RISK DISCLOSURE PRACTICES OF DEPOSIT MONEY BANKS IN THE PRE AND POST IFRS IMPLEMENTATION ERA

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ABSTRACT

Globally, the high rate of corporate failures and the resulting lack of public confidence in financial reporting practice is no doubt a product of poor market discipline and risk disclosure practice, which has become a universal phenomenon engaged by managers of both developed and emerging economies. This study investigates empirically the difference in the levels of market discipline and risk disclosure practice of Listed Deposit Money Banks (DMBs) during the pre and post International Financial Reporting Standard(IFRS) implementation era in Nigeria using the Ex-post facto research design. Secondary data was employed as the method of data collection to extract information from the annual reports of the twelve listed deposit money banks for eleven years (2007-2017). This information was statistically analyzed using the Wilcoxon Signed Rank test. The study found that there exists significant difference in the level of market discipline and risk disclosure practice in the pre and post IFRS implementation era (Z= -3.361, p-value < 0.01).The study concluded that Listed DMBs disclose more information on credit risk and market discipline during the post IFRS era when compared to the era before IFRS. The study therefore recommends that regulatory bodies should put in place stringent policies and incentives to ensure that locally listed banks also disclose information relating to market risks.

Keywords: Market discipline, Credit risk, Market risk, IFRS.

1.0. Introduction

Corporate information disclosed by publicly listed companies in all parts of the world are essential inputs used by stakeholders and particularly the shareholders to make economic decisions as per their allocation of resources or shareholding in the listed companies. This information is also used primarily to access the result of operations and of course management performance. The shareholders who depend on the comprehensive financial and non-financial information to make economic decision relating to their resource allocation are at the risky end, going by many scandals that have been reported in both the press and academic literatures, estimating the amount of losses investors incur annually close to US$400 as a result of information asymmetry between the managers and investors (Cheynel, 2013).

Furthermore, a good market discipline and risk disclosure practice is critical for the functioning of an efficient capital market system. However, when measures are not in place to encourage full disclosure practice, the inflow of investment both internally and externally will be substantially impaired as a result of the information asymmetry and poor market discipline and risk disclosure practices by listed firms leading to the slow economic growth of major economies across the globe. Obviously, this is as a result of the fact that higher quality disclosure policy that ought to attenuate information asymmetry and agency problems inherent in the diffusion of ownership and control seem not to be implemented in the financial reporting practice of the global market.

This poor disclosure practice has aggravated many failures experienced in the corporate world both in the developed and developing economies such as China Forestry, Enron and WorldCom (Barako, Hancock & Izan, 2006). In the developed economies, many consequence of poor disclosure practice are on the news as exemplified in the case of Enron in 2001, WorldCom in 2002, Tyco in 2002, American Insurance in 2005, Lehman Brothers in 2008 and Toshiba in 2015. In Nigeria, accounting disclosure practice especially in the banking industry has been adjudged not to be satisfactory (Huang, 2006). This makes investors not to wholeheartedly rely on the financial information rendered by the banks in the industry. Indeed, Huang (2006) acknowledged the practice of falsifying returns by Deposit Money Banks (DMBs) in Nigeria to their apex regulatory agency. Evidently, the Central Bank of Nigeria (CBN) was quick to recognize inadequacy of information disclosed as one of the sixteen main challenges facing the Nigeria banking sector.

Despite the review of corporate governance codes and adoption of International Financial Reporting Standards (IFRS) relating to banking practice and disclosure, evidence of frauds and scandals not being reported in financial

statements continues unabated. This is evident in the collapse of big firms in the country like Intercontinental bank, Bank PHB, Afribank and the recent Skye bank. It is against this background that the study investigates the level of disclosure practices in the pre and post IFRS implementation era of listed Deposit Money Banks (DMBS) in Nigeria.

The hypothesis formulated to serve as basis for this research work is shown below;

H_0: There is no significant difference in the level of aggregate market discipline and risk disclosure practice of Nigeria listed banks in the pre and post IFRS implementation era.

