World Vision

ISSN: 2078-8460

Vol. 8 • No. 1 • Nov 2014

Regulatory Compliance of IFRS # 7 of the Private Commercial Banks Disclosure of Bangladesh: An Empirical Study on ten selected banks

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Abstract

This paper is aimed to scrutinize the existing reporting standard for the Private Commercial Banks in Bangladesh and find out the extent of compliance by them. Banking industry's nature of operation is totally different from other sectors. 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 10 Private Commercial Banks based on secondary data, especially Annual Reports. As per requirement, all the Private Commercial Banks are required to comply with the standard to uphold the stakeholders' interest in spite possessing the large portion ownership by the general public. And the result of the study shows that all of the Private Commercial Banks compliance almost 61.52% of the IFRS # 7 requirements. Finally this study recommend on the degree of compliance for the Private Commercial Banks financial reporting. It can be culminated that preparation of financial statements of the companies in line with the IFRS-7 is satisfactory but still subject to solve the different problem raised by Central banks stipulated guidelines for non-compliances. So to eliminate the deviation centered by Central banks and other bodies it is demanding that all the relevant bodies should work together to develop a unique standards for the financial reporting standard of Commercial banking.

Keywords: *Compliance, IFRS, Bank, Private 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

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their transactions atop desks covered by green tablecloths (Albuquerque, 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, displayed at 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 means both a table and a bank (Bank – Wikipedia). Banking in the 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.

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 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:

- **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. (Bangladesh Bank Online)

Bangladeshi people's workings are increasing in Industry sector now-a-days. Total work force in Bangladesh is 50.41million. 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 working (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 reporting standard such as IFRS 7. Though not mandatory, compliance of IFRS 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 IFRS 7 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 IFRS-7 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. Theoretical background

2.1. 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. Now- a- days in Bangladesh the spread of bank branches to the rural areas increases the banking habit of people. People keep their excess money in banks and withdraw at the time of need. This leads to the monetization of rural areas. This helps farmers to undertake agricultural and non-agricultural works. The Small Farmers Development Project, Small Sector Development Programme, Small and Cottage Industries

Project, Micro-credit Projects have been implemented by Agricultural Development Bank and commercial bank in Nepal for the betterment of the poor. This has helped to increase the employment level of income and level of living of the poor. Similarly, the rural development banks have been established to elevate life standard of the poor. The commercial banks encourage thriftiness and save more among people both in rural and urban areas. The banks collect people's money and keep them safety. People have fear of theft, robbery when kept at home. In addition, the banks provide interest on deposits. The people can keep their valuables in the 'safe deposit vault'of the banks. These practices reduce unnecessary expenditure and increases savings (theoryofeconomics.com.). Thus Commercial bank has become the part and parcel of people's economic activities. Therefore, the stakeholders of commercial bank want to know information true and fair. Different International accounting standards (IAS superseded as IFRS) ensure these expectations. Thus it is crying need to determine this regulatory compliance of these standards. The compliance of IFRS # 7 is crucial important in Banking information supply to the stakeholders as true and fair which also comply the 4^{th} principle of GAAP (Generally Accepted Accounting Principle).

2.2. Private Commercial Banks in Bangladesh:

At the same time these Private 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 Private Commercial Bank of Bangladesh

1	AB Bank Limited	16	Al-Arafah Islami Bank Limited
2	BRAC Bank Limited	17	Social Islami Bank Limited
3	Eastern Bank Limited	18	Standard Bank Limited
4	Dutch Bangla Bank Limited	19	One Bank Limited
5	Dhaka Bank Limited	20	Exim Bank Limited
6	Islami Bank Bangladesh Limited	21	Mercantile Bank Limited
7	Pubali Bank Limited	22	Bangladesh Commerce Bank Limited
8	Uttara Bank Limited	23	Mutual Trust Bank Limited
9	IFIC Bank Limited	24	First Security Islami Bank Limited
10	National Bank Limited	25	The Premier Bank Limited
11	The City Bank Limited	26	Bank Asia Limited
12	United Commercial Bank Limited	27	Trust Bank Limited
13	NCC Bank Limited	28	Shahjalal Islami Bank Limited
14	Prime Bank Limited	29	Jamuna Bank Limited
15	South East Bank Limited	30	ICB Islamic Bank

[Source: Bangladesh Bank online]

Here 10 banks are taken for compliance

i) Butch Bangla Bank Limited

ii) South East Bank Limited

iii) Pubali Bank Limited

iv) Mercantile Bank Limited

v) The Premier Bank Limited

vi) Bank Asia

vii) Standard Bank Limited

viii) Dhaka Bank Limited

ix) BRAC Bank Limited

x) Prime Bank Limited.

