



Publisher

<http://jssidoi.org/esc/home>



---

TRANSPARENCY OF CREDIT INSTITUTIONS\*

Roman P. Bulyga <sup>\*1</sup>, Alexsei A. Sitnov <sup>2</sup>, Liudmila V. Kashirskaya <sup>3</sup>, Irina V. Safonova <sup>4</sup>

<sup>1,2,3,4</sup>Financial University under the Government of the Russian Federation, Moscow, Russian Federation, Leningradsky Prospekt, 49, 125993, Moscow, Russian Federation

E-mail: <sup>\*1</sup> [RBulyga@fa.ru](mailto:RBulyga@fa.ru) (Corresponding author)

Received 14 January 2020; accepted 23 April 2020; published 30 June 2020

**Abstract.** The article is devoted to a problem of information transparency of credit institutions, which plays a key role in ensuring an effective interaction of such institutions with their stakeholders and is considered as one of the factors of their competitiveness and investment attractiveness. Credit organizations are the main players on the services' market. Therefore, it is necessary to provide complete and most transparent information about the activities of a credit institution, in order to receive a high level of trust from both - clients and investors. This article contains an analysis of the stages of development of international regulatory rules in the specified subject area, which allowed to determine and structurize the information to be disclosed by banks and other credit organizations in accordance with the requirements of international financial institutions. The research methodology was based on the main international regulations issued by the Basel Committee on Banking Supervision and governing the activities of credit organizations. During the research it was concluded that it is reasonable to use the XBRL technology adaptation algorithm developed by the authors as a tool to increase the transparency of credit institutions. The result of the study was the development of this algorithm. A study conducted by the authors revealed that, in the development of the developed concept, its provisions on the development of accounting and analytical tools to ensure information transparency of credit institutions, as well as improving the control system for the reliability of data generated, provided and published by credit organizations, are specified.

**Keywords:** information disclosure; information openness; information transparency; transparency; credit institution; bank; stakeholders

**Reference** to this paper should be made as follows: Bulyga, R.P., Sitnov, A.A., Kashirskaya, L.V., Safonova, I.V. (2020). Transparency of credit institutions. Method for evaluating the possibility of cluster forming. *Entrepreneurship and Sustainability Issues*, 7(4), 3158-3172. [https://doi.org/10.9770/jesi.2020.7.4\(38\)](https://doi.org/10.9770/jesi.2020.7.4(38))

**JEL Classifications:** M 41, M 42, M 49, G22

**Additional disciplines** finances, audit

---

\* The article is based on the results of the research work "Improving information transparency in the activities of economic entities for control and Supervisory authorities", carried out as part of the state task of the Financial University under the Government of the Russian Federation for 2019

## 1. Introduction

Information transparency plays a key role in ensuring the effective interaction of economic entities with their stakeholders and is considered as one of the factors of their competitiveness and investment attractiveness. Information transparency plays a special role in the activities of credit organizations, since it is associated with high risks and is largely determined by the operational actions of the regulator, the country's central bank (Hilkevics and Semakina, 2019). Credit organizations are the main operators in the market for providing not only banking services. Therefore, in order to create a high level of trust in both clients and investors, it is necessary to provide complete and most transparent information about the activities of a credit institution (Dutta and Mukherjee, 2018; Korableva et al., 2018).

The transparency of the activities of credit organizations occupies an important place in the process of ensuring transparency of the country's economy as a whole, since the degree of transparency of the banking sector largely determines the level of transparency in other sectors of the economy. Leading credit organizations in the course of their activities impose certain requirements on the information provided to them by customers - representatives of other sectors of the country's economy (Harden et al., 2020). As a result, more stringent requirements placed by banks on their customers increase information transparency indicators by representatives of other sectors of the Russian economy.

However, the level of information disclosure by Russian credit organizations is quite low in comparison to similar foreign banks. Confirmation of this thesis is the active withdrawal by the Central Bank of the Russian Federation of licenses for banking activities, as well as the results of ongoing research on this issue (Gayovets, E.A, 2013). They indicate that it is the insufficiently full disclosure of information about their activities by credit organizations, as well as the low transparency of the banking regulation process by the regulator that inhibits the development of the national banking sector (Bodea and Hicks, 2018; Petrova et al., 2019; Grittersová, 2020).

The issue of transparency of credit organizations has been discussed for a long time. At the same time, it has gained particular relevance in recent years after the Basel Committee on Banking Supervision issued the Principles of Strengthening Corporate Governance, attempting to eliminate the gaps in corporate governance of banks that were discovered during the financial crisis of 2007-2008 (Sarkisyants, 2013). Thus, the study by A. Payne (Payne, 2010) assessed the role of insufficient informational transparency of economic entities (including credit organizations) in the 2007 crisis. It was established that the asymmetry of information led to errors in the assessment and distribution of risks.

## 2. Methods

The analysis carried out during the study showed that the following system of interrelated concepts is most often used in scientific and specialized literature and legal acts: "information disclosure", "information openness", "information transparency", "transparency" (Addo et al., 2018; Bulyga, 2019; Sitnov and Maksutova, 2019; Akhmadeev et al., 2018).

