

## **Compliance of IAS-30: A Case Study on the Specialized Banks of Bangladesh**

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### **Abstract**

This Journal aimed at scrutinizing the prevailing accounting standard for the banks and find out the extent of compliance by them. To find out the degree of compliance the study has gone through the annual reports of all the sample banks. Very naturally it is hoped that all of them are required to comply with the standard to uphold the stakeholders' interest. Banking industry's nature of operation is totally different. Recognizing this aspect some specific IAS (International Accounting Standard) have been prescribed for them. One of which is IAS 30 (Disclosures requirements for banks and similar financial institutions). Although IAS-30 has been superseded by IFRS (International Financial Reporting Standard)-7, ICAB (Institute of Chartered Accountants of Bangladesh) prescribed to comply with IFRS-7 from on or after 1<sup>st</sup> January, 2010. Hence compliance of IAS-30 is of importance here.

**Keywords:** IAS, IFRS, Specialized banks, compliance.

### **1. Introduction**

Banking industry is the most flourishing as well as the most contributing sector of our 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. At present Bangladesh have 49 scheduled commercial banks, 6 specialized banks, 4 nationalized commercial banks and some NGOs operating for micro credit expansion. The specialized banks play a pioneer role in this regard. They are virtually the catalyst of our socio economic development. Hence their beneficiaries are many. Above all they are business entities. Therefore compliance of required laws and regulations are compulsory for them. Here lie the major clues 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 specialized banks of Bangladesh. Again since all the specialized banks are SOEs (State owned Enterprise) it has deep importance to find out the compliance status of these banks.

## 2. 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.

## 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:

1. The analysis of the topic has been done on sample basis on the annual reports of the four specialized banks.
2. The analysis is limited to whether the financial statements have been prepared according to the IAS (BAS\_Bangladesh Accounting Standards)-30. Any other standard has not been scrutinized.
3. The entities whose financial statements have analyzed are state owned. So there is a risk of non disclosure of certain important items.
4. Due to local regulatory prescription compliance of standard is affected.

## 5. Specialized banks

Specialized banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. These banks provide financial aid to industries, heavy turnkey projects and foreign trade. These consist of other development banks of the Bangladesh and also some NGOs that extend micro credit to the people. Some banks are completely government-owned institutions established mainly to provide medium and long-term credits to the industrial, agricultural, and real estate sectors of the economy and to promote the establishment of private development banks in the country. The main focus of these specialized institutions is to promote and accelerate the socio-economic development of the country by performing banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on the Islamic concept of banking.

### 5.1. Specialized banks in Bangladesh

Out of the specialized banks, two (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank(RKUB)) were created to meet the credit needs of the agricultural sector while the other two ( Bangladesh Shilpa Bank (BSB) & Bangladesh Shilpa Rin Sangtha (BSRS) are for extending term loans to the industrial sector.<sup>[1]</sup> The Specialized banks are:

- Grameen Bank(GB)
- Bangladesh Krishi Bank(BKB)
- The Dhaka Mercantile Co-operative Bank Limited (DMCBL)
- Bangladesh Development Bank Ltd(BDB)
- Rajshahi Krishi Unnayan Bank(RKUB)
- BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited)
- Bangladesh Somobay Bank Limited(Cooperative Bank) (BSBL)
- Ansar VDP Unnyan Bank(AVUB)

### 5.2. Significance of Specialized Banks

The specialized banks were established for particular purpose different from other commercial banks. So they can be termed as special purpose entities (SBU). This was done to broaden the country's industrial

base for enhancing the contribution of Industrial sector to Gross Domestic Product (GDP) in congruence with the national policies. Also accelerating the pace of industrialization of the country by providing financial assistance and equity support to the enthusiastic and skilled entrepreneurs is another major objective. Some specialized banks help to increase the contribution of the agriculture sector to our GDP. Some banks help to eradicate poverty by extending micro credit. Virtually they are playing a significant role to our socio economic development. The importance of the specialized banks can be realized by looking at glimpse of the activities they are performing.