3. *IFRS # 7: Overview of Financial Instruments: Disclosures*

3.1. Objective of IFRS # 7: The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) The significance of financial instruments for the entity's financial position and performance; and

(b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

3.2. The principles in IFRS 7: The principles in this IFRS complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32: *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. 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.

3.3 Presentation and Disclosure: IFRS requires certain disclosures to be presented by category of instrument based on the IAS 39 measurement categories. Certain other disclosures are required by class of financial instrument. For those disclosures an entity must group its financial instruments into classes of similar instruments as appropriate to the nature of the information presented. [IFRS 7.6]

The two main categories of disclosures required by IFRS 7 are:

1. Information about the significance of financial instruments.
2. Information about the nature and extent of risks arising from financial instruments

3.3.1. Information about the significance of financial instruments:

3.3.1.1. ***Balance sheet:*** Disclose the significance of financial instruments for an entity's financial position and performance. [IFRS 7.7] This includes disclosures for each of the following categories: [IFRS 7.8]

- o financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition
- o held-to-maturity investments
- o loans and receivables
- o available-for-sale assets
- o financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition
- o financial liabilities measured at amortized cost

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

- o Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- o Held-to-maturity investments.
- o Loans and receivables.
- o Available-for-sale assets.
- o Financial liabilities measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- o Financial liabilities measured at amortized cost.

3.3.1.3. Other disclosures

- accounting policies for financial instruments [IFRS 7.21]
- information about hedge accounting, including: [IFRS 7.22]
- o description of each hedge, hedging instrument, and fair values of those instruments, and nature of risks being hedged
- o 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
- o if a gain or loss on a hedging instrument in a cash flow hedge has been recognized in other comprehensive income, an entity should disclose the following: [IAS 7.23]
- o the amount that was so recognized in other comprehensive income during the period
- o the amount that was removed from equity and included in profit or loss for the period
- o 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]

- comparable carrying amounts
- description of how fair value was determined
- the level of inputs used in determining fair value
- reconciliations of movements between levels of fair value measurement hierarchy additional disclosures for financial instruments whose fair value is determined using level 3 inputs including impacts on profit and loss, other comprehensive income and sensitivity analysis
- information if fair value cannot be reliably measured

3.3.2 Nature and extent of exposure to risks arising from financial instruments

3.3.2.1. Qualitative disclosures [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

3.3.2.2. Quantitative disclosures: 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]

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

a. to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and

b. to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. [IFRS 7 42B]

3.3. Transferred financial assets that are not derecognized in their entirety

- Required disclosures include description of the nature of the transferred assets, nature of risk and rewards as well as description of the nature and quantitative disclosure depicting relationship between transferred financial assets and the associated liabilities. [IFRS 7.42D]

3.3.4. Transferred financial assets that are derecognized in their entirety

- Required disclosures include the carrying amount of the assets and liabilities recognized fair value of the assets and liabilities that represent continuing involvement, maximum exposure to loss from the continuing involvement as well as maturity analysis of the undiscounted cash flows to repurchase the derecognized financial assets. [IFRS 7.42E]

- Additional disclosures are required for any gain or loss recognized at the date of transfer of the assets, income or expenses recognize from the entity's continuing involvement in the derecognized financial assets as well as details of uneven distribution of proceed from transfer activity throughout the reporting period. [IFRS 7.42G]

4. Objectives of the study:

1. To find out the degree of compliance of the standard by the banks.
2. To find out the deviation from the standard.

5. 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 pocking 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.

6. Scope of the study:

6.1. Limitation

1. The analysis of the topic has been done on sample basis on the annual reports of the ten Commercial banks among 44 Commercial banks in Bangladesh.
2. The analysis is limited to whether the financial statements 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. These banks are merely conventional, non Islamic commercial Bank. So there is a risk of matching disclosure of certain important items regarding IFRS # 7.

6.2. 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 Commercial banks. Hence, 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.

