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The Impact of Financial Reporting and Information Disclosure on Bank Capital and Bank Liquidity Level

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Abstract: **The study examined the impact of financial reporting and information disclosure on bank capital and banks liquidity level. Despite the regulatory provision for information disclosure in the Nigerian banking industry by the regulatory authorities and the enforcement of strict compliance by banks, the sector still encounters distress. The objective of the study is therefore to ascertain if bank compliance on financial reporting and regulatory information disclosure in the Nigerian banking industry have a significant impact on shareholders funds and the level of bank deposit. The study made use of the survey research design which involved the use of primary method of data collection. Respondents for the study were chosen from the shareholders and depositors of the selected banks. The data collected was analyzed through the use of chi-square. The findings revealed that bank compliance on financial reporting and information disclosure has a significant impact on bank capital and bank liquidity position. It is therefore recommended that an Early Warning System mechanism should be put in place by the regulatory authorities to identify banks that do not comply with the financial reporting and information disclosure guidelines, in order to ascertain when a bank is facing problem than coming up too late to declare a bank insolvent or distressed.**

Keywords: **Disclosure, Bank Liquidity, Bank Capital, Financial Reporting.**

1. INTRODUCTION

This study is on the regulatory provisions for information disclosure in the Nigerian banking industry and its impact on the confidence of bank stakeholders which includes its depositors and shareholders.Over the years, the number of banks have reduced drastically due to distress in the banking industry which has led to either a merger or takeover. Due to the importance of the banking system in any economy of the world including Nigeria, and the role they play, it was of utmost concern to the regulatory authorities by the provisions of the law to outline prudential guidelines on financial reporting and information disclosure in the Nigerian banking industry.

In accounting, the disclosure principles ensures that financial statement in order not to be misleading, and should present the most useful amount of relevant information that is necessary. (CBN,2009) as in Adeyemi & Asaolu (2013) defines full disclosure as the mandatory financial, operational and management information which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. The process has to do with ensuring the integrity of data, the rendition of reports to the supervisory authority and the public in order to enable them ascertain the true financial position and performance of deposit money banks (Adeyemi, 2013).

The global and financial meltdown led to an era of improving the ways and means to enhance and also enforce financial reporting disclosures worldwide so as to reform the global economy. Nigeria has taken several measures in order to ensure that financial reporting disclosures of quoted firms meet up with the International Financial Reporting Standards (IFRSs) in order to enhance stakeholders confidence. The Nigerian Stock Exchange (NSE) directed all companies that are listed on the exchange to adopt the International Financial Reporting Standards (IFRSs) by December 2011 while the Central Bank of Nigeria has also directed Nigerian banks to adopt the IFRSs by December 2010 (Egedegbe, 2009) as in (Adeyemi, 2013).

Statement of the Problem

Banks by their nature undertake financial intermediary role by pooling funds from the surplus sector (savers) and lending out to the deficit sector (investors) in form of loans and advances. This intermediary role aids investment and results to economic growth on the long-run. The banking sector over the years in the world, Nigeria not excluded, has been characterized by distress. The global economic meltdown and the financial crunch, led the central bank of Nigeria to issue prudential guidelines on financial reporting and information disclosure by money deposit banks in order for the stakeholders which includes the shareholders, depositors, regulatory authorities, employees and the public to at every point in time ascertain the true financial position of the banks. It would also help to alert the regulatory authorities determine when a bank is in problem or facing distress.

Since the introduction of these guidelines in 2009 by the central bank, banks has gone into distress which has either led to merger, acquisition or banks been nationalized. It is this problem that this study tries to uncover in order to seek ways and means in resolving the situation.

Research questions

i. Does bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry have a significant impact on banks shareholders' funds?

ii. Does bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry have a significant impact on the level of banks deposits?

Objective of the Study

The main objective of the study is to examine the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry while the specific objectives are:

i.To determine if bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry have a significant impact on bank shareholders' funds.

ii.To ascertain if bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry have a significant impact on the level of bank deposits.

Hypotheses

The following Null Hypotheses is formulated and tested against the alternative;

H01: Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry does not have a significant impact on bank shareholders' fund.

H02: Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry does not have a significant impact on the level of bank deposit.