2.0. Literature Review

Conceptual Review

Market Discipline and Risk Disclosure

It is evident in the literatures that the decision to make public certain voluntary information are not regulated but may be influenced by cultural, socio-economic, financial and other specific motivations which idiosyncratically differ from firm to firm. Huang (2006) developed an encouraged set of disclosure item to capture indicators not included in the mandatory core set but which however may provide additional important information to facilitate investors' and regulators' monitoring of banks. This checklist of encouraged set of disclosure items is divided into three to include credit risk disclosure, market risk disclosure and market discipline disclosure.

Bank of International Settlements (2010) viewed credit risk as the potential loss that a bank borrower or counterparty fails to meet obligations in accordance with agreed terms and conditions. This view is similar to the perspective of Carbedo and Tirado (2014) describing Credit risk as the possibility that the payment of contractual obligations may not be fulfilled by the counterparty. The encouraged set of disclosure item captures the qualitative and quantitative nature of credit risk exposure, collateral and credit quality information disclosures needed to assist internal risk management processes and stakeholders' demands for information.

Market risk according to the Basel Committee (2010) is described as the risk that the value of an investment will decrease due to movement in market factors, such as changes in interest rates, foreign exchange rates and commodity prices. International Accounting Standard Board (IASB) in their International Financial Reporting Standard (IFRS 7) classified market risk into three; interest rate risks, currency risks and price risks, the later also including equity price risks, commodity price risks, prepayment risks and residual value risks. In the views of Servaes and Tufano (2006), market risk comprehensively relates to price movements in financial markets. This follows that market risk is the risk that changes in financial market prices and rates including interest rate exposures, foreign exchange exposures, commodity price-sensitive revenues or expenses, stock option plans and pension liabilities will reduce the value of a security or portfolio.

Disclosure on market discipline on the other hand represents a detailed disclosure of risk information, risk profile, risk assessment processes, capital adequacy, and more bank disclosures (Nahar & Jubb 2016). Items of market discipline in the encouraged set of disclosure item developed by World Bank captures information like the bank's corporate governance issues, frequency of reporting, market signals, accounting policies etc. Market discipline in banking is commonly understood as a situation in which private sector agents face costs that are positively related to the risks undertaken by banks and react on the basis of these costs (Berger, 2001).

International Financial Reporting Standards (IFRS)

According to Abata (2015) International Financial Reporting Standard (IFRS) are standards, interpretation and the framework adopted by International Accounting Standards Board. These standards are no doubt products of private sector initiatives towards the harmonization and internationalization of financial reporting in response to the demands of business globalization and regional convergence.

These standards developed by the International Accounting Standard Board (IASB) are a single set of high quality, understandable standards for general purpose financial reporting which are principles-based in contrast to the rule based approach. IFRS comprise of four types of documents, viz: IAS (41); IFRSs (18); the Standing Interpretation Committee Statements, SICS (II); and the International Financial Reporting Issues Committee Statements, IFRICS (18), (Azobu, 2010; Abata, 2015).

Theoretical Framework

The theoretical basis for this study is the agency theory.

Agency Theory

This theory was first propounded by Mitnick in 1973 and studies the agency relationship and issues that arise particularly between the principal and the agent. Jensen and Meckling (1976) further buttressed this to be a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent leading to the principal incurring certain cost called the agency costs.

This theory addresses the problems inherent in the agent – principal relationship. The theory aims to reduce and eradicate the problem of moral hazards, information asymmetry and conflict of interest, by suggesting the establishment of monitoring and regulatory devices to perform oversight functions, ensure the relevance, completeness and accuracy of information disclosed by management as well as aligning the interests of management to that of the owners (Jensen & Meckling, 1976). Such control mechanism put forward by this study is the adoption of the IFRS in the preparation of annual reports.

