

Perhaps the single most important factor in creating healthy financial markets, and promoting economic growth and development, is establishing high quality financial information system. Financial markets are predicated on confidence, and this confidence is based, in large



part, on the presumption that financial information is appropriate and reflects the economic reality. The best assurance that financial statements pass muster is if they are prepared and presented in accordance with accounting standards and principles that are generally accepted internationally.

It is against this backdrop that the recent Central Bank of Nigeria (CBN) directive that banks adopt the International Financial Reporting Standards (IFRS) by year-end, though long overdue, should be hailed as a step in the right direction. The Nigerian banking system, propelled by the 2005 consolidation, has steadily positioned itself as the key driver for the Nigerian economy. It has been described by the Financial Times as “fastest growing”, and by the IMF as “increasingly integrating rapidly into global financial markets”. Although operating at the short term end, the sector was recently rated by Fitch Corporate (Fitch) as recording the highest credit growth among countries covered by Fitch during 2007/2008. The CBN expects even further growth for FYE 2009.

These plaudits notwithstanding, watchers of this burgeoning sector are agreed that challenges remain. Aspects of these challenges are manifest in the recent concerns about the actual exposure of Nigerian banks to margin loans and the attendant negative publicity it has generated. Lack of transparency and poor disclosure by individual banks has given rise to speculation over insolvency in the sector, constituting a major risk in the industry. Most banks are distrustful of the figures that some banks roll at year ends. The situation is so bad that in spite of the new CBN policy of guaranteeing interbank loans as a means of reducing interest rates, the Nigerian Inter-Bank Offer Rate (NIBOR) has remained high. This situation is inimical to the country’s quest for economic development propelled by the financial sector.

For the sector to fully maximise its potential of driving Nigeria’s economic resurgence, and ultimately becoming a regional financial centre, there necessarily has to be an infusion of foreign players from across borders. The entrance of foreign financial services operators benefits the country by providing deeper liquidity to the market with the resultant reduction in the cost of capital. This would in turn impact on production, employment and living standards. Given the competition amongst the BRIC countries as well as some countries of the Next Eleven group, for a fast declining foreign direct investment, Nigeria has the challenge of persuading astute investors to impart capital in Nigeria, rather than in the other countless venues that provide greater comfort. With the availability of readily accessible financial markets having relatively long standing stability, the question then is what can be done to make Nigeria’s financial market so attractive as to get a healthy bite of this elusive pie?

A key inducement is regulation that promotes full disclosure and high quality financial information system. Investors who drive the markets base their decisions, to a significant degree, on an assessment of how well financial reports reflect an entity’s financial position. Efficient and independently verifiable financial information frameworks need therefore to be instituted to ensure that financial statements are prepared and presented to reflect an entity’s true financial position.

Nigeria presently uses the Statement of Accounting Standards (SAS) issued by the Nigerian

Accounting Standards Board (NASB) as accounting standards. The SAS is outdated and does not meet the needs of a modern financial system. The World Bank notes that there are gaps between the SAS and the International Financial Reporting Standards (IFRS). This was corroborated by Fitch in its report - 'Nigerian Banking Sector: Annual Review and Outlook', published June 2009. To date, the NASB has issued only 30 SAS; of these 30, 4 are without international equivalents. Further still, material differences exist with respect to some SAS that appear to conform to some active IASB standards. The SAS as it stands does not inspire investor confidence and hence, presents obstacles to the growth and internationalisation of Nigeria's banking sector.

The International Financial Reporting Standards (IFRS) is generally acclaimed as the worldwide standard in this regard. It was developed by the International Accounting Standards Board (IASB) to promote the preparation of financial statements that can be read worldwide and used as an alternative to national accounting standards. The IFRS has been accepted as the basis for reporting in major and emerging international financial markets. It is included by the Financial Stability Forum (FSF) as one of the key standards for sound financial systems, and used by the World Bank as part of its Standards and Codes Initiative (SCI).

The SCI operates through the Financial Sector Assessment Programmes (FSAP) and Reports on Observance of Standards and Codes (ROSC). Under the FSAP/ROSC, experts from a range of agencies and standard setting bodies work to assess the strengths and vulnerabilities of a country's financial system. The Bank aims, through the instrumentality of the SCI to among others, help market participants discriminate better among investment opportunities. Private financial institutions and investors routinely use these publications to guide their investment decisions. Several private organisations also conduct standards compliance assessments utilising the IMF's ROSC. Announced standards compliance, therefore, is often a "signalling device" used by governments to show their regulatory seriousness in an attempt to gain benefits of increased trade, investment, and capital flows.

Apart from the above, the country also stands to benefit from IMF's technical assistance programme which is integrated with the body's standards and codes initiative. Under the programme, technical assistance is provided in a variety of forms, including the preparation of technical and diagnostic reports; the delivery of training courses, seminars, and workshops; and the on-line provision of advice and support on various macro and micro economic issues.

This paper supports the adoption of the IFRS by the CBN and hopes that it recognises that the IFRS is just a mere minimum. It should study the entire document in the light of the current turmoil in the international financial markets with a view to identifying creases that should be ironed out. CBN should also go a step further in its intervention, to demand that financial statements pass the integrity test. It is not enough to require banks to prepare their statements in accordance with the IFRS without putting structures in place to ensure the integrity of the information that is being provided. The Companies and Allied Matters Act 1990 (as amended) (CAMA), section 358, mandates auditors to adhere to the auditing standards set by the Institute of Chartered Accountants of Nigeria (ICAN) in performing their duties. However, it does appear that no such standards have been set by ICAN. Under the Securities and Exchanges Commission (SEC) Rules and Regulation, auditors are enjoined to carry out their duties "in accordance with generally accepted auditing standards". Given the ambiguity of this rule, auditors adopt convenient standards.

I would conclude by recommending that the Nigerian Stock Exchange (NSE) takes a cue from the CBN by mandating the use of the IFRS as the benchmark reporting standard for all

IFRS, disclosure and foreign direct investment

Written by STANLEY CHIKWENDU

Thursday, 06 August 2009 01:17

companies listed on the exchange.