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THE EXTENT OF CORPORATE DISCLOSURE OF INFORMATION BY THE COMPANIES IN CARS AND ITS REGULATIONS: IMPLICATIONS IN BANGLADESH

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ABSTRACT: *The relative weight of developing countries regulations in CARs disclosures have been growing hurriedly over recent years. The study is an attempt to examine of disclosure of financial information upon adoption of International Accounting Standards (IASs) in Bangladesh. In international accounting arena disclosure is the key to understanding one country's accounting system. As they continue integrating into the global trading and financial systems, they need to strengthen their respective national accounting infrastructures, essential to attract and provide services to international investments and institutional and technical capacities to be able to comply with international requirements, standards and codes. The accounting system of each country is affected by different influential factors. Issues concerning developing countries in relation to accounting, and in particular international accounting, have generated considerable interest among accounting scholars and practitioners in both developed and emerging countries. In this paper, the researcher has examined the impact of British colonial influence, regulation, and mandatory IASs/IFRSs on disclosure of Corporate Annual Reports (CARs) of Bangladesh. This study showed that the British colonial influence through the adopted the former British Laws is prevalent on the accounting systems of Bangladesh and has a greater impact on the financial reporting practices of the companies' financial reporting practices. The Securities and Exchange Ordinance 1969, Bangladesh Bank Order 1972, Securities and Exchange Rules 1987, Bank Companies Act 1991, Financial Institutions Act 1993, Securities and Exchange Commission Act 1993, Companies Act 1994 and Bankruptcy Act 1997 are the most important legislations to govern the corporate financial reporting environment in Bangladesh. Since 1983, Bangladesh is trying to adopt the International Accounting Standards (IASs/IFRS) which has become mandatory from 2000 for the listed companies for preparation and auditing of financial statements. It has found that the Companies Act 1994 does not contain any provision for mandatory observance of the adopted IFRSs and ISAs in practice which has made the unlisted companies to follow IASss/IFRSs compulsorily. In addition, to ensure more transparency in accounting system and disclosure of important accounting policies of banks and financial institutions in Bangladesh, the Central Bank (Bangladesh Bank) issued a circular (BRPD) Circular No. 3/2000 dated 18/04/2000) for mandatory adoption of IAS-30. As a result, since 2000, all banks in Bangladesh are required to use the IAS-30 in the preparation of their corporate annual reports. Further, the Securities Exchange Commission (SEC) of Bangladesh has passed Corporate Governance Guidelines in February 2006 that expect to increase the level of disclosure made the listed companies in Bangladesh.*

KEYWORDS: Accounting Systems, Accounting Standards, Financial Reporting, Colonial Power International Accounting Standards, IFRS, Disclosure, Regulation, SEC.

INTRODUCTION

With a view to surviving in today's business world an organization should be much more transparent than that of before. Keeping the importance of corporate disclosure this paper investigates the extent and level of corporate mandatory and voluntary disclosures and their association with firm's characteristics. The financial reporting practices of companies in Bangladesh are influenced by many factors- economic, political and social, legislation, and mandatory international accounting standards and/IFRS. The accounting and financial reporting system in Bangladesh is greatly influenced by the history of colonial rule. Before 1947, Bangladesh was a part of Indian Sub Continent had been under the British rule for approximately 200 years, and the Indian Companies Act 1913 was the basis for the financial reporting requirements of the companies. Bangladesh was a part of Pakistan until 1971 before it's inception, and has adopted the Indian Companies Act 1913. Subsequently, Bangladesh has replaced it's Companies Act 1913 by the Companies Act 1994. Consequently, the Companies Act 1994 becomes the main basis for the corporate disclosure requirements in Bangladesh. In case of Bangladesh, there is Securities and Exchange Rules 1987 for the listed companies which require more disclosure requirements than the provisions laid down in the respective Companies Act 1994. Since 1983, Bangladesh is trying to adopt the International Accounting Standards (IASs/IFRS) which has become mandatory from 2000 for the listed companies for preparation and auditing of financial statements. In addition, To ensure more transparency in accounting system and disclosure of important accounting policies of banks and financial institutions in Bangladesh, the Central Bank (Bangladesh Bank) issued a circular (BRPD) Circular No. 3/2000 dated 18/04/2000) for mandatory adoption of IAS-30. As a result, since 2000, all banks in Bangladesh are required to use the IAS-30 in the preparation of their corporate annual reports. Further, the Securities Exchange Commission (SEC) of Bangladesh has passed "Corporate Governance Guidelines" in February 2006 that expect to increase the level of disclosure made the listed companies in Bangladesh. This paper tries to identify the major factors that influence the financial reporting practices of the companies in Bangladesh.

Historical Review of the Development of Companies Acts in Bangladesh

Historically, the British accounting system has had a great influence on the accounting system and accounting education of the Indian sub-continent due to many years of British colonial rule. The present company law and accounting system of the Indian Sub Continent date back to the later half of the 19^{th} century. This legislation was enacted to meet the growing needs of British business in the then British India. If we look at the history of the Companies Act in the then British India we will see that there was no company law before 1850, based on the Companies Act, 1844 of the United Kingdom, the Registration of Joint Stock Companies Act was passed for India. However, this law did not prescribe the form and contents of the balance sheet and profit and loss account. In 1857, the Registration of Joint Stock Companies Act was amended to prescribe how to prepare the balance sheet of registered joint stock companies. The first Indian Companies Act was the Indian Companies Act, 1857 which included some regulations regarding the preparation of final accounts which was entirely optional (Hossain, 1999). Later the Indian Companies Act, 1882 enforced from May 1, 1882 replaced the companies Act, 1857, providing some compulsory provisions relating to the preparation of the balance sheet and its audit. This act provided a specimen form of the balance sheet where the assets and liabilities had to be arranged in order of permanency.

