Banking accounting rules: an instrument for strengthening banking soundness

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Abstract :

La solidité bancaire repose sur l'application de règles strictes, parmi lesquelles les normes comptables jouent un rôle central. Elles servent de base aux règles prudentielles et permettent aux autorités de contrôle de vérifier leur mise en œuvre. Les normes comptables sont ainsi l'infrastructure des contraintes prudentielles, fournissant une information fidèle sur la situation réelle des banques. La comptabilité bancaire, qui organise les données comptables et financières des banques, fournit en temps réel un état précis de leur situation financière. Elle permet ainsi un suivi régulier facilitant le contrôle des exigences opérationnelles et réglementaires. La comptabilité est donc au cœur de l'activité bancaire, car elle permet l'enregistrement de toutes les opérations, aussi un système d'information informatisé est essentiel pour répondre aux exigences croissantes d'informations rapides et fiables. La refonte du référentiel comptable national en 2007 a contribué considérablement au renforcement du contrôle bancaire grâce à une évaluation plus précise des banques.

Keywords: Bank accounting standards ; accounting principles ; strengthening of bank control; Stability of the banking sector ; Accounting.

INTRODUCTION

The accounting rules established by Law No. 07-11 of 25/11/2007 on the accounting and financial system (SCF)[1] are merely the internal transposition of international accounting concepts.[2]

In fact, adapting the management rules of banking activities to their evolution at the international level has been one of the concerns of the legislator who inserted a legal provision in the law of " la Monnaie et le Credit" prescribing the "Conseil de la Monnaie et du Crédit " to overhaul accounting standards adapted to banking activities.[3]

Thus, Law No. 07-11 of 25/11/2007 above revises the accounting standards applicable to all companies subject to the provisions of the commercial code, including banks and financial institutions. Regulation No. 09-04 of 04/07/2009 on the banking chart of accounts and the rules applicable to these institutions refers to the accounting and financial system.

Adapted to banking activities, the banking accounting system has proven to be a valuable management tool for banks and financial institutions (Part 1), the contribution of which, in terms of strengthening banking solvency, is undeniable (Part 2).

Part 1: The Accounting and Financial System: An Instrument of Management and Control for Banks.

Maintaining regular accounting records allows for bank control both for the operational needs of the entity concerned and for any supervisory body. Article 11 of Law No. 07-11 of 25/11/2007 on the accounting and financial system states that the entity determines, under its responsibility, the necessary procedures for setting up an accounting organization allowing for internal and external control. [4]

Accounting is therefore at the heart of banking activity, as all banking operations are recorded according to accounting standards adapted to banking activity, in order to provide reliable and quality information on the situation of the bank.

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[1] Law N° 07-11 of 25 November 2007 relating to the « système comptable et financier » JORA N° 74 of 25 November 2007 P.3.

[2] Accounting standards are produced by the International Accounting standards Comittiee, IASC, In Hadj Ali, Union Européenne-Algérie : Convergences comptables, El-Watan Economie des 5-11 Septembre 2005, P. 12 ;end Le Conseil National de la Comptabilité, Guide sur le système comptable et financier, ENAG-éditions, Alger 2009.

[3] Art. 62 point j) of the law N° 03-11 relating to the " Monnaie et Credit", dispose that the accounting standards and rules applicable to banks and financial institutions taking into account the international developments in this field, as well as the modalities and deadlines for the communication of accounts, statistical accounting statements, and situations to all entitled parties and notably to the Bank of Algeria.

[4] Law No. 07-11 of November 25, 2007 on the financial accounting system, op. cit.

In order to better meet these requirements, in the face of the growth of banking activity and the need for rapid information for customers, managers, and supervision, a computerized information system is an important tool.[1]

However, accounting only allows for accounting control through the verification of the regularity and sincerity of the accounts and therefore does not meet the same objectives as prudential control. Financial crises at the beginning of the last century demonstrated the vulnerability of bank surveillance by the numbers offered by accounting. But the overhaul of the accounting system will allow for better record-keeping in order to achieve accessible and uniform information to aid decision-making.

