IFRS (International Financial Reporting Standards)

Course Outline

The growing global acceptance of IFRS as basis for the preparation of financial statements of large and medium large entities creates a need for an increasing group of professionals to gain knowledge and experience of these standards. Even those with basic understanding of IFRS are required to constantly update their knowledge because of the fast evolution of these standards and the growing experience that practitioners require. As of 2005 approximately 9000 listed European companies transferred to IFRS-reporting. Russia, China, Canada, Japan, and many other countries are adopting IFRS or have plans to converge their national standards with IFRS.

Course Background

In order for today's leading organisations to succeed within this volatile market, robust financial reporting is essential. Only those organisations that can provide up-to-date, transparent and forthright financial reporting will secure future investors and maintain the support of their shareholders and stakeholders. IFRS is therefore increasingly being adopted by organisations globally as the most sophisticated and accurate means for companies to disclose information on its financial position and performance within the market.

Methodology

This course aims to provide an answer to the continuing and growing need for information and practical guidance in relation to IFRS technical issues.

The course will be structured around case studies, practical examples and exercises.

Who should attend?

Accountants
Financial Analysts
Portfolio Managers
Securities Analysts
Credit / Investment Analysts
Pension Fund Managers
Auditors

Join us for this 5-day course to update your knowledge and uncover how you can impact on your future financial reporting.

Agenda

Day 1

Becoming familiar with IFRS as basis for the preparation of financial statements

Introduction to IFRS

- The IASB and its IFRS
- Application of IFRS
- Update on current projects of the IASB

Activity: To identify and review relevant internet sources to keep up to date with IFRS.

IFRS basic principles

- Framework for the preparation and presentation of financial statements
- Financial statement elements: assets, liabilities, equity, income and expenses
- Measurement and recognition principles (including discussion of fair value accounting)

Activity: Practice with illustrations showing how the Framework principles are applied in real-world situations.

Financial statement presentation

- Statement of Financial Position
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows: choice between direct and indirect method

Disclosure issues

- Events after the reporting period
- Changes in accounting policies, estimates and accounting errors
- Related parties
- Discontinued operations
- Operating segments

Activity: Use real-world and model financial statements to review the new disclosure and presentation requirements of IFRS. Evaluate financial statement items and alternative presentations. Determine the treatment of events after the reporting period.

Day 2

Revenue recognition and non-financial assets

- Sale of goods
- Services
- Interest, royalties and dividends

Case study: The effective interest rate method is illustrated through the accounting for a sale of goods with a deferred payment.

Exercise: Numerous scenarios are evaluated to determine the appropriate accounting for arrangements with various terms and factors to consider.

Inventories

- Cost components and valuation issues
- Identifying and accounting for inventory impairment

Case study: Evaluate a situation to determine whether an inventory impairment should be recognised and the appropriate treatment of a subsequent change in value.

Non-current assets: recognition and measurement

- Property, plant and equipment
- Measurement of the cost of an asset, including asset retirement obligations
- Borrowing costs
- Component approach
- DepreciatioN
- Revaluation
- Non-current assets held for sale issues

Class practice: Cost and revaluation.
Determine the appropriate accounting for revaluation over a multi-year period.

Example: All relevant transactions relating to the construction and use of an oil rig (site preparation, acquisition, environmental obligations) are treated.

- Investment property
- Definition
- Measurement alternatives
- investment property transfers

Case study: Identify the correct dates and valuations relating to investment property transfers and costs.

- Intangible assets
- Purchased intangibles
- Acquisition as part of a business combination
- Internally generated intangible assets
- Measurement requirements and alternatives

Case study: Determine the appropriate accounting treatment of purchased and internally generated intangible assets.

Impairment of assets

- Identifying impairment indicators
- Determining recoverable amount
- Measuring and recognizing impairment
- Cash generating units and impairment of goodwill

Case study: Evaluate the impairment testing of goodwill and determine whether impairment should be recognized and the assets that are potentially affected.

Day 3

Non-financial liabilities and financial instruments

- Leases
- Classification of lease contracts
- Accounting for lease contracts
- Operating lease incentives

Case studies: Apply your knowledge of lease contracts to evaluate the terms of a lease and classify it as a finance or operating lease. Review contractual arrangements to determine whether they meet the definition of a lease and require lease accounting.

Examples: Accounting by the lessor and lesee for lease classification, finance and operating leases. Accounting for sale and leaseback transactions.

- Employee benefits
- Short-term employee benefits
- Pension plans, defined benefit and defined contribution plans
- Termination benefits

Exercises: Decide under various circumstances whether and when an employee benefit should be recognized.

Case study: Review the various components of a pension plan and trace relevant information to the amounts recognized on the financial statements.

- Provisions, contingent liabilities and contingent assets
- Recognition requirements
- Measurement of provisions
- Future operating losses and onerous contracts
- Provisions for restructuring
- Contingencies
- Contingent liabilities acquired in a business combination
- Disclosures

Group work: Distinguish between liabilities, provisions and contingent liabilities. Apply recognition and measurement concepts to determine appropriate accounting treatment for a variety of situations. Calculate the correct amount of provision to recognize in various situations.

- Share-based payment
- Equity settled share-based payments
- Cash settled share-based payment

Exercises: Identify the pertinent facts in share-based payment scenarios, determine the financial statement impacts and contrast the accounting treatment of share options and share appreciation rights.