The Indian Companies Act, 1913 came into force on April 1, 1914 replacing the Act of 1882 and appended many important provisions regarding the disclosure of information (Hossain, 1999). In the previous Companies acts, the presentation of profit and loss account, contents of auditors' report and directors, report were optional regulations. The Companies Act, 1913 is nothing but the reproduction of the Companies Act, 1908 of the United Kingdom. The Indian Companies

Act, 1913 included provisions regarding proper books of accounts, preparation of balance sheet and its contents and audit, auditors' report and its contents, preparation and laying of profit and loss account and a directors' report regarding the state of the state of the company's affairs. In 1929, in the United Kingdom, the Companies Act, 1908 was replaced by a new act and again, based on this act, the Indian Companies Act, 1913 amended in 1936 (Hossain, 1999). The amendment under the 1936 Act came into force on January 15, 1937 and brought about major changes with regard to financial reporting. Previously, the provisions regarding profit and loss account and the director's report were optional, but now, became mandatory. The amended act included provisions regarding the circulation before the annual general meeting of a balance sheet and a profit and loss account or an income and expenditure account; attachment of a report with respect to the state of the company's affairs along with the balance sheet, provisions regarding audit and circulation of a profit and loss account along with the balance sheet (Hossain, 1999). The amended act prescribed the form of the balance sheet.

Historical Review of the Development of Companies Acts in United Kingdom (1844-1929)

United Kingdom Company Act 1844
United Kingdom Company Act 1908
United Kingdom Company Act 1929 (Replace 1908)

Historical Review of the Development of Companies Acts in British India (1757-1947)

British India Company Act 1850 (based on United Kingdom Company Act 1844)
British India Company Act 1857
British India Company Act 1882 (Replace 1857)
British India Company Act 1913 (Replace 1882) Reproducing United Kingdom Company Act 1908
British India Company Act (Amended) 1936 (based on 1913) based on United Kingdom Company Act 1929

Historical Review of the Development of Companies Acts in India Independent 1947

India Company Act 1956
India Company Act 1988 (Amended)

Historical Review of the Development of Companies Acts in Pakistan Independent 1947

Governed by India Company Act 1913

Historical Review of the Development of Companies Acts in Bangladesh Independent 1971

Governed by India Company Act 1913 (Amended in 1936)
Bangladesh Companies Act 1994 (Replace 1913) Based on India Company Act 1956/1988 (Amended)

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The Companies Act, 1994

Bangladesh was a part of the then Pakistan which became independent in 1971. After the independence of the then Pakistan in 1947, Bangladesh became a province of the then Pakistan and was governed in accordance with the provisions of the Companies Act, 1913. After its own independence, Bangladesh adopted the old Indian Companies Act, 1913 (amended in 1936) and replaced it subsequently by the Companies Act, 1994. This act is based heavily on the Indian Companies Act 1956, amended in part by the Companies (Amendment) Act 1988 (Kasem, 1998).

The main provisions of the Companies Act, 1994 regarding the financial reports have laid down under Sections 181 to 190. Section 181 (1) of the Companies Act 1994 represents the obligation to keep the proper books of accounts, section 183 (1) provides the requirements to present audited balance sheet, and profit and loss account in the annual general meeting and section 184 (1) of the Companies Act provides the requirements for directors' report. Although Section 181 of the Companies Act, 1994 states the obligation to keep proper books of account but does not give any idea about what sort of books of accounts to be kept. Section 183 (2) provides that the maximum time limit to present a balance sheet and a profit and loss account at the Annual General Meeting is nine months except for companies having businesses outside Bangladesh for which the maximum time is 12 months. However, the Registrar may for any special reason extend this by a period not exceeding three months. According to the above provision, companies are not required to prepare any financial reports/statements half-yearly or quarterly basis.

Section 185 (1) lays down that the balance sheet to be prepared must contain a summary of the property and assets and of the capital and liabilities of the company giving true and fair view of affairs as at the end of the financial year and it shall, subject to the provisions of this section be in the form set out in Part I of Schedule XI or thereto as circumstances admit [Section 185 (1)]. Part I of Schedule XI contains two forms of Balance sheet- Form A for Balance sheet drawn up horizontally and Form B for Balance Sheet drawn up vertically. Form A contains assets on the right side and liabilities on the left hand side of the balance sheet and specify instructions in accordance with assets and liabilities should be made out. Figure of the previous year and those for the current year are to be shown in the Balance Sheet for both the forms. In addition, this section says that in the preparation of the balance sheet due regard shall be made as far as possible, to the general instructions under the heading 'Notes' at the end of the Part I. These instructions are important and are to be followed in preparing Balance Sheet and are very similar to the provision as laid down in Indian Companies Act 1956. This notes if carefully review will show that they are in accordance with IAS-1, 1AS-5, IAS-7, IAS-8, IAS-10 and IAS-13.

Section 185 (2) lays down that every Profit and Loss Account of a company shall give a true and fair view of the profit or loss of the company for the financial year and shall, subject to aforesaid, comply with the requirements of Part II of the Schedule XI as far applicable thereto. Part II of the Schedule XI states that profit and loss account (a) shall be so made out clearly to disclose the result of the working of the company during the period covered by the account; and (b) shall disclose every material feature, including credits of receipts and debit or expenses in respect of

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non-recurring transactions or transactions of an exceptional nature (Clause 2). The profit and loss account sets out the various items relating to the income and expenditure of the company arranged under most convenient heads. Part II of the Schedule XI provides the list of the incomes and expenditures relating to the period covered by the account.