Grameen Bank, begun as a government project in 1976 and established in 1983 as an independent bank continued to provide financial resources to the poor on reasonable terms and to generate productive self-employment without external assistance. Its customers were landless persons who took small loans for all types of economic activities, including housing. About 70 percent of the borrowers were women, who were otherwise not much represented in institutional finance. Collective rural enterprises also could borrow from the Grameen Bank for investments in tube wells, rice and oil mills, and power looms and for leasing land for joint cultivation BSB extends term loan facilities in local and foreign currencies to industrial projects (both new and BMRE) in the private and public sectors. Besides Bank also performs the following activities:

- Extends term loans by giving special priority to the small and medium enterprises (SMEs) for achieving self-reliance as well as enhancing production and employment;
- Provides working capital loans to industrial projects and provides equity support in the form of underwriting and bridge finance to public limited companies

BSRS involves in long term loan providing activities for the real industrialization of the country and accelerating the economic development. It also involved in providing debenture loan. BKB and RKUB are specialized banks for the agricultural development for the regional basis and national basis. They also facilitate credit to the agro based industry to ease both forward and backward linkage of the agricultural industry.

## 6. Analysis & Findings

### 6.1. Compliance of IASs 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) which is the demand of the modern competitive business world. Here is the investigation whether the specialized banks of Bangladesh follows this underlying standard regarding the preparation of their financial statements. The result can be derived as follows:

**Insert Table 1 here**

The empirical findings of the study are shown below—

No. of companies	4
No. of requirements as per IAS-30	12
Maximum number of requirement complied by the company	7
Minimum number of requirement complied by the company	5
Average number of compliance by the companies	6

**Insert Table 2 here**

**Insert Figure 1: here**

The analysis shows that of the four banks and of the total 12 requirements, BSB complied with 6 requirements (50%), BSRS 7 requirements (58%) and Both of BKB and RKUB 5 requirements (42%) each. Another important finding is that some requirements were completely ignored where some were partially followed and others were fully complied. Besides 5 requirements were fully complied with by all the four companies, 2 requirements were partially complied by BSB, 1 was partially complied by BSRS and 1 requirement was partially complied by BKB and RKUB.

**Insert Table 4 here**

It is also worth mentioning that the average compliance of the standard by the companies is only 54%. Of the four banks the deviation from the industry is higher for the RKUB and BKB. But other two banks deviate from it by 4% from the industry.

#### **Insert Table 3here**

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

##### **1. Income and Expenditure Presentation**

All the four banks fully comply with this requirement by showing interest income on lending and interest expenses on deposited amount separately from other sources of income and expenses. So compliance status for this requirement is 100%

##### **2. Interest/ Interest Rate**

Interest income and interest expense have been shown separable by all the banks under observation to show the composition of and reason for changes in the net interest.

But no comments were made as to average interest rate, average interest earning assets and average interest bearing liabilities. This is also 100% complied requirement.

##### **3. Grouping of Assets and Liabilities**

All the banks comply with the requirement as required by the IAS starting from cash and ended with non-banking assets. But one thing has been mentioned that other assets item includes some items, such as fixed deposits with other banks, stationary, accrued interest that should be presented before fixed assets to conform with the liquidity. Again the compliance status is 100% for this requirement.

##### **4. Valuation of Investment and Dealing Securities**

There was no separation of investment and dealing securities rather they have been shown as Government and other securities by the banks under observation. BSRS shows the market value of quoted shares but no market value of other securities has been cited. BKB and RKUB mentioned nothing but only the Govt. and other classification. Only one bank partially complies with this requirement and compliance status is only 25%.

##### **5. Contingencies & Commitments Including Off-Balance Sheet Items**

All the banks show this just after the balance sheet. Contingences and commitments have been shown under off-balance sheet items heading.

##### **6. Maturity grouping of Assets & Liabilities**

All the banks comply with the requirement as required by the IAS30.

##### **7. Concentration of Assets, Liabilities & Off-Balance Sheet Items**

BSB shows concentration of assets according to division wise, customer wise and classify them as per their status. Sector wise allocation was also reported. BSRS also conform to this requirement. But BKB and RKUB does not show any concentration of such assets. What is ridiculous is that no bank shows this concentration as to the liabilities but only as on demand and other liabilities classification. This requirement is complied by 50%.