Empirical Review

Mahjoub, Dicko and Adm (2017) examined a random sample of thirty Canadian firms listed on the S&P/TSX Composite index to find out whether mandatory disclosures in IFRS financial statements increased compared to disclosures based on the former Canadian generally accepted accounting principles in the years 2010 and 2013 respectively; the year preceding and year after the adoption of IFRS in Canada. While constructing a disclosure score to proxy corporate disclosure, IFRS related to assets disclosure requirements were used to proxy IFRS. The study adopted the use of t-test and bivariate correlation analyses and found that the adoption of IFRS had a positive impact on the amount of mandatory financial information disclosed by Canadian public companies. The results of the mean comparison tests on the financial disclosure scores are conclusive and were confirmed by the results of the test on word counts. After the adoption of IFRS, substantially more information was disclosed in financial statements than formerly under CGAAP. However, unlike voluntary disclosures, which are typically explained by firm size and industry, mandatory disclosure does not seem to be influenced by the control variables we selected (size, industry, cross-listing and debt).

Edeigba and Amenkhienan (2017) investigated the implications of the gap between International Financial Reporting Standards (IFRS) and New Zealand International Financial Reporting Standards (NZIFRS) on financial reporting transparency, accountability and corporate fraud. Content analysis of IFRS and NZIFRS was carried out to determine if there are differences between IFRS and NZIFRS. Four IFRS, namely IAS 12, IFRS 13, IFRS 15, IAS 17 and IFRS 16 were analyzed on the basis of adoption concessions and Reduced Disclosure Regime (RDR) for tier 1 and 2 entities. The findings from these standards led to a review of the associated IFRS to further understand the implications of the standards on financial reporting transparency and decline in incidences of corporate fraud. They found that the difference between IFRS and NZIFRS lies in the financial reporting framework for tier 2 entities. However, there was no difference found between IFRS and NZIFRS for entities in tier 1 but identified a decline in incidences of corporate fraud after IFRS was adopted. They further identified the presence of information asymmetry for tier 2 which is capable of retaining Generally Accepted Accounting Principles (GAAPs). These differences may increase the incidence of corporate fraud among the entities in tier 2 of External Reporting Framework. This is due to an excessive concession from IFRS implementation in New Zealand.

Aksu and Espahbodi (2015)investigated whether mandatory and voluntary regulation and best governance practices enhance disclosure quality in an emerging market where code law tradition, dominant family ownership, and tax rules and implementation make it less likely for disclosure quality effects to be observed. They showed an improved Transparency & Disclosure (T&D) scores for a sample of Borsa Istanbul (BIST) firms, and the firms that voluntarily adopted IFRS during 2003 and 2004 have significantly higher scores. However, in 2005, the year IFRS became mandatory, the T&D scores for mandatory and voluntary adopters were no longer significantly different. Multivariate analysis shows that the Corporate Governance (CG) principles and voluntary and mandatory adoptions of IFRS have all had significant positive effects on various T&D scores of the sample firms.

Abata (2015) examined the impact of IFRS on Financial Reporting practices of corporate establishments in Nigeria. Data were collected from 50 employees of KPMG (a leading professional financial service provider) through the use of structured questionnaire and analyzed using mean scores, standard deviation and Pearson Chi-

square analysis. The findings revealed that IFRS provides better information for regulators than GAAP (mean = 4.72). The finding further showed that IFRS directly affects how earnings and other key aspects of the business are accounted for and reported (mean = 4.68). However, the results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson Chisquare analysis showed that financial reports prepared under IFRSs enhanced best practices in a corporate organization (Pearson Chi-Square = 37.857); financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS) (Pearson Chi-Square = 75.763); the compliance with IFRS promotes cross border investment and access to (Pearson Chi-Square = 63.128); and compliance with IFRS will relatively improve the performance of companies (Pearson Chi-Square = 20.417). The study therefore recommended that regulatory bodies should embark upon enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria. It also pointed out that government should support the Nigeria's adoption of IFRS especially in the area of enforcement to compliance as a matter of urgency to enable full attainment of the country's economic potential.

Yahaya, Yusuf and Dania (2015) examined the effects of the adoption of the International Financial Reporting Standards on the financial statements of Deposit Money Banks in Nigeria from 2004 - 2013. The study compared the financial performance numbers reported under the GAAP based financial numbers reported in the pre-adoption period, i.e.2008, with the IFRS-restated financial numbers reported in 2008.A regression model was estimated using pooled data and fitted with dependent variables. The results showed that IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential. The paper also revealed that given the fair value perspective of IFRS and the transition to IFRS brings instability to income statement figures.

