banking industry is the most flourishing as well as the most contributing sector of any economy. Banking is the nerve centre of an economy. Banking can be termed as one of the primitive business though its institutional look is not so old. Banking sector is the driving force of any country for its sustainable development. It is more than truth for a developing country like ours. After the independence, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 2 State owned specialized banks and 3 Foreign Banks. In the 1980's banking industry achieved significant expansion with the entrance of private banks. Now, banks in Bangladesh are primarily of two types: Scheduled Banks: The banks which get license to operate under Bank Company Act, 1991 (Amended in 2003) are termed as Scheduled Banks. Non-Scheduled Banks: The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as Non-Scheduled Banks. These banks cannot perform all functions of scheduled banks. There are 52 scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991. Scheduled Banks are classified into following types:

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There are 52 scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991. Scheduled Banks are classified into following types:

- **State Owned Commercial Banks (SOCBs):** There are 4 SOCBs which are fully or majorly owned by the Government of Bangladesh. These are nationalized Commercial Banks.
- **Specialized Banks (SDBs):** 4 specialized banks are now operating which were established for specific objectives like agricultural or industrial development. These banks are also fully or majorly owned by the Government of Bangladesh.
- **Private Commercial Banks (PCBs):** There are 30 private commercial banks which are majorly owned by the private entities. PCBs can be categorized into two groups:
 - Conventional PCBs: 28 conventional PCBs are now operating in the industry. They perform the banking functions in conventional fashion i.e interest based operations.
 - Islami Shariah based PCBs: There are 7 Islami Shariah based PCBs in Bangladesh and they execute banking activities according to Islami Shariah based principles i.e. Profit-Loss Sharing (PLS) mode.
- **Foreign Commercial Banks (FCBs):** 9 FCBs are operating in Bangladesh as the branches of the banks which are incorporated in abroad.

There are now 4 non-scheduled banks in Bangladesh which are:

- Ansar VDP Unnayan Bank,
- Karmashangosthan Bank,
- Probashi Kollyan Bank,
- Jubilee Bank (Bangladesh Bank Website last updated 30 November 2012)

Bangladeshi people's workings are increasing in Industry sector now-a-days. Total work force in Bangladesh is 5 crore forty one lakh. Among them People are engaged in Agriculture 47.30%, Industry 17.64% and in service sector 35.06%. Industry and service business altogether cover 52.70% workforce engagement in work (Bangladesh Economic Survey 2013). For this industrial work accomplishment there are needs of banking help. And so Banking institutions are increasing day by day. The establishment of Commercial Banking in Bangladesh is the true reflection of this inner urge of its people. Therefore compliance of required laws and regulations are compulsory for them. Here lies the major clue for the compliance of accounting standard. Banks and other similar financial institutions are different from other business entities. To disclose the financial performance and financial position of this type of financial institutions, regulatory watchdogs prescribed different techniques. One of such techniques is to comply with the applicable accounting standard such as IAS-30. Though not mandatory, compliance of IASs aims at faithful representation of financial performance and financial position of an entity. In spite of being flourishing and major sector prior work on compliance with IAS-30 shows a questionable conclusion as to the degree of compliance. Moreover prior works were done on commercial banks and with other standards also, hence comes the scope of scrutinizing compliance of IAS-30 by the Commercial Banks of Bangladesh. Again since people have more reliance on the commercial banks, so it has deep importance to find out the compliance status of the Commercial Banks.

2. Objectives of the study

1. To find out the degree of compliance of the Reporting standard by the Nationalized Banks.
2. To find out the deviation from the standard.

3. Methodology of the study

To draw the conclusion on the topic only the secondary source of information has been analyzed. This includes annual reports, articles on this issue, different relevant acts etc. The analysis is done by content analysis which is widely being used in a social science research which involves reading the annual report and picking up both qualitative and quantitative information. So this technique has been used for this empirical study. Next to find out the average percentage of compliance weight was given as, for compliance of each requirement 1, for partial compliance 0.5 and for noncompliance 0.

4. Scope of the study:

4.1. Limitation

1. The analysis of the topic has been done on the annual reports of the nine Nationalized Commercial banks.
2. The analysis is limited to whether the financial reports have been prepared according to the IFRS # 7. Any other standard has not been scrutinized.
3. The entities whose financial statements have been analyzed are basically guided by separate guideline than that of other bank like specialized Banks, or other Islamic banks state owned banks. These banks are merely conventional, non Islamic Nationalized commercial Bank. So there is a risk of matching disclosure of certain important items regarding IFRS # 7.