Indeed, bank accounting, which was limited to providing static information at a given point in time on the accounting situation of a given bank, has undergone a revolution in the principles and standards governing it. It is now more financial, and allows for a more relevant evaluation of the situation of a given entity, as the information it provides is given on the real situation and in a timely manner.

The Accounting and Financial System (SCF) constitutes the new legal framework for accounting in Algeria, including an explicit conceptual framework,[2] inspired by the international accounting framework of the IASB, and an accounting plan inspired by French accounting practices.[3] This legal framework constitutes the new common accounting law, deeply inspired by IFRS international standards.[4]

The SCF is part of the new globalized world context, which has induced a disruption of national accounting frameworks, in order to standardize the rules, processes, and even objectives of accounting.

The standards known as IAS/IFRS were developed by an international private body known as the IASB (International Accounting Standards Board)[5] and have been promoted and transposed in most countries.

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[1] Keeping accounting records using a computerized system is subject to the provisions of Executive Decree No. 09-110 of April 7, 2009, which sets out the conditions and procedures for keeping accounting records using computerized systems, JORA No. 21 of April 8, 2009, p. 4.

[2] Indeed, the SCF gives a clear definition of assets, liabilities, charges,… etc.

[3] Jamel Khouatra, Mohamed El Habib Merhoum. Le Système comptable financier algérien entre les “ Full IFRS ” et la norme IFRS PME : Étude qualitative de sa mise en œuvre par les entreprises. Transitions numériques et informations comptables, P.1 May 2018, Nantes, France.

[4] HADJ-ALI : Union Européenne-Algérie : Convergences comptable El-Watan. Economie des 5-11 Septembre 2005, page 12, TESSA Ahmed et GUEDDACHE Lyès : Les IAS/IFRS : L’Algérie et la mondialisation comptable, RASJEP, n° 2, 2010, page 41.

[5] The International Accounting Standards Board (IASB) is an independent organization that sets accounting standards used by companies and organizations around the world. The IASB was established in 2001 and is based in London, United Kingdom. Its primary function is to develop and publish International Financial Reporting Standards (IFRSs) that are used in over 140 countries. The IASB is responsible for setting accounting standards that promote transparency, comparability, and consistency in financial reporting across borders. The standards it develops are designed to provide high-quality financial information to investors, lenders, and other stakeholders.

Designed primarily to provide transparent information to the market, IFRS standards contribute to the efficiency of bank control. The Basel Committee also recommends their use to ensure banking safety and soundness.

Bank control is indeed strengthened thanks to the new accounting framework, (C) which has established new standards interpreted as necessary according to a conceptual framework and following a specific account nomenclature. (A) A framework that allows achieving the same objectives (B) that banking control aspires to perfect knowledge of the real situation of banks.

A. Special standards, a conceptual framework, and a nomenclature to improve banks' evaluation

The accounting and financial system applied to banks and financial institutions is based on new accounting standards (1), which allow for a universal interpretation of numbers through more precise and information-rich accounting documents. The financial system also has a conceptual framework (2) that relies on the judgment of the user and is based on accounting principles and valuation rules, enabling a better understanding and appreciation of the health of a given bank and allowing for the measurement and evaluation of its strength. It is reinforced by a chart of accounts specific (3) to banking activity[1].

1. Accounting standards

The accounting and financial system is composed of a set of standards called IAS/IFRS standards, which are based on principles substantially different from the old chart of accounts, including the use of fair value and a different application of the principle of prudence.

These standards are open to evolving interpretations and have been transposed into the legislation of most countries. In Algeria, the legislator requires companies, including banks and financial institutions,[2] to prepare and present their financial statements in accordance with these new standards. Small businesses (excluding banks) have the option to use simplified accounting.[3]

While the IAS/IFRS standards are not exclusively intended for the banking sector, two of them concern banks and financial institutions more specifically: IFRS 7, replacing IAS 30, which determines the modes and forms of presentation of bank

The IASB works closely with national accounting standard-setters, regulators, and other stakeholders to ensure that its standards are relevant and appropriate for global business environments. In https://www.ifrs.org/

[1] Regulation No. 09-04 of 23/07/2009 on the chart of accounts and accounting rules applicable to banks and financial institutions, JORA No. 76 of 29 December 2009, p. 11, and Regulation No. 09-05 of 18/10/2009 on the establishment and publication of financial statements of banks and financial institutions, JORA No. 76 of 29 December 2009, p. 14.

