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TRANSPARENCY OF INFORMATION DISCLOSURE IN BANKS' FINANCIAL REPORS

Research topicality. The annual report, including the annual financial statements, is a key for any commercial bank to meet its accountability obligations. These statements reveal the results of the bank's activities on its balance sheet as well as the use of resources at its disposal.

Purpose of research is to discuss the issue of the lack of transparency in financial reporting of banks and their consequences.

Research results. For most transition economies, Ukraine in particular, the accounting profession and the standard-setting framework in terms of market-based disclosures are still evolving. This can create potential problems for the production of internationally credible financial reports. Those who are not market participants and who have a conflict of interest, such as maximizing taxable revenue, may control standard setting. Experience repeatedly shows that the best defense to criticism is through open and transparent disclosure, since this removes the risk of the hugely damaging consequences that occur when it is revealed that disclosures have been less than total. It is difficult to overstate the importance of the role of transpa-rency in discharging bank's accountability obligations.

Transparency in modern financial reporting is considered to be crucial in enabling users to understand and reach their own conclusions about businesses. The volume of information available has reached levels not previously seen and continues to grow as reporting requirements become more extensive and voluntary disclosures are made for a variety of reasons. It is generally accepted that this long-term tendency is appropriate in today's business world with greater emphasis on corporate governance issues, driven by more demanding shareholders and other interested parties. Major corporate scandals or crises, such as Enron in the USA and many banks' bankruptcies worldwide, show the necessity for increased transparency in financial reporting, although it is not obvious that reforms reduce the extent of such events.

Disclosure and the resulting transparency have not always been considered desirable. The banking sector of Great Britain can be viewed as a good example, where banks enjoyed, at first through custom and later through legal regulation, such reporting requirements, which permitted them to avoid reporting 'true' profits. The maintenance of 'inner' or 'hidden' reserves allowed banks to smooth their reported profits and understate their capital strength, thereby reassuring depositors and shareholders of their financial soundness and prudent behavior through conservative accounting.

Currently the framework of banking regulation is extensive and there is a clear international consensus that transparency in banks' financial reporting is

desirable. Thus, the transparent and timely provision of information is intended to allow more effective operation of market discipline by the providers of capital, investors, and other market counterparties.

But while disclosure and transparency are considered fundamental in modern financial markets, significant international differences in these areas have been recognized. For example, banks in Germany have been considered less transparent in their reporting than those in the UK. However, international comparability should be enhanced by moves towards greater uniformity in financial reporting such as the adoption by EU-listed groups of International Financial Reporting Standards in 2005.

The banking crises in the 1990s are commonly related to the regulation of disclosures made by banks. Disclosure in banking can be classified into two categories: ‘transparency-stability’ and ‘transparency-fragility’. From the ‘transparency-stability’ view, disclosure increases transparency and improves information flows. It helps market discipline and leads to the more efficient allocation of resources. The ‘transparency-fragility’ view assumes that disclosure creates ‘negative externalities’. These include the possibility that disclosure would stimulate bank-runs when particular banks faced financial difficulties. Therefore, it would destroy the banking system as a whole and have wider negative economic consequences.

Conclusions. One does not need to look far to see our Ukrainian reality examples of misusing the banks’ financial reports by politicians and economists to launch criticisms of both the government and central bank monetary policy. We believe that the ability to question performance of any business entity and any bank is an essential component of accountability. Those who prepare annual financial statements carry the responsibility of presenting them so that they provide an accurate and reliable picture of the financial results of the bank operations in such a manner that can be defended in terms of an internationally credible framework. Reliability of financial reporting framework contributes greatly to judgments about the integrity and stability of the national financial system.