The category "information transparency" is a key one. It is achieved in the process of "disclosure of information". At the same time, "informational openness" means the lower (minimum acceptable in accordance with regulatory requirements) level of transparency of the economic entity, and the voluntarily formed "transparency" - its maximum possible level (rather ideal, used as a standard in the rating process). In real practice, due to commercial risks, economic entities form the so-called "rational information transparency", the achievement of which is the goal of risk management of organizations (including credit organizations) (Thomas et al., 2006; Semenova, 2009; Vyatkina and Sitnov, 2018; Kashirskaya et al., 2019).

The process of integration of the domestic banking sector into the global financial system necessitates taking into account the requirements of the main international financial institutions in the formation of the concept, methodology and tools of information transparency of the activities of credit organizations in Russia. The main international financial institutions that directly or indirectly regulate the requirements for information transparency of banks include (Gaevets, 2013):

- International Monetary Fund (hereinafter - the IMF);
- Basel Committee on Banking Supervision (hereinafter - BCBS);
- Organization for Economic Co-operation and Development (hereinafter - OECD);
- The World Bank and its structures;
- Intergovernmental Commission on the fight against the laundering of criminal capital (hereinafter - the FATF).

The most significant international documents that regulate the activities of banks in general and in particular, in terms of ensuring transparency of their activities are:

- The Code of Good Practice for Ensuring Transparency in Monetary and Financial Policies, developed by the International Monetary Fund (hereinafter - the Code for Ensuring Transparency);
- Agreement of the Basel Committee on Banking Supervision.

The Code for Transparency discloses the content of the basic principles of transparency (accessibility, openness, reliability, timeliness). It regulates the procedure for ensuring transparency of all types of financial institutions (including their regulators), discloses the main directions in terms of ensuring transparency of activities, such as:

- transparency of the regulator;
- determination of conditions which lead to the increasing level of information transparency of a credit institution;
- definition of basic concepts related to the problems of ensuring transparency of banks;
- the procedure for disclosing financial information about the activities of a credit institution.

The Explanatory Memorandum to the Code of good transparency practices in monetary - credit and financial policies contains: specific recommendations to be used by banks to ensure transparency of their operations; the definition of conditions, which make it possible to achieve a high degree of transparency of operations, as well as examples of different ways to ensure transparency. So, among the main ways to ensure the transparency of banks are: disclosure of the provisions of the internal regulations of the credit institution; publication of press releases on performance; disclosure of information on financial condition, including in published annual reports; use of Web-sites as a mean of communication with interested users of information about the activities of a credit institution.

The basic international regulation governing the activities of credit organizations is a document issued by the Basel Committee on Banking Supervision - "Fundamental Principles of Effective Banking Supervision" (1998). It identified the main approaches to information disclosure by credit organizations.

### **3. Results**

The study allowed us to highlight the following stages of development and improvement of the basic agreements developed by the Basel Committee on Banking Supervision:

a) Basel I (1988): it was mainly associated with the implementation of recommendations on capital adequacy covering credit risk (the bank's capital for regulatory purposes was prescribed to be divided into two groups - capital of the 1st and 2nd levels, and all bank assets for these the goals should be divided into 5 groups depending on the risk level of each type of asset), while the issues of providing banks with information transparency of their activities were addressed only indirectly (mainly regarding disclosure of information on capital adequacy). This standard has not been fully used by foreign and Russian banks.

b) Basel II (2004): Basel II's approach is based on 3 main components: minimum capital requirements (Basel I framework), supervision procedures and market discipline. As part of the latter component, a wide system of

disclosing information when reporting for banks was added, and the issue of maintaining a balance between openness of information and its confidentiality was also raised.

c) Basel III (2010): The main motivating factor for it to appear was the reaction on the negative trends of the global financial crisis of 2007-2008: to prevent them in the future. When creating Basel III, the shortcomings of previous agreements were taken into account. In addition, new provisions were adopted in order to better align risk management processes, as well as control and supervision in the banking sector. The main innovations of Basel III are: strengthening the banking sector; improving risk management to improve the quality of corporate governance in banks; increase of information transparency of credit organizations.

In total, over the period between Basel I and Basel III, more than dozens of documents were adopted defining the transparency standards of banks and their disclosure. So, in order to increase the transparency of the activities of banks and to eliminate gaps in their corporate governance, which was discovered during the financial crisis of 2007 - 2008, the BCBS was amended with the following aspects:

- a description of the main activities of credit organizations and indicators of its financial effectiveness;
- the requirement for regular disclosure by banks of information about their activities on a consolidated, and if necessary, individual basis;
- establishing the level of detail and systemic significance of the information provided by credit organizations;
- disclosure in reporting in the form of quantitative and qualitative information of the remuneration system for key management personnel;
- the introduction of a mandatory external audit of operations to consolidate and use off-balance sheet instruments of banks.

As the study showed, the main to date approaches to the disclosure of information in the banking sector of the EU and the US are formulated in the Basel Accords. The Basel Accords define transparency as the disclosure of reliable and relevant information that enables interested users to correctly assess the financial position and performance of a credit institution, the structure of its risks, and risk management methods.