Section 184 (1) states that in the annul general meeting of the company, a director's report shall be attached with each balance sheet must provide (a) the state of affairs; (b) the amount, if any, the board of directors propose to carry to the reserve fund shown on the balance sheet, the amount of therein; (c) the amount, if any, the board of directors in their director' report recommend should be paid by way of as dividend, the amount of such dividend; and (d) any change in the balance sheet between the last data of balance sheet period and the date of such report affects the financial position of the company significantly. Furthermore, section 185 (5) states that the directors in their report shall be obliged to make out full information and explanations regarding the comments made in the auditor's report.

Banking Companies Act, 1991

Section 2 of Banking Companies Act, 1991 states that the provisions bearing of this Act shall be in addition to and not, save as hereinafter express by provided, in derogation of, the Companies Act, 1994 and any other laws for the time being in force. Besides, the banking companies should comply with provisions of the Companies Act 1994 as the banking companies are registered with the registered joint stock companies as a company, if otherwise expressed in the Banking Companies Act, 1991. As per section 24 of this Act, every bank shall make a reserve fund and if the amount in that fund together with amount in the share premium account is below the amount than its paid up capital Bank will transfer to the reserve fund not less than 20 on profit before tax and it should be disclosed in the profit and loss account made under section 38 of this Act.

Every bank shall maintain a cash reserve fund not less than 5% with Bangladesh Bank or its agent bank and that should disclosed in the financial statements (Section 25). Section 33 discusses about the liquid assets of the banking companies and each component is to be disclosed in the financial statements. As per section 36, every bank company shall submit reports to the Bangladesh Bank on the 31st day of December and 30th day of June of each year showing its assets and liabilities in the prescribed form and manner. For the purpose of benefit of public, Bangladesh Bank may publish in consolidated form or otherwise any information contained by it under this Act relating to overdue loans and advances of more than thirty days (Section 37).

According to Section 38, the accounts and balance sheet of a banking company will be prepared as per BRPD circular 3/2000 and also the provision of the Companies Act, 1994. Financial audit of the financial statement of the banking companies is mandatory by a person who is qualified according to the Bangladesh Chartered Accountants Order, 1973 and auditor is required to state whether or not adequate provisions have been made, financial reports has been made in accordance with the standard issued by the Bangladesh Bank (As per section 39). Section 40 mentions that audited financial statement shall be submitted to Bangladesh Bank within the three months of the close of the period to which they relate. If the Bank is a private company, it is required to submit the accounts and balance sheet to registrar according to section 41. According

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to Section 42 of this Act, every banking company incorporated outside Bangladesh shall not later than the 1st Monday in February of the year when it runs the business , display a copy of the last balance sheet and profit and loss account made under section 38 in a conspicuous place in its principal office and every branch office in Bangladesh until submitted by a copy of the subsequent balance sheet and accounts are displayed in the same way.

Mandatory Disclosure Provisions for Financial Companies under IAS 30 (BAS 30)

According to IAS 30, Paragraph 8, states that like other business entity, banks may use different methods for recognition and measurement of items in their financial statements. Therefore, for better understanding of the users of accounting information, banks should disclose the accounting policies that are followed for preparing financial statements. Banks should disclose the policy regarding the recognition of the principal types of income; policy regarding the valuation of investment and dealing securities; the distinction between those transactions and other events that result in the recognition of assets and liabilities on the balance sheet and those transactions and other events that only give rise to contingencies and commitments; the basis for the determination of losses on loans and advances and for writing off uncollectable loans and advances; the basis for the determination of charges for general banking risks and the accounting treatment of such charges.

As per Paragraph 9, income and expenses should be presented in the income statement as grouped by nature and principal types of income and expenses should be disclosed separately. Paragraph 10 depicts some prescribed items of income statement, such as, interest and similar income; interest expense and similar charges; dividend income; fee and commission income; fee and commission expense; gain less loss arising from dealing securities; gain less loss arising from investment securities; gain less arising from dealing in foreign currencies; other operating income; losses on loans and advances; other operating expenses, etc.

Among the principal types of income, interest, fees for services, commission and dealing results should separately disclosed in the financial statement (Paragraph 11). Like income, among the principal types of expense, interest, commissions, losses on loans and advances, charges relating to the reduction in the carrying amount of investments and general administrative expenses should be disclosed separately as stated in Paragraph 12. Paragraph 13 states that income and expense items should not be offset except for those relating to hedges and to assets and liabilities, which have been offset in accordance with paragraph 23. As per Paragraph 15, gain and losses arising from disposal and changes in the carrying amount of dealing securities, disposal of investment securities, and dealing in foreign currencies are normally reported on a net basis.

According to Paragraph 16, interest income and interest expense should be disclosed separately. Governments' assistance to bank by making deposits and other credit facilities should be disclosed (Paragraph 17). Paragraph 18 prescribes that assets and liabilities should be grouped as their nature and presented as their liquidity. As per Paragraph 19, among others the following items should be disclosed in the balance sheet of a bank: cash and balance with the central bank; treasury bills and other bills eligible for rediscounting with the central bank; Government and other securities held for dealing purposes; placements with, and loans and advances to, other banks; other money market placements; loans and advances to customers; investment securities; deposits from other banks; other money market deposits; amounts owed to other depositors; certificates of deposits; promissory notes and other liabilities evidenced by paper; and other borrowed funds.

It is no longer required to group the assets and liabilities as currents and non-currents (Paragraph 20). According to Paragraph 23, bank should not offset any asset or liability with other liability or asset unless a legal right of set-off exists and the offsetting represents the expectation as to the realization or settlement of the asset or liability. It is mentioned in the Paragraph 24 that a bank should disclose the fair values of each class of its financial assets and liabilities. Financial assets should be presented by classification as loans and receivables originated by the enterprise, held to maturity investments, held for trading, and available-for-sale (Paragraph 25).

