

International Financial Reporting Standards 7 (IFRS 7) Compliance by Listed Banks in Nigeria

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ABSTRACT--- *Banking business is a risk- taking endeavour. Consequently, it requires strict adherence to standard regulations that is effective both in monitoring and enforcement. In recognition, the IASB rolled out three different but inter-related standards (IFRS 7- financial instruments disclosure, IFRS 9-financial instruments recognition and measurement and IAS 32-financial instruments presentation). This paper assesses the role of IFRS 7 because items should be disclosed before an objective assessment of compliance can be possible. The sample of this study are fifteen (15) out of the twenty- one listed banks because they are the ones currently in active trading on the main board of the Nigerian Stock Exchange (NSE) as at December 31, 2011 and, whose financial report is readily available (NSE, 2012). The findings of the study reveal that banks compliance is above average although total compliance is the ultimate wish of the stakeholders. Therefore, more need to be done by the new regulatory body- the Financial Reporting Council of Nigeria (FRCN) to ensure total compliance.*

Keywords---- IFRS 7, compliance, listed banks, Nigeria.

1. INTRODUCTION

Banking originated in early 2000BC when a prototype bank was erected in Babylonia as grain storage reserve by merchants who gave grain loans to local farmers and traders who travel between cities to sale various useful items [12]. Hossain [13] tracing the origin of modern cash related bank argue that the first known bank in world history was Medici Bank established in 1397 by an Italian monk named Giovanni Medici in the rich city of Florence, Italy. This was followed by branches in Venice and Genoa all in Italy. Medici bank operates until 1494 when it was liquidated. Moreover, the oldest surviving bank in history known to have existed up till date is Monte dei Paschi di Siena. The bank has it's headquartered in the city of Siena, Italy and was established in 1472.

2. HISTORY OF BANKING IN NIGERIA

The National Bureau of Statistics Nigeria [17] in tracing the history of banks argue that banking started with the establishment of African Banking Corporation (ABC) with the activities of Elder Dempster and company limited of Liverpool (UK) in 1892. Ridwan [22] reports that this banks' activity was thereafter taken over by the bank of British West Africa (now First Bank Plc.) in 1894. The bank remains the only financial intermediary until 1912 when Barclays bank dominion colonial and overseas (now Union bank Plc.) was established.

The merger of British bank of West Africa (BBWA) and Standard bank was the first attempt at indigenous banking in Nigeria in 1929. These banks transformed to what is today known as First Bank (Nig.) Plc. According to Nwokoji [19] of the four indigenous banks (Nigerian Mercantile bank ltd, Nigerian Farmers and Commercial bank ltd, Agbonmagbe bank ltd and African Continental bank ltd) established between 1945 and 1947, only two Agbonmagbe (now Wema bank Plc.) and African Continental bank Plc. now acquired by Spring bank in 2005 remains in business till date. However, the two banks and many others, which came after them prior to Nigeria's independence, were beset with challenges of inadequate regulatory framework, poor capital base, incompetent management, stiff competition from foreigners and the recession of the 1930s [22], [3].

This issue of distress and eventual liquidation prompted the Federal Government then, based on the advice from the World Bank to institute the Loynes commission on reform of the Nigerian banking sector in September 1958. This brought about the promulgation of an ordinance as part of its outcome. Based on recommendations in the ordinance the Central Bank of Nigeria (CBN) was established in 1958. The Treasury Bill Ordinance was further enacted in 1959 which led to the issuance of first treasury bills in Nigeria in April 1960. Other milestones were also recorded from 1959 to 1969 with two events: establishment of formal money, capital markets and portfolio management and the Companies' Act of 1968 in Nigeria [5]. In addition, this period marks the beginning of serious banking regulation in Nigeria.

With the CBN firmly in place and in line with its statutory powers, this regulator pegged the minimum share capital of commercial banks to N400, 000 (USD\$480,000) in 1958 [22]. The banking sector in Nigeria became fully deregulated in January 2001 with the adoption of universal banking system. This development further leads to an increase in the bank's capital base from N500m (\$6.3m) in 90s to N2b (\$12.7m) in 2004 and finally N25b (\$1.7b) in 2005 [3]. The banking consolidation programme in Nigeria by CBN in 2004 led to the merger and acquisition of banks with a view towards much more vibrant banks due to this increase in capital base [6]. Today there are twenty-one (21) banks categorised as either mega (International); micro (National) or Regional banks depending on the type of licence they hold for their operation [18].

