Sri Lanka Accounting Standard 23

Revenue Recognition and Disclosures in the Financial Statements of Banks
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Revenue Recognition and Disclosures in the Financial Statements of Banks

The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Preface to Sri Lanka Accounting Standards. Sri Lanka Accounting Standards are not intended to apply to immaterial items.

Scope

1. This Standard should be applied in dealing with the bases for recognition of revenue and disclosures in the financial statements of banks.

2. For the purposes of this Standard the term "bank" includes licensed commercial banks, development banks, savings banks, merchant banks, the State Mortgage and Investment Bank and similar banking institutions.

3. Banks represent a significant and influential sector of business. Most individuals and organisations make use of banks, either as depositors or borrowers. Banks play a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and the government and the regulations imposed on them by the government. Hence, there is considerable and widespread interest in the well-being of banks, and in particular their solvency and liquidity and the relative degree of risk that attaches to the different types of their business. The operations and thus the accounting and reporting requirement, of banks are different from those of other commercial enterprises. This Standard recognises their special needs. It also encourages the presentation of a commentary on the financial statements which deals with such matters as the management and control of liquidity and risk.
4. This Standard supplements other Sri Lanka Accounting Standards which also apply to banks unless they are specifically exempted in a Standard.

5. This Standard applies to the separate financial statements and the consolidated financial statements of a bank. Where a group undertakes banking operations, this Standard applies in respect of those operations on a consolidated basis.

Definitions

6. The following terms are used in this Standard with the meanings specified:

A certificate of deposit is a bearer document of title to a deposit with a bank.

A dealing security is a marketable security held with the intention of reselling it in the short term.

Deferred interest is interest not due at a particular date, but which will be due later.

A finance lease is as defined in Sri Lanka Accounting Standard SLAS 19, Leases (Revised 2000).

Interest income is income accrued over the periods of loans, advances, credit facilities and other types of financial accommodation.

Interest in suspense is the interest due on non-performing assets held in suspense until the arrears of principal and interest have been settled, or a specific reverse entry is made when they are determined as bad. Interest falling due from the date of classification as a non-performing asset should be credited to interest in suspense.

An investment security is a security held for yield or capital growth, usually until maturity.

Liquidity is the ability to meet financial commitments when they become due.
A non-performing asset is,

(a) a loan, advance or finance lease which is,

(i) six months (three months for a licenced commercial bank) or more in arrears of due principal or interest payments; or

(ii) on which the payments of capital or interest in the immediately preceding twelve months are less than fifty per centum (seventy-five per centum for a licenced commercial bank) of the amounts due; or

(b) an investment,

(i) which has ceased to pay dividends or interest for at least the last three consecutive years; or

(ii) which is valueless; or

(iii) where the investee is bankrupt or is comounding with its creditors; or

(iv) where production has not started more than two years after the due date; or

(v) where production having started, has not proceeded for at least the immediately preceding two years; or

(c) the management has classified the asset as non-performing even before any of the above mentioned conditions are satisfied.

However, an asset is not non-performing to the extent that the bank has a right of set-off against other assets held by the bank.

A performing asset is a loan, advance, finance lease or investment other than a non-performing asset.

Rescheduling is the process of renegotiating the terms and conditions of the repayments of a loan, advance or finance lease acceptable to the
borrower and the bank. Unpaid interest may be included in the revised loan or advance amount at rescheduling.

Service charges are initial direct charges made when a loan, advance or finance lease is granted.

Solvency is the surplus of assets over liabilities.

Stock out on hire is that part of the finance lease principal which is due after the period end.

Background

7. The users of the financial statements of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. They also need information which gives them a better understanding of the special characteristics of the operations of a bank. Users need such information even though a bank is subject to supervision and provides the regulatory authorities with information that is not always available to the public. Therefore disclosures in the financial statements of a bank need to be sufficiently comprehensive to meet the needs of users, within the constraint of what it is reasonable to require of management.

