

UNIVERSITY OF CAPE COAST

**COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING
STANDARD 7 (IFRS 7): A STUDY OF LISTED BANKS IN GHANA**

BY

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DECLARATION

Candidate's declaration

I hereby declare that this dissertation is the result of my original work and that no part of it has been presented for another degree in any university or elsewhere.

Candidate's Signature..... Date.....

Candidate's Name: **AMOAKO, GILBERT KWABENA**

Supervisor's declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature..... Date.....

Supervisor's Name: **MR. AUGUSTINE ADDO**

ABSTRACT

The aim of this study is to identify the extent to which listed banks in Ghana comply with International Financial Reporting Standards, with particular reference to financial instruments IFRS 7. It also seeks to identify the formal mechanism employed to monitor and enforce IFRS compliance in Ghana. In addition, it is further intended to identify the problems listed banks encounter in complying with IFRS.

The level of mandatory compliance with IFRS 7 was measured using a mandatory disclosure index (MDI) which the researcher developed from a self-constructed compliance checklist. A semi structured interview guide was also used to gather data for the study. The sample consisted of six listed banks and covers the period 2008 and 2009.

The overall results show a high degree of compliance with IFRS 7, though not absolute. The study reveals the existence of a monitoring and enforcement mechanism which the researcher finds to be not too rigorous. Finally, the study identifies the number of regulatory requirement listed banks had to comply with in addition to the IFRS requirements, the ever changing IFRS, and the inability of the banks to automate the IFRS into their system to make it easier and faster for financial statement preparation, as some of the major challenges that listed banks go through in complying with the IFRS.

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DEDICATION

I dedicate this dissertation to my mother Sophia Gunn, my sister Rose Amoako, my brothers, my dear Wife Mrs. Amoako and all my children.

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CHAPTER ONE

INTRODUCTION

Background of the study

Corporate financial statements are only as useful as the underlying accounting data and degree of disclosure provided. Unfortunately, uniform standards of accounting and disclosure do not exist worldwide; each country has its own unique financial reporting system. The lack of uniform standards creates information barriers for the international investment community. Unfamiliar foreign accounting principles and lack of disclosure can prevent investors from diversifying their portfolio internationally in an optimal manner (Eitemann, Stonehill & Moffett 1992: 605). Moreover, differences in accounting standards across countries act as impediment to the international offering of securities (IASC 1989: 2).

When Daimler Benz was first quoted in New York, the same set of financial statements disclosed a profit of 630DM in Germany but a loss of 1300DM, using US rules (Kirk, 2005). The move to an integrated global capital market requires a harmonization of accounting systems across international borders. Harmonization can be defined as the reduction in differences in accounting practices across countries, ultimately resulting in a set of international norms to be followed worldwide.

The International Accounting Standards Board (IASB) has become increasingly influential in the world of commerce. Its principal objective is to

issue International Accounting Standards (IFRS) in order to increase comparability in financial reports produced by companies regardless of their country of origin (Choi, Forst & Meek, 2002, p. 298). The European commission passed a legislation requiring all European listed companies preparing consolidated financial statement to comply with international accounting standards (IAS) as of 1 January 2005 (EC, 2005). As of mid-2005, over 90 countries have claimed they have adopted or will adopt IASs in the future (IASB, 2005).

Ghana adopted IFRS on 1st January, 2007, requiring all public interest entities (banks, insurance companies, listed companies and Government business) to comply with IFRS effective 1st January, 2009. The CPA Journal (2007) asserted that banks have high concentration of certain types of transactions and accordingly a high exposure to certain types of risk. A bank is exposed to liquidity risk, foreign currency risks, interest rate movement and change in market price (Kirk, 2005).

The dynamic nature of international financial market has led to a widespread use of a variety of financial instruments, ranging from primary to various forms of derivatives. The objectives of IFRS on financial instrument are to enhance users' understanding of the significance of financial instrument to an entity's position, performance and cash flows, as well as to establish principles for recognizing and measuring financial assets and liabilities (Kirk, 2005).

Accounting for financial instruments has recently attracted tremendous attention due to the enormous growth of the exchange-traded derivative financial instruments market, which enjoyed a turnover for financial futures

and options contracts in the third quarter of 2002 of over 190 trillion US dollars, more than thirty times its level ten years ago (Bank for International Settlements, 2002). Its sheer size and the prominence of the market players (large, financial institutions central to the world's financial system) mean that the stakes in the financial instrument game are very high (Hu, 1993; Tan, 2005).

This rapid growth also brought increased concerns about spectacular losses in organizations around the world (Guerrera, Parker & Pretzlik, 2003; Tan, 2005). In Australia, AWA Ltd suffered losses of \$49.8 million in forward foreign exchange contracts. Barings PLC is probably the most publicized case involving huge derivative losses where the company lost in excess of US\$1 billion and faced receivership.

In Australia, concerns have been raised over possible billion dollar losses incurred by the Federal Treasury as a result of losses on certain swap contracts (Davidson, 2002; Tan, 2005). In addition, the National Australia Bank (NAB) reported losses totaling \$360 million in unauthorized foreign exchange options trading (Maiden, 2004; Kemp, 2004).

These events raise important questions on the role of financial reporting and whether the current accounting for financial instruments and related disclosure allows investors to make a proper assessment of a company's risk exposure from its financial instruments (Matolcsy & Petty, 2001; Crawford, Wilson & Bryan, 1997; Young, 1996; Hancock, 1994; Walker, 1993; Tan, 2005).

Statement of the problem

The International Federation of Accountants (IFAC) has observed auditors asserting that financial statements comply with IASs, when in actual fact the accounting policies and notes to the financial indicate otherwise (Cairns, 1997). Street and Gray (2001) also found evidence of non-compliance with IASs by companies claiming to have adopted them and latter confirmed by Glaum and Street (2003). Given these findings, the activities and effectiveness of enforcement bodies that are responsible for promoting IASs compliance have been questioned (Glaum & Street, 2003).

These indicate that, there is always a gap between claiming to have complied with specific accounting standards and the level of compliance by corporate bodies.

Since 2005, over 90 countries around the world claim to have made IFRS compliance mandatory (IASB, 2005) and Ghana claimed to have adopted IFRS in financial reporting since 2007. This has become necessary to ensure financial statement comparability among countries as a result of globalization. However, dwelling on past experiences, there is always significant gap between claiming to have complied and complying with accounting standards. The same could be true for companies listed on the Ghana Stock Exchange claiming to have complied with IFRS.

It is against this background that the researcher is motivated to empirically study compliance with IFRS by listed banks in Ghana from 2008 to 2009, paying particular attention to IFRS 7 which deals with financial instrument disclosure requirement

Research objective

The main objectives of this study are to:

1. Determine the extent to which banks listed in Ghana comply with financial instruments: disclosure requirement (IFRS 7).
2. Empirically investigate the formal mechanism used to monitor and enforce IFRS compliance by listed banks in Ghana.
3. Identify the problems listed banks encounter in complying with IFRS.

Research questions

In an attempt to achieve the research objectives, the researcher will seek to answer the following questions:

- 1) To what extent do banks listed on the Ghana Stock Exchange comply with IFRS 7?
- 2) What are the formal mechanisms used by regulatory bodies to monitor and enforce IFRS compliance in Ghana?
- 3) What are the problems listed banks encounter in complying with IFRS?

Purpose of the study

The main purpose of this study is to find out the extent to which banks listed on the Ghana Stock Exchange comply with IFRS 7, in the year 2008 and 2009. The study also seeks to illuminate the various formal mechanisms being used by regulatory bodies to monitor and enforce IFRS compliance, and sanction, if any, that will be meted out to defaulters. It will also identify the problems listed banks encounter in complying with IFRS.

Significance of the study

As stated earlier, research has shown that companies claiming to have adopted IFRS have had their financial statements and notes to their accounts showing otherwise. The researcher finds it necessary to determine whether such is not the case in Ghana with respect to listed banks complying with financial instrument disclosure requirement.

The study will also add to the body of knowledge on IFRS compliance in Ghana, given that to the best of the researcher's knowledge, compliance with IFRS in Ghana has not seen much research. It will thus serve as a basis for further studies into IFRS compliance in Ghana by other researchers and, finally, this work is also meant to fulfill an academic requirement.

Scope of the study

The study is limited to compliance with IFRS 7. It covers the period 2008-2009 where the levels of compliance with IFRS were assessed. It is limited to six (6) of the listed banks in Ghana. Data were drawn mainly from the banks, annual reports, publications, journals, and interviews.

The limited scope makes it possible for an in-depth analysis and should not be considered as a shortcoming of the study.

Limitation of the study

The conclusions of this study are limited in their empirical generality since the study is based on only one IFRS and listed Banks on the Ghana stock exchange. Although six out of eight listed banks were part of the study they do not provide an all-inclusive indication of IFRS compliance practices in Ghana. This is because there are more listed companies which were not selected for the study due to financial and time constraint. The researcher is given a limited

time within which to finish the research and therefore will not be able to look at all the IFRS and listed banks in Ghana.