For participants in the European insurance market, the main regulatory document governing their activities and determining the requirements for information disclosure is the European Union Directive (2009) on the organization and implementation of insurance and reinsurance organizations (Solvency II). This Directive, being a national act of the European Union, establishes fundamental and comprehensive requirements for regulatory processes and supervision of the activities of insurers (including reinsurance organizations) and insurance groups. In particular, it identifies 3 key components of the structure of regulating the solvency of insurers: quantitative requirements; quality requirements; disclosure requirements.

The study showed that the architecture of the Solvency II Directive in terms of the composition and structure of its main components almost completely coincides with the architecture of Basel II. Both Solvency II and Basel I-III are based on a risk-based approach to regulating and supervising the activities of controlled facilities (insurance companies and banks, respectively). At the same time, a two-level approach to determining the amount of regulatory capital (Solvency capital requirement), as well as risk profiles, the quantitative impact of which on the bank's capital must be evaluated in accordance with the requirements of the considered aspects, with the exception of the insurance risk of insurers, is similarly constructed. So, for example, in accordance with the requirements of Solvency II and Basel II, the regulatory capital of both the insurer and the bank is divided into two levels: the minimum possible for carrying out business and the target one, which provides certain probability of protection against bankruptcy. Both of these levels determine the requirements and algorithms for analyzing its sufficiency.

The study allowed us to determine the composition and structure of information to be disclosed by banks and other credit organizations in accordance with the requirements of international financial institutions. This information includes two blocks: information on the main areas of activity (basic information) and additionally disclosed information (additional information).

The Russian peculiarity is that, despite the presence of an impressive list of regulators, the Central Bank of the Russian Federation as a mega-regulator plays the main role in the formation of requirements for information transparency of credit organizations to the federal body that regulates financial markets in terms of monitoring any activities in the provision of financial services by banks and other types of financial institutions. Powers for regulation and control in the field of financial markets in accordance with Federal Law of July 23, 2013 N 251-FZ (as amended on July 29, 2017) “On Amending Certain Legislative Acts of the Russian Federation in Connection with the Transfer of Regulation Powers to the Central Bank of the Russian Federation, control and supervision in the sphere of financial markets.” transferred to the Bank of Russia from September 1, 2013.

One should note that assigning the functions of a megaregulator to the country's central bank is a fairly common world practice. Currently megaregulators in one form or another operate in more than 55 countries of the world, in 13 of which (Belgium, Great Britain, Germany, Greece, Ireland, Lithuania, Portugal, Saudi Arabia, Slovakia, the USA, Singapore, France and the Czech Republic) they were created on the basis of central (national) banks (Sarkisyants, 2013).

Moreover, the legislation of the Russian Federation contains requirements for transparency of the Bank of Russia itself as the main regulator of the country's banking system. And as the study showed, the roots of the problems of low transparency of the Russian banking system are due to insufficiently high regulatory requirements for information disclosure by the Bank of Russia, primarily in those areas of activity that relate to the decision-making process. So, according to the Federal Law of the Russian Federation of July 10, 2002 N 86-FZ (as amended on December 27, 2018) “On the Central Bank of the Russian Federation”, only five forms of accountability of the Central Bank of the Russian Federation to the State Duma and disclosure of information on its activities are provided. As a result, the Bank of Russia uses less than half of the foreseen information policy instruments of the country's central bank. In this regard, the CBR is significantly inferior to foreign regulators.

As the study showed, in contrast to international documents, national regulations require transparency of the activities of credit organizations only in the areas of “Financial Information” and “Property Structure” (Gaevets E.A., 2013). At the same time, true and complete information about the structure of the ultimate beneficial owners of large blocks of shares in banks continues to be one of the problematic areas of transparency in the Russian banking system.

A study of the requirements and practice of applying legislation in terms of regulating the information transparency of credit institutions activity showed that, in the presence of a mega-regulator of the financial market in the country, the regulations issued by it, in essence, already contain requirements for information transparency of credit organizations activities, taking into account the requests of the main groups of their interested users.

One of the most influential studies in the area of transparency of economic entities is the “Study of Information Transparency of Russian Companies”, conducted by the international rating agency Standart & Poor's. The objects of this study are the activities of 90 Russian public organizations of various sectors of the economy: banks, engineering, metallurgy, oil and gas, electricity, telecommunications companies, as well as food industry, retail, consumer goods and development activities. The study evaluates such indicators of the degree of disclosure of information as: “Financial information”, “Ownership structure”, “Operational information”, “Shareholder rights”, “Information on the board of directors and management”, “Remuneration of management and members of the board of directors”. Based on the results of the study, a transparency index weighted by capitalization (ITVC) is calculated and published, which is the average score for information disclosure.

To determine the degree to which credit organizations in Russia comply with regulatory requirements for the disclosure of information about their activities and the calculation of the transparency index, we conducted a special study. The reference group for the study selected 10 banks that meet the criteria of systemically important credit organizations (table 1). The total assets of these banks account for about 50% of all assets of the banking system of Russia.