[2] Article 3 of Regulation No. 09-04 of 23/07/2009, on the chart of accounts and accounting rules applicable to banks and financial institutions, op. cit.

[3] Article 5 of Law No. 07-11 of November 25, 2007, on the financial accounting system, op. cit.

financial statements,[1] and IAS 32, which relates to the presentation of primary and secondary financial instruments, [2]followed by IAS 39, which relates to the accounting and valuation of financial instruments.

These accounting standards, which constitute the benchmark for the new accounting, remain flexible and evolving thanks to the conceptual framework that helps to develop them.

2. The conceptual framework of financial accounting

The bank chart of accounts did not have a conceptual framework, but a general framework that only defines the basic accounting principles and the accounting organization of banking institutions. The new accounting and financial system is composed of a conceptual framework that is a new element in current accounting and a major innovation, as it constitutes a theoretical framework that serves as a support and guide for the development of accounting standards, their interpretations, and the selection of the appropriate accounting method when certain transactions and other events are not covered by a standard or interpretation.[3] It defines the objectives and basic assumptions underlying the development of standards based on the financial, economic, and socio-cultural choices assigned to the accounting technique itself. [4]

Thanks to this feature of IAS/IFRS standards, all operations, despite their diversity, can be recorded using all the fundamental objectives and concepts.

The conceptual framework also means that it is not normative provisions, but rather clarifications on the fundamental concepts of preparation and presentation of financial statements. It allows for a certain degree of freedom and flexibility in choosing the most appropriate accounting method for the activity concerned.

Executive Decree No. 08-156 of May 26, 2008, determines the components of the conceptual framework of accounting. It states that this framework contains theoretical concepts (accounting conventions and principles) that serve as a reference for the development of new standards, allowing the interpretation of accounting standards and the assessment of operations or events not covered by regulations.[5]

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[1] Brahim Guendouzi, Normes IAS/IFRS et règles prudentielles Bâle II : quelles conséquences pour les banques, communication in an international seminar entitled : les normes comptables internationales IAS/IFRS, évolution et application, le cas de l'Algérie organised by Faculty of Economics, Management Sciences and Commercial Sciences FSEG-UMMTO le 20 et 21 Mai 2008.

[2] Financial instruments are divided into two categories: primary, which consist of receivables, liabilities, etc., and secondary, which include options, swaps (financial exchange contracts), futures contracts, etc. www.IFRS.org

[3] Art. 7 de la loi N° 07-11 du 25 Novembre 2007 portant système comptable financier op.cit.

[4] Chérif Touahri, mesure de la complexité ou complexité de la mesure, communication in an international seminar entitled : les normes comptables internationales IAS/IFRS, évolution et application, le cas de l'Algérie organised by Faculty of Economics, Management Sciences and Commercial Sciences FSEG-UMMTO le 20 et 21 Mai 2008.

[5] Article 2 of Executive Decree No. 08-156 of May 26, 2008, implementing Law 07-11, op. cit.

The banking conceptual framework is defined by regulation, in accordance with international standards.[1]

3. A chart of accounts

Article 9 of Law No. 07-11 of November 25, 2007, on the accounting and financial system, refers to regulatory texts to determine the chart of accounts that houses operations related to companies' activities. In the banking sector, this refers to the regulation governing the chart of accounts specific to banking activity.

In banking, it concerns Regulation No. 09-04 of 07/23/2009 on the chart of accounts and accounting rules applicable to banks and financial institutions. This regulation determines in its appendix the different financial statements, taking into account the classes of the bank balance sheet, and refers to the instructions of the Bank of Algeria, as necessary, to establish the practical implementation of this regulation.