Other limitations include the difficulty in obtaining data for the study. Banks, by their nature, place much emphasis on confidentiality and thus could not disclose certain information. The researcher does not strive to build any theory, prove any hypothesis or conclude correlations. The study is simply aimed at exploring for future research. In spite of the limitation, the researcher gathered sufficient data to facilitate a reliable conclusion.

Organization of the study

The study is organized into five main chapters with appropriate subsections. Chapter 1 (Introduction) provides a general introduction to the whole study. It covers the background of the research which leads to the aims of the research and the problems considered in this research. In this chapter, the justification for the research and the processes of this research, as well as, the structure and organization of this study are outlined.

The second chapter reviews relevant literature on the subject and related concept. The methodology adopted for the study is also described in chapter three. Chapter four presents the empirical results and the analysis of data. Chapter five, which is the final chapter, concludes the study with the major findings and conclusions.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter attempt to review some of the related literature that forms the basis for this study. The chapter begins with the historical background to IFRS and the standard setting process. It also discusses the framework for the preparation and presentation of financial statement, as well as literature on financial instruments. The chapter concludes by reviewing literature on IFRS compliance, and regulatory bodies, task with monitoring and enforcing IFRS compliance.

Introduction to accounting standard

The first Statement of Standard Accounting Practice (SSAP) was published in 1970 in the United Kingdom. Prior to this, there were relatively few financial reporting requirements for companies. It was the highly publicized scandals of the late 1960s, such as the General Electric Company (GEC) takeover of Amalgamated Electrical Industry (AEI) that brought the need for more extensive regulations and the instigation of a standards-setting body.

The International Accounting Standards Committee (IASC) was set up in 1973. Between 1973 and its demise in April 2001, it published 41 IASs. These were largely drafted by part-time volunteer boards from a wide background of experience and range of countries. It resulted in a rather slow

and protracted process of developing standards. Many of these volunteers offered a number of options, and thus were largely ignored by the major standard-setting countries. However, problems started to emerge with multinationals having to prepare a number of different sets of financial statements for different jurisdictions. It therefore became difficult to make comparisons across countries – for example, when Daimler Benz was first quoted in New York, the same set of financial statements disclosed a profit of 630DM in Germany but a loss of 1300 DM using US rules. The International Organization for Securities and Exchange Commission (IOSCO), a loose federation of all the major stock exchanges in the world, therefore offered a challenge to the IASC to carry out a review of existing standards to ensure that many of the options be removed and the standards strengthened. If satisfactorily achieved, then IASs would become acceptable for cross-border listings. That challenge was taken up by the Secretary-General of the IASC, Sir Bryan Carsberg, and he largely achieved his objectives by the end of 2000.

The big push, however, for the development of international standards was the need to solve the problem of financial instruments. This could only be solved on an international basis, and a group of standard setters (known as G4+1) attempted to get agreement. In addition, they started to investigate leasing and reporting financial performance. They were well on their way to producing some very interesting international agreements on future standards. However, the European Commission forced the G4 +1 group to dissolve when it announced that all listed companies in the EC must comply, for their consolidated financial statements, with international standards. The G4 + 1 group (basically the UK/Ireland, USA, Canada New Zealand and Australia,

and the IASC as observer) agreed to put their support behind the development of a new board to further improve existing international standards and to develop new standards. A new structure was finally set up in April, 2001.

The principal body under the new structure is the International Accounting Standards Board (IASB), which has sole responsibility for establishing International Financial Reporting Standards (IFRSs). Other components of the structure are the Trustees of the IASC Foundation, the International Financial Reporting Interpretations Committee (IFRIC) and the Standards Advisory Council (SAC). The IASB held its first official meeting in London in April, 2001. At that meeting, it was resolved that all standards by the IASC should continue to be applicable unless and until they are amended or withdrawn. It was agreed that new IASB standards would be called International Financial Reporting Standards (IFRSs).

When the term 'IFRSs' is used, it includes standards and interpretations approved by the IASB, and IAS and interpretations issued by the IASC.

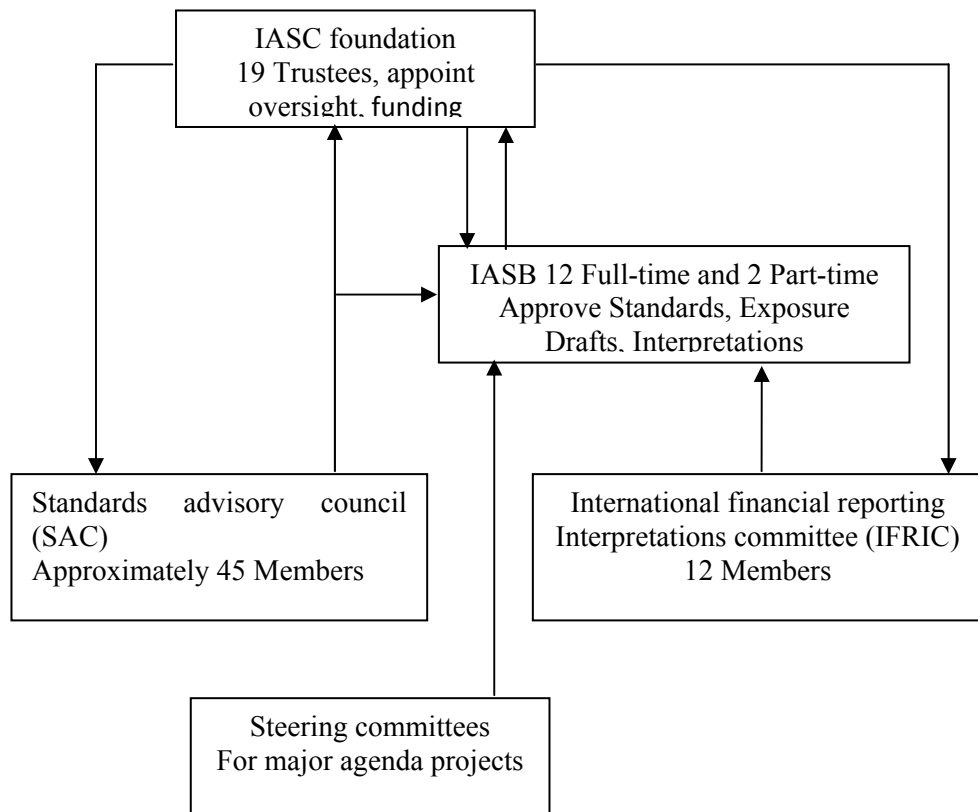


Figure 1: The revised structure of the IASC

Source: (Kirk, 2005)

The international accounting standards board (IASB)

The IASB is the principal body under the new structure. The Board has fourteen members; of the members, twelve serve full time and two part-time.

The Board's principal responsibilities are to:

- Develop and issue IFRSs and Exposure Drafts; and
- Approve Interpretations developed by the IFRIC

The key qualification for Board membership is technical expertise. The Trustees must also ensure that the Board is not dominated by any particular constituency or regional interest. To achieve a balance of perspectives and experience, at least five members must have backgrounds as practicing

auditors; at least three as financial statement preparers; at least three as users of financial statements; and at least one as an academic.

Seven of the fourteen board members have direct liaison responsibility with one or more national standard setters. The Board has full discretion over its technical agenda. It may outsource detailed research or other work to national standard setters or other organizations. The Board will normally form steering committees or others, required to consult the Standards Advisory Council on major projects, agenda decisions and work priorities.

Before issuing a final Standard, the Board must publish an Exposure Draft for public comment. Normally, it will also publish a Draft Statement of Principles or other discussion document for public comment on major projects.

The Board will normally issue bases for conclusions within IFRS and Exposure Drafts. Although there is no requirement to hold public hearings or to conduct field tests for every project, the Board must, in each case, consider the need to do so. The publication of an Exposure Draft, IFRS or final Interpretation of the IFRIC requires approval by eight of the fourteen members of the Board. Other decisions of the Board, including the publication of a Draft Statement of Principles or discussion paper, require a simple majority of the members of the Board present at a meeting.

The IASB generally meets monthly (except August) for three to five days. It holds several meetings each year with representatives of its liaison standard-setting bodies, and generally three meetings each year with the Standards Advisory Council (Kirk, 2005).

Framework for the preparation and presentation of financial statements

One of the main problems that faced standard-setting bodies in their quest to develop authoritative accounting standards was their failure to publish standards that were consistent with each other. There was no firm foundation on which the standards could be built. As a result, the actual standards were produced in an ad hoc manner with very little logical thought behind their publication. The Framework is an attempt to put this right by introducing the core principles that should govern financial reporting (Kirk, 2005).