4.2. Future area of study:

As this study is gone through the only IFRS # 7, Compliance, which is not sufficient to measure the overall financial reporting disclosures by the nationalized commercial banks, so further study is mostly needed to meet up the whole thing together. As Commercial banks is operated on the different sector, and give short term loan to customer, so to meet up the interest of the users of financial report, special study should gone through to find out what standards are needed to serve this purpose.

5. Literature Review

Nationalized Commercial banking is the oldest area in the banking world and it's an integral part of current and future financial market of Bangladesh. Almost every country in the world, Govt. possesses this type of Bank. In the addition to central bank every Govt. wants to keep some banks in its ownership in money market. The Bank of England in 1694 is the first structured central bank and nationalized bank in the world. As the history of nationalized

commercial banking in the legal format is so long but research study on the financial reporting disclosures by the Conventional Commercial banking is not so rich. Hossain S, Hossain I and Azad M.H stated the compliance of IAS 30 of the Islamic banks disclosure. Hossain S, and Baser M.A described the compliance of IAS 30 of the specialized banks disclosure. Hossain S, Ahmed K I and Jobair M. stated the compliance of IAS 30 of the private commercial banks disclosure. There is no study about the current study about state owned commercial banks of Bangladesh. IASB (International Accounting Standard Board, of which predecessor was IASC) formulated the different IFRSs for financial reporting.

6. Theoretical background

6.1. Nationalized commercial Banking

This is a financial institution providing services for businesses, organizations and individuals. Services include offering current, deposit and saving accounts as well as giving out loans to businesses. Commercial banks are defined as a bank whose main business is deposit-taking and making loans. These contrasts with an investment bank whose main business is securities underwriting, M&A advisory, asset management and securities trading. Commercial banks make their profits by taking small, short-term, relatively liquid deposits and transforming these into larger, longer maturity loans. This process of asset transformation generates net income for the commercial bank. Note that many commercial banks do investment banking business although the latter is not considered the main business area. Examples of commercial banks include HSBC.

6.2. Nationalized Commercial Banks in Bangladesh:

At the same time these state owned Banks are trying to provide all modern facilities to their customers. They are proving Internet banking, credit card, debit card, ATM booth. Here is the list of state owned Commercial Bank of Bangladesh

S.N	Name of the Bank
1	Sonali Bank Limited
2	Agrani Bank limited
3	Janata Bank Limited
4	Rupali Bank Limited

[Source: Bangladesh Bank online]

6.2.1 Overview of Sonali Bank Limited

Sonali Bank Limited was incorporated in Bangladesh on 03 June 2007 as a Public Limited Company under Companies Act 1994. Formally this bank was incorporated as a nationalized commercial bank named as Sonali Bank established by The Bangladesh Bank Order 1972 (Presidential Order no. 26 of 1972) and was fully owned by the Government of the People's Republic of Bangladesh. Subsequently after incorporation dated 15 November 2007 Sonali

Bank Limited has taken over the undertaking and business of Sonali Bank with all its assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings, obligations etc. as a going concern under a Vendor's Agreement signed between the Government of the People's Republic of Bangladesh and the Sonali Bank Ltd with a retrospective effect from 1st July 2007. The Bank has 1196 branches including two overseas branches at Kolkata and Siliguri in India as on 31 December 2011. The principal activities of the bank are to provide a comprehensive range of financial services, personal and commercial banking, trade and services, cash management, treasury, securities and custody services and perform Government treasury functions as an agent of the Bangladesh Bank. The bank operates Islamic Banking window in five branches designated in compliance with the rules of Islamic Shariah

6.2.2. Overview of Agrani Bank Limited

Agrani Bank Limited, a leading commercial bank with 892 outlets strategically located in almost all the commercial areas throughout Bangladesh, overseas Exchange Houses and hundreds of overseas Correspondents, came into being as a Public Limited Company on May 17, 2007 with a view to take over the business, assets, liabilities, rights and obligations of the Agrani Bank which emerged as a nationalized commercial bank in 1972 immediately after the emergence of Bangladesh as an independent state. Agrani Bank Limited started functioning as a going concern basis through a Vendors Agreement signed between the ministry of finance, Government of the People's Republic of Bangladesh on behalf of the former Agrani Bank and the Board of Directors of Agrani Bank Limited on November 15, 2007 with retrospective effect from 01 July, 2007. Agrani Bank Limited is governed by a Board of Directors consisting of 13 (thirteen) members headed by a Chairman. The Bank is headed by the Managing Director & Chief Executive Officer; Managing Director is assisted by Deputy Managing Directors and General Managers. The bank has 11 Circle offices, 25 Divisions in head office, 62 zonal offices and 892 branches including 27 corporate and 40 AD (authorized dealer) branches.