**Table 1.** A reference group of banks to conduct a study of the degree of compliance with regulatory requirements for the disclosure of information about their activities

No.	Name of credit institution	Reg. No.
1	JSC UniCredit Bank	1
2	VTB Bank (PJSC)	1000
3	JSC "ALFA-BANK"	1326
4	PJSC Sberbank	1481
5	PJSC "Moscow Credit Bank"	1978
6	PJSC Bank "FC Otkrytie"	2209
7	PJSC ROSBANK	2272
8	PJSC "Promsvyazbank"	3251
9	JSC "Raiffeisenbank"	3292
10	JSC "Agricultural Bank"	3349

*Source:* own research

The calculation of the transparency index for the banks selected in the reference group is based on the methodology developed by the Transparency International, combined with the methodology of the corporate governance rating service Standard & Poor's. To calculate the index, the information disclosed in three main sources was used: annual reports, the official websites of banks and the statements provided on the Bank of Russia website. The study was conducted as of January 1, 2019. Evaluation and calculation of the transparency index was carried out in three blocks (anti-corruption documents, organizational transparency and reporting), including specific assessment criteria. The study was conducted in the form of respondents' answers to questions asked by each criterion. The questions are given a positive / negative answer. Banks were given points according to the answers, given in the questionnaires. Points were adjusted for the timeliness of disclosure of information to the public as a whole and multiplied by weight. The final bank transparency index is in the range from 0 to 10 conventional points.

As a result, it was found that the considered banks publish almost the entire amount of information required by regulatory legal acts of the Russian Federation. To disclose information, banks use official websites (for example, information about a bank, deposit rates for individuals, issue documents, etc.), statements (annual and interim financial statements, issuer's quarterly reports, etc.), websites Central Bank of the Russian Federation (for example, information on financial instruments used by a credit institution, information about bank owners, etc.). The bank transparency indices calculated during the study are presented in table 2.

**Table 2.** Calculation of the transparency index for the 10 largest Russian banks

Bank	Total assets of \$ million	Anti-corruption documents	Organizational transparency	Reporting	IT
Sberbank PJSC	71 911	85	88	69	8.3
PJSC VTB	14 929	23	75	65	7.1
Gazprombank JSC	12 706	50	61	51	6.4
Afa-Bank JSC	7 339	78	55	39	5.4
PJSC Promsvyazbank	2 945	77	38	39	4.8
PJSC Moscow Credit Bank	5 361	70	41	40	4.1
JSC "Bank of Russia"	4,908	56	20	thirty	2, 3
JSC Russian Standard Bank	1 606	64	34	25	3.4
PJSC "Bank" Saint-Petersburg"	1 900	fifty	63	41	4.2
PJSC "Discovery"	1 088	59	61	42	4.6

Source: own research

A study of the information transparency of the 10 largest Russian banks showed that the level of public disclosure of information by Russian banks is in the middle. The banks of the first five have an index above 5.0, which indicates a relatively high transparency. Nevertheless, even among the largest banks in the country, the index decreases in proportion to the decrease in capitalization. The average information disclosure of banks included in the study was 5.1, which is almost two times lower than that of similar public importance for the economy of foreign banks (Table 3).

**Table 3.** Transparency level of foreign banks, %

Bank	The country	Total score	Ownership structure and shareholder rights	Financial and operational information	Composition and working procedures of the board of directors and management
Deutsche bank	Germany	90	79	95	85
JPMorgan Chase	USA	89	74	95	88
Bank of America	USA	88	78	93	87
Hsbc	Great Britain	87	79	93	85
Citigroup Inc.	USA	86	76	93	82
ABN AMRO	Netherlands	83	79	85	84
Royal Bank of Scotland	Great Britain	83	69	89	85
Ubs	Switzerland	82	75	87	79
Ing	Netherlands	82	83	83	79
Credit suisse group	Switzerland	77	73	81	72
Grade point average		85	76	89	83

Source: (Standard & Poor 's) and own research

It should be noted that there is a clear correlation of relatively low transparency indices of leading Russian banks with the level of assessment of their creditworthiness and international competitiveness by leading world and domestic rating agencies. Thus, the leading rating agency Moody's, Fitch's Ratings has during the same period under review of the reference banks assigned credit ratings below the world average, while their national assessment on the part of "Expert RA" was in the highest position.

The study and the data of rating agencies indicate a rather low level of public disclosure of information by Russian credit organizations, which reduces the trust of the investment community and the population in financial institutions. Moreover, as world practice shows, the level of transparency is directly proportional to the scale of activity of large organizations.

The lack of transparency of Russian credit organizations is in the following aspects.

Firstly, in the international aspect. As shown above, the average disclosure rate for Russian banks is two times lower than the level of disclosure by similar foreign banks.

Secondly, in the industry aspect. The level of information disclosure by Russian credit organizations is significantly inferior to the level of information disclosure by domestic economic entities of other sectors of the economy. So, conducted by Gayevets E.A. (2013) the study showed that “the value of the transparency index, weighted by capitalization (ITVC), of the banking sector is inferior to the value of ITVC in almost all other sectors of the Russian economy (except for the engineering industry), as well as the average value of the indicator as a whole in the country”.