According to Paragraph 26, 27, 28 & 29, Bank should disclose the contingent liabilities and commitments because these are significant in amount and risk and may be revocable or irrevocable. As per Paragraph 30, 31, 32, maturity grouping of assets and liabilities should be disclosed by the bank. Paragraph 33 has provided the maturity grouping of assets and liabilities as: up to 1 month, from 1 month to 3 months, from 3 months to 1 year, from 1 year to 5 years and from 5 years and above. Paragraph 34 states that in the maturity grouping, maturity period of assets and liabilities should be same. As mention in the Paragraph 35, maturity could be expressed in terms of the remaining period to the repayment date, the original period to the repayment date, or the remaining period to the next date at which interest rates may be changed.

A bank should disclose an analysis expressed in terms of contractual maturities (Paragraph 36) and if there is no contractual maturity date, bank should assume the expected date on which the assets will be realized (Paragraph 37). Paragraph 39 prescribes that management may provide, in its commentary on the financial statements, information about the effective periods and about the way in manages and controls the risks and exposures associated with different maturity and interest rate profiles. As per Paragraph 40, a bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures should be made in terms of geographical areas, customer or industry group, or other concentration of risk. Bank should also disclose the amount of significant net foreign currency exposures.

According to Paragraph 43, a bank should disclose about the provision for losses on loans and advances. Any amount set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates are present in the portfolio of loans and advances should be accounted for as appropriation of such retained earnings (Paragraph 44). Paragraph 47 states that the movements in the provision, including the amounts previously written off that have been recovered during the period, are shown separately. Any amount set aside for banking risks should be separately disclosed as appropriation of retained earnings (Paragraph 50) and a bank should disclose the aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged as security (Paragraph 53). Paragraph 55 and 56 discuss about disclosure of trust activities and related party transactions.

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Insurance Ordinance 2008

The main provisions for mandatory disclosure for the insurance companies in Bangladesh under the Insurance Ordinance 2008 are as follows:

Section 26: Separate accounts and fund: Where the insurer carries on business of more than one class, he shall keep a separate account of all receipts and payments in respect of each such class of insurance business. Where the insurer carries on the business of life insurance, a separate fund to be called the life insurance fund, should maintain. Before expiring six month of each calendar year a statement, showing all receipt and payment, should be submitted to the authority duly certified by an auditor.

Section 27: Accounts and Balance Sheet: Every insurer shall, at the expiration of each calendar year, prepare with reference to that year a balance sheet, a profit and loss account. In respect of each class or sub-class of insurance business for which he is required keep a separate account of receipts and payments, he has to prepare a revenue account in accordance with the regulations. He has to prepare a statement mentioning the name of the person involved in management and their activities.

Section 28: Audit: The balance-sheet, profit and loss account, revenue account, shall, unless they are subject to audit under the Companies Act, be audited annually by an auditor, and the auditor shall in the audit of all such accounts have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by section 213 of the Companies Act.

Section 29: Special Audit: Authority may audit the books and records of every insurer in respect of all insurance business transacted by him in Bangladesh by an auditor or auditors. Provided that the auditor appointed under this section shall not be the same auditor appointed under section 28. An audit report shall be submitted by the auditor within three months of his appointment and fifteen days from completion of audit.

Section 30: Actuarial report and abstract: (1) Every insurer carrying on life insurance business shall, in respect of the life insurance business transacted by him in Bangladesh once at least in every years cause an investigation to be made by an actuary into the financial condition of the life insurance business carried on by him, including a valuation of his liabilities in respect thereto.
(2) The provisions of sub-section (1) regarding the making of an abstract shall apply whenever at any other time, an investigation into the financial condition of the insurer is made with a view to the distribution of profits or an investigation is made of which the results are made public.

Section 32: Submission of Returns: The audited accounts and statements referred to in section 27 and the abstract and statement referred to in section 30 shall be printed, and four copies thereof shall be furnished as returns to the authority.

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Section 33: Exemption from certain provisions of the Companies Act: Where an insurer, being a company incorporated under the Companies Act or under any Act repealed thereby, in any year furnishes his balance sheet and accounts in accordance with the provisions of section 32, he may at the same time send to the Registrar of Companies copies of such balance-sheet and accounts; and where such copies are so sent it shall not be necessary for the company to file copies of the balance-sheet and accounts with the Registrar and such copies so sent shall be chargeable with the same fees and shall be dealt with in all respects as if they were filed in accordance with that section.

Section 34: Furnishing reports: Every insurer shall furnish to the authority a certified copy of every report on the affairs of the concern which is submitted to the members or policy-holders of the insurer immediately after its submission to the members or policy-holders as the case may be.

Section 35: Abstract of proceedings of general meetings: Every insurer shall furnish to the authority a certified copy of the minutes of the proceedings of every general meeting as entered in the Minutes Book of the insurer within thirty days from the holding of the meeting to which it relates.

Section 36: Custody and inspection of documents and supply of copies: Every return furnished to the authority or a certified copy thereof shall be kept by the authority and shall be open to inspection; and any person may procure a copy of any such return, or of any part thereof, on payment of prescribed

Section 37: Power of authority regarding return: If it appears to the authority that any return furnished to him under the provisions of this Ordinance is inaccurate or defective in any respect, he may require from the insurer such further information, certified if he so directs by an auditor or actuary, as he may consider necessary to correct or supplement such return.