2. REVIEW OF RELATED LITERATURE AND THEORETICAL FRAMEWORK

Conceptual framework

The central Bank of Nigeria (CBN) is the apex bank that is in charge of the regulation and supervision of banks and other financial institutions in Nigeria.The corporate governance code for banks was issued in 2006, and the key issues involved were strict disciplinary actions and sanctions for making false return in order to improve industry transparency, due process, data integrity and information disclosure. The Nigerian Accounting Standards Board was established in 2003 by an Act, which charges it with the primary objective of developing, publishing, updating, promoting and enforcing Statement of Accounting Standards (SAS) to be adhered by Nigerian companies when preparing financial statements. Another regulatory provision for information disclosure is the Corporate Affairs Commission which was established by the Companies and Allied Matters Act(CAMA) Cap C20 laws of the Federation of Nigeria(2004) as amended, mandates all companies to provide financial disclosures to members in general meeting, debt-holders and the regulator which is the Corporate Affairs Commission. Pursuant to section 335 of CAMA, all companies in Nigeria are required to comply with accounting standards issued by NASB provided that these standards do not conflict with the provisions of CAMA (Oluwaremi,2014). CAMA only specifies penalty stipulations for general non-compliance and lacks the provisions for the monitoring and enforcement of financial disclosures.The Financial Reporting Council of Nigeria(FRCN) is another regulatory body for information disclosure.It is the first unified independent body in Nigeria to oversee corporate reporting, monitoring of accounting and auditing standards, valuation and corporate governance (Oluwaremi,2014). Legislation and professionalism are the platforms on which compliance are monitored. The FRCN act enables the council to perform certain roles already undertaken by other regulators. The council acts through its eight directorates which are, directorate for accounting standards (private sector), accounting standards (public sector), audit practices standards, inspection and monitoring, auditing practices standards, actuarial standards, valuation standards and corporate governance. The council's committee on corporate governance is charged with the responsibility of issuing a code of governance and some guidelines.

Bank Profitability: Bank Specific Factors/Internal Factors

The internal factors are bank specific variables which influence the profitability of specific bank. These factors are within the scope of the bank to manipulate them and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labour productivity, state of information technology, risk level, management quality, bank size, ownership and the like.

The CAMEL framework is often used by scholars to proxy the bank specific factors (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. The indicators as concerned with this study are discussed below.

Capital Adequacy

Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou, Brissimis, & Delis, 2005). Banks capital creates liquidity for the banks due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund. Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations.

Liquidity Management

Liquidity is another factor that determines the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity.

Empirical Studies

Hasnah, Rokiah & Adamu (2015), conducted a study on international financial reporting standards 7(IFRS 7) and its compliance by listed banks in Nigeria, using a sample of fifteen banks out of the twenty one banks listed on the stock exchange. Their findings revealed that bank compliance is above average although total compliance is the ultimate wish of the stakeholders. Another study was conducted by Adebisi, Ogtuagoma & Abah (2017), on the effect of international financial reporting standards disclosure compliance on the quality of financial reporting of deposit money banks in Nigeria. Their findings revealed that their exist a positive relationship between IFRS and disclosure compliance level. In another study carried out by Oluwaremi (2014) on the level of financial information disclosure and corporate attributes in developing economy, the result revealed that in disclosing mandatory items, the result was high, while the average score for voluntary disclosure was unbelievably low. It also revealed that size, profitability, board composition, and market discipline variables are significant and other variables such as age, complexity of business and asset-in-place are insignificant in explaining the level of compliance.Adeyemi (2013) Conducted an empirical investigation of the financial reporting practice and banks stability in Nigeria. Their study revealed that disclosure has a positive and significant influence on bank stability (as defined by ROA and Liquidity).Another study conducted by(Anna and Anna,2015), Determinants of the level of information disclosure in financial statements prepared in accordance with IFRS. The study made use of Polish Corporate Disclosure Index(PCDI) for non- finance companies. Based on a panel study of factors determining the scope of the information disclosed by 36 polish public parent companies, forming capital groups, in the years 2005-2007, they demonstrated a negative correlation between the extent of mandatory and voluntary disclosure and the companies' financial performance(ROE) except for positive relation with disclosure in management reports.

Research Gap

Other researches on this topic made use of the level of compliance of banks as seen from the regulatory authorities which include the Central Bank of Nigeria statistical bulletin, Reports from the Nigerian Accounting Standard Board, Corporate Affairs Commission, Federal Reporting Council of Nigeria, annual report of banks amongst others. This research study made use of the level of compliance as seen from the view point of the shareholders and depositors who provide the capital and liquidity of banks. It is this gap in methodology that this research intends to fill.

Theoretical Framework

This study focuses on Agency and Asymmetric information theories and how they affect disclosure.

Agency Theory

This explains a contract relationship whereby one or more persons(usually a principal engages another person called the agent) in order to perform some services on their behalf. It was propounded by Jensen and Meckling (1976). The theory examines the behavior of both parties due to the dual roles of the owners of the firm and its management. It is presumed that the parties are utility maximisers with varying philosophies and this could result in divergent and misaligned interest between them, (Adebisi, Otuagoma & Abah, 2017). The theory is also of the view that firms holding public shares or interest are put to greater test by the regulatory authorities and as such disclosure is a core requirement. That large firms are motivated to disclose more information to support the continuance of their position and boost their compensation and to show and explain to shareholders that they are acting in their best interest and justify their compensation packages (Adekunle and Taiwo,2013) as in (Abebisi et al, 2017).

Asymmetric Information Theory

This theory assumes a one sidedaccess to information. That is, not all the parties to a transaction has relevant information. Asymmetric information model speaks about a deviation from perfect information, (Adeyemi and Asaolu, 2013). Since perfect information is a strong characteristics of a perfect market, then asymmetric information which is a kind of perfect information, would therefore create an imperfect market. According to Adeyemi and Asaolu, 2013, this theory provides a theoretical explanationof the burden to disclose on the directors of the bank who are better placed in the corporate structure to know the banks better and therefore release the information they have to the investors that will use same for decision making.