Thirdly, in the structural aspect. The level of information disclosure by Russian banks is very heterogeneous in the context of three main sources - annual reports, corporate websites and reporting submitted to regulatory authorities (table 4). Moreover, it should be noted that foreign banks are characterized by a very uniform quality and degree of detail of information disclosed in all major sources. The aforesaid is confirmed by a slight difference in the level of disclosure of information in the least informative source (statements sent to regulatory authorities) and the level of disclosure of information in the most informative source (annual reports of banks). This is due to the fact that in international practice each of the sources is an equivalent independent channel for information disclosure.

**Table 4.** The Degree (%) and the ratio of sources of information disclosure

	Annual report	Web sites	Reporting to Regulators
Russian banks	28	46	26
Russian companies	36	60	43
Foreign banks	86	85	82

*Source:* (Sarkisyants, 2013)

As the study showed, the reporting submitted by credit organizations to regulatory authorities is relatively less informative for a wide range of interested users than similar reports by major Russian companies. Moreover, the problem is that not all reporting submitted by credit organizations to the Central Bank of the Russian Federation can be used for public disclosure. So, in the reports that credit organizations disclose publicly, there are no such important blocks of information for investors as the names of beneficial owners of shares, the structure and procedures for managing and making decisions. Such information is partially contained in the quarterly reports of credit organizations, however, the requirement for its disclosure applies only to banks issuing securities.

Based on the research results, a matrix of transparency zones of a credit institution has been developed (Table 5). The specified matrix is the most complete set of objects, information about which is subject to disclosure based on the requirements of regulatory - legal acts and the needs of all interested users (stakeholders) of credit organizations, which will achieve the following results:

- First, to identify the “non-transparency zone” (low transparency zone) of credit organizations.
- Second, to implement the basic principle laid down in the basis of the XBRL technology (form once, use it repeatedly to satisfy the interests of all interested users in information about the activities of a credit institution) when developing a specific set of key indicators (control indicators) that can be used for monitoring and oversight of the activities of credit institutions in order to increase its transparency.

**Table 5.** The Matrix of the transparency zones of the credit institution

Area code	Name of transparency zones
100	Credit institution background
200	Information on the activities of a credit institution (banking products)
210	Information on activities to attract funds of individuals and legal entities in <u>deposits</u>
220	Information on the activities for the placement of borrowed funds on its own behalf and at its own expense
230	Information on the activities of opening and maintaining bank accounts of individuals and legal entities
240	Information on the activities on the implementation of money transfers on behalf of individuals and legal entities, including correspondent banks, on their bank accounts
250	Information on the collection of cash, bills, payment and settlement documents and cash services to individuals and legal entities
260	Information on the activity of buying and selling foreign currency in cash and non-cash forms. Information about foreign exchange transactions.
270	Precious Metals Information
280	Information on major transactions and significant transactions
290	Information on other aspects of a credit institution
291	Information on the activities of a credit institution as a professional participant in the securities market
300	Information on the organizational structure and points of service
310	Organizational Structure Information
320	Service Point Information
400	Information on ownership structure and shareholder rights
410	Stock structure
420	Information on beneficial (real) owners
430	Information on mechanisms for protecting the rights of minority shareholders
500	Information on business relations and partnerships of a credit organization
510	Affiliate Information
520	Information on the participation of a credit organization in banking groups, bank holdings and other structures
530	Information on relations with non-residents
600	Information about the management and decision-making system
610	Board and Management Information
620	Remuneration of management and board members
630	Information on decision making by the shareholders meeting
700	Financial and non-financial information
710	Information on the financial condition of a credit institution
711	Information on credit institution assets
712	Information on liabilities and off-balance sheet liabilities of a credit institution
713	Information on capital and sources of equity of a credit institution
714	Credit institution liquidity information
720	Information on the financial performance of a credit institution
721	Information on the income of a credit institution
722	Information on expenses of a credit institution
723	Information on profit (loss) of a credit institution
724	Information on the profitability of a credit institution
730	Information on cash flow of a credit institution
740	Information on compliance by a credit institution with established standards
750	Information on Sustainable Development of a Credit Organization
800	Information on risks and measures to minimize them
810	Information on the risks of the credit institution and the procedure for determining them
811	Information on credit, operational and market risks
820	Strategies and methods of risk management of a credit institution
830	Information Risks and the Information Security System of a Credit Organization
840	Information about the system of control over the activities of a credit organization
841	Information about ICS credit organization

842	Information on an external audit of a credit institution
843	Information about the system of control and supervision of the activities of a credit institution
850	Information on the activities of a credit institution to combat fraud and PODFT
851	Information on the activities of a credit institution to combat fraud
852	Information on the activities of a credit institution in terms of PODFT
900	Information about the accounting system and information systems
910	Information about the credit organization accounting system
920	Information on information systems and technologies used by a credit institution

*Source: own research*

The study allowed us to identify areas of low transparency of Russian credit organizations, the main of which is the disclosure of the following information about:

- the ownership structure, beneficial (real) owners and shareholders' rights of credit organizations;
- affiliates of a credit organization;
- the remuneration of a member of the board of directors and top managers of the bank;
- banking risks and measures to minimize them.