Objective of financial statements

This section of the Framework argues that there are several users of financial reporting and that the Annual Report is the main vehicle of communicating with users. The information should largely be directed towards meeting their needs. These needs are two-fold – to ensure the reporting entity has performed adequately (the stewardship function), and to ensure that the user has sufficient information on which to make decisions about the future (i.e. the decision-making function). In order to provide information that may be helpful to users, it is recommended that the entity provides information about the financial position, performance and changes in financial position of the organization. The financial statements should be prepared under both the accruals and going concern bases (Kirk, 2005).

Qualitative characteristic

This section of the Framework identifies the key primary qualitative characteristics that should make the information in the Annual Report useful to users. There are four principal characteristics, two relating to the content of the Report and two in relation to its presentation; these are described below:

Relevance

The information must be relevant, i.e. up to date and current, and actually used by the reader. Included within this characteristic is the concept of materiality. It provides a threshold or cut-off judgment rather than a primary qualitative characteristic (Kirk, 2005).

Reliability

The reader must have faith in the information provided, and it must be free from material error and represent faithfully what it is supposed to represent. It must be free from bias, and the information must be complete within the bounds of materiality.

This characteristic tends to come into conflict with that of relevance, since relevance would favor the adoption of current subjective values whereas reliability would gravitate towards the adoption of historic and more objective costs. Where the two do clash, the International Accounting Standards Board (IASB) favors relevance.

Transactions should also be accounted for in accordance with their substance and not merely their legal form. A degree of caution (prudence) must also be exercised in making estimates under conditions of uncertainty (Kirk, 2005).

Comparability

This is really the former consistency concept, and it insists that information must be comparable from period to period and within like items in the same period. It also requires sufficient disclosure for a user to appreciate the significance of transactions. However, it does not mean uniformity, and

accounting policies must be reviewed when more relevant and reliable alternatives exist (Kirk, 2005).

Understandability

This concept insists that the information being provided by the reporting entity be presented in such a way that it is as understandable as possible to the user. However, this does not mean that it very simple so that the information that is being provided becomes meaningless (Kirk, 2005).

The elements of financial statements

This chapter of the Framework contains the key elements in a set of financial statements. It defines the statement of financial position elements first, and then argues that the income statement should pick up any residuals – e.g. a gain is either an increase in an asset or a decrease in a liability. The main definitions are as follows:

Financial position

- Asset: ‘Resource controlled by the enterprise as a result of a past event and from which future economic benefits are expected to flow to the enterprise.’
- Liability: ‘A present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.’
- Equity: ‘The residual interest in the assets of the enterprise after deducting all of its liabilities (ACCA, 2010).

Financial performance

- Incomes: ‘Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than contributions from equity participants’.
- Expenses: ‘Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets that result in decreases in equity, other than distributions to equity participations’ (ACCA, 2010).

Financial instrument

Financial Instruments are defined as contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity (ACCA, 2010). Financial Instruments can be classified into three basic components, namely:

- Financial Asset
- Financial Liabilities and
- Equity Instruments.

Financial asset

A financial asset is any asset that is cash, an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity; a contractual right to exchange financial instruments with another entity under conditions that are potentially favorable or an equity instrument of another entity.

Financial liability

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (IAS 32, para. 11). Although the definitions are recursive, they are not circular and the chain of contractual rights or obligations established must ultimately end with the receipt or payment of cash or with the acquisition or issuance of an equity instrument.

According to the IASC (1997) discussion paper, all financial instruments are defined by contracts or the rights or obligations derived from the contractual provisions that underlie them. Usually, such agreements involve two or more parties that have clear economic consequences and which the parties have little or no discretion to avoid agreement since it is enforceable at law.

Following this, financial instruments encompass a broad range of assets and liabilities including both primary (e.g. cash, receivables, debt, and equity securities) and derivative (e.g. options, swaps and futures) financial instruments.

Derivative financial instrument

A derivative financial instrument is a financial contract whose value changes in response to the change in an underlying financial asset such as shares, properties, foreign currencies and other tangible and intangible assets (IASB, 2003,). It provides the holder of such instruments with the right (or obligation) to receive (or pay) cash or another financial instrument in an amount determined by the price changes in the underlying asset. A derivative financial instrument must have all three of the following characteristics:

- Its value changes in response to the changes in an underlying specified interest rate, security price, commodity price, or foreign exchange rate;
- It requires no initial net investment or an initial net investment that is smaller than would be expected to change in market factors; and
- It is settled at a future date.

A particular financial instrument is defined by its risk exposures and reward possibilities and thus, the recognition and measurement of financial instruments need to begin with an understanding of financial risks (IASB, 1997). Risk can be defined as the uncertainty that an investment will earn its expected rate of returns (Reilly & Brown, 1997).

Accounting standards on financial instruments

Three accounting standards deal with financial instruments:

- a) IAS 32 financial instruments: presentations which deals with:
 - i) The classification of financial instruments between liability and equity

- ii) Presentation of certain compound instruments (instruments combining debt and equity).
- b) IAS 39 financial instruments: recognition and measurement, which deal with:
 - i) Recognition and derecognition
 - ii) The measurement of financial instruments
 - iii) Hedge accounting
- c) IFRS 7: financial instruments disclosure requirements

IFRS 7: Financial instrument disclosures requirements

The objective of this IFRS requires 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 end of the reporting period, and how the entity manages those risks.

There have been significant developments in risk management concepts and practices in recent years. New techniques have evolved for measuring and managing exposures to risks arising from financial instruments. This, coupled with the significant volatility experienced in the financial markets, has increased the need for more relevant information and greater transparency about an entity's exposures arising from financial instruments and how those risks are managed. Financial statements users and other investors need such information to make more informed judgments about risks

that entities run from the use of financial instruments and their associated returns.

IFRS 7 sets out disclosure requirements that are intended to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, and to understand the nature and extent of risks arising from those financial instruments to which the entity is exposed.

IFRS 7 does not just apply to banks and financial institutions. All entities that have financial instruments are affected – even simple instruments such as borrowings, accounts payable and receivable, cash and investments.

An amendment to IFRS 7 was published in March, 2009. It forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhancing accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. It introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments at the lowest level in the hierarchy. It also clarifies and enhances existing requirements for the disclosure of liquidity risk, primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

The amendment is effective for accounting periods starting on or after 1 January, 2009; it is subject to EU endorsement. Comparatives are not required for the first year of application (Price Waterhouse Coopers, 2009).

The IASB maintains that users of financial instruments need information about an entity's exposures to risks and how those risks are

managed, as this information can influence a user's assessment of the financial position and performance of an entity or of the amount, timing and uncertainty of its future cash flows.

IFRS 7 was issued in August 2005. The standard revises, enhances and replaces the disclosures in IAS 30 and IAS 32. The presentation aspect of IAS 32 is retained, and renamed financial instruments: presentation. (Addo, 2007).

Disclosure requirement may be met either voluntarily or mandatorily. Mandatory disclosure is statutorily required and non-compliance is illegal as opposed to voluntary disclosures. Prior research has identified a number of corporate attributes that influence compliance with voluntary disclosure requirements.

Developing an international financial instruments standard

IOSCO, the US Securities and Exchange Commission (SEC), and others have stated that international accounting standards must be comprehensive in order to achieve global credibility, and that comprehensive standards must include the treatment of financial instruments (Kirsch, 2006). However, financial instruments continue to be a controversial issue. Before IAS 39 was approved, accounting standard-setters in several countries, including the US and the UK, already knew the difficulty in reaching agreement regarding the accounting for financial instruments (Boyd, Hayt, & Reynolds, 1996; Smith, 1997). Achieving consensus on any issue is problematic within the context of a global environment, given the number of competing national and stakeholder interests that must be reconciled. The complex nature of financial instruments makes the goal even more difficult.

The controversial nature of financial instruments is evidenced, in part, by the fact that the IASC began work on this topic in 1988. The objective then was to provide general principles for guidance in the accounting for most or all financial instruments, as opposed to furnishing a specific standard each time a new financial transaction or instrument was created.

Exposure draft 40 (ED 40) was issued in September 1991. The principles in ED 40 relating to initial recognition and the subsequent discontinuance of recognition were based on a transfer of the 'risks and rewards' associated with a financial asset or liability. The measurement principles proposed were replete with a historical cost overtone and were based largely on management's intention for the use of an instrument. Hedge accounting was deemed acceptable only for restricted circumstances. The comment letters received showed that many parties considered ED 40 to be too rigid. ED 40 would preclude sale treatment for certain transactions that many felt should be treated as sales, and the hedge accounting criteria were considered to be both impractical and not representative of some common risk management practices. Some parties also found the document difficult to read and apply (Carchrae, 1994).

As a result of the harsh criticism regarding ED 40, ED 48 was published in January 1994. While retaining the same overall approach as ED 40, ED 48 reflected comments about the proposals in ED 40. Also, explanatory text and illustrations were added to clarify several aspects of the proposed changes (IASB, 1996). However, public comments on ED 48 continued to identify significant concerns with respect to recognition and measurement aspects of the proposal. Whereas many considered ED 40 too

rigid and restrictive, ED 48 was thought to be too flexible and without a clear philosophy.