Financial instruments

- Classifying financial assets
- Initial and subsequent measurement of financial instruments
- Financial asset impairment
- Derecognition
- Difference between equity and liabilities
- Accounting for financial liabilities
- Disclosure requirements
- NEW IFRS 9 on classifying and measuring financial instruments

Exercises and examples: Accounting for a variety of financial instruments, including:

- Initial recognition
- Classification of financial assets
- Valuation of different classes of financial instruments
- Derecognition
- Impairment
- Differentiating between financial liabilities and equity

Illustrations: Gain familiarity with the new financial instrument disclosure requirements by reviewing real-world financial statement disclosures. Review the calculation and use of the effective interest method applied to a bond. Evaluate the separating conditions and accounting requirements for embedded derivatives; examine the accounting transactions for a cash flow hedge. Overview of IFRS 9 and the new classification and measurement requirements.

Day 4

Application of IFRS for group transactions

Business combinations: application of the acquisition method

- Identifying the acquirer
- Measuring the cost of the business combination
- Recognition and valuation of the acquired assets, liabilities and contingent liabilities
- Calculation of goodwill or gain from a bargain purchase
- Changes to provisional values

Case study: Account for a business combination in which the consideration is contingent and for which the payment is deferred.

Overview of consolidation requirements, associates and joint arrangements

Consolidated and separate financial statements (including structured entities)

- Determining control
- Summary of consolidation procedure
- Investments in associates
- Determining significant influence
- Overview of the equity method
- Interests in joint arrangements
- Joint ventures
- Joint operations

Case studies: When should a structured entity be consolidated? Assess whether an entity controls another entity without having more than 50% of the voting rights. Application of the equity method

Foreign currency issues

- Foreign currency transactions
- Overview of foreign currency financial statement translation

Exercises: Determine an entity's functional currency. Identify items resulting in foreign exchange gain or loss. Calculate the foreign exchange gain or loss resulting from amounts payable and receivable in foreign currencies and discuss how the related amounts will be recognized on the financial statements.

Example: Review the translation of financial statements of a foreign subsidiary to financial statements in the functional currency of the parent.

Day 5

Income taxes, first-time adoption of IFRS

Accounting for income taxes: current and deferred taxes

- Temporary and other differences
- Recognition and measurement of deferred taxes
- Treatment of tax loss carry-forwards and tax credits

Case study: Evaluate a variety of situations to identify deferred tax implications.

Group discussion: Based on their individual country's tax codes, participants will identify items that result in deferred tax recognition under IFRS for their organizations.

Example: Calculation of the deferred taxes commonly associated with various assets and liabilities.

Overview of IFRS I first-time adoption of IFRS

- Basic principles of IFRS I
- Preparing the opening statement of financial position

- Mandatory exceptions from other IFRS
- Optional exemptions
- Presentation and disclosure requirements

Case study: Starting from a national GAAP financial statement, participants will follow-through the IFRS 1 adjustments necessary to create the statement in accordance with IFRS.

Course summary and close

About the instructors

- The Course Director is an international instructor specialising in International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). She has delivered training courses around the world including in the USA, Europe, Russia, Central Asia, the Caucuses, the Balkans, Southeast Asia, Africa and the Middle East and has taught people from over 130 countries.

  She has also assisted several national governments in the reform of their accounting systems and in the implementation of international standards and best practices. As well as teaching, she also has written technical accounting material for publication. She has over 17 years of experience in the application and training of IFRS (formerly IAS). She is a U.S. Certified Public Accountant (C.P.A.), a Certified Management Accountant (C.M.A.) and a Certified Fraud Examiner (C.F.E.). She earned her M.B.A. from the University of Wisconsin in the United States.

  Prior to entering the international arena, she taught graduate-level business and finance courses in the USA as well as CPA examination review courses. She is President of KAL Consulting, Incorporated and was formerly Senior Vice-President in a regional bank holding company. She also served for eight years on the accounting board of her state, responsible for licensing, examination, monitoring and disciplining C.P.As in that jurisdiction.

International public sector Accounting Standards:

- Apply IPSAS standards to ensure improved accountability via providing a complete and accurate view of an entities operations and performance
- Improve overall management and planning via the application of more precise estimates of income and expenditure and effective usage of assets and liabilities
- Achieve greater transparency within your entity regarding your use of primary resources and resulting liabilities
- Provide a strong system of support for results-based management through achieving the development and utilisation of more comprehensive information about costs and cost budgets
- Achieve greater harmony within the entity’s reporting and financial statements as a way to encourage and enhance organisational goal congruence

Plus: Pragmatic case studies and exercises on all major topics for participants to gain a working knowledge of how to apply and implement IPSAS and the challenges other entities face in adopting IPSAS and how those challenges are overcome.

Course Description

The recent financial crisis and associated financial safeguards implemented across all business sectors have seen even greater pressures exerted on public budgets with governments and public sector entities encountering growing pressure to provide high-quality transparent financial statements, clear and decisive financial management approaches and enhanced operational allocation and performance measures related to public funds.