According to the Nigerian Stock Exchange [18] Banks are the most important segments of financial sector; others include insurance companies, mortgage carriers, and others. Banks are financial intermediaries, which accepts deposits from surplus units and channels them to deficit segments, either directly to needed customers or indirectly through capital markets. A bank is thus the link between customers with capital surpluses and those with capital deficits within an economic unit. Banking is a highly significant but competitive endeavour. Therefore, the integrity and accountability of its employees must be beyond doubt in the business arena [2].

Recent financial crises seriously affected the banking sector to such an extent that the hitherto reliance on financial reports of banks due to their objectivity no longer hold in the eyes of investors and other users because they are now viewed as very subjective. Consequently, banks require being abreast with existing regulations especially those that affect risks and uncertainties because essentially banking business entails management of risks. International financial reporting standards (IFRS 7) is an accounting standard framework whose main aim is fair value measurement of exposure to derivatives and hedge accounting [14].

2.1 International Financial Reporting Standards 7 (IFRS 7)

The demand for risk reporting has heightened since 2007, when IFRS 7 was first introduced by the International Accounting Standards Board (IASB). This standard only deals with financial instruments disclosure of a company, not on a company's entire transactions. The international accounting standards (IAS 32 par 11) define IFRS 7 financial instrument disclosure as: any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Based on this definition a financial instrument is any contract resulting in the creation of a financial asset and a financial liability or equity between two parties. The financial instruments commonly referred are equities and derivatives. The Study of IFRS 7 is important in financial institutions because the misuse of derivatives as a financial instrument has been documented in the literature to be a major cause of the 2008 credit crunch [20],[21].

2.2 Objectives of IFRS 7-Financial instruments: Disclosure

The principal aim of IFRS7 according to IASB [14] is to provide shareholders and other interested parties with transparently accurate and comparable information to enable positive decision making on the risks and uncertainties of the banking sector. The most important information, which every user requires seeing in the balance sheet of banks pertains to income and expenses. This information should be arranged sequentially as per the provision in articles 9-18 of IFRS 7 standard. Moreover, fair value recognition and measurement as one of the requirement in the banking sector has assumed universal prominence. With offshore branches throughout Africa and elsewhere in the world, Nigerian banks cannot afford to remain behind in this important regulatory disclosure requirement.

Other disclosure items in the balance sheet according to IASB [15] include off-balance sheet engagements, maturity date of assets, losses arising from loans and advances, types of risks (market, liquidity, credit, foreign exchange) and assets pledged as collateral. With these in mind, the paper set to assess the extent of compliance with disclosure requirements of IFRS 7 by listed banks in Nigeria within the first full year of adoption i.e. 2012.

3. METHODS AND DATA

This paper employs secondary source of data on a sample of 15 listed banks in Nigeria. This is consistent with prior studies that use company's annual report as their main source of information [4], [1], [13]. The study assigns weights with one for full compliance, half for partial compliance and zero for non-compliance to determine the level of compliance of the sampled banks as in previous compliance studies [10],[11],[13]. Banks are required to abide by the disclosure requirements of IFRS 7 among others because it is the new accounting and reporting norm in today's competitive business landscape.

In this paper, compliance by banks in the balance sheet is categorised into ten (10) strata based on article 9-18 consistent with the study of private banks in Bangladesh [13]. However, asset and liability requirement (article 15) is further dissected into three (i.e. group assets, assets & liabilities maturity profile and assets & liability concentration) to give twelve (12) disclosure index consistent with prior study [16].

4. ANALYSIS AND FINDINGS

The Companies and Allied Matters Act [7] prescribe the format for financial reporting in Nigeria. Moreover, in order to produce internationally transparent, acceptable and comparable accounting and financial reporting information, banks must use IFRS 7 disclosure provisions as it is the new reporting requirement to attain global relevance. This paper reviews the contents of Nigerian banks' balance sheet for the period ended December 31, 2012 to assess compliance with disclosure requirements and results derived is depicted in table 1 below:

Table 1: Schedule of compliance

Disclosures	AC C	EC O	DI A	FID	FB N	FC M	GT	SKY	STA	STE	UBN	UBA	UNI	NPF	ZEN
Income & Expense	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Interest rate risks	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Assets & liability (group)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓
Investment & Securities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	➤	✓
Off balance sheet items	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓
Asset & Liability (Maturity)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
A & L (concentrated)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓
Loan & Advances	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risks (general)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓	✓	○	✓
Collateral securities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓	○	○	✓
other activities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓	○	○	✓
Related P. transaction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	➤	○	✓

From the results in table 1 above, we compute the maximum, minimum and the average compliance score of the fifteen sampled listed banks as in the following table:

Table 2: Compliance scores

S/N 1	Number of banks in the sample	15
S/N 2	IFRS 7 disclosure requirements	12
S/N 3	Maximum compliance by bank	15
S/N 4	Minimum compliance by bank	4
S/N 5	Average compliance by bank	9.5

4.2 Compliance by Individual Banks

This study expects Individual banks compliance based on the capability of their board and management. This paper summarises individual banks extent of compliance with disclosure requirements of IFRS 7 in table 3.