Financial statements, are documents on which accounting information is recorded. They are identical documents for all companies. They are intended to reflect all the principles and concepts underlying the new accounting. These statements are intended to enable the evaluation of the company's ability to generate cash, adapt its financial structure to its environment and manage its resources and their use. For auditors, financial statements are the declarations of companies that ensure the accuracy and regularity of information, good management, and compliance with banking regulations. These statements consist of the following elements:

a. The balance sheet

The balance sheet consists of two major categories, assets and liabilities.[2] It represents a snapshot of the company at a given time and summarizes what it owns or its assets (furniture, buildings, receivables and liquidity...) and the resources it controls called liabilities (capital, reserves, debts...). The reprocessing of these elements of the balance sheet makes it possible to know the financial situation of the company at a time "T" and determines its financial structure and its ability to generate wealth.

b. The income statement

It allows the bank's profitability - a major factor in its strength - to be reported by its ability to generate cash flows or self-financing capacity and maintain good performance. It records interest, products, administrative and operating expenses, commissions, dividends... and other elements.[3] Its new presentation allows the analysis and evaluation of the performance achieved during an exercise, which the old version did not allow due to the absence of relevant indicators at the origin of the formation of

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[1] The conceptual framework is regularly subject to review by the IASB, www.ifrs.org.

[2] Annex No. 1 of Regulation No. 09-04 of July 23, 2009, on the chart of accounts and accounting rules applicable to banks and financial institutions, op. cit.

[3] Ibidem. Annexe N° 2.

the result such as: the net banking product, the cost of risk, the gross operating result and the operating result.

c. The cash flow statement

The control of cash flow through this statement allows for tracking the origin and use of cash flows in the investment, operating, and financing activities of businesses, as well as evaluating their ability to generate cash.[1] In the banking sector, the cash flow statement also allows for the analysis of overall cash surplus, available cash flow, net investments, and contributions of stable resources.[2] "The purpose of this statement is to provide users of financial statements with a basis for evaluating the ability of the subject institution to generate cash and cash equivalents as well as information about the use of these cash flows." [3]

Therefore, the cash flow statement serves the purpose of verifying the bank's liquidity on a day-to-day basis, ensuring that the bank remains sufficiently liquid to face potential crises due to a strong demand for repayment by depositors, and ensuring proper cash management to prevent idle resources, ensuring profitability. This statement is imperative to be regularly monitored by banks, particularly for consolidation purposes, and is of utmost interest to regulatory bodies.

d. Statement of changes in equity [4]

The statement of changes in equity reports on the operations that have an impact on the structure of equity, recording the movements that have affected each of the items constituting it during the financial year. This includes operations related to the increase or decrease of capital, distribution of results after allocation, etc., which allows regulators to constantly verify compliance with legal requirements regarding equity.[5]

f. The annex

It gathers all the information that complements and specifies the information provided by the balance sheet and income statement, for a better understanding of financial and accounting statements. [6]

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[1] The appendix No. 230-6 of the order of July 26, 2008 establishing the rules for assessment and accounting, content and presentation of financial statements as well as the nomenclature and rules for the functioning of accounts, op.cit.

[2] Hubert de la Brusselerie, Analyse financière et risque de crédit, Dunod, Paris 1999, P. 287.

[3] Appendix No. 3 to the regulation on financial statements of banks and financial institutions, model of cash flow statement (indirect method) of regulation No. 2009-05 of October 18, 2009, concerning the establishment and publication of financial statements of banks and financial institutions, op. cit.

[4] Annex 4 to Regulation No. 09-04, on the bank chart of accounts and accounting rules applicable to banks and financial institutions. op. cit.

[5] Chakib Toubache et Ali Toubache, La réforme du système comptable et financier en Algérie, implication, condition de mise en œuvre et pertinence, op.cit.

[6] Annex No. 5 to Regulation No. 09-04, on the bank account chart of accounts and accounting rules applicable to banks and financial institutions. op. cit.