As the study showed, the transparency of specific banking information from the point of view of the interests of shareholders of a credit institution is about 40%, which is lower than the transparency level of large companies with foreign investment, where the disclosure level exceeds 80%. At the same time, the level of disclosure of information on the ownership structure of credit organizations increases as banks enter the global financial markets. In terms of information disclosure, the largest Russian banks, whose shares in most cases are not traded on trading floors, are significantly behind the criteria that meet the requirements of the largest world exchanges. The transparency of banks from the position of minority shareholders is at the lowest level: the share of private capital, information on the owners of which is disclosed, is only 8% of total capital and only 16% of total private capital (private capital is slightly more than 50% of total capital). This indicator is also twice lower than the share of private blocks of shares of the largest Russian companies, information about the owners of which is disclosed.

The most acute issue of transparency, or rather, the opacity of Russian banks is the weak disclosure of information on beneficial (real) owners, which does not give a real picture of the ownership of a credit institution. The essence of the problem is that they have no reliable means of identification of beneficial owners in the case of indirectly of ownership of shares of the bank (except for voluntary disclosure of shareholder s information about themselves).

This situation is due to the fact that in Russia there is a priority of the legal form over economic content. In this regard, credit organizations have the opportunity to hide the true owners (beneficiaries) of the bank who do not fit the requirements formally specified in Russian law. IFRS, however, rely more on the substantive aspect and are not tied to certain formal requirements fixed at the legislative level, which leads to a higher level of disclosure of information on the ownership structure of foreign banks that record IFRS. For example, most of the foreign banks disclose the beneficial owners of large blocks of shares, including those of the shares owned by top management.

The legislation of the Russian Federation does not provide sanctions against credit organizations with an opaque ownership structure. At that time, the legislation of many countries of the world contains a requirement for mandatory disclosure of information on large blocks of shares owned by shareholders (directly or indirectly). So, the minimum size of a block of shares, information on the owners of which is subject to disclosure, can be from 3 to 10% of voting shares, depending on the requirements of national legislation and the type of organization. At the same time, in many countries, banks are allowed to deprive the voting rights of owners of shares whose beneficial owners are not disclosed.

It should be noted that the problem of disclosing information on beneficial (real) owners by Russian banks is not so clear. It significantly depends on the scale of banks and the degree of their global integration. So, Banks from the first hundred of the Russian rating, that actively attract funds from private individuals, have begun to reveal the ownership structure according to international standards long ago. Measures of the Bank of Russia are now aimed more at smaller credit institutions that are part of the deposit insurance system but have insignificant amounts of deposits (disclosing the ownership structure was one of the conditions for banks to join the deposit insurance system). In today's conditions, the most effective way to attract investment by banks on favorable terms and on a large scale is to work according to the rules of international stock markets, high transparency of the organization, and the availability of reports prepared in accordance with international standards.

According to the results of a review held by the Central Bank of the Russian Federation which was based on data disclosed by joint stock companies whose shares were included in the quotation lists of the first and second levels of Moscow Exchange PJSC as of June 30, 2018, it was established that the principles of corporate governance are worst observed in these banks. These principles are aimed at creating conditions for a fair and equal treatment of each shareholder and relating to such important rights of shareholders as participation in the management of the company and distribution of profits, as well as mechanisms of reliable accounting of rights on shares and the possibility of their easy disposal.

The next problematic area of transparency of both foreign and domestic banks is the disclosure of information about related parties (affiliates). The essence of the problem is that in foreign practice, as in Russia, approaches to determining the connectedness of individuals in accordance with international financial reporting standards are widespread. At the same time, the determination of such connectivity is carried out using the Bank's judgment, including on the basis of existing control or significant influence. However, it should be noted that the list of connectedness features contained in IFRS does not cover the whole variety of connectedness signs that may exist between organizations; therefore, it is not complete or complete. Thus, the approaches to information disclosure enshrined in IAS 24 "Related Party Disclosures" determine that the disclosure format can be independently selected by the credit institution based on the best presentation to users of information about the impact of transactions with related parties on the financial position of the bank. IAS 1 Presentation of Financial Statements contains a complete list of financial reporting forms that are required to be disclosed, as well as minimum disclosure requirements in notes, and IFRS do not contain unified disclosure requirements in notes, therefore, each a credit institution discloses information in accordance with its professional judgment, as in our example below.

In the course of the study, we reviewed the reporting of credit institutions for 2017 and revealed that banks use different approaches to disclosing information about transactions with related parties. Thus, in the statements of JSC CB INTERPROMBANK there is no detailed information on persons associated with the Bank (the notes reflect only the total amount of risk for related persons - 0.11 billion rubles). The statements of JSC Russian Standard Bank in the notes of the IFRS statements for 2017 contained detailed information, that is, criteria for relatedness and transactions with related parties are displayed, including information about related parties with amounts attributable to the parent company and other companies are listed in the notes. Despite the conceptual differences in the disclosure of information in the IFRS statements, audit organizations indicate a reliable reflection of the financial situation of credit organizations in both cases. And also, the calculation of the standard in accordance with Russian Accounting Standards is confirmed, including in terms of compliance with the N25 standard.

