

Complying with the disclosures required by the IFRS 7: A study on the pharmaceutical companies of Bangladesh

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Abstract: *The study aims at measuring the degree of compliance with the disclosures required by the IFRS 7 particularly by the pharmaceutical companies of Bangladesh. Secondary data from the audited financial statements of the pharmaceutical companies found that most of the companies have complied with most of the disclosures required by IFRS 7. The companies could not comply with few disclosures due to various drawbacks like legal difficulties and complexities etc. The study also found that higher degree of compliance brings better true and fair views of the organizations and vice-versa. Higher degree of compliance results in better management control as well as managing fund crisis and other related issues in better ways. On the other hand, the study further found that non-compliance with the disclosures result in corruption by the management of the organizations. Finally the study recommends that the companies should try to improve the financial performance as well as the fairness of financial representation to better comply with the disclosures required by IFRS 7. Further research is also recommended for ensuring the highest level of compliance with the said disclosures.*

Keywords: *IFRS 7, Degree of Compliance, Management Control, Fund Crisis, Financial Performance, Bangladesh, Corruption.*

1. Introduction

International Financial Reporting Standards (IFRS) are set of defined disclosers which are required by the businesses to make some information publicly available while disclosing their financial information like balance sheet, income statement, annual report etc. IFRS 7 came up with some new requirements on disclosure of financial data while preparing financial statements in accordance with IFRS (Vojábková, 2015). IFRS 7 (introduced for the financial periods beginning on or after January, 2007) expanded existing requirements in order to include all entities including banks and financial institutions (Vojábková, 2015). As per IFRS 7 the extent of disclosures required by the businesses depend on their use of financial instruments and risks involved in these

financial instruments (Kurt & Cornelis, 2015). Therefore, IFRS 7 requires both quantitative and qualitative information about businesses risk exposure. So, it is believed that IFRS 7 would result in better management control and corporate governance which are essential to ensure fairness of the business. Additionally, these compliances are supposed to minimize corporate scandals and ensure wellbeing of the business stakeholders. It is necessary for the companies to prepare and present financial statement as per the requirements of IFRS (Hossain & Baser, 2011), and if financial and non-financial information are presented as per the IFRS, users of the financial information will be confident that management has presented financial data without any manipulation (Elliot & Elliot, 2013). Additionally, if firms disclose risk management information properly (as per the IFRS 7), it helps investors and other stakeholders to make decisions effectively (Cabedo & Tirado, 2004), and recent global financial catastrophes can be attributed to failure of risk management and improper disclosure of financial and non-financial risk management reporting (Hull, 2010). So, compliance with IFRS 7 will result in partial compliance with corporate governance.

There is not enough study on the issue in the context of Bangladesh that covers manufacturing sectors. Additionally, most of the earlier resources on IFRS compliance have been conducted on the developed countries like USA, UK (Sarea & Dalal, 2015) and therefore, this research is providing findings from the perspective of a developing country. As financial institutions are strictly monitored by the regulators to comply with risk management disclosures, most of the earlier researches on risk disclosures have been conducted on financial institutions. This is why, this research is an attempt to measure to what extent manufacturing firms of Bangladesh comply with IFRS 7 which requires all firms including financial institutions to disclose information on market risk, credit risk, liquidity risk, currency risk, interest rate risk and other price risk (Epstein & Jermakowicz, 2010). Findings of this study will be helpful for accounting practitioners, auditors and investors as accounting practitioners are required to ensure that IFRS 7 rules have been followed and applied while disclosing risk related information of the firm and auditors are also required to ensure that firms have met IFRS 7 rules while they audit financial and nonfinancial disclosures of the firms. In addition, investors also analyze these information to take investment decision.

Following sections provide literature review. Based on the literature review and research gap, objective of the study has been determined and methodology has been designed based on past similar researches to achieve the objective of this research. Five years (2015-2019) data have been analyzed based on the methodology of the research and finally, a conclusion has been drawn based on the overall task.