8. The users of the financial statements of a bank are interested in its liquidity and solvency and the risks related to the assets and liabilities recognised on its balance sheet and to its off balance sheet items. A bank is exposed to liquidity risk and to risks arising from currency fluctuations, interest rate movements, changes in market prices and from counterparty failure. These risks may be reflected in the financial statements, but users obtain a better understanding if management provides a commentary on the financial statements which describes the way it manages and controls the risks associated with the operations of the bank.
9. A non-performing asset may be classified as a performing asset upon settlement of all arrears of principal and interest, and thereafter interest may be recognised on an accrual basis. However, funds for the repayment of the arrears should not have been obtained by the creation of new loans or debt instruments from the same bank.

10. When rescheduling occurs before an account is classified as non-performing, the rescheduled account should be classified as non-performing when the aggregate period the account is in arrears before and after rescheduling is six months or more. When rescheduling occurs after an account has been classified as non-performing, the rescheduled account should continue to be classified as non-performing. Rescheduled loans and advances classified as non-performing may be classified as performing only when the repayments under the rescheduled terms have been complied with for a continuous period of at least six months.

11. A non-performing asset which has been rescheduled should be reclassified as performing only when the repayments under the rescheduled terms have been complied with for a continuous period of not less than six months. On the other hand, if an asset was performing as the time of rescheduling but subsequently became non-performing, it should be classified as performing only upon the full settlement of all repayments in arrears under the rescheduled terms.

Disclosure of Accounting Policies

12. In order to comply with Sri Lanka Accounting Standard SLAS 3, Presentation of Financial Statements and thereby enable users to understand the basis on which the financial statements of a bank are prepared, the accounting policies dealing with the following items should be disclosed:

(a) the recognition of the principal types of income (see paragraphs 14 and 15);
(b) the valuation of investment and dealing securities (see paragraphs 35 and 36);
the distinction between those transactions and other events that result in the recognition of assets and liabilities on the balance sheet and those transaction and other events that only give rise to contingencies and commitments (see paragraphs 37 to 40);

(d) the basis for the determination of losses on loans, advances and finance leases for writing off uncollectable loans and advances (see paragraphs 54 to 60); and

(e) the basis for determination of charges for general financing risks and the accounting treatment of such charges (see paragraphs 61 to 63).

Some of these topics are the subject of existing Sri Lanka Accounting Standards while others may be dealt with at a later date.

Income Statement

13. A bank should present an income statement which groups income and expenses by nature and discloses the amounts of the principal types of income and expenses.

14. In addition to the requirements of other Sri Lanka Accounting Standards, the disclosures in the income statement or the notes to the financial statements should include, but are not limited to, the following items of income and expenses:

Interest and similar income;

Interest expense and similar charges;

Dividend income;

Fee and commission income;
Fee and commission expense;

Gains less losses arising from dealing securities;

Gains less losses arising from investment securities;

Gains less losses arising from dealing in foreign currencies;

Other operating income;

Losses on loans and advances;

General administrative expenses; and

Other operating expenses.

15. The principal types of income arising from the operations of a bank include interest, fees for services, commissions and dealing results. Each type of income is separately disclosed in order that users can assess the performance of a bank. Such disclosures are in addition to those of the source of income require by Sri Lanka Accounting Standard SLAS 28, Segment Reporting.

16. The principal types of expenses arising from the operations of a bank include interest, commissions, losses on loans and advances, changes relating to the reduction in the carrying amount of investments and general administrative expenses. Each type of expense is separately disclosed in order that users can assess the performance of a bank.

17. Income and expense items should not be offset in the income statement except for those relating to hedges and to assets and liabilities which have been offset as described in paragraph 34.

18. Offsetting in cases other than those relating to hedges and to assets and liabilities which have been offset as described in paragraph 34 prevents users from assessing the performance of the separate activities of a bank and the return that it obtains on particular classes of assets.
19. Gains and losses arising from each of the following are normally reported on a net basis:

(a) disposals and changes in the carrying amount of dealing securities;

(b) disposals of investment securities; and

(c) dealings in foreign currencies.

20. Interest income and interest expense are disclosed separately in order to give a better understanding of the composition of, and reasons for changes in, net interest.

