

A Study on Regulatory Compliance in Preparing Financial Statements of Listed Non-Bank Financial Institutions

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Abstract

Non-bank financial institutions (NBFIs) prepare their financial statements complying with the requirements of different regulators. The study is conducted to illustrate the present status of compliance with the regulatory requirements in preparing the financial statements (FSs) of listed NBFIs in Bangladesh and analyzes the effectiveness of regulatory initiative in this regard. A list of 120 disclosure items has been selected consulting the related regulations. The study covered 20 non-bank financial institutions, which are listed on DSE up to 2008 and data have been collected from the annual reports of the concern firms for the years 2008 and 2011. The results show that the industry average total disclosure score of 2011 is 83.17% that was 56.17% only in 2008. This improvement has been possible because of regulatory initiatives in this regard. It indicates that the firms are very much reluctant to comply if the regulators do not push them. Therefore, to ensure full compliance with all requirements it is important to strengthen the capacity of the regulators for close supervision and monitoring. This type of regulatory initiative may be taken for other industries also that could improve disclosure level of the firms.

Keywords: Annual Report, Compliance, Financial Statement, Disclosure, NBFIs

Introduction

Non-bank financial institutions (NBFIs) are to prepare their financial statements (FSs) in regular basis. They prepare these financial statements. Different regulators impose requirements for preparing financial statements of NBFIs to protect the interest of different stakeholders. Because, there are different types of stakeholders like management, shareholders, lenders, suppliers, customers, government agencies, employees, researchers, etc. To provide sufficient information NBFIs are to prepare and present a complete set of financial statements including balance sheet, income statement, statement of changes in

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equity, liquidity statement, cash flow statement and some notes to the financial statements (BB 2009). Notes are considered as parts and parcel of the FSs. Financial position (i.e., assets, liabilities and owner's equity) of the entity are disclosed in the balance sheet whereas income statement provides information regarding revenues, expenses, gains, losses, etc. Owner's right on business assets and its changes are presented in the statement of changes in equity and maturity analysis of assets and liabilities is shown in the liquidity statement. Accounting policies and principles and some details of financial statements are shown in the notes to FSs. Box 1 summarizes the components of a complete set of FSs along with the nature of information.

Box 1: Components of a Complete Set of FSs and Nature of Information

S/N	Name of Statement	Nature of Information
i)	Balance Sheet	Financial Position
ii)	Income Statement	Financial Performance
iii)	Statement of Changes in Equity	Owner's right
iv)	Cash Flow Statement	Cash inflow and outflow
v)	Liquidity Statement	Maturity analysis of assets and liabilities
vi)	Notes to FSs.	Explanation of FS items and policies

Source: BB 2009

It is more important that the provided information should be relevant, reliable, comparable and consistent for pragmatic decision making of the users. International Accounting Standard Board (IASB) presents the framework for the preparation and presentation of financial statements (Box 2). To ensure the quality of information regulators impose some requirements for preparing financial statements. There are different regulatory authorities to regulate the reporting aspects of the listed NBFIs in Bangladesh like the Registrar of Joint Stock Companies and Firms (RJSCF), Bangladesh Bank (BB), Securities and Exchange Commission (SEC), etc. In the previous studies Karim (1995), Hossain (1999), Akhtaruddin (2005), Hossain et al. (2006) found that the disclosure levels of Bangladeshi listed companies are generally poor which ultimately raises the question on accounting transparency. On the contrary, Hossain (2011) stated that listed banking companies are complying with most of the regulations and, in some cases, they are proactive to comply with the regulations. Likewise, Hossain (2012) said that the average compliance rate is 88.11% considering all required aspects of financial statements of Islamic banks. Nevertheless, there is no, so far, extensive study on the disclosure aspect of listed NBFIs of Bangladesh. Therefore, through the present study, the researches depict the status of regulatory compliance of NBFIs for preparing and presenting their financial statements.

Box 2: Framework for the Preparation and Presentation of Financial

The IASB Framework was approved by the IASC Board in April 1989 for publication in July 1989, and adopted by the IASB in April 2001. This Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. The Framework deals with (a) the objective of financial statements; (b) the qualitative characteristics that determine the usefulness of information in financial statements; (c) the definition, recognition and measurement of the elements from which financial statements are constructed; and (d) concepts of capital and capital maintenance.

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. Financial statements can meet not all of the information needs for the users; rather they meet needs which are common to all users. The management of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. In order to meet the objectives, financial statements are prepared on the accrual basis of accounting. They are also prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Some attributes make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Financial Statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position are assets, liabilities and equity. Profit is frequently used as a measure of performance or as the basis for other measure, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. An item that meets the definition of an element should be recognized if it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements like (a) historical cost, (b) current cost, (c) realizable (settlement) value, (d) present value, etc. The measurement basis most commonly adopted by entities in preparing their financial statements is historical cost.