6.2.3. Overview of Janata Bank Limited

Janata Bank Limited, one of the state owned commercial banks in Bangladesh, has an authorized capital of Tk. 20000 million (approx. US\$ 250 million), paid up capital of Tk. 11000.00 million, reserve of Tk.17234 million. The Bank has a total asset of Tk. 508567 million as on 31st December 2012. Immediately after the emergence of Bangladesh in 1971, the erstwhile United Bank Limited and Union Bank Limited were renamed as Janata Bank. On 15th November, 2007 the bank has been corporationalized and renamed as Janata Bank Limited. Janata Bank Limited operates through 889 branches including 4 overseas branches at United Arab Emirates. It is linked with 1202 foreign correspondents all over the world. The Bank employees 'are more than 15 (fifteen) thousand persons. The mission of the bank is to actively participate in the socio- economic development of the nation by operating a commercially sound banking organization, providing credit to viable borrowers, efficiently delivered and competitively priced, simultaneously protecting depositors' funds and

providing a satisfactory return on equity to the owners. The Board of Directors is composed of 13 (Thirteen) members headed by a Chairman. The Directors are representatives from both public and private sectors. The Bank is headed by the Chief Executive Officer & Managing Director, who is a reputed banker. The corporate head office is located at Dhaka with 10 (ten) Divisions comprising of 38 (thirty eight) Departments.

6.2.4. Overview of Rupali bank Limited

Rupali Bank Ltd. was constituted with the merger of 3 (three) erstwhile commercial banks i.e. Muslim Commercial Bank Ltd., Australasia Bank Ltd. and Standard Bank Ltd. operated in the then Pakistan on March 26, 1972 under the Bangladesh Banks (Nationalization) Order 1972 (P.O. No. 26 of 1972), with all their assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations. Rupali Bank worked as a nationalized commercial bank till December 13, 1986. Rupali Bank Ltd. emerged as the largest Public Limited Banking Company of the country on December 14, 1986. The Authorized Capital of Rupali bank is Tk. 7000 million (US\$ 88.66 million) and Paid Up Capital is Tk. 1650 million (US\$ 20.9 million). In this Bank paid up capital is owned by the Bangladesh Government is 90.19% and the Private shareholding is 09.81 %. In this bank total number of share (Each lot 10) is TK. 16, 50, 00,000 and share demanded by shareholders as on 24.02.2013 is Tk. 12,43,58,890. Rupali Bank operates through 517 branches. It is linked to its foreign correspondents all over the world. The total number of employee's is 4293 person are working here.

1. Sonali Bank Online, 2. Agrani Bank Online 3. Janata Bank Online 4. Rupali Bank Online

6. 3. Focus point of IFRS 7 (Financial Instruments: Disclosures)

6.3.1. Classes of Financial Instrument: Disclose the types of financial Instruments contained in the Balancer Sheet [IFRS 7.6]

6.3.2. Disclosure of Balance sheet Significance: Disclose the significance of financial instruments for an entity's financial position and performance. [IFRS 7.7]

6.3.3. Balance sheet disclosure: This includes disclosures for each of the following categories: [IFRS 7.8]

- Financial assets measured at fair value ;
- Held-to-maturity investments ;
- Loans and receivables ;
- Assets available-for-sale;
- Financial liabilities at fair value
- Financial liabilities measured at amortized cost

6.3.4. Collateral [IFRS 7.14-IFRS 7.15]: Disclose any pledged Asset for Liability.

6.3.5. Income Statement and Equity: Items of income, expense, gains, and losses, with separate disclosure of gains and losses from: [IFRS 7.20(a)]