The annex determines the choice of accounting methods adopted and justifies them. It is a necessary complement of information to reflect the true image of the concerned bank. The annex provides information on the relationships and transactions of the bank with associated entities, subsidiaries, parent companies, and executives, on specific operations, and information that has an impact on the assets, financial situation, and results of the company. For the controller, the annex is a valuable document that allows for the financial translation of accounting figures.e. The notes to the financial statements

The notes to the financial statements provide additional information that complements and clarifies the information given in the balance sheet and income statement. They explain the accounting methods adopted and provide the necessary information to reflect the true and fair picture of the bank's financial position. The notes provide information on the bank's relationships and transactions with associated entities, subsidiaries, parent companies, and managers, as well as on specific operations that affect the bank's assets, financial position, and results.[1] For controllers, the notes are a valuable document for financial translation of accounting figures.

g. The off-balance sheet

This particular and supplementary statement is not mandatory in financial statements, as stated in Executive Decree No. 08-156 of 26/05/2008, which applies the provisions of Law No. 07-11 on the accounting and financial system. However, a reference is made to it in the order of 26/07/2008, which sets the evaluation and accounting rules, the content and presentation of financial statements, and the nomenclature and operating rules of accounts,[2] constituting the legal basis for its use in the banking and financial sector.

The off-balance sheet items record a significant portion of banking activities, in accordance with Regulation No. 09-05 of 18/10/2009, which governs its operation[3] and requires a detailed report on off-balance sheet commitments in the notes to financial statements.[4]

These transactions are those that do not involve a cash flow, correspond to potential assets or liabilities, and whose realization could positively impact the bank's future financial position. The items in this class record all of the institution's commitments, whether given or received. The various commitments are distinguished according to the

[1] Annex No. 5 to Regulation No. 09-04, on the bank account chart of accounts and accounting rules applicable to banks and financial institutions. op. cit.

[2] Annex No. 312.3 of the order of July 26, 2008 establishing the rules for evaluation and accounting, content and presentation of financial statements, as well as the nomenclature and operating rules of accounts, op. cit.

[3] Article 2 of Regulation No. 09-05 of, relating to the preparation and publication of financial statements of banks and financial institutions, op. cit.

[4] Annex N° 312.3 of the order of July 26th, 2008, establishing the rules of evaluation and accounting, the content and presentation of financial statements as well as the nomenclature and operating rules of accounts, op. cit.

nature of the commitment and the counterpart agent. In this regard, appropriate accounts are provided for financing commitments, guarantee commitments, etc.

The headings in this class record all the commitments of the subject establishment, whether given or received. The different commitments are distinguished according to the nature of the commitment and the counterparty agent. To this end, appropriate accounts are provided for financing commitments, guarantee commitments, securities commitments, and foreign currency commitments. Financing commitments correspond to promises of support made in favor of a beneficiary.

Guarantee commitments, made in particular in the form of guarantees, are operations for which the subject establishment undertakes to assume the burden undertaken by the third party if the latter does not satisfy it himself. The "guarantee commitments" heading includes in particular guaranteed obligations and acceptance commitments. The "securities commitments" heading includes buying and selling operations for the own account of the subject establishment. Firm commitment engagements in intermediation operations are also included in this heading. [1]

It should be noted that off-balance sheet commitments were identified as partly responsible for the failures of major banks during the subprime crisis, due to the opacity of the operations they record, hence the need for more transparency in the recording of these commitments.

The accounting standards thus defined aim to achieve the same objectives sought to achieve effective banking supervision.

B. Bank Supervision and Accounting Standards: Common Objectives

An essential management tool, bank accounting is a tool for evaluating the performance of banks and financial institutions, as it allows for:

1. Simplifying and standardizing the operation of accounting documents

The primary objective of accounting based on IAS/IFRS standards is to develop accounting documents in a standardized manner according to universal norms, making them easier to read, analyze, and interpret by their recipients, particularly controllers. The use of more explicit, harmonious, and internationally standardized rules and principles of accounting recording simplifies the verification of financial statements, thus allowing for the control of the solidity of banking establishments.[2]

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[1] Regulation No. 09-04 of July 23, 2009 on the bank account plan and accounting rules applicable to banks and financial institutions.op0 cit.