7. Literature Review

Commercial banking is the oldest area in the banking world and it's an integral part of current and future financial market. As the history of 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 I (2013) states about the compliance of IFRS 7 in State owned commercial banks in Bangladesh showing that state owned commercial banks comply IFRS 7 average 75%. Hossain I and Hossain A (2013) shows in their Article that Foreign Commercial banks in bangladesh comply the IFRS 7 guidelines in Annual report 78.78%. There is no study about the current study about private commercial banks of Bangladesh. IASB (International Accounting Standard Board, of which predecessor was IASC) formulated the different IFRS for financial reporting disclosures. This study will show the compliance of IFTS 7 in Annual report of Private Commercial banks in Bangladesh sampled with ten selected Banks.

8. Analysis & Findings

8.1. Compliance of IFRS 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 IFRS 7 (BFRS 7) which is the demand of the modern competitive business world. Here is the investigation whether the 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:

Requirement	DBBL	SEB	PUBALI	MBL	PREMIER	ASIA	SBL	DBL	BRAC	PRIME
Classes of Financial Instrument [Para 6]	√	√	√	√	√	√	×	√	√	√
Balance Sheet [Para 7]	√	√	√	√	√	√	√	√	√	√
Categories of Financial Assets and Liabilities [Para 8]	√	√	√	√	√	√	√	√	√	√
Financial Liabilities at fair value through Profit or Loss [Para 10 and 11]	×	×	×	×	×	×	×	×	×	×
Collateral [Para 14 and 15]	√	√	×	√	√	×	×	√	×	√

Requirement	**DBBL**	**SEB**	**PUBALI**	**MBL**	**PREMIER**	**ASIA**	**SBL**	**DBL**	**BRAC**	**PRIME**
Income Statement & Equity (Income, Expense Gains Losses) [Para 20]	√	√	√	√	√	√	√	√	√	√
Other Disclosure: Accounting Policies [Para 21]	√	√	√	√	√	√	√	√	√	×
Qualitative Disclosure Risk exposures for each type of financial instrument Management's objectives, policies, and processes for managing those risks Changes from the prior period	×	Partial	Partial	√	√	√	×	√	√	√
Quantitative Disclosure Credit Risk Liquidity Risk Market Risk [Para 34-42]	Partial	Partial	Partial	√	√	√	Partial	√	Partial	√
The nature of the transferred assets [Para 42 D]	×	×	×	×	×	×	×	×	×	×
Transferred financial assets that are derecognized in their entirety [Para 42 E]	×	×	×	×	×	×	×	×	×	×

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

No. of companies	10
No. of requirements as per IFRS-7	11
Maximum number of requirement complied by the company	8
Minimum number of requirement complied by the company	5
Average number of compliance by the companies	6.50

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

Complying banks	Total compliance requirement	No. of requirement fulfilled	(%) compliances fulfilled	Deviation from the industry average (%)
DBBL	11	7	63.63.%	(4.54%)
SEB	11	8	72.72%	(13.63%)
PUBALI	11	7	63.63.%	(4.54%)
MBL	11	8	72.72%	(13.63%)
PREMIER	11	8	72.72%	(13.63%)
ASIA	11	7	63.63.%	(4.54%)
SBL	11	5	45.45%	13.63%
DBL	11	8	72.72%	(13.63%)
BRAC	11	7	63.63.%	(4.54%)
PRIME	11	7	63.63.%	(4.54%)

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

The analysis shows that of the ten banks and of the total 11 requirements, DBBL, PUNALI, ASIA, BRAC, and PRIME Banks complied with 7 requirements (63.63%). DBL, SEB, PREMIUR, MBL, ASIA complied 8 requirements (72.72%). and Standard Bank complied only 5 requirements (45.45%).

Another important finding is that some requirements were completely ignored where some were partially followed and others were fully complied. Besides 3 requirements were fully complied by all the ten companies, 3 requirements are totally not complied by any of them. Five requirements are partially complied by the banks.

Table-4: Average no. of compliance:

Status of compliance	No. of requirement	Weight	Weighted score
Fully complied	3	1	3
Partially complied	5	0.5	2.5
Not complied	3	0	0
Total			5.5

For full compliance weight = 1

For non-compliance weight = 0

For partially complied weight = 0.5

Weighted score= 5.5/11 = 50%.

It is also worth mentioning that the average compliance of the standard by the companies is 59.09%. Of the ten banks the average deviation from the industry is almost same for all the banks (4.54%).