IPSAS (International Public Sector Accounting Standards) provides a sounds basis for public entities to demonstrate sound accrual accounting and budgeting techniques, and with its emphasis on performance-based management being a core competency, requires entities to adopt a fresh and innovative approach to developing new skill sets.

This course offers the learner a comprehensive understanding of the essential elements of IPSAS; beginning by building on the foundations laid by the IASB's mainstream IFRS standards and then looking at these concepts within the framework of the public entity. The course develops key skills competencies through the application of sound theoretical content within a practical, real-life inspired case-study based environment.

Who should attend?

This course has been specifically designed for the benefit of:

- Organisations, including governments and public sector entities, that are currently implementing or considering implementing IPSAS as a basis for accounting
- Organisations wishing to gain an overview of IPSAS and understand what implications adopting these standards may have on their organisation
- Financial professionals operating within the finance departments of public entities
- Increasing your staff's awareness about IPSAS through considering the benefits and challenges associated
- Why not recommend this course to a colleague?

Agenda

Day 1

Welcome and Introduction to Course Objectives

IPSAS – Overview and Context

– Summary of recent pronouncements
– Exposure draft 42 improvement to IPSASs
– Exposure draft intangible assets
– Exposure draft entity combinations from exchange transactions
– Exposure draft financial instruments: disclosure

– Exposure draft financial instruments: presentation
– Exposure draft financial instruments: recognition and measurement
– Exposure draft agriculture
– Conceptual framework for general purpose financial reporting by public sector entities
– Exposure draft IPSAS 5 (revised) borrowing costs
– Accounting and financial reporting for service concession arrangements
– Social Benefits: disclosure of cash transfers to individuals and households
– Amendments to IPSAS 4 the effects of changes in foreign exchange rates
– Expected future developments
– IPSASB projects
– Consultation papers
– Projects in process
– Resources and reference material on IPSAS
– Research papers
– Public sector studies

Case study: A specific case study looking at the most recent developments and changes to IPSAS as well as a discussion of current problem areas and potential upcoming changes.

Day 2

IPSAS – The Standards Considered (Technical Review and Application)

Presentation of Financial Statements (IPSS 1 / IAS 1)
– Required financial statements
– Structure
– Content

Cash Flow Statements (IPSAS 2/IAS7)
– Cash and cash equivalents
– Operating, investing and financing activities

Accounting Policies, Changes in Accounting Estimates and Errors (IPSAS 3 / IAS 8)
– Changes in accounting estimates
– Changes in accounting policies
– Correction of fundamental errors
– Extraordinary items
– Items requiring separate financial statement disclosure

The Effect of Changes in Foreign Exchange Rates (IPSAS 4 / IAS 21)
– Foreign currency transactions
– Foreign operations

Consolidated and Separate Financial Statements (IPSAS 6)
– Concepts of public sector control
– Consolidation requirements
– Determining whether control exists

Case study: Practical case studies outlining the IPSAS specific implications of these selected standards.

Day 3

IPSAS - An in-depth Look at Key Standards

Financial Reporting in Hyperinflationary Economies (if Required) (IPSAS 10/IAS 29)
– Criteria to be classified as hyperinflation
– Process of restatement

Events after the Reporting Date (IPSAS 14/IAS 10)
– Adjusting events
– Non-adjusting events

Segment Reporting (IPSAS 18/IFRS 8)
– Distinguishable activities

Related Party Disclosures (IPSAS 20/IAS 24)
– Identification of related parties
– Disclosure requirements

Disclosure of Financial Information about the General Government Sector (IPSAS 22)
– Disclosure requirements

Presentation of Budget Information in Financial Statements (IPSAS 24)
– Required disclosures
– Comparison of budget and actual amounts
– Material differences; Assets and liabilities

Investments in Associates (IPSAS 7 /IAS 28)
– Equity method of accounting
– Cost method requirements

Interests in Joint Ventures (IPSAS 8/ IAS 31)
– Proportionate consolidation
– Allowed alternative equity method
– Course benefits
– Understand IPSAS requirements, including accounting policies and disclosures
– Implement the IPSAS recognition, measurement and disclosure rules for assets, liabilities, revenues and expenses
– Apply recent and revised standards

Day 4

IPSAS – The Fundamental Building Blocks

Property, Plant and Equipment (IPSAS 17/IAS 16)
– Initial recognition
– Subsequent valuation
– Depreciation
– Treatment of heritage assets

Borrowing Costs (IPSAS 5/IAS 23)
– Expensing
– Capitalisation

Leases (IPSAS 13/ IAS 17)
– Lessee and lessor financial reporting requirements
– Sale and leaseback transactions

IPSAS 16, Investment Property (IPSAS 16/ IAS 40)
– Initial recognition
– Subsequent valuation
– Transitional provisions for initial adoption

Inventories (IPSAS 12/IAS 2)
– Public sector entity inventories
– Inventories held for sale
– Inventories held for distribution at no or nominal charge

Case study: Practical case studies outlining the IPSAS specific implications of these selected standards.

Impairment of Non-Cash- Generating Assets (IPSAS 21)
– Impairment identification
– Recognition and measurement
– Impairment reversals
– Disclosure requirements

Financial Instruments: Disclosure and Presentation (IPSAS 15/IFRS 9)
– On-balance sheet instruments
– Off-balance sheet instruments
– Financial assets, liabilities or equity classification

Provisions, Contingent Liabilities and Contingent Assets (IPSAS 19/IAS 37)
– Definitions
– Recognition and measurement
– Disclosures

Case study: Practical case studies outlining the IPSAS specific implications of these selected standards.