6.3.6. Accounting policies for financial instruments [IFRS 7.21]

6.3.7 Information about hedge accounting [IFRS 7.22]

- description of each hedge, hedging instrument, and fair values of those instruments, and nature of risks being hedged
- for cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur
- if a gain or loss on a hedging instrument in a cash flow hedge has been recognised in other comprehensive income, an entity should disclose the following: [IAS 7.23]
- the amount that was so recognized in other comprehensive income during the period
- the amount that was removed from equity and included in profit or loss for the period
- the amount that was removed from equity during the period and included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction
- for fair value hedges, information about the fair value changes of the hedging instrument and the hedged item [IFRS 7.24(a)]
- hedge ineffectiveness recognized in profit and loss (separately for cash flow hedges and hedges of a net investment in a foreign operation) [IFRS 7.24(b-c)]
- information about the fair values of each class of financial asset and financial liability, along with: [IFRS 7.25-30]

6.3.8. Qualitative Disclosures of Risk [IFRS 7.33]: The qualitative disclosures describe:

- Risk exposures for each type of financial instrument
- Management's objectives, policies, and processes for managing those risks
- Changes from the prior period

6.3.9. Quantitative Disclosures of Risk: The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. These disclosures include: [IFRS 7.34]

- *Credit Risk:*
- Liquidity Risk
- Market Risk [IFRS 7.40-42]

6.3.10. Transfers of financial assets [IFRS 7.42A-H]: An entity shall disclose information that enables users of its financial statements:

- i) To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and
- ii) To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. [IFRS 7 42B] (Source: www.ifrs.org)

7. Analysis & Findings

7.1. Compliance of IFRS 7 by the institutions:

The business entities design their accounting system as per the requirements of the Income Tax Law. And above all in order to provide a standardized report all types of banks try to follow the IAS 30 (BAS 30) now named IFRS 7 which is the demand of the modern competitive business world. Here is the investigation whether the Nationalized Commercial banks of Bangladesh follows this underlying standard regarding the preparation of their financial statements. The result can be derived as follows:

Table-2: Schedule of compliance status:

S.N	Requirement/ Disclosures	SON ALI	AGRAN I	JANAT A	RFUPA LI
1	Classes of Financial Instrument [Para 6]	√	√	√	√
2	Balance Sheet presentation [Para 7]	√	√	√	√
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans] [Para 8]	Partial	Partial	Partial	Partial
4	Collateral [Para 14-15]	×	×	√	×
5	Income Statement & Equity (Income, Expense Gains Losses) [Para 20]	√	√	√	√
6	Accounting Policies [Para 21]	√	√	√	√
7	Disclosure about Hedge [Para21-30]	×	×	×	×
8	Qualitative Risk Disclosure [Para 33]	√	√	√	√
9.	Quantitative Risk Disclosure [Para 34-42]	√	√	√	√
10.	The nature of the transferred assets [Para 42 D]	×	×	×	×

The empirical findings of the study from table1 are shown below—

No. of companies	4
No. of requirements as per IFRS-7	10
Maximum number of requirement complied by the company	8
Minimum number of requirement complied by the company	6
Average number of compliance by the companies	7

Table-3: Summary of compliance by Individual Nationalized Commercial bank:

Complying banks	Total compliance requirement	No. of requirement fulfilled	(%) compliances fulfilled	Deviation from the industry average (%)
SONALI	10	6.5 [Full 6 + Partial 1]	65%	2.5%
AGRANI	10	6.5 [Full 6 + Partial 1]	65%	2.5%
JANATA	10	7.5 [Full 7 + Partial 1]	75%	(7.5%)
RUPALI	10	6.5 [Full 6 + Partial 1]	63.63%	2.5%

(%) of compliance = Requirement complied/ Total requirement.

The analysis shows that of the four banks and of the total 10 requirements, SONALI, AGRANI and RUPALI Banks complied with 6.5 requirements with full compliances 6 and partial of 1. Then here, total compliance is 6.5 weights (65% compliance), and JANATA Banks complied 7.5 requirements fully (75%).

Another important finding is that some requirements were completely ignored where some were partially followed and others were fully complied. Besides 6 requirements were fully complied with by all the four companies, 2 requirements are totally not complied by any of them and partial 2.

Table-4: Average number of compliance:

Status of compliance	No. of requirement	Weight	Weighted score
Fully complied	6	1	6
Partially complied	2	0.5	1
Not complied	2	0	0
Total			7

For full compliance weight = 1

For non-compliance weight = 0

For partially complied weight = 0.5

Weighted score = $7/10 = 70\%$

It is also worth mentioning that the average compliance of the standard by the companies is 67.5%. Of the four banks the average deviation from the industry is almost same for all the banks (2.5%).