There are two concept of capital – financial and physical concept. Under a financial concept of capital, capital is synonymous with the net assets or equity of the entity. This concept is adopted by most entities in preparing their financial statements. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the entity based on, for example, units of output per day. Under financial capital maintenance concept a profit is earned only if the financial amount of the net assets at the end of the period exceeds the financial amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Under physical capital maintenance concept a profit is earned only if the physical productive capacity of the entity (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

Source: IASB 2006

Statements

Objectives of this Study

The main objective of this study is to illustrate the present status of compliance with regulatory requirements in preparing the financial statements of listed NBFIs in Bangladesh. It also analyzes the effectiveness of regulatory initiative in this regard. Thus, the specific objectives of the study are;

- a) to depict the regulatory compliance status of listed NBFIs of Bangladesh in preparing financial statements and
- b) to depict the effectiveness of regulatory initiative regarding reporting compliance.

To accomplish the above objectives the paper has been structured as follows. In the next part of the paper, regulatory framework for preparing the financial statements of listed NBFIs is presented. After that previous papers, in this regard, have been studied and summarized and then the paper presents methodology of the study. Subsequently, paper expresses the findings of the study followed by conclusion.

Regulatory Framework for Financial Reporting

As a company NBFIs are licensed by the Registrar of Joint Stock Companies and Firms (RJSCF). On the other hand, as a player of a financial system NBFIs are regulated by Bangladesh Bank (central bank of Bangladesh). All of the listed companies are to follow the guidelines and instructions of Securities and Exchange Commission (SEC). There are two stock exchanges in Bangladesh i.e., Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Sometimes they impose some requirements for their listed firms. The Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) are two professional accountancy bodies in Bangladesh. ICAB adopts the International Accounting Standard (IAS) and the International Financial Reporting Standard (IFRS), which are to be followed by the Bangladeshi firms. Some important provisions regarding financial statements under different laws and regulations have been presented below:

A company is to incorporate in Bangladesh under the Companies Act 1994. The main provisions of the Companies Act 1994, regarding financial reporting, are laid down in the sections 181 to 185 and 192. Among others, section 185 is one of the most important regarding preparation and presentation of financial statements. Part I and Part II of Schedule XI under this section present the form of balance sheet and profit and loss account. The limited banking companies and insurance companies are to follow Schedule XII under section 192 for preparing their statements. For doing business, the NBFIs are to get license under the Financial Institutions Act 1993. The main provisions regarding financial reporting are stated in sections 11, 12 and 23 of this Act. As per section 23 of this Act, the directors of every financial institution shall submit to the Bangladesh Bank a copy of the profit and loss account and balance sheet prepared in accordance with the Companies Act 1994.

For preparing the financial statements of non-bank financial institution, the provisions of first schedule under section 38 of the Bank Companies Act 1991 will be applicable (Bangladesh Bank, 2009). The main provisions of the Bank Companies Act 1991, regarding disclosure, have been laid down in section 2 and 18 and sections 36 to 42 (Hossain 2011). The most important matters regarding disclosure of information are stated in section 38 of the said Act. Prescribed form of balance sheet, profit and loss account, cash flow statement, statement of changes in equity, liquidity statement and some instructions for preparation of financial statements are stipulated in the first schedule under section 38.

Once a company is listed on stock market, it has to follow the provisions of the Securities and Exchange Ordinance 1969. Section 11 of the ordinance states that the companies have to prepare and furnish the prescribed statements and Rule 12 of the Securities and Exchange Rules (SER) 1987 states the name of these statements. According to SER 1987, companies must prepare and submit a balance sheet, profit and loss account, cash flow statement and notes to the accounts (Rule 12). It is also stated in this rule that the financial statements of an issuer of a listed security shall be prepared in accordance with requirements laid down in the Schedule of this rules and the International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (Hossain 2011). The Part I and II of the Schedule of SER 1987 prescribe detailed guidelines for preparation of balance sheet and profit and loss account (Hossain and Hossain 2010).

Up to 2001, International Accounting Standards (IASs) were issued by International Accounting Standard Committee (IASC). Since inception in 2001, the International Accounting Standard Board (IASB) is issuing accounting standard as International Financial Reporting Standard (IFRS). Analyzing applicability in Bangladesh ICAB adopts IAS and IFRS as BAS and BFRS respectively. IAS 30 was the most important accounting standard for preparing financial statements of banks and similar financial institutions. This standard demonstrates how a financial institution would prepare their FSs. In August 2005, IASB issued IFRS 7 that supersedes IAS 30. ICAB adopted it as BFRS 7 and made it effective from on or after January 1, 2010. BFRS 7 requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including credit risk, liquidity risk and market risk.

Both DSE and CSE have issued regulations namely Listing Regulations and regulation 36 is mainly related with disclosure (Hossain and Hossain 2010). According to this regulation, the company shall make available the financial statements to the stock exchange. Compliance with the IAS/IFRS has been mandatory through SEC notification (no. SEC/Section-7/SER/03/132 dated 22nd October, 1997). Department of Financial Institutions and Market (DFIM) of Bangladesh Bank has issued a circular (No. 11, dated December 23, 2009) requiring NBFIs to comply with the First Schedule of the Bank Companies Act 1991 for preparing their financial statements. Therefore, NBFIs are to prepare their financial statements according to the prescribed format given by BB.