##### **8. Loans and Advances**

BSB stated its loans and advances at gross value as per requirements of the Bank Company's act 1991. Provision for loans and advances are made on the basis of information available instructions contained in Bangladesh Bank, BCD circular 12, BRPD circular #16, 09, 05. Loans and advances are written off to the extent that there is no realistic prospect of recovery ad per BRPD circular#02. The above is in accordance with the IAS (BAS)-30. Movement of provision was also complied. BSRS also complied with the requirement but other banks partially fulfill the requirements. For this requirement the compliance status is 50%.

##### **9. General Banking Risk**

As per the notes to the financial statements no reserve for unforeseen losses has been created on net profit. No banks set aside any amount from retained earnings in respect of other contingencies also. This requirement also has 50% compliance status.

##### **10. Assets Pledged as Securities**

No bank under the observation complies with this requirement. Nothing is mentioned in the long annual reports as to the pledged security of the assets.

#### 11. Trust Activities

Nothing has been mentioned about the trust activities of the banks by any bank.

#### 12. Related party disclosure

Since the banks are state owned, they are highly influenced by the Bangladesh Bank. Also the ministry significantly influences the financial and operating decisions of the banks.

But no banks have mentioned anything as regard to this.

#### 6.2. *Effect of Compliance:*

The objective of IAS 30 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 IAS is to provide true and fair view of the entity to the stakeholders. Consequently the compliance of IAS 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 IAS.
- ❖ 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.
- ❖ Though state run banks, this compliance will be helpful for credit rating purpose and can borrow loan from outsider also.
- ❖ There is an established myth that SOEs are run through corruption. Compliance of IAS will at least prove falsity of this myth.
- ❖ The compliance will make the management more accountable and thus go a long a way to fulfill the intended objectives of specialization.
- ❖ There is a talk about the merging of BSRs and BSB. Both the companies are in the same business. So perfect compliance with the can go a long way to effective merging.
- ❖ These banks can meet up their fund problem by issuing shares in the capital market, but before that compliance with required standard is must.
- ❖ Most of the specialized banks are in a very vulnerable state with huge amount of loan losses due to default culture. Compliance can help in this regard also.

#### 6.3. *Effect of Non-compliance:*

IASs are the guidelines to present a true and fair view of the financial performance and financial position of and 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.

- ❖ Non compliance will enhance the scope of corruption by the management.
- ❖ The government will be deprived of proper industrialization and development of agriculture will not be accelerated.
- ❖ It will not be justifiable to be list in the capital market without perfectly complying the accounting standard.
- ❖ Simply speaking noncompliance of IAS 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.
- ❖ Most of the specialized banks are state run banks. They actually use the people's money. So without compliance they have loophole for wasting the money
- ❖ 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 specialized banks.

### **7. Recommendations**

After a careful scrutiny of the annual reports of 4 specialized banks it has been found that the companies are not presenting their information on the financial statements in line with the IAS-30. The degree of compliance of the banks is very poor so it raises the reliability of the information presented either on the face of the statements or in the notes. For this sheer negligence not only the management of the entities but also the regulatory bodies is also liable. So the recommendation is for 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.
- ✓ An awareness program is to be implemented to make the implementation easy and understandable.
- ✓ The policies, regulatory and governmental should be reviewed considering the requirements of the IAS-30 and also as to IFRS-7.
- ✓ A regulatory authority can also be formed to monitor 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.
- ✓ The top management of these entities are from other than accounting and finance background. So they are not only lack of knowledge about the accounting promulgation but also reluctant to follow them. Hence the top management should include at least a person having accounting knowledge to guide the compliance.
- ✓ Bangladesh should intervene in complying the standard.
- ✓ Ethics is above than law. One of the reasons of non-compliance is the low ethical standard of the top management. So they should be treated for the upright of high ethical standard.

### **8. Conclusion**

Presentation of financial statements complying IASs 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 Accounting Standards (IAS) 30 is developed to give standardized reporting aspects for banking sector. It is evident from the above analysis that our specialized lacks in 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 IAS 30, among the 4 specialized banks. But what is ridiculous is that in spite of being the driving wheel of development they comply with only 54% of the total requirement. BSB and BSRS comply with the higher requirement where other two lag much behind. 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. In fine it can be culminated that preparation of financial statements of the companies in line with the IAS-30 is not satisfactory. So the government and surrounding concerned authorities should create a congenial atmosphere to ensure the full compliance of the standard.