2. Literature Review

Financial reports are prepared to disclose the financial health of the business which are commonly used by regulators, management, auditors, investors and other stake holders. Financial reports help management to take business decision, investors to reorganize their portfolio and stakeholders to get a fair picture about the performance of the business. Hence, regulators/authorities like IFRS require firms to disclose certain information as per their guideline to ensure that financial information is disclosed without much manipulation in financial statements. IFRS provides a guideline to measure true value of firm's financial position and therefore, IFRS standard helps user of firms' financial information. So, if firms do not comply with IFRS standard, users of firms' financial information are more likely to take it negatively.

Alsaqqa and Sawan (2013) stated that IFRS has met more demand of the users of financial information and influence the firms to be more transparent in disclosing financial and non-financial information. Additionally, adoption of IRFS ensures in providing sufficient information to the financial analysts so that they can predict value of the firm (Madawaki, 2012). IFRS 7 requires all organizations with financial instruments to disclose and consolidate all requirements of financial instruments disclosures (Sarea & Dalal, 2015). Additionally, IFRS disclosures have become a focal point among financial and non-financial institutions and it is often analyzed to what extent organizations comply with IFRS (Sarea & Hanefah, 2013). Hence, this research is also an attempt to measure to what extent DSE listed manufacturing firms comply with IFRS 7.

Adoption of IFRS by firms varies from countries to countries. A study conducted by Yu (2010) found that in 2007, 100% firms in Finland, New Zealand and Greece adopted IFRS whereas 80.8% firms in UK and Germany adopted IFRS. Additionally, 52% firms in France and only 17.5% firms in Venezuela have been found to adopt IFRS in 2007. Additionally, Al Shammari et al., (2008) found that none of the firms in the GCC countries have complied fully with IASs disclosure requirements though it is mandatory for firms in in the GCC countries to comply with IFRS.

IFRS 7 brought new requirements on disclosure on financial statements which were effective for the annual periods beginning on or after January 2007 (Vojápková, 2015). Additional requirements were originally brought from IAS 32 and IAS 39 which were applicable for all entities and additional disclosure requirements for banks and other financial institutions were brought from IAS 30 (Vojápková, 2015). Hence, IFRS 7 was expanded and organized in a way which are required for all firms including banks and other financial institutions. As per IFRS 7, the extent for disclosure required by a firm depends on its use of financial instruments and risks involved by those financial instruments (Epstein & Jermakowicz, 2010). Therefore, requirements of IFRS 7 have made it easier for the users of financial statements who may take investment or others decision based on quantitative and qualitative information provided by the firms' financial risk exposure and these disclosures by the firms may influence users of the financial information

to analyze firms financial position and predict the uncertainties involved in firms' future cash flows.

IFRS 7 has replaced IAS 30 (which was applicable for only financial institutions) and it is now applicable for all firms that have financial instruments like accounts receivable and accounts payable (Vojápková, 2015). The additional disclosure required by the firms as per IFRS 7 are disclosure on risks involved by the firms which include market risk, credit risk, liquidity risk, currency risk, interest rate risk and other price risk (Epstein & Jermakowicz, 2010).

Atanasovski et al., (2015) found that risk disclosure by the companies listed in Macedonian stock exchange are related to type of auditors involved in auditing financial statements and ownership concentration of the firms. Therefore, companies listed in Macedonian Stock Exchange have the scope to improve their reporting on risk disclosure as per the IFRS 7 in order to provide potential investors the opportunity to evaluate riskiness of their investment properly. However, Atanasovski et al., (2015) also stated that investors of Republic of Macedonia do not have real need to evaluate the risk exposure of the companies as most of the companies listed in Macedonian Stock Exchange have small number of dominant shareholders and often these are family owned companies. A study on IFRS 7 disclosure by listed banks in Nigeria found that Nigerians banks do fully comply with the IFRS 7 disclosure requirements (Zango et al., 2015). Therefore, the study suggested more monitoring activities and enforcement of risk disclosure requirements under the surveillance of regulatory authority in order to mitigate banking crisis in Nigeria. It is also observed that there is a gap between the actual compliance made by the firms and their claim to comply (Ahulu et al., 2018). Therefore, Ahulu et al., (2018) suggested that central banks, accounting bodies and stock exchanges should work together to ensure that firms comply with IFRS 7