21. Net interest is a product of both interest rates and the amounts of borrowing and lending. It is desirable for management to provide a commentary about average interest rates, average interest earning assets and average interest-bearing liabilities for the period. The government may provide assistance to banks by making deposits and other credit facilities available at interest rates which are substantially below market rates. In these cases, management's commentary often discloses the extent of these deposits and facilities and their effect on net income.

Revenue Recognition

Interest Income

22. *Interest income should be allocated to accounting periods during the terms of loans or advances so as to produce a constant periodic rate of interest on loans or advances outstanding at the end of each period.*

23. The constant periodic rate of return method ensures that no accounting period appears more profitable than any other equal accounting period measured on the basis of interest income on the balance of loans or advances outstanding at the end of the period.
Performing Assets Revenue Recognition

24. Revenue from performing assets should be recognised on an accrual basis. Dividend income from equity investments should be recognised when the right to receive payment is established.

Non-performing Assets Revenue Recognition

25. Revenue from non-performing assets should be recognised only on a cash basis from the date of classification as a non-performing asset. Interest falling due from the date of classification as a non-performing asset should be credited to interest in suspense.

Where a cash basis is adopted, any partial repayment received on a non-performing asset should be accounted for on a first-in-first-out basis in the following order:

(i) interest income recognised (but not collected) prior to classification as a non-performing asset; and

(ii) interest in suspense.

On rescheduling an outstanding loan, advance or finance lease, any accrued interest included in the rescheduled amount at the point of rescheduling should be spread over the subsequent repayment period.

Service Charges and Default Interest Recognition

26. Service charges and default interest should be recognised only on a cash basis.

Lump Sum Receipts

27. When a lump sum is received against loan, advance or finance lease arrears, management may exercise its discretion to adopt a uniform practice to apportion it between the principal and the interest in arrears. However, funds for the lump-sum should not have obtained from the creation of new loans or debt instruments from the same bank.
Interest Expense Recognition

28. Interest expense should be recognised on an accrual basis.

Balance Sheet

29. A bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order reflects their relative liquidity.

30. In addition to the requirements of other Sri Lanka Accounting Standards, the disclosures in the balance sheet or the notes to the financial statements should include, but are not limited to, the following assets and liabilities:

Assets

Cash and balances with the central bank;

Treasury bills and other bills eligible for rediscounting with the central bank;

Government and other securities held for dealing purposes;

Placements with, and loans and advances to, other banks;

Placements with, and loans and advances to, finance companies;

Other money market placements;

Loans and advances to customers; and

Investment securities.
Liabilities

*Deposits from other banks;*

*Deposits from finance companies;*

*Other money market deposits;*

*Amounts owed to other depositors;*

*Certificates of deposit;*

*Promissory notes and other liabilities evidenced by paper; and*

*Other borrowed funds.*

31. The most useful approach to the classification of the assets and liabilities of a bank is to group them by their nature and list them in the approximate order of their liquidity; this may equate broadly to their maturities. Current and non-current items are not presented separately because most assets and liabilities of a bank can be realised or settled in the near future.

32. The distinction between balances with other banks and those with other parts of the money market and from other depositors is relevant information because it gives an understanding of a bank's relations with, and dependence on, other banks and the money market. Hence, a bank discloses separately:

(a) balances with the central bank;

(b) placements with other banks;

(c) placements with finance companies;

(d) other money market placements;
(e) deposits from other banks;
(f) deposits from finance companies;
(g) other money market deposits; and
(h) other deposits.

33. A bank generally does not know the holders of its certificates of deposit because they are usually traded on an open market. Hence, a bank discloses separately deposits that have been obtained through the issue of its own certificates of deposit or other negotiable paper.

34. The amount at which any asset or liability is stated in the balance sheet should not be offset by the deduction of another liability or asset unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation or settlement of the asset or liability.

35. A bank should disclose the market value of dealing securities and marketable investment securities if these values are different from the carrying amounts in the financial statements.