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## Appendix

**Table-1: Schedule of compliance status:**

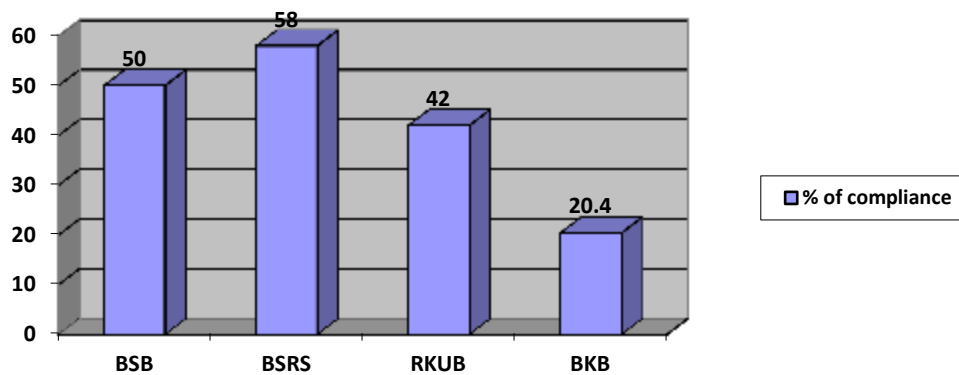
Requirement	BSB	BSRS	RKUB	BKB
Income and Expenditure Presentation (Para. 9)	√	√	√	√
Interest/ Interest Rate (para. 17)	√	√	√	√
Grouping of Assets and Liabilities (para. 18-23)	√	√	√	√
Valuation of Investment and Dealing Securities (para. 24, 25)	×	√	×	×
Contingencies & Commitments Including Off-Balance Sheet Items (para. 26-29)	√	√	√	√
Maturity grouping of Assets & Liabilities (para. 30-39)	√	√	√	√
Concentration of Assets, Liabilities & Off-Balance Sheet Items (para. 40-42)	partial	partial	×	×
Loans and Advances (para. 43-49)	√	√	partial	partial
General Banking Risk (para. 50-52)	×	×	×	×
Assets Pledged as Securities (para. 53-54)	×	×	×	×
Trust Activities (para. 55)	×	×	×	×
Related Party Transaction (para. 56-58)	×	×	×	×

Table-2: **Summary of compliance by companies**

Complying banks	Total compliance requirement	No. of requirement By the companies	(%)compliance by the companies	Deviation from the industry average (%)
BSB	12	6	50%	4%
BSRS	12	7	58%	4%
RKUB	12	5	42%	12%
BKB	12	5	42%	12%

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

Figure 1: **The status of compliance of requirements by the companies**





**Table-3: (%) compliance of the requirement:**

<b>Requirement</b>	<b>No. of complied companies</b>	<b>(%) of compliance</b>
Income and Expenditure Presentation (Para. 9)	04	100%
Interest/ Interest Rate (para. 17)	04	100%
Grouping of Assets and Liabilities (para. 18-23)	04	100%
Valuation of Investment and Dealing Securities (para. 24, 25)	01, partly	25%
Contingencies & Commitments Including Off-Balance Sheet Items (para. 26-29)	04	100%
Maturity grouping of Assets & Liabilities (para. 30-39)	04	100%
Concentration of Assets, Liabilities & Off-Balance Sheet Items(para. 40-42)	2, partly	50%
Loans and Advances (para. 43-49)	2, partly	50%
General Banking Risk (para. 50-52)	0	----
Assets Pledged as Securities (para. 53-54)	0	----
Trust Activities (para. 55)	0	----
Related Party Transaction (para. 56-58)	0	----

**Table-4: Average no. of compliance:**

<b>Status of compliance</b>	<b>No. of requirement</b>	<b>Weight</b>	<b>Weighted score</b>
Fully complied	5	1	5
Partially complied	3	0.5	1.5
Not complied	4	0	0
Total			6.5

For full compliance weight -1

For non-compliance weight-0

For partially complied weight-0.5

Weighted score= 6.5/1 =54%.

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