3.0 Methodology

Method of Data Collection and Analysis

This study employed ex-post facto design. The data were gathered from the annual reports and accounts prepared by the listed Deposit Money Banks. These annual reports were retrieved from the websites of the listed DMBs while the method of data collection used was an adapted Bank disclosure checklist developed by Huang (2006) on encouraged set of voluntary disclosure items. The checklist contained three (3) sections to include the credit risk items, the market risk items and market discipline items.

The study focused on twelve listed DMBs for eleven years spanning from 2007 to 2017 giving a total number of observation to be One hundred and Thirty-two (132). These twelve DMBs were selected owing to the fact that their shares are traded on the floor of the Nigeria Stock Exchange (NSE) which subjects them to additional regulations both from the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) as well as the Nigeria Stock Exchange (NSE). The focus on 2007-2017 stem from the fact that 2007 was a year after CBN's recapitalization policy which made Nigerian banks more financially sound through mergers and acquisition, (Bello, 2011) while 2017 is the latest year to which the annual reports of this banks were made available for public access. Coincidentally, this same period covered the pre and post IFRS adoption era in Nigeria which made it more possible to compare the disclosure levels of DMBs in both periods. 2007 – 2011 was considered as the period before the IFRS implementation while 2012 – 2017 was used as the period after IFRS implementation.

Prior to the inferential statistics, the normality test was carried out using the Kolmogorov-Smirnov and Shapiro-Wilk and the findings from the normality test necessitated the use of Wilcoxon Signed Rank as the most suitable non-parametric alternative for paired sample t-test (Fah & Hoon, 2009).

Measurement of Variables

Type of Variable	Variables Name	Measurement	Sources
Dependent	Corporate disclosure	This is Measured using the Credit risk, Market	Annual report of banks from 2007 –
AGD	Practice	risk and Market discipline elements of disclosure in the encouraged set of Bank's disclosure index developed by World Bank (2006).	2017
DCC	Credit risk disclosure	Bank disclosure index, World Bank (2006).	Annual report of banks from 2007 – 2017
DCD	Market discipline disclosure	Bank disclosure index, World Bank (2006).	Annual report of banks from 2007 – 2017
DCM	Market risk disclosure	Bank disclosure index, World Bank (2006).	Annual report of banks from 2007 – 2017

4.0 Results and Discussion of Findings

This section covers the result of the diagnostic test as well as the Wilcoxon Signed Rank.

Test for Normality

The Kolmogorov-Smirnov and Shapiro-Wilk test was adopted to determine if the data collected were properly distributed

The Kolmogorov Smirnov & Shapiro-Wilk assumption on normality of a sample holds that for a data to be normally distributed, the p-value must be insignificant i.e. it must be greater than 0.05 (Aifuwa & Okojie, 2015). In this case, table 4.3.3 below revealed that the data is not normally distributed as p-value is significant at 0.000 (< 0.05).

Table 4.1: Normality table

Variables	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
DCC	.169	132	.000	.914	132	.000
DCD	.232	132	.000	.848	132	.000
DCM	.232	132	.000	.851	132	.000
AGD	.202	132	.000	.782	132	.000

a. Lilliefors Significance Correction

Source: Author's Computation, (2019).

Furthermore, Lilliefors Significance Correction rest on the Kolmogorov Smirnov statistic indicates that when a sample is less than a thousand (< 1000) and the data is not normally distributed, the non-parametric coefficient of the Paired Sample T test and the Wilcoxon Signed Rank Test should be used to determine the level of differences between two periods (Pallant, 2008).

Wilcoxon Signed Rank Test

Based on the output of the Wilcoxon Signed Ranks Test in the table 4.2, the result shows that that there exists statistical significant difference in the level of market discipline and risk disclosure practice between the pre and post IFRS implementation era in Nigeria as indicated by (Z= -3.361 and p-value < 0.01). This informs the non acceptance of the null hypothesis, which states that there is no significant difference in the level of market discipline and risk disclosure practice of listed DMBs during the pre and post IFRS implementation era in Nigeria, thereby leading to the acceptance of the alternative hypothesis. The significant difference in the overall market discipline and risk disclosure practice is as a result of the statistical increase in the disclosure level of Credit risk and market discipline disclosure in the post - IFRS implementation era over and above the period before adoption.