The IASC decided that the less controversial issues of disclosure and presentation were addressed satisfactorily. These aspects of accounting for financial instruments were approved in 1995 as IAS 32. The IASC also determined it inappropriate to finalize the recognition and measurement aspects of ED 48 and began a new project dealing with these unresolved issues.

The 1995 agreement between the IASC and IOSCO called for a standard on financial instruments. Because two previous efforts proved unsuccessful, the IASC feared that it might lose credibility if another ED was published before the underlying problems had been studied more thoroughly.

Therefore, in late 1996, the IASC established a new Steering Committee charged with conducting a comprehensive reassessment of the issues and producing a discussion paper with a set of tentative principles. The goal was for these principles to provide the foundation for new standards. In March 1997, the Financial Instrument Discussion Paper (FIDP) was issued and it proposed that a fair value model be used for nearly all financial instruments. The principles for recognition and measurement differed substantially from traditional practices and also from ED 40 and ED 48.

Overall, as detailed later, respondents disagreed with the FIDP. The IASC concluded that it was not possible to gain broad acceptance for FIDP principles in the near term and, in November 1997, decided to join with national standard-setters in anticipation of developing an integrated, harmonized, and comprehensive financial instruments standard that would

build on the FIDP and existing and emerging national standards (IASB, 1997). In November 1997, the IASB also decided to complete an interim standard on recognition and measurement of financial instruments. Using the FIDP as a basis, ED 62 was issued in June 1998. In December 1998, the IASB approved IAS 39, which was intended to significantly improve the reporting of financial instruments and to provide an interim solution. IAS 39 was similar to US Generally Accepted Accounting Principles (GAAP) for financial instruments (specifically FAS 133).

The constant revisions in the much anticipated accounting for financial instruments demonstrate the influence of public comment on the evolution of proposals. The changes in the proposed principles both before and after the FIDP, occurred because the IASB had doubts about the widespread acceptance of past proposals. With IAS 39 as an interim standard, the IASB completed all major elements of the core standards identified in its agreement with IOSCO, opening the door for IOSCO's endorsement in 2000. While IAS 39 was an important step for the IASB in its quest for global credibility, there has been and continues to be opposition to IAS 39 (Whittington, 2005; Zeff, 2006; Chathama, Larson, Vietze, 2010)

Corporate attribute that influence compliance with voluntary disclosure requirements

The size of a firm, leverage, profitability, auditing firm identity, liquidity, industry type, listing and firm age, internationality and being a subsidiary of a company abroad all influence corporate disclosure. Larger firms have higher agency costs, compelling management to disclose more

information to ease agency conflicts (Chow & Wong-Boren, 1987; Diga, 1996).

It is also suggested that highly leveraged firms incur higher monitoring costs (Jensen & Meckling, 1976). Thus, managers of high debt firms tend to reduce these costs by increasing the information disclosed in annual reports. Moreover, agency theory postulates that the managements of profitable firms disclose detailed information to increase investors' confidence and support their positions and compensation arrangements (Inchausti, 1997). Large audit firms are pressured by the World Bank not to sign their names as auditors to any annual report not complying with IFRS (Street & Gray, 2001). Dumontier and Raffournier (1998) posit that large audit firms compel their clients to adopt IFRS because of the superior training of their employees and the existence of economies of scale in the development of competence in IFRS. A high liquidity ratio is an indicator of good management performance. Accordingly, companies with higher liquidity ratios are expected to disclose more information (Naser, Al-Khatib, & Karbhari, 2002).

It is postulated that firms in the same industry disclose similar information to third parties (Wallace, Naser, & Mora, 1994). It is expected that companies listed on the stock exchange would increase their disclosure to increase their ability to raise funds and reduce monitoring costs. Owusu-Ansah (1998) contends that older firms are more likely to disclose more information because such disclosure would endanger their competitive status less than it would do to younger firms, and younger firms would not have any past operating history to disclose.

Regulatory and enforcement bodies

Proponents of the mandated use of IFRS argue that its use will lead to comparable information and expanded financial-statement disclosure, resulting in increased market efficiencies. However, absent effective enforcement, even the best accounting standards will be insignificant (Hope, 2003; Hodgdon, Tondkar, Adhikari & Harless, 2009). Not surprisingly, the IASB and capital-market regulators are increasingly turning their attention to compliance and enforcement issues related to IFRS.

The importance of developing institutional mechanisms to encourage compliance with IFRS cannot be over emphasized. There is also a growing realization that while countries can adopt international accounting standards relatively easily, developing the institutional mechanisms to ensure successful implementation and foster compliance is much more complex and time consuming. Developing local regulatory and enforcement mechanisms, instituting corporate-governance structures, and building capacity all require a major commitment and investment both in terms of time and money (Hodgdon et. al., 2009).

Global disclosure standards are optimal only if compliance is monitored and enforced by efficient institutions (Healy & Palepu, 2001). Walker (1987) contends that the use of regulation as an enforcement mechanism to monitor compliance and impose punishments in cases of non-compliance would improve the implementation of accounting standards and enhance compliance levels. Companies do not comply with mandatory requirements unless stringent regulations are in place. A regulation is defined as stringent “if it allows only one outcome, has an adequate enforcement

mechanism, and sanctions for non-compliance” (Owusu-Ansah &Yeoh, 2005, p.92). The accounting practice in Ghana is regulated by the Companies Act 1963, Act 179, the Ghana Stock Exchange Act, External Auditors and the Registrar of Companies and the Institute of Chartered Accountants (Ghana).

IFRS compliance

The very idea of classification in international accounting (Roberts, 1995, 639) is based upon the existence of national differences between accounting systems. Differences between national accounting systems may arise from economic and institutional differences (Nobes, 2004) or from cultural differences (Chanchani & Willett, 2004). The differences between accounting systems exist because accounting needs differ among nations (Gray, & Black, 2006). These differences have led to the development of nationally specific accounting systems dependent on the specific socio-economic environment (Bailey, 1998).

On the other hand, globalizing trends, including international economic and political interdependence, increasing foreign direct investment (FDI), the impact of new technology, the growth of international financial markets, and the influence of international organizations (IASB, World Bank), are increasingly tending to harmonize national accounting systems (Radebaugh, Gray, & Black, 2006, 52ff).

Compliance with IFRS is a contentious issue. Cairns (1999) documents nine categories of firm compliance with IFRS, ranging from full compliance to “unqualified description of differences”. Cairns (1998, 1999) observes that some companies use a mixture of IFRS and national GAAP, while others use IFRS with stated exceptions. In a subsequent study, Street and Bryant (2000)

report that the overall level of compliance for all sample firms is equal to or less than 75% for many of the standards examined, and that firm compliance is higher for firms with U.S. listings than those without such a listing. Thus, while firms may be claiming full compliance with IFRS, significant deviations exist.

In a study examining the extent to which companies listed on Germany's New Market comply with IFRS disclosure requirements in their 2000 annual reports, Glaum and Street (2003) find that compliance ranges from 100% to 41.6%, with an average of 83.7%. The results of these studies reveal a considerable amount of non-compliance. When compliance with IFRS varies among firms, comparability of financial information may be compromised. Bader, (2005) also found IFRS compliance level increase with time. He recorded an increase in overall IFRS compliance average over time, from 68% in 1996 to 82% in 2002 and attributed the trend to an improvement in enforcement and monitoring activities by regulatory bodies.

IFRS adoption in Ghana

In 2005, the International Federation of Accountants made the implementation of IFRS mandatory for all its member countries including Ghana. As expected, to be able to source capital from the financial institutions both locally and internationally, there is the need to present credible and easily understandable financial statements.

The Minister for Finance and Economic Planning emphasized at the launching of the formal adoption of IFRS in Ghana that, the World Bank and the Ministry for Finance and Economic Planning commissioned a Report on the Observance of Standards and Codes (ROSC) in Ghana. The report issued

in March 2006 indicated that the accounting and auditing practices in Ghana suffer from institutional weakness in regulation, compliance and enforcement of standards (MOFEP, 2007). Formally, Ghana adopted IFRS in 2007 requiring all entities listed on the Ghana Stock Exchange as well as public interest entities (banks and non banking financial institutions) to comply with IFRS effective January, 2009.

The Ghana Stock Exchange

The Ghana Stock Exchange (GSE) is one of the institutions that regulate the accounting practices of listed companies in Ghana. The history of the stock exchange dates back since the late 60's. In 1968, it was recommended that a stock exchange be established in Ghana. Prior to 1968, the establishment of a stock exchange had been contemplated by the legislature in 1963, in the Companies Code, 1963 (Act 179) under review. In 1971, parliament enacted the Stock Exchange Act, 1971 (Act 384) to regulate dealings in stocks, shares and other securities as well as the establishments and operations of stock exchanges in Ghana. The GSE was authorized to operate as a stock exchange by the Secretary for Finance and Economic Planning exercising his power under section 1 of the Stock Exchange Act. The GSE was incorporated in July, 1989 as a private company limited by guarantee. The exchange was authorized to operate as a stock exchange in October, 1990, and trading on the floor of the exchange commenced in November, 1990. In April, 1994, it was converted into a public company limited by guarantee.