Literature Review

Different researchers have conducted several studies to show the disclosure status of firms of Bangladesh (e.g. Alam 1991; Akter and Hoque 1993; Ahmed and Nicholls 1994; Nicholls and Ahmed 1995; Ahmed and Kabir 1995; Karim 1996; Hossain and Taylor 1998; Saha and Rahman 2000; Hossain 2001; Rahman 2002; Akhtaruddin 2005; Islam 2006; Ahmed and Dey 2009; Ahmed 2009; Hossain 2011; Hossain 2012; etc.). Some of them are related with mandatory disclosure aspect and some of them are related with voluntary disclosure aspect. Nevertheless, there is a dearth of research which is exclusively on disclosure status of NBFIs of Bangladesh. Akhtaruddin (2005) states that companies in general are not responded adequately to the mandatory disclosure requirements of the regulatory bodies. He shows that companies, on average, disclose 44% of the items of information. Huang (2006) opines that enhanced accounting disclosure leading to better transparency and stronger market discipline in the banking sector, accounting disclosure is important for banking organizations compared to not-financial firms, transparency and disclosure is an important ingredient of banking sector stability. These aspects are also applicable for NBFIs.

Some empirical studies, like Ahmed and Nicholls 1994 (Bangladesh), Karim 1995 (Bangladesh), Hossain 1999 (India, Pakistan and Bangladesh), Owusu-Ansah 2000 (Zimbabwe), Joshi and Ramadhan 2002 (Bahrain), Ahmed 2005 (India), Akhtaruddin 2005 (Bangladesh), Hossain, Cooper, and Islam 2006 (Bangladesh), Islam 2006 (India, Pakistan, Bangladesh and Sri Lanka), Samaha and Stapleton 2008 (Egypt), Hossain 2008 (India), Ahmed 2009 (Bangladesh), etc., found that the companies of developing countries are not following the mandatory accounting standards while preparing their financial statements. Reaz and Arun (2006) think that full compliance of disclosure with proper and effective audit is very important to maintain accountability and bring about transparency of firms. Karim (1995), Hossain (1999), Akhtaruddin (2005), Hossain et al. (2006) found that the disclosure levels of Bangladeshi listed companies are generally poor which ultimately raises the question on accounting transparency in Bangladesh. Compared to India, Sri Lanka, Pakistan, Thailand and Malaysia, corporate governance (CG) in practice and philosophy have until now remained relatively under-developed in Bangladesh (Nurunnabi 2009). Ahmed (2011) investigated the compliance of mandatory disclosure requirements in Bangladesh in respect of relevant statutory regulations and accounting standards. This study reveals that there is no company with 100 percent compliance.

Bhuiyan and Tuhin (2011) state that some of the companies in Bangladesh have started to realize the importance of voluntary disclosures in addition to the mandatory disclosures in the annual reports. Pandit, Hossain and Khatun (2011) show that the average regulatory disclosure compliance is 67.34%. On the contrary, Hossain (2011) states that banking companies are complying with most of the regulations. In some cases they are proactive to comply with the regulations (Hossain 2011). The present study concentrates on mandatory disclosure of non-bank financial institutions for items of information required by the

Banking Companies Act 1991, which covers most of the requirements of other laws and regulations.

Research Design and Methodology

To illustrate mandatory disclosure compliance status of NBFIs a list of required items of FSs (see Appendix I) has been prepared based on the BB circular. On December 23, 2009, BB issued a circular (DFI Circular No. 11) mentioning that some of the financial institutions are not complying with BB guidelines. To ensure harmonization and disclosure compliance, BB prescribed a format of a complete set of financial statements considering the prevailing regulations. Therefore, the study gives emphases on this circular for preparing the disclosure checklist. There are 120 items in the disclosure checklist categorized as (a) disclosure of information in balance sheet, (b) off balance sheet items, (c) disclosure of information in profit and loss account, (d) disclosure of information in cash flow statement, (e) statement of change in equity, (f) liquidity statement, (g) information in the notes to balance sheet, (h) information in the notes to profit and loss account (i) highlights of prescribed items and (j) general information. Through comparison between the data of 2008 (i.e. before issuance of BB circular) and 2011 (i.e. after issuance of BB circular), the effectiveness of regulatory initiative will be analyzed.