[2] It is important to note in this regard that the Algerian accounting and financial system is not fully compliant with IFRS standards but is deeply inspired by them. However, it remains very close to its ancestor, the French system, for historical reasons as well as due to the contribution of French experts in its development, namely members of the National Company of Statutory Auditors "CNCC". In Chakib Toubache et Ali Toubache, La réforme du système comptable et financier en Algérie, implication, condition de mise en œuvre et pertinence, op.cit.

2. Comparing banking enterprises

The homogeneity of accounting information on a global scale makes accounting a tool for comparison between enterprises. This enables banking supervisors to evaluate the effective capacities and performance of banks using real and comparable parameters.

3. Producing transparent and quality information

The main contribution of new accounting standards is the increase in transparency of the activity of companies in general and banking in particular, based on information concerning the company's stock value and not accounting. The ultimate goal is to provide the necessary capital for the development of companies, which is why new accounting is a valuable information tool primarily for investors providing funds.

The information objective extends beyond them to a broad range of people who are in the wake of the bank, including depositors, executives, the state, tax administration, the public, and other interest groups. Transparent information that allows for confidence in relations with the banking enterprise.

Beyond this objective, uniform and transparent information, whether intended for the valuation of the bank or for establishing trust, is unquestionably an essential element for effective control because it allows for a perfect understanding of the constitutive elements of a bank's balance sheet and their real values.

4. Producing financial information reflecting the solidity of the bank

Unlike the old accounting standard, which simply gave a faithful image of the bank's accounts at a given date (December 31 of each fiscal year), the new bank accounting now offers financial information on the bank's situation at any time. This is made possible by financial analysis, reflected by the reprocessing and reclassification of accounting balance sheet items.[1]

This new technique is a significant advance made possible by the new standard, as it now provides information on the bank's real net assets, profitability, the value of its assets, and potential dividends to be paid out. This system allows for greater disclosure of information and constitutes a tool that enables bank supervisors to judge with greater accuracy the financial health and solidity of banks.[2]

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[1] Dahbia Oukaci née Laceb, Bia Chabane, Le système comptable financier : avancées et exigences de son application, communication in an international seminar entitled : les normes comptables internationales IAS/IFRS, évolution et application, le cas de l'Algérie organised by Faculty of Economics, Management Sciences and Commercial Sciences FSEG-UMMTO le 20 et 21 Mai 2008.

[2] Chakib Toubache et Ali Toubache, La réforme du système comptable et financier en Algérie, implication, condition de mise en œuvre et pertinence, op.cit.

The convergence between accounting standards and bank supervision in their objectives reinforces supervision, particularly with regard to the fundamental principles on which the new accounting standard is based.

C. Strengthening of bank control through the fundamental principles of the new accounting framework.

The establishment of the accounting framework has led, on the one hand, to the maintenance of certain principles of the old accounting regulations such as neutrality, prudence, completeness, non-compensation, double-entry, translation of values into national currency, etc. and the refinement of others, and on the other hand, the emergence of a new category of principles such as the fair value principle and the primacy of economic value over legal value. Some principles have been completely or partially discarded.

The principles underlying the new accounting framework undoubtedly contribute to the improvement and effectiveness of control, as they allow for a real assessment of the financial situation of a bank (1) through intelligible information (2) that can be read and understood by all its recipients, and provide for continuous monitoring (3) of the bank over time in line with permanent banking supervision.

1. A real assessment of the financial situation of the bank.

Five principles of accounting, expressly stated in Law No. 07-11 of 25/11/2007, on the SCF aim to enable a real assessment of the financial situation of a given bank."

a. Pre-eminence of economic reality over legal appearance [1]

In order for information to reliably represent transactions and other events, they must be recorded and presented in the financial statements in accordance with their nature, substance, and economic and financial reality, rather than just their legal form. [2]

This means that substance should prevail over form, "by systematically referring to the substance of transactions rather than their appearance".[3] For example, some companies record lease contracts as loans, whereas legally, these are very different contracts.