Day 5

IPSAS – Essential Technical Components and the way ahead!

Employee Benefits (IPSAS 25/ IAS 19)
– Definitions
– Short-term employee benefits
– Postemployment benefits
– Distinction between defined contribution plans and defined benefit plans
– Recognition and measurement of plan assets

– Termination benefits
– Presentation and disclosure

Impairment of Cash-Generating Assets (IPSAS 26)
– Definitions
– Identifying an asset that may be Impaired
– Measuring recoverable amount
– Recognizing and measuring an impairment loss of an individual asset
– Cash-generating units
– Reversing an impairment loss
– Re-designation of assets
– Disclosure
– Income statement issues

Revenue from Exchange Transactions (IPSAS 9)
– Accounting treatment for exchange transactions

Revenue from Non-Exchange Transactions (Taxes and Transfers) (IPSAS 23)
– Recognition and measurement of tax revenue
– Recognition of revenue from transfers
– Reflecting conditions and restrictions in the financial statements

Construction Contracts (IPSAS 11/ IAS 11)
– Commercial and non-commercial contracts
– Allocation of contract costs
– Contract revenue recognition
– Associates and joint ventures

IPSAS – The Way Ahead
– Understanding of the differences between IAS/ IFRS and IPSAS
– Planning opportunities through awareness of likely future IPSAS changes
– Sources of IPSAS guidance available

Case study: Practical case studies outlining the IPSAS specific implications of these selected standards.

Products offered in Retail Banks:

1. Transactional accounts:

A transactional account, known as a **current account** (British English) or checking account is a deposit account held at a bank or other financial institution, for the purpose of securely and quickly providing frequent access to funds on demand, through a variety of different channels.

Transactional accounts are meant neither for the purpose of earning interest nor for the purpose of savings, but for convenience of the business or personal client; hence do they tend

not to bear interest. Instead, a customer can deposit or withdraw any amount of money any number of times, subject to availability of funds.

2. **Saving accounts:**

Saving accounts are accounts maintained by retail financial institutions that pay interest but cannot be used directly as money in the narrow sense of a medium of exchange (for example, by writing a cheque). These accounts let customers set aside a portion of their liquid assets while earning a monetary return. For the bank, money in a savings account may not be callable immediately and in some jurisdictions, does not incur a reserve requirement, freeing up cash from the bank's vault to be lent out with interest.

The other major types of deposit account are transactional account (checking account or current account by country), money market account, and time deposit.

3. **Debit Card:**

A **debit card** (also known as a **bank card** or **check card**) is a plastic payment card that provides the cardholder electronic access to his or her bank account(s) at a financial institution. Some cards have a stored value with which a payment is made, while most relay a message to the cardholder's bank to withdraw funds from a payer's designated bank account. The card, where accepted, can be used instead of cash when making purchases. In some cases, the primary account number is assigned exclusively for use on the Internet and there is no physical card.

Debit cards usually also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash. Merchants may also offer cash back facilities to customers, where a customer can withdraw cash along with their purchase.

4. **ATM Card:**

An ATM card (also known as a bank card, client card, key card, or cash card) is any payment card issued by a financial institution to its customers which enables a customer to access an automated teller machine (ATM) for transactions such as deposits, cash withdrawals, obtaining account information, and other types of banking transactions. The payment card may be any card which has that feature enabled, and may be a debit, credit, a limited-use ATM or other card. Interbank networks allow the use of ATM cards at ATMs of financial institutions other than those of the issuing institution.

ATM cards can also be used on improvised ATMs, such as merchants' card terminals that deliver ATM features without any cash drawer (commonly referred to as mini ATMs). These terminals can also be used as Cashless scrip ATMs by cashing the fund transfer receipt at the merchant's Cashier.

5. **Credit Card:**

A credit card is a payment card issued to users as a system of payment. It allows the cardholder to pay for goods and services based on the holder's promise to pay for them. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or

the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

A credit card is different from a charge card: a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, which can be used like currency by the owner of the card. A credit card differs from a charge card also in that a credit card typically involves a third-party entity that pays the seller and is reimbursed by the buyer, whereas a charge card simply defers payment by the buyer until a later date.

6**. Traveller's Cheque**:

A traveller's cheque (also traveller's cheque, travellers cheque, traveller's check or traveller's check) is a pre-printed, fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer for that privilege.

They were generally used by people on vacation instead of cash, as many businesses used to accept traveller's cheques as currency. Merchants and other parties would accept them as if they were currency because, as long as the original signature (which the buyer is supposed to place on the check in ink as soon he or she receives the cheque) and the signature made at the time the check is used is the same, the traveller's check issuer will unconditionally guarantee payment of the face amount even if the check is fraudulently issued, was stolen or lost. In short, a traveller's check can never 'bounce' unless the issuer goes bankrupt and out of business. If a traveller's cheque were lost or stolen, it could be replaced by the issuing financial institution.