The study focuses on the listed NBFIs of Bangladesh. There are two stock exchanges in Bangladesh – DSE and CSE. DSE is older than other is and most of the companies listed on CSE are also listed on DSE. As per DSE (2012) there are 21 NBFIs in Bangladesh and one of the firms was listed in 2009. Thus, following all inclusive sampling technique, we have covered 20 non-bank financial institutions, which are listed on DSE up to 2008 (see Table 1). As a source of data, we have considered annual reports of the concern firms. Bozzolan, Favotto and Ricceri (2003) said that annual reports are considered an important source of company information by external users. Besides, annual reports are regularly published by the firms for different types of stakeholders. In the study, items are numerically scored on a dichotomous basis. Score “1” is assigned if a company discloses an item in its annual report whereas score “0” is assigned for non-disclosure of a particular items. To summarize and process data Microsoft Office Excel 2007 has been used. Total disclosure score (TDS) for a company is expressed as follows:

$$TDS_i = \sum_{j=1}^n d_{ij}$$

Where,

TDS = the total disclosure score;

i = company (1, 2, 3,20)

j = required item (1, 2, 3,120)¹

d = one if the item is disclosed; zero, if the item is not disclosed.

1. Based on DFI Circular No. 11, dated December 23, 2009, Bangladesh Bank.

Table 1: List of Sample Companies

SL	Name of the organization	Short Name	Year of Listing*
1.	Investment Corporation of Bangladesh	ICB	1977
2.	IDLC	IDLC	1992
3.	United Leasing	UL	1994
4.	Uttara Finance and Investments Limited	UFIL	1997
5.	Midas Financing Limited	MFL	2002
6.	First Lease Finance & Investment Limited	FL	2003
7.	Prime Finance & Investment Limited	PFIL	2005
8.	People's Leasing and Financial Services Ltd.	PLFS	2005
9.	Islamic Finance and Investment Limited	IFIL	2005
10.	Premier Leasing & Finance Limited	PL	2005
11.	Industrial Promotion and Development Co.	IPDC	2006
12.	Lanka Bangla Finance	LB	2006
13.	Bangladesh Industrial Finance Company Limited	BIFC	2006
14.	Phoenix Finance	PF	2007
15.	Union Capital Limited	UC	2007
16.	Bangladesh Finance and Investment Co. Ltd.	BFIC	2007
17.	International Leasing	IL	2007
18.	Delta Brac Housing Finance Corporation Limited	DBH	2008
19.	National Housing Finance and Investments Limited	NHF	2008
20.	FAS Finance & Investment Limited	FAS	2008

*Source: DSE 2012

Results and Discussion

One of the objectives of the study is to depict the regulatory compliance status of listed NBFIs of Bangladesh in preparing financial statements. Table 2 presents the compliance status of the firms for preparing their financial statements in 2008. The average compliance score is 56.17% whereas the highest and the lowest score are 75.00% and 41.67% respectively. Though average disclosure score for BS items is 80.00% but the firms did not disclose OBS items accordingly (average score is 6.00% only). Only four firms (FAS, UFIL, ICB, and BFIC) have prepared their profit and loss (PL) account as per regulatory requirement. On the other hand, none of the firms has prepared their CFS disclosing all required information (though average score is 88.75%) but all of the firms have prepared

SCE in 2008. Result shows that only one firm (NHF) has prepared LS in 2008. Industry average score of NBS and NPL are 46.77% and 59.58% respectively. The average score for highlights with prescribed items (HL) is 30.23% and highest and lowest score in this respect are 50% and 9.09% respectively. The highest GI score is 85.71% and the lowest GI score is 28.57% with mean value 57.14%. It indicates that the compliance status of NBFIs in preparing financial statements was not satisfactory in 2008.

Table 2: Disclosure of Information by Firms in 2008 (%)

	BS	OBS	PL	CFS	SCE	LS	NBS	NPL	HL	GI	Total
IPDC	87.50	0.00	92.31	91.67	100	0.00	48.39	58.33	40.91	57.14	60.83
UL	81.25	40.00	69.23	91.67	100	0.00	54.84	50.00	13.64	42.86	54.17
PLFS	62.50	0.00	84.62	91.67	100	0.00	38.71	58.33	13.64	57.14	49.17
FL	81.25	0.00	92.31	91.67	100	0.00	41.94	75.00	9.09	71.43	55.00
DBH	75.00	0.00	92.31	91.67	100	0.00	48.39	75.00	18.18	71.43	57.50
BIFC	100	0.00	84.62	91.67	100	0.00	61.29	58.33	50.00	57.14	66.67
NHF	81.25	0.00	61.54	83.33	100	100	35.48	41.67	9.09	42.86	45.00
MFL	87.50	0.00	76.92	75.00	100	0.00	22.58	33.33	9.09	42.86	41.67
IFIL	87.50	0.00	53.85	91.67	100	0.00	35.48	41.67	31.82	57.14	50.00
FAS	75.00	0.00	100.00	91.67	100	0.00	51.61	75.00	36.36	57.14	61.67
LB	81.25	0.00	84.62	91.67	100	0.00	45.16	50.00	31.82	57.14	55.83
UC	62.50	0.00	61.54	91.67	100	0.00	45.16	58.33	36.36	28.57	50.83
PF	81.25	0.00	69.23	91.67	100	0.00	29.03	41.67	36.36	57.14	50.00
UFIL	87.50	0.00	100.00	91.67	100	0.00	70.97	58.33	22.73	71.43	65.00
PFIL	81.25	0.00	69.23	91.67	100	0.00	54.84	75.00	40.91	71.43	61.67
IDLC	75.00	0.00	69.23	91.67	100	0.00	41.94	58.33	36.36	71.43	55.00
ICB	93.75	80.00	100.00	91.67	100	0.00	61.29	91.67	50.00	71.43	75.00
PL	62.50	0.00	61.54	75.00	100	0.00	45.16	50.00	27.27	42.86	47.50
BFIC	81.25	0.00	100.00	91.67	100	0.00	61.29	66.67	40.91	85.71	66.67
IL	75.00	0.00	61.54	75.00	100	0.00	41.94	75.00	50.00	28.57	54.17
Mean	80.00	6.00	79.23	88.75	100	5.00	46.77	59.58	30.23	57.14	56.17
Max	100	80.00	100	91.67	100	100	70.97	91.67	50.00	85.71	75.00
Min	62.50	0.00	53.85	75.00	100	0.00	22.58	33.33	9.09	28.57	41.67