The securities industry law, 1993, Provisional Defence Council Law (PNDCL 333) as amended by the Securities Industry (Amendment) Act, 2000 (Act 590) has repealed the Stock Exchange Act under which the Ghana stock

exchange was authorized to operate. However, section 14 (1) of the Securities Industry Law recognized the Ghana Stock Exchange and guaranteed its continuous existence. The GSE is open to foreigners as well as non-resident Ghanaian investors.

The GSE is one of the leading exchanges in the Sub-Sahara Africa. This has been made possible with the inclusion of the Ashanti Goldfields Company Limited (AngloGold Ashanti Limited), which operates one of the largest and richest gold mines in the world. Since 1993, the GSE has been ranked among the best exchanges in the emerging markets worldwide in terms of index returns. In 2003 the position of the GSE as being among the best performing stock markets in the world, was confirmed when it recorded an index return of 144% in US dollars terms, and 157% in the local currency terms (Ghartey, 2004).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

This section describes the research method and how data were collected. The selection of banks included in the study and the years for which annual financial reports were collected are explained in this section. The section also explains the criteria for constructing the compliance check list and the mandatory disclosure index (MDI) used for measuring compliance with IFRS.

Research design

There are mainly two research approaches, quantitative and qualitative research. However, in terms aims two approaches always comes out descriptive research and explorative research. The amount of pre-existing knowledge of each research topic is the main determinant for the choice of each approach (Patel & Davidson, 2003). When there are gaps in the existing knowledge about a specific problem, an explorative approach is recommended. The aim of an explorative research is to gather as much information as possible and reveal the problem from different points of views (Patel & Davidson, 2003).

This study is explorative, this is because the researcher intends to reveal the extent to which banks listed on the Ghana Stock Exchange have complied with IFRS, and further illuminate the various formal mechanisms

being used by regulatory bodies to monitor and enforce IFRS compliance. It also seeks to identify the problems listed banks encounter in complying with IFRS.

Population

The target population for the study includes all the banks listed on the Ghana Stock Exchange. In all, eight banks are listed on the Ghana Stock Exchange. Listed banks were chosen because the Ghana Stock Exchange happens to be one of the first point of call when an investor wants to ascertain the performance of a business entity.

Sample

The sample chosen for the study consists of banks incorporated in Ghana which are listed on the Ghana Stock Exchange on or before 2008. In all six banks out of the eight listed banks were selected, representing 75% of the population. The selection of the sample was based on purposive sampling.

Purposive sampling enables the researcher to use his judgment to select cases that will best enable him to answer his research questions, and to meet the objectives of the study. This form of sampling is also suitable for a small sample (Neuman, 2000); hence, the researcher's decision to use purposive sampling, looking at the small nature of the sample and the fact that the sample selected will help the researcher achieve its objective. The researcher limited the respondent to one member each of the respective banks which happens to be the financial director or his or her representative. This became necessary because the type of information needed could only be provided by staff with knowledge on IFRS.

The researcher selected banks for the study because the banking sector is one of the most important sectors in every economy. Banks accept deposit from depositors and grant loans to individuals, governments and corporate organizations. They also play a major role in maintaining confidence in the monetary system through their close relationship with regulatory bodies and the government. Thus, the well-being of banks, particularly their liquidity and solvency position is of interest to every economy (Tackie, 2007). On the other hand, banks by their nature have high concentration of certain types of transactions and accordingly a high exposure to certain types of risk CPA (2007). Thus, the researcher thought it expedient to ascertain the performance of listed banks as a public interest entity, in relation to IFRS,

In all, six banks were selected for the purpose of the study. The banks comprise Ghana Commercial Bank Limited, Standard Chartered Bank Limited, ECOBANK Ghana Limited, Cal Bank Ghana Limited, HFC Bank Ghana Limited, and SG-SSB Bank Limited. The above mentioned banks have been selected for the study because they are at the moment, the only banks listed on the Ghana Stock Exchange and incorporated in Ghana, and therefore appropriate for the study. ECOBANK Transnational Incorporation and The Trust Bank of the Gambia were not included because they were not incorporated in Ghana.

The researcher choose 2008 and 2009 for the study because, though Ghana adopted IFRS in 2007, due to some implementation problems the listed banks were given 2008 to mandatorily comply with IFRS.

Financial instrument was selected for the study because there is wide evidence of problems in the accounting for financial instruments around the

world (Chalmers, 2001). Additionally, standards on financial instruments are seen as complex, requiring difficult implementation by companies (Larson & Street, 2004). Hence, the desire of the researcher to research into this to find out how Ghanaian banks listed on Ghana Stock Exchange are performing with respect to financial instrument disclosure requirement IFRS 7 since the mandatory compliance required by the Bank of Ghana.

Data collection

This study is based mainly on secondary data. Data was collected from the annual reports published by the banks, periodicals and relevant internet resources. Specifically, the banks' annual reports and audited financial statements for the years 2008 to 2009 were the principal sources of data for the study. Structured interview was also used to obtain data from primary source for the purpose of the research. The interview guide was given to an experienced researcher for a review to ensure its validity, completeness and applicability. Minor modifications were made to the interview guide upon receipt of the review as directed by the senior researcher.

Three different sets of structured interview questions were designed for three different set of groups. The interview questions were directed to the banks involved in the study, regulatory bodies such as Bank of Ghana and the Ghana Stock Exchange. The researcher finds this arrangement very important to the study because each set of the interview question aimed at gathering different set of data. The researcher only targeted personnel of the institutions involved in the study who could provide the needed information for the study.

Compliance checklist

In order to ascertain the level of mandatory compliance with IFRS 7, the researcher developed a self-constructed compliance checklist. The checklist contains the disclosure requirements of IFRS 7, spelt out in the full volume of IFRS 2009, and published by the International Financial Accounting Board (IASB).

To validate the checklist, it was given to an experienced auditor to check the comprehensiveness and the applicability to IFRS 7 disclosure requirements. The individual components of the disclosure requirement were given equal weight in the index. This is consistent with previous IFRS compliance studies (Street & Bryant, 2000; Street & Gray, 2001; Glaum & Street, 2003). Information items can be weighted based on their perceived importance; however, equal weight was used for the following reasons:

- Equal weight avoids subjective, judgmental ratings of items that can arise with unequal weighting (Wallace & Naser, 1995; Owusu-Ansah, 2000; Owusu-Ansah & Yeoh, 2005).
- User preferences are unknown, and different users across countries are likely to assign different weight to similar items (Chong, Most & Brain, 1983).
- Several prior studies have argued that the result of the equal weighting procedure tend to be similar to those of other weighting systems (Firth, 1979; Robbins & Austin, 1986; Chow and Wong-Boren, 1987; Zarzeski, 1996; Prencipe, 2004).

Compliance index

The level of mandatory compliance with IFRS was measured using a mandatory disclosure index (MDI). A properly constructed MDI is seen as a reliable measurement device for corporate compliance (Marston & Shrikes, 1991) and is consistent with previous studies (Street & Bryant 2000; Street & Gray, 2001; Glaum & Street, 2003). A checklist is also used by audit firms to check their clients' compliance with IFRS. The index summarizes the disclosure requirements of IFRS 7 into a composite figure ranging from zero to one, which is used to determine the level of compliance of each bank.

The problem with the disclosure index methodology is that some of the information items in the index may not be applicable to all the banks. Following Owusu-Ansah & Yeoh (2005), a relative score is computed for each bank. The relative score is the ratio of what a bank disclosed in its annual report to what it is expected to disclose under IFRS in each year investigated. Because the constituents of the disclosure index are mandated information items, the relative score obtained by a company is interpreted as its MDI, derived by using the following formula:

$$MDI_{jt} = \frac{\sum_{i=1}^{n_{jt}} X_{ijt}}{n_{jt}}$$

Where:

x_{ijt} = number of mandated information items applicable to the sample company

j , that it actually disclosed in year t ,

n_{jt} = the number of mandated information items applicable to sample company j , which are expected to be disclosed by company j in year t . Banks

were not penalized for not disclosing an item if it is deemed obvious by the researcher that the item does not apply to that company.

Data analysis instruments

The researcher applied compliance index base on a self constructed compliance checklist to analyze the data and determine the level of compliance with IFRS 7. The overall level of compliance was obtained by finding the average compliance level of all the six banks. Tables and narrative was also used to present and analyze the rest of the data to enable the researcher achieve the rest of the objective.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

Introduction

The main objectives of this study were to make certain the extent to which banks listed on the Ghana Stock Exchange comply with the disclosure requirement of IFRS 7. This was intended to identify the formal mechanism put in place by regulatory bodies to monitor and enforce IFRS compliance as well as come out with the problems listed banks encounter in complying with the standards. The data collected is analyzed based on the objective of the study and the findings derived from the analysis discussed.