Table 4.2: Wilcoxon Signed Ranks Test

Periods			N	Mean Rank	Sum of Ranks	Z (P value)
POSTDCC – PREDCC	–	Negative Ranks	16	16.47	263.50	-3.214
		Positive Ranks	31	27.89	864.50	(0.001)***
		Ties	13			
POSTDCD – PREDCD	-	Negative Ranks	15	22.30	334.50	-2.293
		Positive Ranks	31	24.08	746.50	(0.022)**
		Ties	14			
POSTDCM – PREDCM	–	Negative Ranks	17	15.24	259.00	-1.867
		Positive Ranks	22	23.68	521.00	(0.062)
		Ties	21			
POSTAGD – PREAGD	–	Negative Ranks	11	16.59	182.50	-3.361
		Positive Ranks	30	22.62	678.50	(0.001)***
		Ties	19			

NB: PRE: 2007 – 2011 (pre- IFRS era), POST: 2012 – 2017(Post – IFRS era)
Credit Risk Disclosures (DCC), Market Discipline Disclosures (DCD), Market Risk Disclosures (DCM), Market discipline and risk disclosure Practices (AGD)
*** significant at both 1% and 5% ** significant at 5% only
Observation: 132

Source: Author's Computation, (2019).

Discussion of Findings

The result of the table 4.2 reveals the differences in the level of market discipline and risk disclosure practices of listed deposit money banks in Nigeria for the pre and post IFRS implementation era. While the pre implementation era runs from 2007 – 2011, the post implementation era was from 2012 – 2017. The result reveals that the mean rank of the level of market discipline and risk disclosure practice increased after IFRS adoption from 16.59 to 22.62 which is as a result of the concurrent significant increase in both the credit risk and market discipline but with no significant increase market risk disclosure. The mean rank of the overall market discipline and risk disclosure for the pre implementation era stood at 16.59 while the mean rank for the post implementation as indicated in the table above stood at 22.62. This result suggests that there is a significant increase in the post implementation era than in the pre implementation era with a p-value of 0.001 which is significant at both 5% and 1% significance level respectively.

The result of this work further shows that there is significant difference in the level of aggregate market discipline and risk disclosure practice of listed DMBs between the pre and post IFRS implementation era in Nigeria ($Z = -3.361$, p-value < 0.01). This outcome implies that IFRS implementation represent a vehicle through which DMBs can improve information quality and confirmed the prediction of the agency theory that the presence of independent mechanisms will reduce information asymmetry and moral hazards in the entity This is evidenced with the fact that, the level of corporate information disclosed by listed DMBs in Nigeria after the compulsory IFRS adoption has improved considerably when compared to the level of corporate information made in the pre-IFRS era. This is obviously due to the mandatory adoption imposed by the Federal government on all listed companies in 2011 as well as the existence of different regulatory agencies such as the Nigeria Stock Exchange (NSE), Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Commission (NDIC) etc which stands as a prevalent institutional environment to guide and monitor the activities of the DMBs. This findings support the results of Mensah (2013); Rad and Embong (2014); Abata (2015); Yahaya *et al.* (2015) and Mahjoub *et al* (2017).

5.0 Conclusion and Recommendations

Based on the discussion of findings above, the study concludes that there exists significant difference in the aggregate level of market discipline and risk disclosure practice of listed DMBs after the IFRS implementation era when compared to the disclosure practice of listed DMBs before the implementation of IFRS in Nigeria, suggesting that the adoption and implementation of IFRS is identified as a determinant of good market discipline and risk disclosure practice in the Nigerian banking sector. While IFRS implementation leads to improved disclosure of market discipline and credit risk, the study recommends that regulatory bodies should put stringent policies in place to ensure listed DMBs also disclose information relating to market risk that may affect the stake of investors in the business.

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