7. **Mortgages:**

A mortgage loan, also referred to as a mortgage, is used by purchasers of real property to raise money to buy the property to be purchased or by existing property owners to raise funds for any purpose. The loan is "secured" on the borrower's property. This means that a legal mechanism is put in place which allows the lender to take possession and sell the secured property ("foreclosure" or "repossession") to pay off the loan in the event that the borrower defaults on the loan or otherwise fails to abide by its terms. The word *mortgage* is derived from a "law French" term used by English lawyers in the middle ages meaning "death pledge", and refers to the pledge ending (dying) when either the obligation is fulfilled or the property is taken through foreclosure.

Mortgage borrowers can be individuals mortgaging their home or they can be businesses mortgaging commercial property (for example, their own business premises, residential property let to tenants or an investment portfolio). The lender will typically be a financial institution, such as a bank, credit union or building society, depending on the country concerned, and the loan arrangements can be made either directly or indirectly through intermediaries. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably. The lender's rights over the secured property take priority over the borrower's other creditors which means that if the borrower becomes bankrupt or insolvent the other creditors will only be repaid the debts owed to them from a sale of the secured property if the mortgage lender is repaid in full first.

8. **Home Equity Loans:**

A home equity loan is a type of loan in which the borrower uses the equity of his or her home as collateral. Home equity loans are often used to finance major expenses such as home repairs, medical bills, or college education. A home equity loan creates a lien against the borrower's house and reduces actual home equity.
Most home equity loans require good to excellent credit history, reasonable loan-to-value and combined loan-to-value ratios. Home equity loans come in two types: *closed end* (traditionally just called a home-equity loan) and *open end* (aka a home-equity line of credit). Both are usually referred to as second mortgages, because they are secured against the value of the property, just like a traditional mortgage. Home equity loans and lines of credit are usually, but not always, for a shorter term than first mortgages. Home equity loan can be used as a person's main mortgage in place of a traditional mortgage. However, one cannot purchase a home using a home equity loan; one can only use a home equity loan to refinance. In the United States, in most cases it is possible to deduct home equity loan interest on one's personal income taxes.

9. **Certificates of Deposit:**

A certificate of deposit (CD) is a time deposit, a financial product commonly sold in the United States by banks, thrift institutions, and credit unions.

CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank". In the USA, CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for banks and by the National Credit Union Administration (NCUA) for credit unions. They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years), and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.

In exchange for keeping the money on deposit for the agreed-on term, institutions usually grant higher interest rates than they do on accounts from which money may be withdrawn on demand, although this may not be the case in an inverted yield curve situation. Fixed rates are common, but some institutions offer CDs with various forms of variable rates.

A few general guidelines for interest rates are:

- A larger principal should receive a higher interest rate, but may not.
- A longer term will usually receive a higher interest rate, except in the case of an inverted yield curve (i.e. preceding a recession)
- Smaller institutions tend to offer higher interest rates than larger ones.
- Personal CD accounts generally receive higher interest rates than business CD accounts.
- Banks and credit unions that are not insured by the FDIC or NCUA generally offer higher interest rates.

10**. Term Deposit:**

A time deposit (also known as a certificate of deposit in the United States, a term deposit, particularly in Canada, Australia and New Zealand; a bond in the United Kingdom; Fixed

Deposits in India and in some other countries) is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time (unless a penalty is paid) When the term is over it can be withdrawn or it can be held for another term. In its strict sense, certificate deposit is different from that of time deposit in terms of its negotiability: CDs are negotiable and can be rediscounted when the holder needs some liquidity, while time deposits must be kept until maturity.

The opposite, sometimes known as a sight deposit or "on call" deposit, can be withdrawn at any time, without any notice or penalty: e.g., money deposited in a checking account in a bank.

In some countries, they may also offer more specialised accounts such as:

- **Sweep Account:**

A sweep account is an account set up at a bank or other financial institution where the funds are automatically managed between a primary cash account and secondary investment accounts. A sweep account is a combination of two or more accounts at a bank or a financial institution. It is useful in managing a steady cash flow between a cash account used to make scheduled payments, and an investment account where the cash is able to accrue a higher return.

Many banks and financial institutions offer a sweep account service for personal customers and small business owners. It has also become part of the arsenal of services offered by credit card companies.

- **Money Market Account:**

  A money market account (MMA) or money market deposit account (MMDA) is a financial account that pays interest based on current interest rates in the money markets. Money market accounts typically have a relatively high rate of interest and require a higher minimum to earn interest or avoid monthly fees. The resulting investment strategy is therefore similar to, and meant to compete with, a money market fund offered by a brokerage. The two account types are otherwise unrelated.

- **Individual Retirement Account:**

  An Individual Retirement Account is a form of plan", provided by many financial institutions, that provides tax advantages for retirement savings in the United States. An individual retirement account is a type of "individual retirement arrangement" as described in IRS Publication 590, Individual Retirement Arrangements (IRAs). The term *IRA*, used to describe both individual retirement accounts and the broader category of individual retirement arrangements, encompasses an individual retirement account; a trust or custodial account set up for the exclusive benefit of taxpayers or their beneficiaries; and an individual retirement annuity, by which the taxpayers purchase an annuity contract or an endowment contract from a life insurance company.