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

Requirement	**No. of complied companies**	**(%) of compliance**
Classes of Financial Instrument [Para 6]	9	90%
Balance Sheet [Para 7]	10	100%
Categories of Financial Assets and Liabilities [Para 8]	10	100%
Financial Liabilities at fair value through Profit or Loss [Para 10 and 11]	0	0
Collateral [Para 14 and 15]	6	60%
Income Statement & Equity (Income, Expense Gains Losses) [Para 20]	10	100%
Other Disclosure: Accounting Policies [Para 21]	9	81.81
Qualitative Disclosure [Risk exposures for each type of financial instrument Management's objectives, policies, and processes for managing those risks Changes from the prior period]	8 Fully = 6 Partly =2	70%
Quantitative Disclosure [Credit Risk Liquidity Risk Market Risk] [Para 34-42]	10 Fully = 5 Partly =5	75 %
The nature of the transferred assets [Para 42 D]	0	......
Transferred financial assets that are derecognized in their entirety [Para 42 E]	0	----
	10	676.81%
Average = 595/10=		61.52%

Apart from above numerical analysis the detailed version of compliance findings are described as follows:

1. Classes of Financial Instrument

The nine banks fully comply with this requirement by showing classes of financial instrument except standard bank Limited. So compliance status for this requirement is 90%

2. Balance sheet

All the nine 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. Categories of Financial Assets and Liabilities

Disclosures are presented by all ten Banks showing separate assets Liabilities and their maturities. This is also 100% complied requirement.

4. Financial Liabilities at fair value through Profit or Loss

All the banks can not comply with the requirement as required by the IFRS 7 stating the fair value of Liabilities. as their is bindings of Bangladesh bank rules and orders. No Bank comply this requirement .Therefore the compliance status is 0% for this requirement.

5. Collateral

All the banks can not comply with the requirement as required by the IFRS 7 stating the collateral. Six Banks showed and said about collateral in their Reports. Four banks did not say about the pledge or security. So. The requirement fulfilled 60%

6. 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%.

7. Other Disclosure: Accounting Policies [Para 21]

All the banks show Accounting policies except Prime bank. This requirement such as valuation of Assets and their own depreciation policy are shown by nine banks. Apart from this the impairment of Assets has been also shown in the Reports. It is complied by 90%.

8. Qualitative Disclosure [Para 33]

Six Banks Mercantile Bank, Dhaka bank, Prime Bank, Premier bank BRAC and Asia bank complied fully this Quantitative disclosure. Three Banks DBBL, South East Bank, Pubali Bank presented this Risks disclosure partially. Standard bank did not comply this. The compliance is 70% as the partial bears 50%

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

Five banks Mercantile Bank, Dhaka bank, Prime Bank, Premier bank and Asia bank complied fully this Quantitative disclosure. Five banks DBBL, South East Bank, Pubali Bank, Standard bank and BRAC Bank comply partially. The Compliance is here 75% as the partial bears 50%.

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

Nothing is mentioned in the long annual reports of ten banks as to the nature of the transferred assets. So the compliance is only 0%.

11. Transferred financial assets that are derecognized in their entirety [Para 42 E]

Nothing is mentioned about the transferred financial assets that are derecognized in their entirety by any bank. So the compliance is only 0%.

8.2. Effect of Compliance:

The objective of IFRS 7 is to prescribe appropriate presentation and disclosure standards for 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).
- ❖ 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.

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 listed in the capital market without perfectly complying with 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.
- ❖ Policy formulation by the Govt. will be in a fix due to lack of real picture of the Private Commercial banks

9. Recommendations

After a careful scrutiny of the annual reports of ten Private 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 nature, a regulatory authority can also be formed to monitor consists of expert from traditional as well as Islamic scholar and to ensure the full version application of the accounting standards.
- ✓ The accounting personnel of the concerned entities should be trained as to the update of the new accounting pronouncement.
- ✓ Bangladesh bank needs to monitor the monetary policy and other banking order with the compliance of IFRS 7 by the banks as the banks BPRD order hindrances on the way of some IFRS guidelines.

10. 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 to proper functioning of banks. That's why the International Financial Reporting Standard 7 (IFRS 7) is developed to give standardized reporting. It is evident from the above analysis that Private Commercial banks are good at complying with the required compliance by the standard prescribed for them. It is hoped that due to the globalization, private 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 seven Private Commercial banks. That means all of the sample 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. To sum up it can be culminated that preparation of financial statements of the companies in line with the IFRS-7 is satisfactory but still subject to solve the different problem raised by Central banks stipulated guidelines for non compliances. So to eliminate the deviation centered by Central banks and other bodies it is demanding that all the relevant bodies should work together to develop a unique standards for the financial reporting standard of Commercial banking.

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