Source: Researchers' own analysis

Table 3: Disclosure of Information by Firms in 2011 (%)

	BS	OBS	PL	CFS	SCE	LS	NBS	NPL	HL	GI	Total
IPDC	100	100	100	100	100	100	90.32	100	100	85.71	88.33
UL	100	100	100	100	100	100	90.32	75.00	75.00	85.71	83.33
PLFS	100	100	92.31	91.67	100	100	77.42	58.33	58.33	57.14	73.33
FL	100	100	100	100	100	100	87.10	83.33	83.33	71.43	83.33
DBH	93.75	100	100	100	100	100	80.65	83.33	83.33	71.43	80.83
BIFC	100	100	100	100	100	100	80.65	91.67	91.67	57.14	82.50
NHF	100	100	100	100	100	100	80.65	83.33	83.33	42.86	80.00
MFL	93.75	100	100	100	100	100	77.42	75.00	75.00	71.43	78.33
IFIL	93.75	100	100	100	100	100	90.32	83.33	83.33	85.71	84.17
FAS	100	100	100	100	100	100	87.10	91.67	91.67	71.43	85.00
LB	93.75	0	84.62	100	100	100	87.10	100	100	57.14	79.17
UC	100	100	100	100	100	100	87.10	100	100	42.86	85.00
PF	100	100	100	100	100	100	80.65	100	100	85.71	85.83
UFIL	100	100	100	100	100	100	80.65	100	100	57.14	84.17
PFIL	100	100	100	100	100	100	90.32	100	100	71.43	87.50
IDLC	100	100	100	100	100	100	90.32	75.00	75.00	71.43	82.50
ICB	100	100	100	91.67	100	0	83.87	100	100	85.71	85.00
PL	100	100	100	100	100	100	90.32	91.67	91.67	71.43	85.83
BFIC	100	100	100	100	100	100	80.65	91.67	91.67	71.43	83.33
IL	100	100	100	100	100	100	87.10	91.67	91.67	85.71	85.83
Mean	98.75	95.00	98.85	99.17	100	95.00	85.00	88.75	88.75	70.00	83.17
Max	100	100	100	100	100	100	90.32	100	100	85.71	88.33
Min	93.75	0	84.62	91.67	100	0	77.42	58.33	58.33	42.86	73.33

Source: Researchers' own analysis

Observing the poor compliance status in preparing the financial statements, the Department of Financial Institutions and Market (DFIM) of Bangladesh Bank has issued a circular (No. 11, dated December 23, 2009). After issuing this circular most of the NBFIs have reformatted their financial statements. Now NBFIs try to prepare their FSs according to the prescribed forms. Table 3 summarizes the disclosure score of listed non-bank financial institutions (NBFIs) of Bangladesh in 2011. The highest, lowest and industry average total disclosure score (TDS) of NBFIs have been increased from the year 2008 to 2011. In 2011, most of the NBFIs have prepared their BS, OBS, PL, CFS, SCE and LS according to the forms prescribed by the regulators. However, they are not sufficiently conscious for disclosing information in the notes and presenting highlights with prescribed items. All of the listed NBFIs have prepared statement of changes in equity (SCE) in 2011 (Table 3). The industry average disclosure score is 99.17% in case of CFS with minimum score 91.97% and maximum score 100%. The highest, lowest and average disclosure score under PL are 100%, 84.62% and 98.85% respectively. In case of BS, the highest, lowest

and average disclosure score are 100%, 93.75% and 98.75% respectively. Only one firm (LB) did not disclose off-balance sheet items (score = 0%) similarly another firm (ICB) did not prepare liquidity statement in 2011. Average score for each NPL and HL is 88.75% whereas average score for NBS is 85%. Seventy percent score is obtained by the industry in case of general information (GI), that is the lowest score group of information. People's Leasing and Financial Services Ltd (PLFS) got the lowest total disclosure score (TDS) and IPDC got the highest TDS considering the financial statements of 2011. The industry average TDS of 2011 is 83.17% that was 56.17% only in 2008. Obviously, compliance status in preparing the financial statements of listed NBFIs of Bangladesh has improved over the period. One of the major reasons may be the regulatory initiatives. It proves that close supervision and monitoring is essential and only enactment of regulation is not sufficient for ensuring compliance.