Channels:

Banks offer many different channels to access their banking and other services:

- Automated Teller Machines
- A branch is a retail location
- Call centre
- Mail: most banks accept cheque deposits via mail and use mail to communicate to their customers, e.g. by sending out statements
- Mobile banking is a method of using one's mobile phone to conduct banking transactions
- Online banking is a term used for performing multiple transactions, payments etc. over the Internet
- Relationship Managers, mostly for private banking or business banking, often visiting customers at their homes or businesses
- Telephone banking is a service which allows its customers to conduct transactions over the telephone with automated attendant or when requested with telephone operator
- Video banking is a term used for performing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be performed via purpose built banking transaction machines (similar to an Automated teller machine), or via a video conference enabled bank branch clarification
- DSA is a Direct Selling Agent, who works for the bank based on a contract. Its main job is to increase the customer base for the bank.

Capital and risk:

Banks face a number of risks in order to conduct their business, and how well these risks are managed and understood is a key driver behind profitability, and how much capital a bank is required to hold. Bank capital is comprised principally of equity, retained earnings and subordinated debt.

Some of the main risks faced by banks include:

- **Credit risk:** risk of loss arising from a borrower who does not make payments as promised.
- **Liquidity risk:** risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).
- **Market risk:** risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors.
- **Operational risk:** risk arising from execution of a company's business functions.
- **Reputational risk:** a type of risk related to the trustworthiness of business.
- **Macroeconomic risk:** risks related to the aggregate economy the bank is operating in.

The capital requirement is a bank regulation, which sets a framework within which a bank or depository institution must manage its balance sheet. The categorization of assets and capital is highly standardized so that it can be risk weighted

Economic functions:

The economic functions of banks include:

1. Issue of money, in the form of banknotes and current accounts subject to check or payment at the customer's order. These claims on banks can act as money because they are negotiable or repayable on demand, and hence valued at par. They are effectively transferable by mere delivery, in the case of banknotes, or by drawing a check that the payee may bank or cash.
2. Netting and settlement of payments – banks act as both collection and paying agents for customers, participating in interbank clearing and settlement systems to collect, present, be presented with, and pay payment instruments. This enables banks to economize on reserves held for settlement of payments, since inward and outward payments offset each other. It also enables the offsetting of payment flows between geographical areas, reducing the cost of settlement between them.
3. Credit intermediation – banks borrow and lend back-to-back on their own account as middle men.
4. Credit quality improvement – banks lend money to ordinary commercial and personal borrowers (ordinary credit quality), but are high quality borrowers. The improvement comes from diversification of the bank's assets and capital which provides a buffer to absorb losses without defaulting on its obligations. However, banknotes and deposits are generally unsecured; if the bank gets into difficulty and pledges assets as security, to raise the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.
5. Asset liability mismatch/Maturity transformation – banks borrow more on demand debt and short term debt, but provide more long term loans. In other words, they borrow short and lend long. With a stronger credit quality than most other borrowers, banks can do this by aggregating issues (e.g. accepting deposits and issuing banknotes) and redemptions (e.g. withdrawals and redemption of banknotes), maintaining reserves of cash, investing in marketable securities that can be readily converted to cash if needed, and raising replacement funding as needed from various sources (e.g. wholesale cash markets and securities markets).
6. Money creation – whenever a bank gives out a loan in a fractional-reserve banking system, a new sum of virtual money is created.

Types of banks:

Banks' activities can be divided into:

- retail banking, dealing directly with individuals and small businesses;
- business banking, providing services to mid-market business;
- corporate banking, directed at large business entities;
- private banking, providing wealth management services to high net worth individuals and families;
- investment banking, relating to activities on the financial markets.

Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations.

MARKETS:

Make a real impact in Markets. As well as being involved in the monetary policy and financial policy decision-making processes, we manage the Bank's balance sheet.

Following the establishment of the Financial Policy Committee (FPC), we play an important role in the Bank's new responsibilities for financial stability policy. In sterling markets, we design and manage the Bank's money market operations, implementing Bank Rate and providing sterling liquidity to the banking system. We also manage the UK's foreign exchange reserves, on behalf of HM Treasury. In addition, we have delegated responsibility for managing the Bank's balance sheet, which stood at £400 billion at the end of June 2013.

Internal Audit :

Get a clear view of the entire organisation as you help to protect the Bank's reputation and financial assets through internal audit activities.

The Internal Audit team independently evaluates the effectiveness of the Bank's internal controls, risk management and governance processes. We then report our findings to the Bank's top management (the Court of Directors and the Executive Team). We also help to drive positive change throughout the organisation by identifying opportunities for improvement and guiding their implementation.

Effective Interest Method

The effective interest method is a technique for calculating the actual interest rate in a period based on the amount of a financial instrument's book value at the beginning of the accounting period. Thus, if the book value of a financial instrument decreases, so too will the amount of related interest; if the book value increases, so too will the amount of related interest. This method is used to properly account for bond premiums and discounts. A bond premium occurs when investors are willing to pay more than the face value of a bond, because its stated interest rate is higher than the prevailing market rate. A bond discount occurs when investors are only willing to pay less than the face value of a bond, because its stated interest rate is lower than the prevailing market rate.

The effective interest method is preferable to the straight-line method of charging off premiums and discounts on financial instruments, because the effective method is considerably more accurate on a period-to-period basis. However, it is also more difficult to compute than the straight-line method, since the effective method must be recalculated every month, while the straight-line method charges off the same amount in every month.