The most significant gap between the performance of Russian and foreign banks is observed in the disclosure of remuneration of directors and senior management. With respect to such information the Financial Stability Board (the Financial Stability Discussion Board) adopted requirements for the effective setting of remuneration taking into account the risks taken, as well as supervision and obligations to stakeholders (2009). They state that the

disclosure of information on the practice of remuneration should be clear, comprehensive and timely in order to satisfy the needs of all interested users (stakeholders) of the bank (and above all, the regulator).

The study showed that in Russian practice the disclosure of this information is usually limited to the publication of general information related to the remuneration policy and the indication of the amount of salary expenses in the bank (sometimes with the allocation of the amount of bonuses and social insurance expenses), from which the amount of compensation is not allocated top management in accordance with the requirements of IFRS 24. So, according to the results of a review by the Central Bank of the Russian Federation, compiled on the basis of data disclosed by joint stock companies whose shares were included in the quotation lists of the first and second levels of PJSC Moscow Exchange as of 06.30.2018 it was determined that such personalized information has been presented only three public companies out of 75 companies in the sample.

It should be noted that information on the remuneration of directors and senior management is insufficiently disclosed in general for most Russian enterprises from various industries (the average information transparency index according to Standard & Poor's rating agency does not rise above 20-25%).

#### **4. Discussion**

As the study showed, the reporting submitted by credit organizations to regulatory authorities is relatively less informative for a wide range of interested users than similar reports by major Russian companies. Moreover, the problem is that not all reporting submitted by credit organizations to the Central Bank of the Russian Federation can be used for public disclosure. So, in the reports that credit organizations disclose publicly, there are no such important blocks of information for investors as: the names of beneficial owners of shares, the structure and procedures for managing and making decisions. Such information is partially contained in the quarterly reports of credit organizations, however, the requirement for its disclosure applies only to banks, issuing securities.

#### **Conclusions**

The study made it possible to justify and highlight the following priority areas for improving control and supervision activities based on the use of modern IT tools in order to increase the information transparency of credit and other financial organizations:

- the use of blockchain technologies and distributed ledgers to expand the range of banking services, as well as transforming the methodology for disclosing and monitoring the reliability of information on the activities of credit organizations;
- to transfer to the formation and presentation of reports of all financial organizations (i.e., the distribution of the project for NFOs and to credit organizations) in the XBRL format in order to increase the efficiency of the collection, processing and electronic exchange of information between all participants in the financial market.

The introduction into practice of the activities of credit institutions of the technology of generating and collecting reporting information using XBRL will provide the opportunity for transforming the methodology of control over their activities, in particular, it will allow introducing innovative approaches to the organization of remote banking supervision into the practice of control and supervisory activities, primarily related to assessing the situation in credit organizations, based on modern methods of analysis of significant banking risks, their concentration and qualities and management.

**References**

- Addo, P. M., Guegan, D., & Hassani, B. (2018). Credit risk analysis using machine and deep learning models. *Risks*, 6(2) <https://doi.org/10.3390/risks6020038>
- Akhmadeev, R.G., Kosov, M.E., Bykanova, O.A. & Turishcheva, T.B. (2018). Development of venture financing to ensure economic security of a country. Proceedings of the 32nd International Business Information Management Association Conference, IBIMA 2018 - Vision 2020: Sustainable Economic Development and Application of Innovation Management from Regional expansion to Global Growth, 51-56.
- Bodea, C., & Hicks, R. (2018). Sovereign credit ratings and central banks: Why do analysts pay attention to institutions? *Economics and Politics*, 30(3), 340-365. <https://doi.org/10.1111/ecpo.12113>
- Bulyga R. P. (2019). The role of digitalization in the transformation of accounting and analytical and control processes. *Economics and Management: Problems and Solutions*, 3(8), 4-10.
- Dutta, N., & Mukherjee, D. (2018). Can financial development enhance transparency? *Economic Change and Restructuring*, 51(4), 279-302. <https://doi.org/10.1007/s10644-017-9205-6>
- Enhancing Bank Transparency: Public Disclosure and Supervision Information that Promote Safety and Soundness in Banking System. Basel Committee on Banking Supervision, September 1998.
- Explanatory note to the Code of good practice for ensuring transparency in monetary and financial policy. Access mode: <http://www.imf.org/external/np/mae/mfit/sup/ras/partlr.pdf>
- Fact sheet - Basel Committee on Banking Supervision. Access mode: <http://www.bis.org/about/factbcbs.htm>
- Five Institutions, one Group. Access mode: <http://web.worldbank.org>
- Gaevets, E. A. (2013). Formation of a system for ensuring transparency in the activities of Russian commercial banks: Dis. cand. econ. science: 08.00.10-Protected 11.10.2013-Rostov-on-don
- Goryushkina, N., Voinova, N., Voronkova, O., Sitnov, A., Shichiyakh, R., & Gordeyeva, O. (2019). Theoretical aspects of entrepreneurial education for hospitality industry. *Journal of Environmental Management and Tourism*, 10(4), 835-841. [https://doi.org/10.14505/jemt.10.4\(36\).14](https://doi.org/10.14505/jemt.10.4(36).14)
- Group of Governors and Heads of Supervision announces higher global minimum capital standards. September 12, 2010. Access mode: <http://www.bis.org/press/pl00912.htm>.
- Grittersová, J. (2020). Foreign banks and sovereign credit ratings: Reputational capital in sovereign debt markets. *European Journal of International Relations*, 26(1), 33-61. <https://doi.org/10.1177/1354066119846267>
- Harden, J. J., Kirkland, J. H., & Shea, P. E. (2020). Legislative transparency and credit risk. *Legislative Studies Quarterly*, <https://doi.org/10.1111/lsq.12272>
- Hilkevics, S., & Semakina, V. (2019). The classification and comparison of business ratios analysis methods. *Insights into Regional Development*, 1(1), 48-57. [https://doi.org/10.9770/ird.2019.1.1\(4\)](https://doi.org/10.9770/ird.2019.1.1(4))
- Kashirskaya, L., Voronkova, O., Sitnov, A., Shichiyakh, R., Kudinova, M., & Sycheva, I. (2019). Rural development through the formation of zonal agro-ecological clusters. *Journal of Environmental Management and Tourism*, 10(3), 651-659. [https://doi.org/10.14505/jemt.v10.3\(35\).19](https://doi.org/10.14505/jemt.v10.3(35).19)
- Korableva, O. N., Kalimullina, O. V., Zaytseva, A. A., & Larionov, A. I. (2018). Elaboration of database for the subject domain of innovation and economic growth potential. Paper presented at the Proceedings of the 31st International Business Information Management Association Conference, IBIMA 2018: Innovation Management and Education Excellence through Vision 2020, 6065-6073.