Table-5: (%) compliance of the individual requirement:

S.N	Requirement/ Disclosures	No. of complied companies	(%) of compliance
1	Classes of Financial Instrument [Para 6]	4	100%
2	Balance Sheet Significance [Para 7]	4	100%
3	Balance Sheet Disclosures [Para 8-19]	4 partial=2	50%
4.	Collateral [Para 14-15]	1	25%
5	Income Statement & Equity (Income, Expense Gains Losses) [Para 20]	4	100%
6	Accounting polices [Para 21]	4	100%
7.	Disclosure of Hedge Accounting [Para 22-30]	0	---
8.	Qualitative Disclosure [Para 33]	4	100%
9.	Quantitative Disclosure [Para 34-42]	4	100%
10.	The nature of the transferred assets [Para 42 D]	0	--
Total			675
Average			67.5%

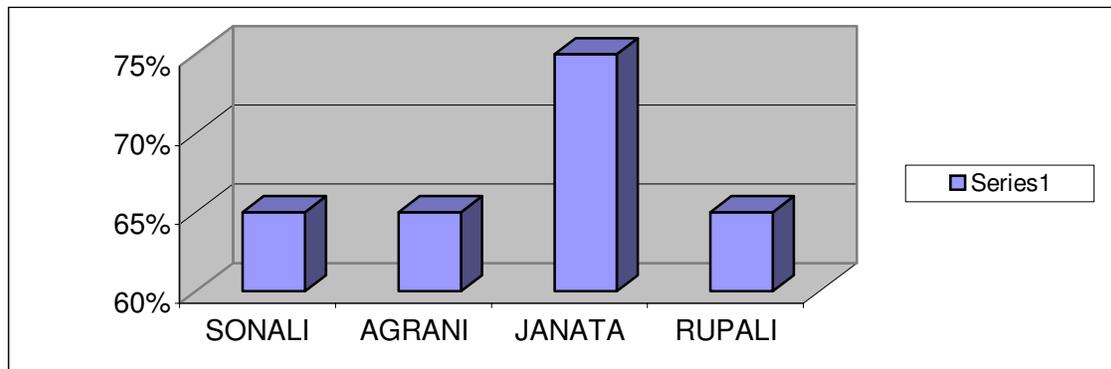


Figure: Compliance rate of IFRS 7 by 4 nationalized Commercial Banks in Bangladesh Apart from above numeric analysis the detailed version of compliance findings are described as follows:

1. Classes of Financial Instrument

All the four banks fully comply with this requirement by showing classes of financial instrument. So compliance status for this requirement is 100%

2. Balance sheet Significant Disclosure

All the four banks fully comply with this requirement by showing classes of Assets, Liabilities and Equity in Balance sheet. The compliance status for this requirement is 100%

3. Balance sheet Disclosure

Disclosures are presented by all four Banks partially showing Loans and Advances and others asset disclosures. But these banks are failed to assess fair value of Assets and liabilities as there is a rule BPRD of Bangladesh Banks. Therefore the compliance is 50%.

4. Collateral

Only JANATA Bank has complied this requirement. They showed the Collateral in the disclosure. Other bank did not do that. The compliance is 25%

5. Income Statement & Equity (Income, Expense Gains Losses)

All the banks show this just after the balance sheet. It has been presented classifying Income expenses Gains and Losses. This requirement is complied by 100%.

6. Accounting Policies [Para 21]

All the banks show Accounting policies such as valuation of Assets and their own depreciation policy. Apart from this the impairment of Assets has been also shown in the Reports. It is complied by 100%.

7. Disclosures of Hedge Accounting

No one did disclose about Hedging. So compliance is 0.

8. Qualitative Disclosure [Para 33]

All banks, here, disclosed the quantitative disclosures of Risk. So the compliance is 100%

9. Quantitative Disclosure [Para 34-42] [Credit Risk, Liquidity Risk, Market Risk]

All banks, here, disclosed the quantitative disclosures of Risk. So the compliance is 100%

10. The nature of the transferred assets [Para 42 D]

Nothing is mentioned in the long annual reports of six specialized banks as to the nature of the transferred assets. So the compliance is 0.