Table 4: Comparative Disclosure Score of the Industry (%)

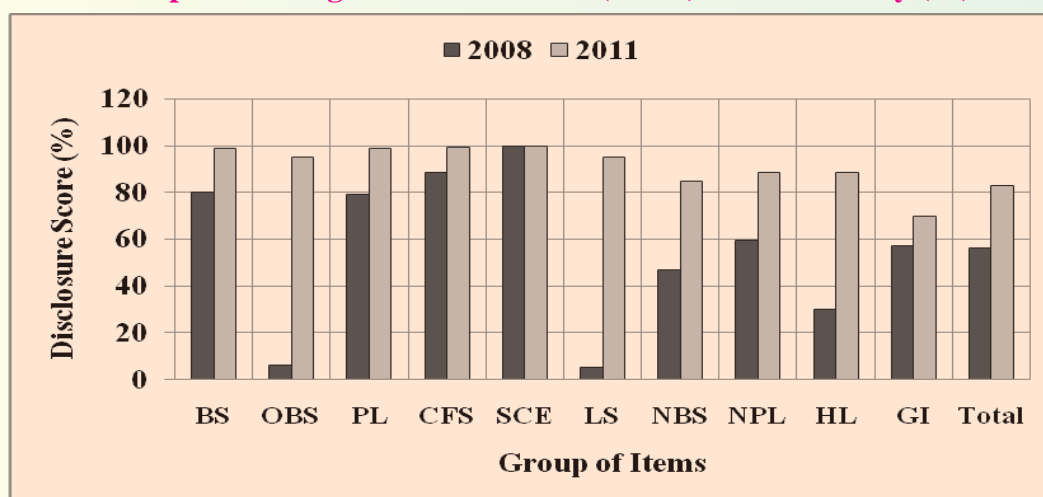
Group of Item	Mean			Max			Min			CV	
	2008	2011	Ave.	2008	2011	Ave.	2008	2011	Ave.	2008	2011
BS	80.00	98.75	89.38	100	100	100	62.50	93.75	78.13	0.123	0.026
OBS	6.00	95.00	50.50	80.00	100	90.00	0.00	0.00	0.00	3.262	0.235
PL	79.23	98.85	89.04	100	100	100	53.85	84.62	69.23	0.197	0.038
CFS	88.75	99.17	93.96	91.67	100	95.83	75.00	91.67	83.33	0.070	0.026
SCE	100	100	100	100	100	100	100	100	100	0.000	0.000
LS	5.00	95.00	50.00	100	100	100	0.00	0.00	0.00	4.472	0.235
NBS	46.77	85.00	65.89	70.97	90.32	80.65	22.58	77.42	50.00	0.254	0.055
NPL	59.58	88.75	74.17	91.67	100	95.83	33.33	58.33	45.83	0.250	0.130
HL	30.23	88.75	59.49	50.00	100	75.00	9.09	58.33	33.71	0.466	0.130
GI	57.14	70.00	63.57	85.71	85.71	85.71	28.57	42.86	35.71	0.269	0.198
	56.17	83.17	69.67	75.00	88.33	81.67	41.67	73.33	57.50	0.148	0.042

Source: Researchers' own analysis

Required information of a complete set of financial statements of NBFIs has been categorized into ten groups in the disclosure checklist (Appendix I). Table 4 shows comparative scores of the industry for the year 2008 and 2011. In most of the cases disclosure score have been improved in 2011 compare to 2008. Considering the coefficient of variation (CV), it is clear that the variations of disclosure among the firms have also been reduced in recent year i.e. disclosure status of the industry as a whole has been improved. Mean disclosure score of OBS and LS have been improved drastically (Graph 1). Similarly, NBS and HL scores have also been increased from 46.77% to 85.0% and 30.23% to 88.75% respectively (Table 4). On the other hand, there is no change in case of mean disclosure under SCE. The disclosure scores of other groups of items (i.e. BS, PL, CFS and NPL) have been improved in 2011. Table 4 also depicts that maximum scores

under different disclosure categories, like OBS, CFS, NBS, NPL, HL, etc. have been increased in the recent year. Minimum disclosure level under several groups of items have also been enhanced in this year. Total disclosure score (TDS) is increased by 27% (83.17% - 56.17%) in 2011 over 2008. Two years average mean disclosure score is 69.67% (Table 4).