Descriptive statistics

Table 1 describes the number of disclosure items contained in the IFRS 7 disclosure requirement for 2008 and 2009, those that are not applicable to the banks and those applicable for the purpose of this research.

Table 1: The total number of disclosure items for IFRS 7

<i>Effective year</i>	<i>Disclosure items</i>	<i>Items not applicable</i>	<i>Items applicable</i>
2008	90	12	78
2009	109	12	85

Source: IFRS Manual 2009

Disclosure items for year 2008 are less than disclosure items for 2009. The difference comes from the fact that in March 2009, the IASB published an amendment to IFRS 7 requiring an enhanced disclosure about fair value and liquidity risk. In particular, the amendment requires disclosure of fair value measurement hierarchy and separate liquidity risk disclosure for derivative financial instruments.

Twelve items fall under disclosure requirement for hedging activities and thus considered inapplicable for the purpose of this study. This is because the study is limited to listed banks alone and all the participating banks do not indulge in hedging activities. In all, 118 out of the 194 disclosure requirement, representing 61%, were applicable for 2008. In 2009, it was 124 out of 200, representing 62%.

Table 2: Disclosure Compliance Level (%) for 2008

<i>Listed Banks incorporated in Ghana</i>	<i>No. of disclosures items</i>	<i>No. of items not applicable (applicable)</i>	<i>Compliance level</i>
Cal Bank	78	6(72)	69 95.83%
Ecobank	78	8(70)	64 91.14%
Ghana Commercial Bank	78	6(72)	64 88.89%
HFC Bank	78	9(61)	59 95.08%
SG-SSB	78	8(70)	68 97.14%
Standard Chartered Bank	78	8(70)	69 98.57%
Average			94.7%

Source: Compliance Checklist and Annual Report of the Banks (2008)

Table 3: Disclosure Compliance Level (%) for 2009

<i>Listed Banks incorporated in Ghana</i>	<i>No. of items disclosures</i>	<i>No. of items not applicable (applicable)</i>	<i>Compliance level</i>	
Cal Bank	85	6(79)	79	100%
Ecobank	85	8(77)	77	100%
Ghana Commercial Bank	85	6(79)	75	94.94%
HFC Bank	85	9(76)	74	97.36%
SG-SSB	85	8(77)	75	97.40%
Standard Chartered Bank	85	8(77)	77	100%
Average				98.2%

Source: Compliance Checklist and Annual Report of the Banks (2009)

Table 2 and 3 are detailed bank-by-bank comparison of the actual compliance level and corresponding disclosure requirements with IFRS 7. The figures in the column headed number of disclosures represent all the sub-items required by IFRS 7 that are applicable to banks in Ghana. Those figures in the column headed “not applicable (applicable)” represent the number of IFRS requirement that is not applicable to a particular bank as well as those that are actually complied with by the banks on the basis of their annual reports for 2008 and 2009.

Comparatively, all the banks improved upon their IFRS 7 required compliance level, with three of the banks scoring 100% each in 2009. The average compliance level for 2008 stood at 94.7% as compared to 98.2% in 2009. This improvement in IFRS 7 compliance level over time is consistent

with the findings of Bader (2005), who finds a similar trend in the Gulf co-operation council member states as explained in the literature review. What might have accounted for this trend could be explained by the fact that, the management and staff of the Ghanaian banks are now getting more familiar with the IFRS in 2009 than in 2008 and that has reflected in their improve performance with the IFRS 7 disclosure requirement.

The average compliance level was found to be high for both years, 2008 recorded 94.7% while 2009 recorded 98.2%. This does not support the assertion by Street and Bryant (2000) who report that the overall level of compliance for all sample firms is equal to or less than 75% for many of the standards examined, and that firm compliance is higher for firms with U.S. listings than those without such a listing. The high compliance level with IFRS 7 by the listed banks might have resulted partly from two factors.

Firstly, the monitoring and enforcement mechanisms put in place by the Bank of Ghana is very effective. The other reason is that, five of the banks have as their auditor an accounting firm that belongs to the “Big 5”. Hodgdon (2009), found compliance level to be positively related to auditor choice (Big5+2). With the “Big 5” experience in auditing and the reputation they have earned in the accountancy field, the “Big 5” will certainly ensure that the banks are in compliance with the standards.

Compliance monitoring

Bank of Ghana

It was discovered during the interview that the Bank of Ghana monitors compliance and enforces sanctions with respect to financial reporting requirements related to banks. “*The Bank of Ghana (Banking Supervision*

Department) is responsible for monitoring the prudential regulation of the banks, as well ensuring that the general-purpose financial statements are prepared in accordance with applicable rules, regulations, and standards.

With respect to disclosure and measurement requirement of items in the annual report of banks, the BOG has its own requirements that is spelt out in the banking Act, 2004; Act 673. However, the BOG has directed all banks to comply with the IFRS effective 2008” (Head of Banking Supervision).

Three of the six listed banks incorporated in Ghana that participated in the research complied with IFRS even before its adoption in Ghana in 2007, and this was influenced largely by the internationality of those banks. The three banks had parent companies abroad and needed to prepare two set of financial statements: one in line with IFRS for the parent company and the other in line with the Ghana accounting standards and other regulatory requirement.

The Head of Banking Supervision may authorize any of its officials or qualified auditors to verify with reference to a bank’s books and records, any return, information or data furnished to it by that bank and report on its accuracy. The bank shall provide access and facilities to the authorized official or auditor to carry out the official's or auditor’s task. A bank which fails to provide access and facilities to the authorized officer is liable to pay to the Bank of Ghana a fine not exceeding 1000 penalty units.

The BOG approach to enforcing and monitoring compliance with standards and regulatory requirements has not changed even with the adoption of the IFRS. To check compliance, each financial statement is examined critically to see whether it complies with the IFRS and regulatory

requirements of BOG. The banking supervision section of the BOG enforces and monitors banks' compliance with standards. To facilitate this, the banking supervision section currently has four units responsible for checking compliance; banks are each assigned a relationship manager who must be a member of the unit that is assigned to it. Each unit is assigned to at least six banks. A unit currently has at least two qualified accountants. The units are further divided into two teams each. Each team has at least one qualified accountant as a member. After the review of the financial statement by the various teams and units, the financial statement goes through its final stage of compliance checking and monitoring of the banks. The banking supervision has technical units who are very knowledgeable in financial accounting and issues concerning IFRS and are basically tasked to enforce them. The technical unit finally looks at the financial statements for any irregularities.

Where an examination has been conducted by the BOG, the BOG shall furnish a copy of its report to the bank and call upon the bank to provide within thirty days from the date of the receipt of the report a written explanation on the findings contained in the report and action taken, within a specified time. A bank which fails to submit its explanation is liable to pay the BOG a fine not exceeding 1000 penalty units. The BOG may, after examining a bank's explanation, issue a directive based on the explanation to that bank to take the remedial action that the BOG may specify and that bank shall comply with the directive. A bank which fails to comply with a directive is also liable to pay to the BOG a fine not exceeding 1000 penalty units. The BOG as part of the remedial action may also:

- Withdraw the bank's license,

- Ask the bank to republish the financial statement, and
- Ask for a change of the bank's auditors.

Institute of Chartered Accountants Ghana

International standards are now virtually accepted as the common yardstick for international reporting. The acceptance and use of IFRS has become a global phenomenon. Massive international flow of investment capital and capital instruments across geographical boundaries has added a new impetus to the adoption of IFRS. Part of the reason to this is that investors prefer audited accounts to be prepared not only on timely basis but also to conform to global standards.

The Institute of Chartered Accountants (Ghana) recognizes the importance of adopting IFRS. Among the advantages include:

- Financial statements of Ghanaian companies will be easily understood in the global marketplace;
- The credibility of financial statements prepared locally will be enhanced;
- The adoption will facilitate consolidation of financial statements, in the case of multinational companies;
- That following upon the increase confidence local financial reporting, foreign investor would feel more comfortable to invest in the Ghanaian economy.

Following from the above, in 2005 the Council of the ICAG resolved to migrate from using the Ghana National Accounting Standards as the financial reporting framework to the IFRS.

As accounting standard setters in Ghana, it is within the jurisdiction of

ICAG to monitor and enforce compliance with IFRS by all companies mandated to comply with the standard. However, as indicated by the Technical Director Academic, *“monitoring and enforcement of IFRS compliance by companies is left in the hands of regulatory bodies”*. For instance, it is expected that regulators such as BOG, Securities and Exchange Commission, and National Income Commission would assist monitoring and enforcing compliance by their members, and this has been the case to this day. The ICAG, nevertheless, provides among others:

- Creating a help desk at the secretariat to offer advice on implementation difficulties;
- Organizing workshops, seminars and breakfast meetings to educate chief executive officers etc on IFRS; and
- Conducting implementation surveys, sharing views with companies and issuing guidelines on good accounting practices.