7.2. Effect of Compliance:

The objective of IFRS 7 is to prescribe appropriate presentation and disclosure standards for an entity banks and similar financial institutions which supplement the requirement of other standards. The intention is to provide users with appropriate information to assist them in evaluating the financial position and performance of banks and to enable them to obtain a better understanding of the special characteristics of the operations of banks. The compliance with the standard will face the following scenario:

Obviously the major objective of any IFRS is to provide true and fair view of the entity to the stakeholders. Consequently the compliance of IFRS will enhance the credibility of the information provided.

The compliance will also important for the compliance of requirements by the regulatory watchdogs

The legal framework of the state also requires the full compliance of IFRS.

The third pillar of BASEL-2 deals with market discipline through effective disclosure to encourage safe and sound banking practices. This disclosure pillar is closely related to what the International Financial Reporting Standard (IFRS) does with regard to The International Accounting Standard (IAS) 30.

This compliance will be helpful for credit rating purpose and can collect investment from outsider also.

The compliance will make the management more accountable and thus go a long a way to fulfill the intended objectives of specialization.

These banks can meet up their fund problem by issuing shares in the capital market, but before that compliance with required standard is must.

These compliances will convince the public about the transparency of Govt. bank.

8.3. Effect of Non-compliance:

IFRSs are the guidelines to present a true and fair view of the financial performance and financial position of an entity to its users. Obviously if not complied with the standards it poses to some negative results. So it is very clear that the noncompliance will act as a hindrance in fulfilling the core objective of financial reporting. The non-compliance will fetch the following problem.

Noncompliance will enhance the scope of corruption by the management.

It will not be justifiable to be list in the capital market without perfectly complying the accounting standard.

Simply speaking noncompliance of IFRS is the violation of laws as according to the Companies Act 1994 and is subject to punishment according to section # 211-218 of the said act.

Principally it reduces the degree and scope of usefulness of financial information.

Consolidation with other entity becomes difficult due to improper valuation.

Earnings management happens continuously and it has severe impact on our resource mobilization.

Corporate governance requires compliance with all rules and regulation to uphold the interest of the stakeholders. This is also a part of the corporate social responsibility. So this can't be maintained without full compliance of the required standard.

8. Recommendations

After a careful scrutiny of the annual reports of four nationalized commercial banks it has been found that the companies are presenting their information on the financial statements in line with the IFRS 7. Although the degree of compliance of the banks is very high, following recommendation should considered by all the parties concerned

To have a fair picture of the organization as the banks play a significant role in the development of our country, they should comply with all the requirements guided by the nationally and internationally recognized standards.

The policies, regulatory and governmental should be reviewed considering the requirements of the IFRS-7.

Due to different ownership nature and banking nature, a regulatory authority can also be formed by the Govt. to monitor consists of expert from traditional as well as Islamic scholar and to ensure the full version application of the accounting standards for traditional window and Islamic window of the banks as these nationalized commercial banks have both window.

The accounting personnel of the concerned entities should be trained as to the update of the new accounting pronouncement identifying the non compliances

As these nationalized banks are the biggest bank in the country and large contributory, the special supervising section should be formed under Bank division of Finance ministry.

9. Conclusion

Presentation of financial statements complying IFRS is of immense importance to the users of those because it enhances the degree and scope of usefulness of accounting information. It is now becoming increasingly evident that existence of properly functioning banking system facilitates the development process in many important ways. Proper accounting and reporting contribute positively on proper functioning of banks. That's why the International Financing Reporting Standards (IFRS) 7 is developed to give standardized reporting. It is evident from the above analysis that state owned banks are good at complying with the required compliance by the standard prescribed for them. It is hoped that due to the globalization, commercial banking can easily capture the essence of the international requirements, which make them competitive in providing the services. Based on the analysis, it has been found that there is no significant difference in terms of compliance of IFRS 7, among the four nationalized banks. That means all of the banks try to follow similar items needed to comply with the international standard in order to provide accountability and transparency in financial reporting, which ensure maximum disclosure of the relevant, reliable and useful information to the interested user groups. In fine it can be culminated that preparation of financial statements of the companies in line with the IFRS-7. So to eliminate the deviation due to different ownership of banking it is demanding that all the relevant bodies should work together to develop a unique standards for the financial reporting standard of Commercial banking for Govt. users and non Govt. users .



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