Graph 1: Average Disclosure Score (Mean) of the Industry (%)



Source: Researchers' own analysis

Table 5: Non-Disclosed Items in 2008 (N=20)

S/N	Items	Group
21	Undrawn formal standby facilities, credit lines	OBS
44	Effects of exchange rate changes on cash and cash-equivalent	CFS
63	Bills purchased and discounted-maturity grouping	NBS
69	Borrowings from other banks-nature of repayment	NBS
93	Total Capital	HL
94	Capital surplus/deficit	HL
105	Cost of fund	HL
106	Interest earning Assets	HL
107	Non-interest earning Assets	HL

Source: Researchers' own analysis

Table 6: Least Disclosed Items in 2011 (<=3, N=20)

S/N	Items	Group	Firms	
			No.	%
52	Conversion of foreign currency transaction.	NBS	1	5
63	Bills purchased and discounted-maturity grouping	NBS	3	15
120	Reconciliation of books of accounts-inter-bank and inter-branch transactions with explanation.	GI	1	5

Source: Researchers' own analysis

Total nine items have not been disclosed by any of the firms in 2008 (Table 5). Out of these non-disclosed items one item under OBS, one item under CFS, two items under NBS and five items under HL group. On the contrary, there is no such non-disclosed item in 2011 (Table 6). At least one of the selected firms discloses an item of the checklist in 2011. It is also an indication of improvement disclosure status of NBFIs in 2011. Majority of the companies' (65%) scores were in the range 61-80 in the year 2008 whereas 90% companies' scores were in the range 101-120 in the year 2011 (Table 7). The credit for this improvement goes to the regulatory authority for their supervisory initiatives.

Table 7: Total Disclosure Score (TDS) of the Firms

Disclosure Score	Year 2008		Year 2011	
	No. of Company	Percentage	No. of Company	Percentage
0-20	0	0	0	0
21-40	0	0	0	0
41-60	6	30	0	0
61-80	13	65	0	0
81-100	1	5	2	10
101-120	0	0	18	90
Total	20	100	20	100

Source: Researchers' own analysis

Conclusion

Accounting information should be relevant, reliable, comparable and consistent for pragmatic decision making of the users. To ensure these, regulators impose some requirements for preparing financial statements that may protect the interest of stakeholders. The present study depicts the regulatory compliance status of NBFIs for preparing and presenting their financial statements. The result shows that compliance status of NBFIs in preparing financial statements was not satisfactory in 2008 but the status has been improved in 2011. Most of the selected firms have prepared their BS, OBS, PL, CFS, SCE and LS according to the forms prescribed by the regulators though they are not sufficiently conscious for disclosing information in the notes and presenting highlights with prescribed items. The industry average TDS of 2011 is 83%, with SD 3.49, that was 56%, with SD 8.31, only in 2008. The result is also supports the previous findings of Karim (1995), Hossain (1999), Akhtaruddin (2005), Hossain et al. (2006), Hossain (2011) Hossain (2012) etc. That means the compliance status was not satisfactory in the previous year but the situation is improving in recent year. Considering SD, it is also clear that the variations of disclosure among the firms have also been reduced in recent year. Although there are nine items that had not been disclosed by any of the firms in 2008 there is no such item in 2011. This type of improvement has been possible because of regulatory initiatives in this regard. It is also been proved that close supervision and monitoring is essential and only enactment of regulation is not sufficient for ensuring compliance. The firms are very much reluctant to comply if the regulators do not push them. Besides, there is no specific provision for them who are not preparing the financial statements complying with all

requirements. Therefore, to ensure full compliance with all requirements it is important to strengthen the capacity of the regulators for close supervision and monitoring. The regulators, to review the compliance status of firms on regular basis, may establish a separate review cell. The accountancy professional body, e.g. ICAB, may prepare a disclosure checklist, which will be circulated among the auditors. Auditors may consider the checklist while auditing the FSs of a firm. This type of regulatory initiative may be taken for other industries also that could improve disclosure level of the firms.

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APPENDIX-I: Disclosure Checklist

S/N	Disclosure Items	Disclosure Status		
		Yes	No	N/A
A	Disclosure of Information in Balance Sheet (BS)			
1.	Cash in hands			
2.	Balance with other bank and financial institutions			
3.	Money at call and short notice			
4.	Investment in shares and securities			
5.	Loans, advances and lease			
6.	Fixed assets including land, building, furniture and fixture			
7.	Other assets			
8.	Non-banking assets			
9.	Total assets			
10.	Borrowings from other banks, financial institutions and agents			
11.	Deposits and other accounts			
12.	Other liabilities			
13.	Paid up Capital			
14.	Statutory Reserve			
15.	Other Reserve			
16.	Surplus in Profit and Loss A/C			
B	Off Balance Sheet Items (OBS)			
17.	Contingent liabilities			
18.	Documentary credits and short term trade-related transactions			
19.	Forward assets purchased and forward deposits placed			
20.	Undrawn note issuance and revolving underwriting facilities			
21.	Undrawn formal standby facilities, credit lines			
C	Disclosure of Information in Profit and Loss Account (PL)			
22.	Interest income			
23.	Interest paid on deposits and borrowings etc.			
24.	Net Interest Income			
25.	Total operating income			
26.	Total operating expenses			