Agyei-Mensah (2017) found that firms with higher performance in Ghana are more likely to comply with the risk disclosure as per IFRS 7 to attract investors and firms with low level of risk disclosure indicate that regulators need to be more strict to force companies to comply with IFRS 7. So, potential investors might get a signal about the performance of the firm by looking at the risk disclosure of the firms. In the context of Bahrain, it has been evident that level of compliance with IFRS 7 varied among industries, for instance, investment sector maintained highest level of compliance and insurance sector has been found with lowest level of compliance (Sarea & Dalal, 2015). It is also evident that large companies comply more with IFRS 7 than smaller companies (Juhmani, 2012). From the perspective of developing country like Jordan, it is also seen that after the implementation of IFRS 7 firms are disclosing more information related to financial instruments (Tahat et al., 2016). Therefore, adopting IFRS 7 is supposed to make firm more accountable and transparent. It is also suggested that if firms in developing country fully comply with IFRS 7, they will be able to attract more international investors (Sarea & Dalal, 2015).

3. Objectives of the Study

The objective of the study is to analyze the degree of compliance with IFRS 7 by the listed pharmaceutical companies of Bangladesh. Further, objectives of the study include describing the importance and benefits of compliance of the standards. Finally the study intends to find out some scope of future research in this area. In this field of study sufficient researches have not been found in the context of developing country like Bangladesh and hence the study also expects to reduce the research gap in the area of IFRS 7 in the developing countries like Bangladesh.

4. Methodology of the Study

In conducting this study secondary data have been used. Data were collected from the audited financial statements of some listed pharmaceutical companies of Bangladesh. Companies were selected randomly. The analysis is done by content analysis, which is used in a social science research. (Jobair, et al., 2014). Annual reports of the selected companies, relevant research articles and acts were analyzed in the study. From the pharmaceutical companies listed in the capital markets of Bangladesh 10 (ten) companies have been selected by using purposive sampling technique. Five years (2014-15 to 2018-19) financial statements were considered in the study.\

5. Data Analysis and Result

Accounting systems of the business are designed as per the rules of income tax law. To ensure a true and fair view of the financial condition of the organizations, IFRS standards need to be followed. The selected pharmaceutical companies complied with most of the standards of IFRS-7. Table-1 shows that degree of compliance of IFRS-7 of the selected pharmaceutical companies are not same. The degree of compliance is different for different pharmaceutical companies.

The summary of the compliance with different standards of IFRS-7 by the selected pharmaceutical companies is presented in the table-1:

Table-1: Degree of Compliance with IFRS 7

Compliance Status of Square Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	N/A	N/A	N/A	N/A	N/A

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5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
9	The Nature of the Transferred Assets	Complied	Complied	Complied	Complied	Complied
Compliance Status of Beximco Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	Complied	Complied	Complied	Complied	Complied
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
9	The Nature of the Transferred Assets	Complied	Complied	Complied	Complied	Complied
Compliance Status of Orion Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
9	The Nature of the Transferred Assets	Complied	Complied	Complied	Complied	Complied
Compliance Status of ACI Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied

6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied
Compliance Status IBN SINA Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied
Compliance Status of AMBEE Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Not complied	Not complied	Not complied	Not complied	Not complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Not complied	Not complied	Not complied	Not complied	Not complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied
Compliance Status of Becon Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Not complied	Not complied	Not complied	Not complied	Not complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied

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Compliance Status of Renata Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Not complied	Not complied	Not complied	Not complied	Not complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied
Compliance Status of Advent Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Complied	Complied	Complied	Complied	Complied
8	Quantitative Risk Disclosure	Not complied	Not complied	Not complied	Not complied	Not complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied
Compliance Status of SILCO Pharma						
Sl	Required Disclosure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Classes of Financial Instrument	Complied	Complied	Complied	Complied	Complied
2	Balance Sheet Presentation	Complied	Complied	Complied	Complied	Complied
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	Complied	Complied	Complied	Complied	Complied
4	Collateral	N/A	N/A	N/A	N/A	N/A
5	Income Statement & Equity (Income, Expense, Gains, Losses)	Complied	Complied	Complied	Complied	Complied
6	Accounting Policies	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
7	Qualitative Risk Disclosure	Partially complied	Partially complied	Partially complied	Partially complied	Partially complied
8	Quantitative Risk Disclosure	Not complied	Not complied	Not complied	Not complied	Not complied
9	The Nature of the Transferred Assets	Not complied	Not complied	Not complied	Not complied	Not complied