This study employs the Agency Theory. The reason is that the bank depositors and shareholders act as the principal in the contract while the bank that acts on their behalf is the agent. Also, for the fact that both parties are utility maximizers, there must always be a conflict of interest due to their varying philosophies.

3. METHODOLOGY

This section focuses on the techniques and procedures used for the study. Based on the theoretical principles and the review of related literature, the study employed the survey research design. The data applied in this study were primary, through the use of questionnaire. The population of this study involves the depositors and shareholders of the various banks. The sample size involves three hundred shareholders and depositors of the banks. The sampling technique was purposive. The need for this was to identify bank depositors and shareholders who has operated with the banks for over ten years, since it is believed that they are in a better position to ascertain the level of compliance of banks to the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry and its impact on the level of shareholders funds and bank deposits. The questions in the questionnaire were structured on a five-point likert scale in an attempt to get the different views from the subjects. Construct validity was used to ascertain the validity of the instrument. The inter-rate form of reliability was used to establish the reliability of the instrument. The same questionnaires were administered to respondents that did not fall within the sample size.The result from those respondents had a high correlation with those that fell within the sample size. The chi-square method was used to analyze the data.

4. DATA PRESENTATION AND ANALYSIS OF CHI-SQUARE RESULTS

The specific questions that were structured in the questionnaire to test the hypotheses and the responses from the respondents are as seen below:

S/N	QUESTIONS	RESPONSES				TOTAL
		SA	A	D	SD	
1	Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has significantly increased your investment with the bank.	120	30	40	10	200
2	Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has significantly increased the level of your deposit.	195	26	20	9	250

Source: Field Survey 2019

Hypothesis one

H01: Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry does not have a significant impact on Shareholders' fund.

Chi-Square Test

Frequencies

CODE

	Observed N	Expected N	Residual
1.00	10	50.0	-40.0
2.00	40	50.0	-10.0
3.00	30	50.0	-20.0
4.00	120	50.0	70.0
Total	200		

Test Statistics

	CODE
Chi-Square	140.000[a]
Df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

The calculated chi-square for the above observation was 140 with a p-value of .000. Since this p-value is less than 0.05 which is the required level of significance required to uphold the null, we therefore reject the null hypothesis and accept the alternative hypothesis which states that bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on shareholders fund.

Hypothesis two

H02: Bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry does not have a significant impact on the level of deposit.

Chi-Square Test

Frequencies

Code

	Observed N	Expected N	Residual
1.00	9	62.5	-53.5
2.00	20	62.5	-42.5
3.00	26	62.5	-36.5
4.00	195	62.5	132.5
Total	250		

Test Statistics

	Code
Chi-Square	376.912[a]
df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 62.5.

The calculated chi-square for the above observation was 376.912 with a p-value of .000. Since this p-value is less than 0.05 which is the required level of significance required to uphold the null, we therefore reject the null hypothesis and accept the alternative hypothesis which states that bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on the level of deposit.

5. DISCUSSION OF FINDINGS

The calculated chi-square for hypothesis one is 140 and has a p-value of .000,which is less than 0.05 which is the significant level to required to uphold the null. We therefore reject the null and accept the alternative hypothesis which states that bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on shareholders fund. That is, it increases shareholders fund due to the confidence placed by the shareholders on the banks who have complied with the provisions for information disclosure. Shareholders invest their money with the banks and as such requires returns for their capital been invested. It is only when these banks perform well that their returns are guaranteed. This is why shareholders tend to invest more in banks that have full disclosure as to their true financial position. Also, the calculated chi-square for hypothesis two is 376.9, and has a p-value of .000 which is less than 0.05 which is the significant level required to uphold the null.We therefore rejected the null and accept the alternative hypothesis which states that bank compliance on the regulatory provisions for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on the level of banks deposit. Since bank deposits involves a risk of loss, then depositors only want to place their deposits in banks that keep their integrity by been transparent in the compliance of the regulatory provision for financial reporting and information disclosure i.e. banks that publish their true financial position.Both the shareholders and depositors want a situation where at any point in time they can ascertain the true position of banks to guarantee their safety.

6. CONCLUSION

The study is on the Impact of Financial Reporting and Information Disclosure on Bank Capital and Bank Liquidity Level. The findings of the research concluded that ;

i. Regulatory Provision for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on bank capital (using shareholders fund as a proxy)

ii. Regulatory Provision for financial reporting and information disclosure in the Nigerian banking industry has a significant impact on bank liquidity (using customers deposit level as a proxy)

7. RECOMMENDATION

Based on the research problem and the objectives earlier stated, it is therefore recommended that ;

i. An Early Warning System mechanism should be put in place by the regulatory authorities to identify banks that do not comply with the financial reporting and information disclosure guidelines, in order to ascertain when a bank is facing problems than coming up too late to declare a bank insolvent or distressed.

ii. The bank supervision department of the Central Bank of Nigeria(CBN) on their routine checks of banks, should critically examine the risk exposure of banks and the risk management models been put in place to deal with such exposures. Only then would these banks maintain a healthy financial position and engage in full disclosure.

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