Section 40: Returns to be published in statutory forms: No insurer shall-

(a) make, issue, circulate or cause to be made, issued or circulated, any estimate, illustration, circular or statement misrepresenting the terms of any policy issued or to be issued or the benefits or advantages promised thereby or the bonuses, shareholders' dividends or share of the surplus to be received thereon, or make any false or misleading statement as to be bonuses, shareholders' dividends or share of surplus previously paid on similar policies or make any misleading representation or any misrepresentation as to the financial condition of any insurer or use any name or title of any policy or class of policies misrepresenting the true nature thereof or make any misrepresentation to any policy-holder insured in any company for the purpose of inducing or tending to induce such policy-holder to lapse, forfeit or surrender his insurance; and

(b) make, publish, disseminate, circulate or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated or placed before the

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public in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster or in any other manner an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance, or the financial position of any insurer or with respect to any person in the conduct of his insurance business, which is false, untrue, deceptive, misleading or calculated to injure any person engaged in the business of insurance:

Section 41: Investment of Assets and submission of Report: Every insurer shall invest and at all times keep invested in the manner provided in Ordinance and shall submit a statement of investments of assets to the authority.

The Securities and Exchange Rules, 1987

In 1970, the Security and Exchange Ordinance, 1970 was passed and enforced in tile then Pakistan. At the same time the Securities and Exchange Authority was established. The accounting rules were included in the legislation applicable to those companies who were trading on the stock exchanges in the then Pakistan. After the independence of Bangladesh in 1971, this ordinance and accounting rules were accepted as existing laws in Bangladesh and after that the Securities and Exchange Authority (SEC) was established. In 1987, the Government of Bangladesh took some important steps to enforce the aforesaid ordinance and rules. As a result, the Investment Wing of the Finance Division of the Ministry of Finance passed and enforced the Securities and Exchange Rules (SER), 1987 (Hossain, 1999). The SER became effective in September, 1987 following the establishment of the Securities and Exchange Authority to regulate the disclosure and accounting practices of listed companies in Bangladesh (Nicholls and Ahmed, 1995). In the absence of other proper legislation regarding the disclosure of accounting information, SER 1987, which is mandatory for listed companies, may force companies to disclose more information. However, the Securities and Exchange Rules, 1987 is nothing but a reproduction of enforced the Securities and Exchange Rules (SER), 1971 (with a minor amendment). Now, we will see the main requirements of the SER, 1987 in relation to the financial reporting practices of the companies who are trading on the Stock Exchanges in Bangladesh (Hossain, 1999).

The SER, 1987 is applicable to companies that are trading on the stock exchanges in Bangladesh. According to the rules, the companies must include balance sheet, profit and loss accounts, auditors' report. However, it does not prescribe the contents of the directors' report. Again, this rules prescribes that the format of the balance sheet must be in the horizontal 'T' form, and should classify the assets and liabilities into current assets and liabilities and fixed assets and liabilities. The part I of the Second Schedule of the SER, 1987 prescribes detailed guidelines in relation to presentation of the assets and liabilities of companies. This is an improvement in the requirements for the preparation of the balance sheet from the requirements the Companies Act, 1913 (Hossain, 1999). The SER, 1987 also prescribes the requirements to prepare the profit and loss account in the part II of the Second Schedule. However, the rules do not prescribe any standard format for the profit and loss account.

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The SER, 1987 contains further improvements over the Companies Act, 1913 in that it requires that companies must disclose the corresponding figures of the previous period for all items in the balance sheet and profit and loss account. It prescribes the preparation of the profit and loss account in such a way that it will disclose the manufacturing, trading and operational results of a company. In addition, in the case of companies having two or more business units or lines, working results must be shown separately (Hossain, 1999). Furthermore, certain non-financial information should be included in the annual financial statement, such as the capacity of the industry units, actual production, and the aggregate amounts of capital commitment outstanding and so on.

The Stock Exchanges of Bangladesh and Financial Reporting Practices

Development of financial reporting is related to the industrial and stock market growth levels of developing countries. It has been said that high standards of financial reporting is one of the important characteristics of developed market economies and there is a strong correlation between the level of disclosure and well-developed securities markets (Gray et al., 1984). This section will focus on how developed the stock exchanges in Bangladesh are and whether there is any influence from the stock exchanges on corporate financial reporting in Bangladesh.

After independence, major companies were nationalized and there was no stock exchange in Bangladesh till 1976. Before independence, a stock exchange had been established in Dhaka, the Dhaka Stock Exchange (DSE) in 1954 as a corporate body under the Companies Act, 1913. However, it operated on a very small scale in the first 25 years of existence. The DSE did not develop under the Pakistani regime during 1947-1971. After the emergence of Bangladesh in 1971, the DSE market ceased to exist due to the government policy of nationalizing all the major industries of the country (Hossain, 1999). In 1976, the DSE was reactivated with nine listed companies due to the change in the attitude of the then government towards the development of the private sector and promotion of a market economy. As a result the activities of the stock exchange expanded significantly since 1983 (Huq and Huq, 1988). In 1992, the number of listed companies increased to 145 with paid up capital of Taka 6020.30 (4 million). The listing rules of tile DSE enforce a minimum paid up capital of I million taka ($25,000). The DSE, although small in terms of market capitalization, has received some attention from international investors because of its rapid increase in market value and high dividend returns; and because of the liberalization and reform measures adopted in Bangladesh since 1991 (Hossain, 1999). These measures include full convertibility of taka, lifting of all restrictions and limits on foreign participation in securities and of repatriation of gains and profits, non taxability of capital gains, the formation of Investment Corporation of Bangladesh (ICB), and deregulation and privatization stance,

The stock market in Bangladesh is underdeveloped and cannot be said to be an 'emerging market'. The market capitalization is low as well as the trading volume relative to capitalization.