36. It is important to distinguish dealing securities from investment securities and from other investments. Dealing securities are marketable securities that are acquired and held with the intention of reselling them in the short term. Investment securities are acquired and held for yield or capital growth purposes and are usually held to maturity. The market values of dealing securities and marketable investment securities are disclosed, in accordance with Sri Lanka Accounting Standard SLAS 22, Accounting for Investments, if these values are different from the carrying amounts in the financial statements. It is not appropriate in the financial statements of a bank to account for loans, advances and similar transactions as investments.
Contingencies and Commitments Including Off Balance Sheet Items

37. A bank should disclose the following contingent liabilities and commitments:

(a) the nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense; and

(b) the nature and amount of contingent liabilities and commitments arising from off balance sheet items including those relating to:

(i) direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;

(ii) certain transaction-related contingent liabilities including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;

(iii) short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;

(iv) those sale and repurchase agreements not recognised in the balance sheet;

(v) interest and foreign exchange rate related items including swaps, options and future; and

(vi) other commitments, note issuance facilities and revolving underwriting facilities.
38. Sri Lanka Accounting Standard SLAS 36, Provisions, Contingent Liabilities and Contingent Assets, deals generally with accounting for, and disclosure of, contingent liabilities. The Standard is of particular relevance to banks because banks often become engaged in many types of contingent liabilities and commitments, some revocable and others irrevocable, which are frequently significant in amount and substantially larger than those of other commercial enterprises.

39. Many banks also enter into transactions that are presently not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments. Such off balance sheet items often represent an important part of the business of a bank and may have a significant bearing on the level of risk to which the bank is exposed. These items may add to, or reduce, other risks, for example by hedging assets or liabilities on the balance sheet. Off balance sheet items may arise from transactions carried out on behalf of customers or from the bank's own trading position.

40. The users of the financial statements need to know about the contingencies and irrevocable commitments of a bank because of the demands they may put on its liquidity and solvency and the inherent possibility of potential losses. Users also require adequate information about the nature and amount of off balance sheet transactions undertaken by a bank.

**Maturities of Assets and Liabilities**

41. A bank should disclose an analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

42. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of a bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.
43. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of a bank and its exposure to changes in interest rates and exchange rates. In order to provide information that is relevant for the assessment of its liquidity, a bank discloses, as a minimum, an analysis of assets and liabilities into relevant maturity groupings.

44. The maturity groupings applied to individual assets and liabilities differ between banks and in their appropriateness to particular assets and liabilities. Examples of periods used include the following:

(a) up to 1 month;
(b) from 1 month to 3 months;
(c) from 3 months to 1 year;
(d) from 1 year to 5 years; and
(e) from 5 years and over.

Frequently the periods are combined, for example, in the case of loans and advances, by grouping those under one year and those over one year. When repayment is spread over a period of time, each installment is allocated to the period in which it is contractually agreed or expected to be paid or received.

45. It is essential that the maturity periods adopted by a bank are the same for assets and liabilities. This makes clear the extent to which the maturities are matched and the consequent dependence of the bank on other sources of liquidity.
46. Maturities could be expressed in terms of:

(a) the remaining period to the repayment date;
(b) the original period to the repayment date; or
(c) the remaining period to the next date at which interest rates may be changed.

The analysis of assets and liabilities by their remaining periods to the repayment dates provides the best basis to evaluate the liquidity of a bank. A bank may also disclose repayment maturities based on the original period to the repayment date in order to provide information about its funding and business strategy. In addition, a bank may disclose maturity groupings based on the remaining period to the next date at which interest rates may be changed in order to demonstrate its response to interest rate risks. Management may also provide, in its commentary on the financial statements, information about interest rate exposure and about the way it manages and controls such exposures.

47. In many cases, deposits made with a bank may be withdrawn on demand and advances given by a bank may be repayable on demand. However, in practice, these deposits and advances are often maintained for long periods without withdrawal or repayment; hence, the effective date of repayment is later than the contractual date. Nevertheless, a bank discloses an analysis expressed in terms of contractual maturities even though the contractual repayment period is often not the effective period because contractual dates reflect the liquidity risks attaching to the bank's assets and liabilities.