Ghana Stock Exchange

It was discovered during the interview that, though it has been directed by the ICAG that all listed companies are to comply with the IFRS 2009, the Ghana Stock Exchange, which is to co-ordinate the stock dealing activities of members and facilitate the exchange of information including prices of securities listed for their mutual advantages and for the benefit of their clients, does not directly check whether the listed companies comply with the IFRS. However, it relies on the auditor’s assertion to determine whether companies comply with the IFRS or not. Hence, once the company’s auditors assert that it complies with IFRS, the Ghana Stock Exchange accepts that.

It has been documented by the Ghana Stock Exchange that companies

that contravene any of its regulations including non-compliance with the IFRS could face suspension or be delisted from the stock exchange.

Compliance with Bank of Ghana and ICAG directives

The interview revealed that, in line with the ICAG directives requiring all entities listed on the Ghana Stock Exchange as well as public interest entities (banks and non banking financial institutions) to comply with IFRS effective January, 2009, all the listed banks complied with the IFRS as at the end of the 2009 reporting period. Three of the six participating banks in the research complied with IFRS before its adoption in Ghana in 2007. The reason given by the three banks were the same. They had parent companies abroad which require that the financial statement be prepared in line with IFRS. The three companies until now were preparing two different set of financial statements; *“we had to prepare two set of financial statement, one in line with IFRS for the parent company for consolidation purposes, and the other in line with Ghana accounting standards and other regulatory requirements for publication in Ghana”* (Financial Director SG-SSB).

The foregone suggests a positive association between IFRS compliance and being a subsidiary of a parent company abroad. All the six banks confirm the fact that they comply with all the applicable IFRS requirements. This is important since the IFRS states that a company cannot claim compliance unless it complies with the entire IFRS requirement.

The problems faced by Ghanaian Banks in complying with IFRS

The benefits that companies complying with IFRS enjoy have been discussed earlier in the literature and they are enormous. Conversely, in

response to an interview question, “Identify the problems you associate with IFRS implementation by your bank,” the following problems came up:

All the participating banks in the study stated that some of the standards are very subjective resulting in different interpretation by different individuals. Two of the banks claim that there are often misunderstanding between the preparers and auditors of the banks about the recognition and measurement of some item. Although IFRS are principle/judgment based and in some cases requires optional treatment of certain item; in many cases they are acknowledged to be complex standards. The participating banks particularly mention IFRS 32/39 as always been at the centre of disagreement and demand a detailed and easy to comprehend application guidance tailored to meet the Ghanaian companies need.

Ghana is yet to harmonize its entire regulatory requirement with the IFRS and that poses a challenge to the listed banks. All the banks established that, apart from the fact that they must comply with the IFRS, they are also required to comply with the BOG regulatory requirement as well as the Security and Exchange Commission and the Ghana Stock Exchanges regulatory requirement. Even though as stated in the literature review, where the IFRS conflicts with the law, the law prevails. A problem arises when two regulatory requirements are in conflict.

Another problem that came up during the interview, which is a direct consequence of standard setting process being reactive rather than proactive, was that the IASB keeps revising old standards and introduces new one. This makes mastering the IFRS a difficult task, since by the time you become very

familiar with a particular standard, it has already been replaced or revised by the IASB.

It was also discovered during the interview that, all the banks are yet to fully automate the IFRS into their system, this result in a larger portion of the financial statement that deals with IFRS compliance, being prepared manually. The overall effect is that, it is time consuming and often leads to delay in reporting period. One of the six banks felt that, automating its accounting system to make it well-suited to IFRS compliance is a costly venture it must pursue. However, the rest saw the cost associated with the automation as necessary to promote positive future outcomes since they believe IFRS has come to stay.

Finally, it was made known by the participating banks that, due to the ever changing IFRS, they require a system that is dynamic enough to be able handle the ever changing IFRS. Such a system is not there yet and that will continue to be a problem for Ghanaian companies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this chapter is to summarize and discuss some of the major conclusions arising from the findings made by this study. The chapter will also come out with recommendation to improve compliance with IFRS in future as well as identify potential areas for future research.

Summary of findings

The following are the findings from the research:

1. Compliance level with IFRS 7 disclosure requirement improved between 2008 and 2009, recording 94.7% and 98.2% scores respectively.
2. It was also found that though the overall compliance level with IFRS 7 disclosure requirement for both years was high, there was a gap between claiming to comply with IFRS and the level of compliance by listed banks in Ghana.
3. Some listed banks were complying with IFRS prior to its adoption in Ghana in 2007. This was influenced by the fact that they had parent companies abroad and therefore had to submit to the parent company at the end of each reporting period, a financial statement which was IFRS compliance for consolidation purposes. Even with the above, it was found out that, all the listed banks had one problem or the other

with IFRS compliance.

The problems range from the subjectivity nature of the interpretation that individuals give to the standard, the number of regulatory requirement they had to comply with in addition to the IFRS, the ever changing IFRS, and the inability of the banks to automate the IFRS into their system to make it easier and faster for financial statement preparation.

4. It was also found that, apart from the Bank of Ghana who monitor and enforce IFRS compliance by banks, the other regulatory bodies rely on the affirmation of compliance by auditors of the respective banks to determine whether a particular bank complies or not.

Conclusions

The following conclusions are drawn from the study. Compliance with IFRS 7 is very high with listed banks in Ghana, though not absolute. The score of 94.7% in 2008 and 98.2% in 2009 is a good feat. However, this confirms the gap between claiming to compliance and actual compliance with IFRS by companies and this should be a source of worry.

Compliance with IFRS relates positively with time trends in Ghana. Though it can be argue that it is early days yet, the improvement in compliance level between 2008 and 2009 suggests that with time Ghanaian companies can do much better than the situation now.

Monitoring and enforcement of IFRS compliance is not as rigorous as it should be. With the exception of the Bank of Ghana which has a division that monitor compliance with regulatory and IFRS requirements, all the other

regulatory bodies rely on auditors assertion for compliance with IFRS. Since prior research has shown that auditor's may assert that a particular financial statement complies with IFRS when the accounting policies and notes indicate otherwise (Cairns, 1997), relying merely on auditors assertion could be dangerous.

Regardless of the fact that IFRS 7 compliance level is high with respect to listed banks in Ghana, the listed banks did not achieve this feat without challenges. Once those challenges are met, listed companies and for that matter the listed banks could achieve a 100% compliance with IFRS.

Recommendations

Based on the findings from the study, the following recommendations are made.

1. To facilitate and ensure complete and easy compliance with all IFRS requirements, the ICAG in collaboration with other stakeholders should come together to develop a template for all industries to serve as a guide for at least all public interest entities.

Such a template can be reviewed as and when old standards are revised and new ones introduced. This could solve the problems associated with giving different interpretations to a particular standard.

2. The ministry for trade and industry, in consultation with the council of ICAG, should set up an IFRS compliance task force whose basic responsibility would be to ensure that at least public interest entities comply with IFRS. The membership of such a task force could be drawn from ICAG, accounting firms, Ghana Stock Exchange, Bank of

Ghana, insurance commission as well as members from all regulators in financial reporting. Such a task force can help improve monitoring and enforcement of IFRS.

3. I again propose that education on IFRS, specifically to financial statement preparers and managers of companies, should be an ongoing exercise, especially when a particular standard is revised or new standards introduced. This will keep them abreast of current issues and also know how the new IFRS could be applied. Such an education must be carried out by the ICAG.
4. Learning the requirement of IFRS should also start from our second cycle institutions through to the polytechnics and then the universities. It has to be factored into the syllabus of all the educational level for those doing accountancy courses. This will improve students understanding of IFRS and how to apply them in future.

Future research

The limitations of this study as discussed in chapter one, and the findings of this study, signal the need for more research on IFRS compliance in Ghana in the future. Some of the future research areas worth considering include the following:

1. To determine the extent to which companies listed on the stock exchange comply with the entire IFRS requirement.
2. Future researchers can look at the extent of compliance by unlisted and/or small companies.

3. Future researchers can also look at compliance with IFRS and information quality. A survey of users of accounting information.

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APPENDIX

CHECKLIST FOR IFRS 7

This checklist addresses IFRS 7, which prescribes the disclosures in an entity's financial statements that enable users of those financial statements to evaluate: The significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed.

The researcher used it to check the level of compliance with IFRS 7 by listed banks in Ghana.