Financial Instruments:

1. Equities:

Equities are a type of security that represents the ownership in a company. Equities are traded (bought and sold) in stock markets. Alternatively, they can be purchased via the Initial Public

Offering (IPO) route, i.e. directly from the company. Investing in equities is a good long-term investment option as the returns on equities over a long time horizon are generally higher than most other investment avenues. However, along with the possibility of greater returns comes greater risk.

2. Mutual funds:

A mutual fund allows a group of people to pool their money together and have it professionally managed, in keeping with a predetermined investment objective. This investment avenue is popular because of its cost-efficiency, risk-diversification, professional management and sound regulation. You can invest as little as Rs. 1,000 per month in a mutual fund. There are various general and thematic mutual funds to choose from and the risk and return possibilities vary accordingly.

3. Bonds:

Bonds are fixed income instruments which are issued for the purpose of raising capital. Both private entities, such as companies, financial institutions, and the central or state government and other government institutions use this instrument as a means of garnering funds. Bonds issued by the Government carry the lowest level of risk but could deliver fair returns.

4. Deposits:

Investing in bank or post-office deposits is a very common way of securing surplus funds. These instruments are at the low end of the risk-return spectrum.

5. Cash equivalents:

These are relatively safe and highly liquid investment options. Treasury bills and money market funds are cash equivalents.

Composition of capital disclosure requirements

Introduction

1. During the financial crisis, many market participants and supervisors attempted to undertake detailed assessments of the capital positions of banks and comparisons of their capital positions on a cross jurisdictional basis. The level of detail of the disclosure and the lack of consistency in the way that it was reported typically made this task difficult and often made it impossible to do with any accuracy. It is often suggested that lack of clarity on the

quality of capital contributed to uncertainty during the financial crisis. Furthermore, the interventions carried out by the authorities may have been more effective if capital positions of the banks were more transparent.

2. To ensure that banks back their risk exposures with a high quality capital base, Basel III introduced a set of detailed requirements to raise the quality and consistency of capital in the banking sector. In addition, Basel III established certain high level disclosure requirements to improve transparency of regulatory capital and enhance market discipline and noted that more detailed Pillar 3 disclosure requirements would be forthcoming. This document sets out these detailed requirements.

3. To enable market participants to compare the capital adequacy of banks across jurisdictions it is essential that banks disclose the full list of regulatory capital items and regulatory adjustments. In addition, to improve consistency and ease of use of disclosures relating to the composition of regulatory capital, and to mitigate the risk of inconsistent formats undermining the objective of enhanced disclosure, the Basel Committee has agreed that internationally-active banks across Basel member jurisdictions will be required to publish their capital positions according to common templates.

4. The requirements are set out in the following 5 sections:

- Section 1: Post 1 January 2018 disclosure template.

A common template is established that banks must use to report the breakdown of their regulatory capital when the transition period for the phasing-in of deductions ends on 1 January 2018.It is designed to meet the Basel III requirement to disclose all regulatory adjustments, including amounts falling below thresholds for deduction, and thus enhance consistency and comparability in the disclosure of the elements of capital between banks and across jurisdictions. This template may be used in advance of 1 January 2018 in certain circumstances, which are set out in Section 1.

- Section 2: reconciliation requirements.

A 3 step approach for banks to follow is established to ensure that the Basel III requirement to provide a full reconciliation of all regulatory capital elements back to the published financial statements is met in a consistent manner. This approach is not based on a common template because the starting point for reconciliation, the bank's reported balance sheet, will vary between jurisdictions due to the application of different accounting standards.

- Section 3: main features template.

A common template is established that banks must use to meet the Basel III requirement to provide a description of the main features of regulatory capital instruments issued.

Bank Financial Structure

Banks are usually incorporated, and like any corporation must be backed by a certain amount of capital (money or other assets). Banking laws specify that banks must maintain a minimum amount of capital. Banks acquire capital by selling capital stock to shareholders. The money shareholders pay for the capital stock becomes the working capital of the bank. The working capital is put in a trust fund to protect the bank's depositors. In turn, shareholders receive certificates that prove their ownership of stock in the bank. The working capital of a bank cannot be diminished. Dividends to shareholders must be paid only from the profits or surplus of the bank.

Shareholders have their legal relationship with a bank defined by the terms outlined in the contract to purchase capital stock. With the investment in a bank comes certain right, such as the right to inspect the bank's books and records and the right to vote at shareholders' meetings. Shareholders may not personally sue a bank, but they can, under appropriate circumstances, bring a stockholder's derivative suit on behalf of the bank (sue a third party for injury done to the bank when the bank fails to sue on its own). Shareholders also are not usually personally liable for the debts and acts of a bank, because the corporate form limits their liability. However, if shareholders have consented to or accepted benefits of unauthorized banking practices or illegal acts of the board of directors, they are not immune from liability.

Bank Duties:

The powers and duties of a bank are determined by the terms of its charter and the legislation under which it was created (either federal or state regulations). A bank can, through its governing board, enact reasonable rules and regulations for the efficient operation of its business.