S/N	Disclosure Items	Disclosure Status		
		Yes	No	N/A
27.	Profit and (loss) before provision			
28.	Total provision			
29.	Profit and (loss) before tax			
30.	Provision for income tax			
31.	Net profit and (loss) after tax			
32.	Profit available for appropriation			
33.	Retained surplus			
34.	Earning per share			
D	Disclosure of Information in Cash Flow Statement (CFS)			
35.	Cash flows from operating activities			
36.	Operating profit before changes in operating assets and liabilities			
37.	Increase/Decrease in operating assets and liabilities			
38.	Net cash from operating activities			
39.	Cash flows from investing activities			
40.	Net cash from investing activities			
41.	Cash flows from financing activities			
42.	Net cash from financing activities			
43.	Net increase/decrease in cash			
44.	Effects of exchange rate changes on cash and cash-equivalent			
45.	Cash and cash -equivalents at beginning period			
46.	Cash and cash equivalents at end of period			
E	Statement of Changes in Equity (SCE)			
47.	Preparation and presentation of statement of changes in equity separately			
F	Liquidity Statement (LS)			
48.	Preparation and presentation of liquidity statement separately			
G	Information in the Notes to Balance Sheet (NBS)			
49.	Cash in hand in local & foreign currency			
50.	Balance with BB in local & foreign currency			
51.	Details of CRR and SLR			
52.	Conversion of foreign currency transaction.			
53.	Balance with other banks & financial institutions-in Bangladesh and outside Bd.			

S/N	Disclosure Items	Disclosure Status		
		Yes	No	N/A
54.	Balance with other banks and financial institutions-Maturity grouping			
55.	Money at call on short notice-Institutions wise			
56.	Investments-Details of Govt. & others			
57.	The market price of dealing securities and marketable investment securities			
58.	Loans and Advances-maturity grouping			
59.	Loans and Advances-in Bangladesh & outside Bangladesh			
60.	Loans and Advances-Concentration			
61.	Loans and Advances-Classifications			
62.	Bills purchased and discounted- in Bangladesh & outside Bangladesh			
63.	Bills purchased and discounted-maturity grouping			
64.	Details of Fixed assets including premises, furniture and fixtures			
65.	Other assets in detailed			
66.	Non-banking assets in detailed			
67.	Borrowings from other banks- in Bangladesh & outside Bangladesh			
68.	Borrowings from other banks-Analysis by security			
69.	Borrowings from other banks-Nature of repayment			
70.	Deposits and other accounts-Maturity grouping			
71.	Other liabilities in detailed			
72.	Other liabilities-Provisions			
73.	Interest Suspense Account			
74.	Paid up Capital in detailed			
75.	Capital surplus/deficiency			
76.	Statutory Reserve			
77.	Other Reserve in detailed			
78.	Surplus in Profit and Loss A/c-Movement			
79.	Contingent liabilities in detailed			
H	Information in the Notes to Profit and Loss Account (NPL)			
80.	Income and expenses in detailed			
81.	Interest income in detailed			
82.	Interest paid on deposits and borrowings etc in detailed			
83.	Investment income in detailed			

S/N	Disclosure Items	Disclosure Status		
		Yes	No	N/A
84.	Commission, exchange and brokerage in detailed			
85.	Other operating income in detailed			
86.	Directors' fees in detailed			
87.	Provision against lease, loans and advances			
88.	Provision for diminution in value of investments in detailed			
89.	Other provisions in detailed			
90.	Appropriations in detailed			
91.	The transactions between the bank and its related parties.			
I	Highlights with Prescribed Items (HL)			
92.	Paid up Capital			
93.	Total Capital			
94.	Capital surplus/deficit			
95.	Total Assets			
96.	Total Deposits			
97.	Total Loans and Advances			
98.	Total Contingent Liabilities and Commitments			
99.	Credit Deposit Ratio			
100.	Percentage of classified loans against total loans and advances			
101.	Profit after tax and provision			
102.	Amount of classified loans during current year			
103.	Provisions kept against classified loan			
104.	Provision surplus/deficit			
105.	Cost of fund			
106.	Interest earning Assets			
107.	Non-interest earning Assets			
108.	Return on Investment (ROI)			
109.	Return on Asset (ROA)			
110.	Incomes from Investment			
111.	Earnings per Share			
112.	Net income per Share			
113.	Price Earnings Ratio			

S/N	Disclosure Items	Disclosure Status		
		Yes	No	N/A
J	General Information (GI)			
114.	Significant accounting principles			
115.	Events after balance sheet date.			
116.	Names of the members of the audit committee			
117.	Educational qualification of the members of Audit Committee			
118.	The number of meetings of the audit committee held			
119.	Detailed information regarding financial and management of the fund raised for staff pension.			
120.	Reconciliation of books of accounts-inter-bank and inter-branch transactions with explanation.			