The comments of Chaudhury and Miyan (1990, p. 74) can be noted in this respect,

'The economies of Taiwan, Korea, India and Malaysia are roughly 2. 4, 5.1, 14. 0 andl,9 times the economy of Bangladesh. P16wever, their

> *stock market capitalization's are approximately 272, 184, 133 and 104 items that of Bangladesh. One obvious factor is the degree of industrialization. For example, with about same percentage of labour force, Indian industrial sectors relative contribution to GDP is almost three times that of Bangladesh, However, that is lot more than low degree of industrialization as indicated the trading volume relative to capitalization'.*

One of the features of the capital market in Bangladesh is the concentration of share ownership of a few shareholders' account for substantial part of total shareholders value. At present, the capital market in Bangladesh consists mainly of the DSE, three governments' development financial institutions (DFIs), namely the Bangladesh Shilpa Rin Sangstha (BSRS), the Bangladesh Shilpa Bank (BSB) and the Investment Corporation of Bangladesh (ICB) and few newly created private Investment Banks (Nicholls and Ahmed, 1995).

The companies Act, 1994 and the Securities and Exchange Rules, 1987 are the most important laws which regulate the financial reports. As already noted the financial reporting practice of listed companies in Bangladesh made is mainly based on the legal requirements of the Companies Act, 1994, the Securities and Exchange Rules, 1987, and the mandatory BASs/IFRSs. The Security and Exchange Rules, 1987 contain the detailed provisions regarding the contents of balance sheet, profit and loss account, and auditors' report. Proper issuance of securities, protections of the interest of the investors and promotion of development, regulation of the capital and securities market are the basic strategies of the Securities and Exchange Commission (Hossain, 1999). These rules have increased the disclosure requirements of the listed companies in Bangladesh.

In the case of developed countries, requirements of the stock exchange can significantly affect disclosure aspect of financial reporting. In Bangladesh, the listing of does not prescribe any additional disclosure requirements governing in financial reports as a part of listing requirements per se other than the legal disclosure requirements i.e., the companies Act, 1994 and the securities and Exchange Rules 1987 (Hossain, 1999). As per the Listing Rules of DSE, all companies listed and quoted on the Exchange shall[21],

"(a) forward to the Exchange copies of Statutory and Annual Reports and Audited Accounts, as soon as issued;

(b) forward to the Exchange copies of all notices before they are published or sent to the shareholders and to file with the Exchange certified copy of Resolutions of the company as soon as such Resolutions have become effective".

[1] Listing Rules, Dhaka Stock Exchange Limited, p.5

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Influence of mandatory International Accounting Standards (Or IFRSs) in Bangladesh

Accounting standards are the norms of accounting policies and practices issued by the accounting bodies, national and international, for the guidance of their members regarding the treatment of the items which made the financial statements and their disclosure therein (Azizuddin, 1991). These accounting standards are intended to describe methods of accounting or disclosure for the application to all adopted accounting statements expected to give a true and fair view of financial position and results (Hossain, 2007). The establishment and enforcement of standards is an important issue for the accounting profession and its interested users. Determining the best mechanism to employ in establishment uniform accounting standards may be essential to the acceptability and usefulness of accounting standards (Belkaoui and Jones, 1996).

The according profession in Bangladesh has evolved in the British tradition of self regulation and professional ethics, and its root can be traced to 1850 when the first Companies Act was enacted in India (Nicholls and Ahmed, 1995). There are two accountancy bodies in Bangladesh the Institute of Chartered Accountants of Bangladesh (ICMAB). The members of ICAB are entitled to attest to the validity of accounts and to report to shareholders whether a company's financial statements comply with statutory provisions (Nicholls and Ahmed., 1995). In 1983, ICAB became the member of the International Accounting standard Committee (IASC). Bangladeshi Accounting Standards (BAS) include International Accounting standards (IASs) adopted by the ICAB. In. Bangladesh there is no separate accounting standard body like Accounting Standard Board (ASB) in India, The ICAB through their Technical and Research Committee have adopted fourteen International Accounting Standards (IASs) as national accounting standards, taking into consideration the local laws and regulations and several IASs are in process of adaptation.

However, the accounting standards issued by the ICAB are now mandatory for the SEC of Bangladesh since 2000. As a result, there is a great influence of the accounting standards on financial reporting practices in Bangladesh. The laws of Bangladesh set minimum legal requirements as to the disclosure of accounting information in corporate annual reports and is likely to be confined only to 'minimum disclosure' concepts. In such a situation, accounting standards, having legal backing, are likely to have a very strong influence on the financial reporting system in Bangladesh. The Securities and Exchange Commission has by a notification dated 29the December 1997 requires all listed companies to abide by Bangladeshi Accounting Standards adopted by the ICAB and hence, accounting standards are mandatory only for the companies listed in the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). At present 26 IASs are mandatory, 3 IASs are under consideration of the SEC of Bangladesh while 8 IFRSs are mandatory (See Appendix A). As a result, the accounting Standards are likely to a have greater influence on the financial statements of the listed companies in Bangladesh.

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SECURITIES AND EXCHANGE NOTIFICATIONS

SEC Notification (4th June, 2008) No. SEC/CMRRCD/2008-181/53/Admin/03/28

According to the notification of SEC (SEC, 2008), the issuer companies shall include the following statements/explanations in its yearly and periodical financial statements:

(a) A clear and unambiguous statement of the reporting framework on which the accounting policies are based;

(b) A clear statement of the company's accounting policies on all material accounting areas;

(c) An explanation of where the accounting standards that underpin the policies can be found;

(d) A statement that explains that the financial statements are in compliance with international Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB), if this is the case; and

(e) A statement that explains in what regard the standards and the reporting framework used differs from IFRS, as issued by the IASB, if this is the case.