Deposits:

A deposit is a sum of money placed in an account to be held by a bank for the depositor. A customer can deposit money by cash or by a check or other document that represents cash. Deposits are how banks survive. The deposited money establishes a debtor and creditor relationship between the bank and the depositor. Most often, the bank pays the depositing customer interest for its use of the money until the customer withdraws the funds. The bank has the right to impose rules and regulations managing the deposit, such as restrictions governing the rate of interest the deposited money will earn and guidelines for its withdrawal.

Collections:

A primary function of a bank is to make collections of items such as checks and drafts deposited by customers. The bank acts as an agent for the customer. Collection occurs when the drawee bank (the bank ordered by the check to make payment) takes funds from the account of the drawer (its customer who has written the check) and presents it to the collecting bank.

Checks A check is a written order made by a drawer to her or his bank to pay a designated person or organization (the payee) the amount specified on the check. Payment pursuant to the check must be made in strict compliance with its terms. The drawer's account must be reduced by the amount specified on the check. A check is a demand instrument, which means it must be paid by the drawee bank on the demand of, or when presented by, the payee or the agent of the payee, the collecting bank.

A payee usually receives payment of a check upon endorsing it and presenting it to a bank in which the payee has an account. The bank can require the payee to present identification to prove a relationship with the bank, before cashing the check. It has no obligation to cash a check for a person who is not a depositor, since it can refuse payment to a stranger. However, it must honor (pay) a check if the payee has sufficient funds on deposit with the bank to cover the amount paid if the drawer of the check does not have adequate funds in his or her account to pay it.

A certified check is guaranteed by a bank, at the request of its drawer or endorser, to be cashable by the payee or succeeding holder. A bank is not obligated to certify a check, but it usually will do so for a customer who has sufficient funds to pay it, in exchange for a nominal fee. A certified check is considered the same as cash because any bank must honor it when the payee presents it for payment.

A drawer can revoke a check unless it has been certified or has been paid to the payee. The notice of revocation is often called a stop payment order. A check is automatically revoked if the drawer dies before it is paid or certified, since the drawer's bank has no authority to complete the transaction under that circumstance. However, if the drawer's bank does not receive notice of the drawer's death, it is not held liable for the payment or certification of that drawer's checks.

Upon request, a bank must return to the drawer all the checks it has paid, so that the drawer can inspect the cancelled checks to ensure that no forgeries or errors have occurred, in adjusting the balance of her or his checking account. This review of checks is usually completed through the monthly statement. If the drawer finds an error or forgery, it is her or his obligation to notify the bank promptly or to accept full responsibility for whatever loss has been incurred.

Bank liabilities:

A bank has a duty to know a customer's signature and therefore is generally liable for charging the customer's account with a forged check. A bank can recover the loss from the forger but not from the person who in good faith and without knowledge of the crime gave something in exchange for the forged check. If the depositor's negligence was a factor in the forgery, the bank can be excused from the liability.

A bank is also responsible for determining the genuineness of the endorsement when a depositor presents a check for payment. A bank is liable if it pays a check that has been materially altered, unless the alteration was due to the drawer's fault or negligence. If a bank pays a check that has a forged endorsement, it is liable for the loss if it is promptly notified by the customer. In both cases, the bank is entitled to recover the amount of its loss from the thief or forger.

A drawee bank that is ordered to pay a check drawn on it is usually not entitled to recover payment it has made on a forged check. If, however, the drawee bank can demonstrate that the collecting bank was negligent in its collection duties, the drawee bank may be able to establish a right of recovery.

A bank can also be liable for the wrongful dishonour or refusal to pay of a check that it has certified, since by definition of certification it has agreed to become absolutely liable to the payee or holder of the check.

If a bank has paid a check that has been properly revoked by its drawer, it must reimburse the drawer for the loss.

Drawer liabilities:

A drawer who writes a check for an amount greater than the funds on deposit in his or her checking account is liable to the bank. Such a check, called an overdraft, sometimes results in a loan from the bank to the drawer's account for the amount by which the account is deficient, depending on the terms of the account. In this case, the drawer must repay the bank the amount lent plus interest. The bank can also decide not to provide the deficient funds and can refuse to pay the check, in which case the check is considered "bounced." The drawer then becomes liable to the bank for a handling fee for the check, as well as remaining liable to the payee or subsequent holder of the check for the amount due. Many times, the holder of a returned, or bounced, check will impose another fee on the drawer.

Loans and Discounts:

A major function of a bank is the issuance of loans to applicants who meet certain qualifications. In a loan transaction, the bank and the debtor execute a promissory note and a separate agreement in which the terms and conditions of the loan are detailed. The interest charged on the amount lent can differ based on many variables. One variable is a benchmark interest rate established by the Federal Reserve Bank Board of Governors, also known as the prime rate, at the time the loan is made. Another variable is the length of repayment. The collateral provided to secure the loan, in case the borrower defaults, can also affect the interest rate. In any case, the interest rate must not exceed that permitted by law. The loan must be repaid according to the terms specified in the loan agreement. In case of default, the agreement determines the procedures to be followed.

Banks also purchase commercial papers, which are commercial loans, at a discount from creditors who have entered into long-term contracts with debtors. A creditor sells a commercial paper to a bank for less than its face value because it seeks immediate payment. The bank profits from the difference between the discount price it paid and the face value of the bond, which it will receive when the debtor has finished repaying the loan. Types of commercial paper are educational loans and home mortgages.