Main data on the IMF. Access mode: <http://www.imf.org/external/np/exr/facts/rus/glancer.pdf>

OECD, its functions and role among other international organizations. Access mode: <http://oecdru.org/50.htm>

Payne A. (2010). How Many Gs are There in Global Governance after the Crisis? The Perspectives of the “Marginal Majority” of the World’s States. *International Affairs*, 3, 729–740.

Petrova, G., Posadneva, E., & Morozova, T. (2019). Leading the Labour Market by the Laws of Supply and Demand. In: Strielkowski W. (eds) *Sustainable Leadership for Entrepreneurs and Academics*. Springer Proceedings in Business and Economics. Springer, Cham, 263-271

Sarkisyants, A. (2013). The Central Bank as a mega-regulator. *Accounting and Banks*, 9.

Semenova M. (2009). Bank Transparency, Market Discipline and Bank Panics. *SMYE2009 Proceedings Book: Selected Conference Papers*, 414.

Sitnov, A, & Maksutova, A. (2019) The problem of transformation of IT security of banks in the new conditions with the aim of increasing its transparency for regulatory authorities. *Economic Problems and Legal Practice*, XV(4), 66 -71.

Sitnov, A. (2019). Problems of IT-transparency of control and supervision of financial institutions in the information society. *Economic Problems and Legal Practice*, XV(3), 286-291.

Standard & Poor 's (2020). Financial institutions monitor. <https://www.spglobal.com/ratings/en/research/articles/200221-emea-financial-institutions-monitor-1q2020-11350686>

The FATF, UN and member countries focus on preventing and suppressing terrorist financing. Access mode: <http://www.fatf-gafi.org/topics/fatfrecommendations/>

Thomas, W., Brown, J., Bush, M., & Smith, G. (2006). Full disclosure: why bank transparency matters. A comparison of US and UK lending practices in disadvantaged communities, *New Economic Foundation Report*.

Vyatkina, E.O., & Sitnov A. A. (2018). Unformalized Knowledge Audit as a Modern Management Tool Proceeding ICETM 2018 *Proceedings of the 2018 International Conference on Education Technology Management*, 3-6.

### **Acknowledgement**

*The article is based on the results of the research work "Improving information transparency in the activities of economic entities for control and Supervisory authorities", carried out as part of the state task of the Financial University under the Government of the Russian Federation for 2019*

**Roman BULYGA**

Professor, Doctor of the Economic Sciences, Head of the Department of Accounting, Analysis and Audit, Financial University under the Government of the Russian Federation, Moscow, Russian Federation. Research interests - Audit, Accounting, IFRS

ORCID ID: <https://orcid.org/0000-0002-3755-132X>

**Alexey SITNOV**

Professor, Doctor of the Economic Sciences, Financial University under the Government of the Russian Federation, Moscow, Russian Federation.

ORCID ID: <https://orcid.org/0000-0003-2221-4037>

**Liudmila KASHIRSKAYA**

Professor, Doctor of the Economic Sciences, Financial University under the Government of the Russian Federation, Moscow, Russian Federation. Research interests – accounting expertise, state financial control, audit, departmental interaction, efficiency of activity.

ORCID ID: <https://orcid.org/0000-0002-0234-0223>

**Irina SAFONOVA**

Candidate of Economics, Associate Professor, Financial University under the Government of the Russian Federation, Moscow, Russian Federation. Research interests - Audit, Accounting, IFRS

ORCID ID: <https://orcid.org/0000-0001-6377-5936>

Register for an ORCID ID:

<https://orcid.org/register>

---

Copyright © 2020 by author(s) and VSI Entrepreneurship and Sustainability Center

This work is licensed under the Creative Commons Attribution International License (CC BY).

<http://creativecommons.org/licenses/by/4.0/>