48. Some assets of a bank do not have a contractual maturity date. The period in which these assets are assumed to mature is usually taken as the expected date on which the assets will be realised.
49. The users’ evaluation of the liquidity of a bank from its disclosure of maturity groupings is made in the context of local banking practices, including the availability of funds to banks. In some cases, short-term funds are available, in the normal course of business, from the money market or, in an emergency, from the central bank. In other cases, this is not the case.

50. In order to provide users with a full understanding of the maturity groupings, the disclosures in the financial statements may need to be supplemented by information as to the likelihood of repayment within the remaining period. Hence, management may provide, in its commentary on the financial statements, information about the effective periods and about the way it manages and controls the risks and exposures associated with different maturity and interest rate profiles.

Concentrations of Assets, Liabilities and Off Balance Sheet Items

51. A bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures should be made in terms of geographical areas, customer or industry groups or other concentrations of risk. A bank should also disclose the amount of significant net foreign currency exposures.

52. A bank discloses significant concentrations in the distribution of its assets and in the source of its liabilities because it is a useful indication of the potential risks inherent in the realisation of the assets and the funds available to the bank. Such disclosures are made in terms of geographical areas, customer or industry groups or other concentrations of risk which are appropriate in the circumstances of the bank. A similar analysis and explanation of off balance sheet items is also important. Geographical areas may comprise individual countries, groups of countries or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and business enterprises. Such disclosures are made in addition to any segment information required by Sri Lanka Accounting Standard SLAS 28, Segment Reporting.
53. The disclosure of significant net foreign currency exposures is also a useful indication of the risk of losses arising from changes in exchange rates.

**Losses on Loans and Advances**

54. A bank should disclose the following:

(a) the accounting policy which describes the basis on which uncollectable loans, advances and finance leases are recognised as an expense and written off;

(b) details of the movements in the provision for losses on loans, advances and finance leases during the period. It should disclose separately the amount recognised as an expense in the period for losses on uncollectable loans and advances, the amount charged in the period for loans and advances written off and the amount credited in the period for loans, advances and finance leases previously written off that have been recovered;

(c) the aggregate amount of the provision for losses on loans, advances and finance leases at the balance sheet date; and

(d) the aggregate amount included in the balance sheet for loans, advances and finance leases on which interest is not being accrued and the basis used to determine the carrying amount of such amounts.

55. Any amounts set aside in respect of losses on loans, advances and finance leases in addition to those losses that have been specifically identified or potential losses which experience indicates are present in the portfolio of loans, advances and finance leases should be accounted for as appropriations of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.
It is inevitable that in the ordinary course of business, banks suffer losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectable. The amount of losses which have been specifically identified is recognised as an expense and deducted from the carrying amount of the appropriate category of loans, advances and finance leases as a provision for losses on loans and advances. The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans, advances and finance leases is also recognised as an expense and deducted from the total carrying amount of loans, advances and finance leases as a provision for losses on loans, advances and finance leases. The assessment of these losses depends on the judgement of management; it is essential, however, that management applies its assessments in a consistent manner from period to period.

Circumstances or legislation may require or allow a bank to set aside amounts for losses on loans, advances and finance leases in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the portfolio of loans and advances. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining net profit or loss for the period. Similarly, any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

Users of the financial statements of a bank need to know the impact that losses on loans, advances and finance leases have had on the financial position and performance of the bank; this helps them judge the effectiveness with which the bank has employed its resources. Therefore a bank discloses the aggregate amount of the provision for losses on loans, advances and finance leases at the balance sheet date and the movements in the provision during the period. The movements in the provision, including the amounts previously written off that have been recovered during the period, are shown separately.
A bank may decide not to accrue interest on a loan, advance or finance lease, for example when the borrower is more than a particular period in arrears with respect to the payment of interest or principal. A bank discloses the aggregate amount of loans, advances and finance leases at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans, advances and finance leases. It is also desirable that a bank discloses whether it recognises interest income on such loans, advances and finance leases and the impact which the non-accrual of interest has on its income statement.