SEC Notification (20th Feb, 2006 (No. SEC/CMRRCD/2006-158/Admin/02-08)

According to the notification of SEC (SEC, 2008), the listed companies must made the following disclosure in their corporate annual reports with regard to the Corporate Governance Issues while preparing and auditing their financial statements.

The Conditions No. 1.1. **Board's Size:** The number of the board members of the company should not be less than 5 (five) and more than 20 (twenty). The banks and non-bank financial institutions, insurance companies and statutory bodies will comply with respective primary regulators.

The Conditions No. 1.2. **Independent Directors:** All companies should encourage effective representation of independent directors on their Board of Directors and at least one tenth (1/10) of the total number of the company's board of directors, subject to a minimum of one, should be independent directors.

The Conditions No. 1.3. **Chairman of the Board and Chief Executive:** The positions of the Chairman of the Board and the Chief Executive Officer of the companies should preferably be filled by different individuals. The Chairman of the company should be elected from among the directors of the company.

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The Conditions No. 1.4 **The Directors' Report to Shareholders:** The directors of the companies should include following additional statements in the Directors' Report prepared under section 184 of the Companies Act, 1994:-

(a) The financial statements prepared by the management of the issuer company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

(b) Proper books of account of the issuer company have been maintained.

(c) Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.

(d) International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed.

(e) The system of internal control is sound in design and has been effectively implemented and monitored.

(f) There are no significant doubts upon the issuer company's ability to continue as a going concern. If the issuer company is not considered to be a going concern, the fact along with reasons thereof should be disclosed.

(g) Significant deviations from last year in operating results of the issuer company should be highlighted and reasons thereof should be explained.

(h) Key operating and financial data of at least preceding three years should be summarised.

(i) If the issuer company has not declared dividend (cash or stock) for the year, the reasons thereof should be given.

(j) The number of Board meetings held during the year and attendance by each director should be disclosed.

(k) The pattern of shareholding should be reported to disclose the aggregate number of shares (along with name wise details where stated below) held by:-

(i) Parent/Subsidiary/Associated companies and other related parties (name wise details);

(ii) Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details);

(iii) Executives; and

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(iv) Shareholders holding ten percent (10%) or more voting interest in the company (name wise details).

The Conditions No. 2.1. **Appointment of CHIEF FINANCIAL OFFICER (CFO), HEAD OF INTERNAL AUDIT AND COMPANY SECRETARY:** The company should appoint a Chief Financial Officer (CFO), a Head of Internal Audit and a Company Secretary.

The Conditions No. 3.00 **AUDIT COMMITTEE:** The company should have an Audit Committee.

The Conditions No. 3.1. **Constitution of Audit Committee:** The Audit Committee should be composed of at least 3 (three) members and should include at least one independent director.

The Conditions No. 3.4. **Reporting to the Shareholders and General Investors:** Report on activities carried out by the Audit Committee, including any report made to the Board of Directors should be signed by the Chairman of the Audit Committee and disclosed in the annual report of the issuer company.

The Conditions No. 5.00 **REPORTING THE COMPLIANCE IN THE DIRECTOR'S REPORT:** The directors of the company shall state in the directors' report whether the company has complied with the previously mentioned conditions.

CONCLUSION AND RECOMMENDATION

It has been found that legislation (Companies Act 1994 for non-financial Companies, Banking Companies Act 1991 for banking Companies, Insurance ordinance 2008, SER 1987, mandatory accounting standards/IFRSs, etc) is the main basis for the financial reporting practices in Bangladesh. Other factors are the influence of mandatory national accounting standards called BASs, the influence of capital markets, British colonial influences and the influence of the subsidiaries of multinational companies. However, the later factors have relatively little impact on the financial reporting practices in Bangladesh. If the companies in Bangladesh follow the regulation properly while preparing their Corporate Annual Reports the compliance of disclosure will be more. The Securities and Exchange Commission (SEC) should take proper action to make the adopted accounting standards as mandatory by incorporating them in the legislation (i.e. the Companies Act 1994 and the Securities and Exchange Rules 1987) (Hossain et el., 2006). Christopher and Islam (1999) opined that empirical studies show that the developing countries have not adopted the IASs with enthusiasm. It can be argued here that most of the empirical studies show that the compliance rate of disclosure made by the Bangladeshi companies is very poor (e.g. Ahmed (2009), Ahmed and Dey (2009), Hossain et el., 2006, Islam, 2006, Akhteruddin (2005), Ahmed (2005), Hossain (1999), Hossain and Taylor (1998), Karim (1995), Ahmed and Nicholls (1994), and Parry and groves (1990).

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In order to avoid non-compliance of the accounting standards in Bangladesh, Hossain (2007) proposed that the Securities and Exchange Commission of Bangladesh should take the responsibility to ensure the compliance of disclosure made by the companies in Bangladesh. If a company fails to comply with the Legislation (including the mandatory Bangladeshi Accounting Standards and or IFRSs), the Securities Exchange Commission of Bangladesh should take necessary actions against the directors of the respective companies in order to revise financial statements. Although SEC has the power to do so, it rarely tried to take any significant action against those companies who do not comply with the mandatory disclosure provisions. As a result, Hossain (2007) has proposed that the professional accountancy bodies in Bangladesh (i.e. the ICAB and the ICMAP) should promulgate a professional accounting statement regarding conformity with BASs requiring members to comply with BASs compulsorily while preparing and auditing financial statements. Otherwise, disciplinary actions must be taken if any member fails to comply with BASs (e.g., fine or expulsion from the respective institutes). The Corporate governance issues and the enforcement of mandatory BASs should be made compulsory for all the companies (listed or unlisted companies like Pakistan). The researchers of this paper strongly believe that only regulation can not ensure the compliance of the mandatory disclosure made by the companies in Bangladesh. This is high time for the Government of Bangladesh to bring huge modifications through the SEC in the respective companies' acts/ordinance, the existing securities regulations, and mandatory IASs/BASs/IFRS in Bangladesh to respond to the corporate governance issues including setting and compliance of disclosure regulations for transparency in disclosure.