Balance Sheet

Categories of financial assets and financial liabilities

The carrying amounts of each of the following categories, as defined in IAS 39 Financial Instruments: Recognition and Measurement shall be disclosed either on the face of the balance sheet or in the notes:

IFRS 7.8 a) financial assets at fair value through profit or loss, showing separately:

(1)----- i) Those designated as such upon initial recognition; and

- (2)----- ii) Those classified as held for trading in accordance with IAS 39;
- (3)----- b) held-to-maturity investments;
- (4)----- c) Loans and receivables;
- (5)----- d) Available-for-sale financial assets;
- (6)----- e) Financial liabilities at fair value through profit or loss, showing separately:
 - (7)----- i) Those designated as such upon initial recognition; and
 - (8)----- ii) Those classified as held for trading in accordance with IAS 39; and
- (9)----- f) Financial liabilities measured at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss

If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:

IFRS 7.9

- (10)----- a) The maximum exposure to credit risk of the loan or receivable (or group of loans or receivables) at the reporting date;
- (11)----- b) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;
- c) The amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:

- (12)-----i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
- (13)----- ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset; and
- (14)----- d) The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose:

IFRS 7.10

a) The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:

- (15)----- i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see also IFRS 7.B4); or
- (16)----- ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability; and
- (17)----- b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

The entity shall disclose:

IFRS 7.11

(18)----- a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a) of IFRS 7 (see above); and

(20)-----b) if the entity believes that the disclosure it has given to comply with the requirements in paragraphs 9(c) or 10(a) of IFRS 7 does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

If the entity has reclassified a financial asset as one measured:

IFRS 7.12

(21)----- a) At cost or amortised cost, rather than at fair value; or

(22)----- b) At fair value, rather than at cost or amortised cost,

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification

Derecognition

An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15 to 37 of IAS 39 Financial Instruments: Recognition and Measurement). The entity shall disclose for each class of such financial assets:

IFRS 7.13

(23)----- a) the nature of the assets;

(24)----- b) The nature of the risks and rewards of ownership to which the entity remains exposed;

(25)----- c) When the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and

(26)----- d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Collateral

An entity shall disclose:

IFRS 7.14

(27)----- a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39 Financial Instruments: Recognition and Measurement; and

(28)----- b) The terms and conditions relating to its pledge.

When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

IFRS 7.15

(29)----- a) the fair value of the collateral held;

(30)----- b) The fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(31)-----c) The terms and conditions associated with its use of the collateral.

Allowance account for credit losses

IFRS 7.16

(32)----- When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

IFRS 7.17

(33)----- If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and breaches

For loans payable recognised at the reporting date, an entity shall disclose:

IFRS 7.18

(34)----- a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(35)----- b) The carrying amount of the loans payable in default at the reporting date; and

(36)----- c) Whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

IFRS 7.19

(37)----- If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18 of IFRS 7 (see above), an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).

Income statement and equity

Items of income, expense, gains or losses

An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:

IFRS 7.20

a) Net gains or net losses on:

(38)-----i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement;

(39)-----ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised directly in equity during the period and the

amount removed from equity and recognised in profit or loss for the period;

(40)-----iii) held-to-maturity investments;

(41)-----iv) loans and receivables; and

(42)-----v) Financial liabilities measured at amortised cost;

(43)----- b) Total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;

c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(44)-----i) financial assets or financial liabilities that are not at fair value through profit or loss; and

(45)-----ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

(46)-----d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39 Financial Instruments: Recognition and Measurement; and

(47)-----e) The amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

IFRS 7.21

(48)-----In accordance with paragraph 108 of IAS 1 Presentation of Financial Statements, an entity discloses, in the summary of significant accounting

policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements (see also IFRS 7.B5).

Fair value

IFRS 7.25

(49)-----Except as set out in paragraph 29 of IFRS 7 (see below), for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

An entity shall disclose:

IFRS 7.27

(50)-----a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each

(51)-----b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71–AG79 of IAS 39 Financial Instruments: Recognition and Measurement);

(52)-----c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available

observable market data; and for fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes.

(53)-----d) if paragraph 27(c) of IFRS 7 applies (see above), the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.

If a difference exists between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique (see note below), an entity shall disclose, by class of financial instrument:

IFRS 7.28

(54)----- a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39 Financial Instruments: Recognition and Measurement); and

(55)----- b) The aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

Disclosures of fair value are not required an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

IFRS 7.30

- (56)-----a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- (57)----- b) A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- (58)----- c) Information about the market for the instruments;
- (59)----- d) Information about whether and how the entity intends to dispose of the financial instruments; and
- (60)----- e) If financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and extent of risks arising from financial instruments

IFRS 7.31

(61)-----An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date (see also IFRS 7.B6).

Qualitative disclosures

For each type of risk arising from financial instruments, an entity shall disclose:

IFRS 7.33

- (62)-----a) the exposures to risk and how they arise;

(63)-----b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(64)-----c) Any changes in 33(a) or (b) (see above) from the previous period.

Quantitative disclosures

For each type of risk arising from financial instruments, an entity shall disclose:

IFRS 7.34

(65)-----a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer;

(66)-----b) the disclosures required by paragraphs 36 to 42 of IFRS 7 (see below), to the extent not provided in paragraph 34(a) (see above), unless the risk is not material; and

(67)----- c) concentrations of risk if not apparent from 34(a) and (b).

IFRS 7.35

(68)-----If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

An entity shall disclose by class of financial instrument:

IFRS 7.36

- (69)-----a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with IAS 32 Financial Instruments: Presentation) (see also IFRS 7.B9 and B10);
- (70)-----b) in respect of the amount disclosed in 36(a) (see above), a description of collateral held as security and other credit enhancements;
- (71)-----c) Information about the credit quality of financial assets that are neither past due nor impaired; and
- (72)-----d) The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

An entity shall disclose by class of financial asset:

IFRS 7.37

- (73)-----a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired;
- (74)-----b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and
- (75)-----c) For the amounts disclosed in 37(a) and (b) (see above), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

IFRS 7.38

(76)-----a) the nature and carrying amount of the assets obtained; and

(77)-----b) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

An entity shall disclose:

IFRS 7.39

(78)-----a) a maturity analysis for financial liabilities that shows the remaining contractual maturities (see also IFRS 7.B11 to B16); and

(79)-----b) a description of how it manages the liquidity risk inherent in 39(a) (see above).

Market risk

Unless an entity complies with paragraph 41 of IFRS 7 (see below), it shall disclose:

IFRS 7.40

(80)-----a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(81)-----b) The methods and assumptions used in preparing the sensitivity analysis; and

(82)-----c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

IFRS 7.41

If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40 of IFRS 7 (see above).

The entity shall also disclose:

IFRS 7.41

(83)----- a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(84)-----b) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

IFRS 7.42

(85)-----When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 of IFRS 7 (see above) are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

INTERVIEW GUIDE

To Bank of Ghana (Banking Supervision) and Ghana Stock Exchange

This is a research interview guide for gathering data for the write-up of a dissertation on the topic ‘‘ IFRS by listed banks in Ghana’’ The study is being undertaking to ascertain the level of compliance with IFRS by listed banks in Ghana, the formal mechanism used by regulatory bodies to monitor and enforce IFRS compliance and finally, to determine the problems associated with IFRS implementation in Ghana. This is a part of the requirement for the award of an MBA degree in accounting from the University of Cape Coast. Your participation will be extremely helpful to generate data to answer question posed in the research. You are assured that the information you provide would be treated with utmost confidentiality and would be used solely for academic purpose.

1. Are listed banks required to lodge a copy of their audited financial statement with your department?
2. Does the department check whether all listed companies comply with IFRS? If yes
3. Please describe the department’s approach to checking compliance with IFRS
4. Has the approach in three (3) above been documented?
5. Has the department observed any non-compliance with certain standards? If yes:

6. What actions does the department take on a company who does not comply with the standards?
7. Who does the department apply penalties for non-compliance to, is it:
 - i) The company
 - ii) The directors
 - iii) External auditors
 - iv) Others, specify
8. Has the actions against non-compliance been documented by the department?
9. How many staffs are engaged in monitoring compliance with IFRS by your department?
10. Which professional body do those charged with monitoring and enforcing compliance with IFRS possess:
 - A. ICAG
 - B. ACCA
 - C. OTHERS, Specify

To the listed banks

1. Does the bank comply with IFRS?
2. When was the first time the bank adopted IFRS?

3. In case you already comply with IFRS before 2007, what motivated you to do that?
4. Was the bank able to comply with all the applicable IFRS?
5. Has the staff responsible for financial statements preparation received any formal training prior to the adoption of the IFRS in 2007?
6. Identify problems you associate with IFRS implementation by your bank in complying with the standard.
7. Do you consider year 2007 as the right time for adopting of IFRS?
8. Does the bank has any subsidiaries or is it a subsidiary of another company?

To the institute of chartered accountant (Ghana)

- 1) Are listed banks required to lodge a copy of their audited financial statement with your institute?
- 2) Does the ICAG check whether all listed companies comply with IFRS? If yes
- 3) Please describe the departments approach to checking compliance with IFRS
- 4) Has the approach in three (3) above been documented?
- 5) What role do Ghanaian audit firms suppose to play to ensure that listed companies comply with IFRS?

6) Are there any sanctions available for auditors who disregard the rules?

7) Do the rules apply to foreign audit firms as well?