Source: Compiled by the authors

Table-2: Highlights of the empirical findings from table-1

No. of companies	7
No. of requirements applicable as per IFRS-7	9
Maximum number of requirement complied by the company	9
Minimum number of requirement complied by the company	3.5
Average number of compliance by the companies	6.25

Source: Compiled by the authors

Table-3: Summary of degree of compliance by individual companies

Company	Total compliance requirements	No. of requirements fulfilled	(%) compliances fulfilled
Square Pharma	9	8	72%
Beximco Pharma	9	8.5	94%
Orion Pharma	9	7	77.77%
ACI Pharma	9	7.5	83%
IBN SINA Pharma	9	7.5	83%
AMBEE Pharma	9	5.5	61%
Becon Pharma	9	6	66.66%
Renata Pharma	9	5.5	61.11%
Advent Pharma	9	3.5	38.88%
SILCO Pharma	9	5	55.55%

Source: Compiled by the authors

Table-3 shows that degree of compliance by Beximco Pharma is highest which is 94%. ACI Pharma and IBN SINA Pharmas have 83% compliance which is second highest while degrees of compliance by Square Pharma and Orion Pharma are 72% and 77.77% respectively. Advent Pharma has the least degree of compliance which is only 38.88% while SILCO Pharma's degree of compliance is 66.66%. From the table it can be explained that most of the Pharmaceutical companies have good degree of compliance with the standards of IFRS-7. Few companies have lower degree of compliance with the standards of IFRS-7. It can also be noted that some standards like accounting policies and balance sheet disclosures are not complied by most of the companies. Collateral standard is not applicable by the companies except for Beximco pharma.

Table-4: Average degree of compliance level

SN	Compliance	No of companies complied	% of compliance
1	Classes of Financial Instrument	9 full; 1 partial	95%
2	Balance Sheet Presentation	10 full	100%
3	Balance Sheet Disclosures [Fair value of Assets and Liabilities and Loans]	6 full; 4 partial	80%
4	Collateral	1 full; 9 N/A	100%
5	Income Statement & Equity (Income, Expense, Gains, Losses)	9 full; 1 partial	95%
6	Accounting Policies	9 partial; 1 Not complied	45%
7	Qualitative Risk Disclosure	9 full; 1 partial	95%
8	Quantitative Risk Disclosure	5 full; 3 partial; 2 Not complied	65%
9	The Nature of the Transferred Assets	3 full; 7 Not complied	30%

Source: Compiled by the authors

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From table-4 it is seen that two compliance standards e.g.- Balance Sheet Presentation and Collateral are followed by all the companies. Other compliance standards are followed by some companies, not all and sometimes they are followed partially

6. Recommendations & Conclusion

Compliance with the standards of IFRS-7 is an important issue regarding the financial performance and overall financial condition of an organization. This study found that most of the pharmaceutical companies are complying with the standards of IFRS-7. Companies are following most of the standards. Some standards are being followed partially. Some other pharmaceutical companies' degree of compliance is moderate. So the financial statements of most of the pharmaceutical companies are expected to show the true and fair views of the company. So their financial statements might be reliable for financial decision making purposes. Though most of the companies are complying with the standards of IFRS-7, degree of compliance for some companies is comparatively poor. While making financial decision, the decision makers should be conscious. Noncompliance with the standards might result in corruption and other financial problems in the organizations. Since higher degree of compliance ensures better control over management and better financial decision, companies should focus on it. It can be recommended that further research on this area might be helpful for identifying the causes regarding the non-compliance of some standards of IFRS-7.

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