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Appendix A

Current Status of Bangladesh Accounting Standards (BASs) vis-à-vis IASs/IFRSs
Ref: http://www.icab.org.bd/bas.php, Visited Date: 09.02.2010

BAS No.	BAS Title	BAS Effective Date	Remarks
1	Presentation of Financial Statements (Old version)	Adopted, on or after 1st January 2007	Supersedes IAS 1: Presentation of Financial Statements revised in 2003, as amended in 2005
2	Inventories	Adopted, on or after 1st January 2007	Supersedes IAS 2: Inventories revised in 1993 and SIC -1 Consistency - Different Cost Formulas for Inventories
7	Cash Flow Statement	Adopted, on or after 1st January 1999	
8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted	
10	Events after the Reporting Period	Adopted, on or after 1st January 2007	Supersedes IAS 10: Events After the Balance Sheet Date (revised in 1999)
11	Construction Contracts	Adopted, on or after 1st January 1999	
12	Income Taxes	Adopted, on or after 1st January 1999	
16	Property, Plant & Equipment	Adopted, on or after 1st January 2007	Supersedes IAS 16: Property Plant and Equipment (revised in 1998) & SIC-6 Cost of Modifying Existing Software; SIC-14 Property, Plant and Equipment- Compensation for the Impairment or Loss of Items; and SIC-23 Property, Plant and Equipment - Major Inspection or Overhaul Costs
17	Leases	Adopted, on or after 1st January 2007	Supersedes IAS 17: Lease (revised in 1997)

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18	Revenue	Adopted, on or after 1st January 2007	
19	Employee Benefits	Adopted, on or after 1st January 2004	Supersedes IAS 19: Retirement Benefit Costs approved in 1993
20	Accounting of Government Grants and Disclosure of Government Assistance	Adopted, on or after 1st January 1999	
21	The Effects of Changes in Foreign Exchange Rates	Adopted, on or after 1st January 2007	Supersedes IAS 21: The Effects of changes in Foreign Exchange Rates (revised in 1993); SIC-11 Foreign Exchange-Capitalization of Loss Resulting from Severe Currency Devaluations; SIC-19 Reporting Currency-Measurement and Presentation of Financial Statements under IAS 21 and IAS 29; and SIC-30 Reporting Currency-Translation from Measurement Currency to Presentation Currency
23	Borrowing Costs	Adopted, on or after 1st January 2007	Supersedes IAS 23: Borrowing Costs revised in 1993
24	Related Party Disclosures	Adopted, on or after 1st January 2007	Supersedes IAS 24: Related Party Disclousre (reformed in 1994)
26	Accounting and Reporting by Retirement Benefit Plans	Adopted, on or after 1st January 2007	
27	Consolidated and Separate Financial Statements	Adopted, on or after 1st January 2007	Supersedes IAS 27: Consolidated and Separate Financial Statements (as revised in 2003)
28	Investments in Associates	Adopted, on or after 1st January 2007	Supersedes IAS 28: Accounting for Investments in Assoicates (revised in 2000). SIC-3 Elimination of unrealized Profits and Losses on Transitions with Associates, SIC-20 Equity Accounting Method-Reconnection of Losses; and SIC-33 Consolidation and Equity Method-Potential Voting Rites and Allocation of Ownership Interests
29	Financial Reporting in Hyperinflationary Economics	Under process of review	

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31	Interest in Joint Ventures	Adopted, on or after 1st January 2007	Supersedes IAS 31: Financial Reporting of Interest in Joint Ventures (revised in 2000)
32	Financial Instruments: Presentation	Under process of review	Supersedes IAS 32: Financial Instruments: Disclosure and Presentation revised in 2000. SIC-5 Classification of Financial Instruments-Contingent Settlement Provisions; SIC-16 Share Capital -Required Own Equity Instruments (Treasury Shares); and SIC-17 Equity -Costs of Equity Transition
33	Earnings per Share	Adopted, on or after 1st January 2007	Supersedes IAS 33: Earnings Per Share (issued in 1997). SIC-24 Earnings Per Share-Financial Instruments and Other Contracts that may be settled in Shares
34	Interim Financial Reporting	Adopted, on or after 1st January 1999	
36	Impairment of Assets	Adopted, on or after 1st January 2005	
37	Provisions, Contingent Liabilities and Contingent Assets	Adopted, on or after 1st January 2007	
38	Intangible Assets	Adopted, on or after 1st January 2005	
39	Financial Instruments: Recognition and Measurement	Under process of review	
40	Investment Property	Adopted, on or after 1st January 2007	Supersedes IAS 40: Investment Property (issued in 2000)
41	Agriculture	Adopted, on or after 1st January 2007	

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IFRS / BFRS	Title	Effective Date on or after
BFRS 1	First-time adoption of International financial Reporting Standards	1 January 2009
BFRS 2	Share-based Payment	1 January 2007
BFRS 3	Business Combinations	1 January 2010
BFRS 4	Insurance Contracts	1 January 2010
BFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2007
BFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2007
BFRS 7	Financial Instruments: Disclosures	1 January 2010
BFRS 8	Operating Segments	1 January 2010
IFRS 9	Financial Instruments	NA (Not yet adopted but under review process)
BFRS 10	Consolidated Financial Statements	1 January 2013
BFRS 11	Joint Arrangements	1 January 2013
BFRS 12	Disclosure of Interests in other Entities	1 January 2013
BFRS 13	Fair Value Measurement	1 January 2013

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