Table 3: Banks compliance status

S/N	Bank Name	Total compliance index	maximum complied	% complied	Deviation%
1	Access	12	12	100	-
2	Diamond	12	12	100	-
3	Eco	12	12	100	-
4	Fidelity	12	12	100	-
5	First	12	12	100	-
6	First City	12	12	100	-
7	GTBank	12	12	100	-
8	NPFMicro	12	4	33	67
9	Skye	12	12	100	-
10	Stanbic	12	12	100	-
11	Sterling	12	12	100	-
12	UBA	12	12	100	-
13	UBN	12	9	75	25
14	Unity	12	10	83	17
15	Zenith	12	12	100	-

4.3 Status of compliance

The study further subject's individual compliance to another test to determine the status of compliance of banks in the study's sample based on their respective scores tabulated in 4 below:

Table 4: Compliance Status

S/N	Compliance status	Number scored	weight of score	weighted score	% weighted score
1	Full Compliance	12	1	12	
2	Partial Compliance	3	0.5	1.5	
3	Non-compliance	-		-	
4	Total			13.5	90

4.4 Compliance with individual requirements

The next is to assess banks compliance with individual disclosure requirements of IFRS 7 to determine, which is fully complied, partially complied or not complied with at all. Table 4.5 below shows the extent of quantity and percentage of individual compliance.

Table 5: Compliance with Individual requirements

S/N	Requirements	Complied banks	% Compliance
1	Income and Expenses	15	100
2	Interest rate risks	15	100
3	Assets & Liabilities (group)	14	93
4	Investment & Securities	14	93
5	Off Balance Sheet items	14	93
6	Assets & Liabilities by maturity)	15	100
7	Assets & Liabilities (concentration)	14	93
8	Loans & Advances	15	100
9	General Risks	13	87
10	Collateral Securities	12	80
11	Other activities	12	80
12	Related Party Transactions	13	87

4.5 Implication of Findings

The numerical figures in the tables above show the extent, which listed banks in Nigeria, complied with disclosure requirements of IFRS7. In the present study, all the banks have fully complied with the requirements of income and expenses, interest rates, assets and liabilities by maturity and loans and advances. This implies that in addition to IFRS 7 disclosure requirements, listed banks in Nigeria also complied with the Central bank of Nigeria

prudential guidelines and the Companies and Allied Matters Act on risk related disclosure in the balance sheet [7], [6]. Thus, banks in Nigeria can be regarded as IFRS 7 complainers and not label adopters [8].

Furthermore, assets and liabilities by group and concentration, investment and securities affecting both parent and subsidiaries scored 93%. This means that banks in Nigeria have not fully complied with the required items in the standard [13]. A possible explanation for this may be as a result of differences jurisdictional reporting regulations, incentives and enforcement as banks have opened branches beyond the shores of Nigeria [9]. Moreover, although banks are supposed to be guided by rules in the standards (local and international) managers sometimes extend facilities or grant contracts to third parties without collateral security or following due process. This may be due to the opportunistic behaviour of the management, deliberate government policy or both [11].

5. CONCLUSIONS

This paper argues that listed banks in Nigeria comply with disclosure requirements of IFRS 7 and the level is above average. However, the new financial regulatory monitoring and enforcement authority in the country known as the Financial Reporting Council of Nigeria (FRCN) should work to ensure total compliance. This can be possible through encouraging personnel training, inspection and monitoring of the banking sector to ensure full compliance with all the requirements of IFRS 7. This is because transparency and comparability of accounting numbers cannot be possible without disclosure, which is the first step towards compliance. A well-functioning bank is a byproduct of standard accounting practice, which is possible only in full compliance with all the accounting and reporting regulations.

Banks as pivots of economic development of every nation require an up to date accounting and reporting framework like IFRS 7 in view of their opaque nature. This paper concludes that listed banks in Nigeria have satisfactorily converged in accounting practice with IFRS 7 accounting standards and have also applied with the local regulations which substantially align with international requirements.

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