When loans, advances and finance leases cannot be recovered, they are written off and charged against the provision for losses. In some cases, they are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined. In other cases, they are written off earlier, for example when the borrower has not paid any interest or repaid any principal that was due in a specified period. As the time at which uncollectable loans, advances and finance leases are written off differs, the gross amount of loans, advances and finance leases and of the provisions for losses may vary considerably in similar circumstances. As a result, a bank discloses its policy for writing off uncollectable loans and advances.

**General Banking Risks**

Any amounts set aside for general banking risks, including future losses and other unforeseeable risks or contingencies should be separately disclosed as appropriations of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and should not be included in the determination of net profit or loss for the period.
62. Circumstances or legislation may require or allow a bank to set aside amounts for general banking risks, including future losses or other unforeseeable risks, in addition to the charges for losses on loans, advances and finance leases determined in accordance with paragraph 56. A bank may also be required or allowed to set aside amounts for contingencies. Such amounts for general banking risks and contingencies do not qualify for recognition as provisions under SLAS 36, Provisions, Contingent Liabilities and Contingent Assets. Therefore, a bank recognises such amounts as appropriations of retained earnings. This is necessary to avoid the overstatement of liabilities, understatement of assets, undisclosed accruals and provisions and the opportunity to distort net income and equity.

63. The income statement cannot present relevant and reliable information about the performance of a bank if net profit or loss for the period includes the effects of disclosed amounts set aside for general banking risks or additional contingencies, or undisclosed credits resulting from the reversal of such amounts. Similarly, the balance sheet cannot provide relevant and reliable information about the financial position of a bank if the balance sheet includes overstated liabilities, understated assets or undisclosed accruals and provisions.

Assets Pledged as Security

64. A bank should disclose the aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged as security.

65. Banks may be required, either by law or custom, to pledge assets as security to support certain deposits and other liabilities. The amounts involved are often substantial and so may have a significant impact on the assessment of the financial position of a bank.
Trust Activities

66. Banks commonly act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Provided the trustee or similar relationship is legally supported, these assets are not assets of the bank and, therefore, are not included in its balance sheet. If the bank is engaged in significant trust activities, disclosure of that fact and an indication of the extent of those activities is made in its financial statements because of the potential liability if it fails in its fiduciary duties. For this purpose, trust activities do not encompass safe custody functions.

Related Party Transactions

67. Sri Lanka Accounting Standard SLAS 30, Related Party Disclosures, deals generally with the disclosures of related party relationships and transactions between a reporting enterprise and its related parties. In some cases, the law or regulatory authorities prevent or restrict banks entering into transactions with related parties whereas in others such transactions are permitted. Sri Lanka Accounting Standard SLAS 30, Related Party Disclosures, is of particular relevance in the presentation of the financial statements of a bank if such transactions are permitted.

68. Certain transactions between related parties may be effected on different terms from those with unrelated parties. For example, a bank may advance a larger sum or charge lower interest rates to a related party than it would in otherwise identical circumstances to an unrelated party; advances or deposits may be moved between related parties more quickly and with less formality than is possible when unrelated parties are involved. Even when related party transactions arise in the ordinary course of a bank's business, information about such transactions is relevant to the needs of users and its disclosure is required by Sri Lanka Accounting Standard SLAS 30, Related Party Disclosures.

69. When a bank has entered into transactions with related parties, it is appropriate to disclose the nature of the related party relationship, the
types of transactions, and the elements of transactions necessary for an understanding of the financial statements of the bank. The elements that would normally be disclosed to conform with Sri Lanka Accounting Standard SLAS 30, Related Party Disclosures, include a bank's lending policy to related parties and, in respect of related party transactions, the amount included in or the proportion of:

(a) each of loans and advances, deposits and acceptances and promissory notes; disclosures may include the aggregate amounts outstanding at the beginning and end of the period, as well as advances, deposits, repayments and other changes during the period;

(b) each of the principal types of income, interest expense and commission paid;

(c) the amount of the expense recognised in the period for losses on loans and advances and the amount of the provision at the balance sheet date; and

(d) irrevocable commitments and contingencies and commitments arising from off balance sheet items.

Compliance with International Accounting Standards

70. Compliance with this SLAS ensures compliance in all material respects with International Accounting Standard IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

Effective Date

71. This Sri Lanka Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 1992.