However, it should be noted that the particularity of bank accounting distinguishes it by taking into account "accounting of intent,[4] in contradiction with the principle of the

[1] Article 18 of the Decree No. 08-156 of May 26th, 2008.

[2] This means that the disconnection between the legal treatment of a transaction and its accounting treatment can make it more difficult to use accounting as evidence of a transaction.

[3] Sylvie de Coussergues, Gautier Bourdeaux, gestion de la banque du diagnostic à la stratégie, 6 e édition Dunod, paris 2010, P.85.

[4] It is noted that the income statement table distinguishes between securities intended for sale and those that will be held by the bank, this distinction expresses the bank's intention and the fate it reserves for these securities.

pre-eminence of reality, which consists of taking into account the objective of an operation to determine its accounting rule. »[1]

b. Principle of Historical Cost and Fair Value

According to the principle of historical cost, the recording of operations and transactions must be done at a specific moment: for purchased assets, the acquisition cost is recorded, while assets acquired free of charge are recorded at their estimated value at the time of acquisition and assets produced at their production cost. This implies that an increase in the value of an asset cannot be revalued and that a decrease in its value requires a provision.

The choice of historical cost is justified by the fact that the original value constitutes true information based on evidence and is, therefore, objective.

IAS/IFRS standards maintain this principle but exclude it for financial products where only fair value is used due to their extreme volatility. Fair value is based on the assumption of the bank's continuity without the need or intention to liquidate, reduce, or engage in transactions on unfavorable terms.

The Algerian legislature has partially adopted this hybrid system, as it considers historical cost as the principle for all elements constituting the financial statements, and reserves fair value for the valuation of specific assets and liabilities, namely biological assets and financial instruments. Financial instruments, which are very common in the banking sector, are defined as: Any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity.

c. Accrual accounting (commitment accounting?)

By this principle, the effects of transactions and other events are taken into account as soon as they occur, and not at the time of cash receipts or payments. The concern addressed by this principle is to ensure that financial information informs users not only about past transactions, but also about future obligations and other events. The forward-looking aspect of banking activity is aimed at informing about its management and future soundness.

d.Principle of double-entry and non-offsetting

Accounting is always based on the double-entry of any transaction in the balance sheet, meaning it must be recorded as a credit in one account and a corresponding debit in another mirror account. These accounting entries must respect the chronological order of their occurrence. [2]

Assujettis must also adhere to the principle of non-offsetting between the assets and liabilities of the balance sheet, except where it is legally or contractually possible. This means that all transactions must be recorded even if they are intimately related.[3] Thus,

[1] Sylvie de Coussergues, Gautier Bourdeaux, gestion de la banque du diagnostic à la stratégie, op.cit. P.85.

[2] Article 16 of Law No. 07-11 of November 25, 2007 on the financial and accounting system states. op. cit.

[3] Ibidem. article 15.

transactions are accurately recorded and reflect the reality of the activities of the concerned entity.[1]

e. Reliability

Accounting information must be faithful, neutral, and truthful; it must not contain errors or biases. It should be information that users can rely on.

2.Comprehensible information

Two principles make information understandable and effective:

a. **Intelligibility**

It must be admitted from the outset that financial information is intended for knowledgeable persons, possessing a reasonable understanding of business and accounting and aware of the due diligence with which they must treat the information. However, the information provided by the financial statements must be understandable to users, meaning that it must be explicit, clear, concise, and accessible to users.

b. Relevance[2]

Accounting information is relevant when its use is capable of allowing the evaluation of past, present or future events, helping to make the appropriate decision by users of financial statements, therefore it must be provided in a timely manner.

The quality of relevance of information is assessed by the relationship between the information and its use.

3. Temporal tracking of the banking company

The principles of accounting allow for periodic comparisons to assess the entity's evolution in a continuity of activity perspective.

a. Comparability

Comparability[3] is a new concept aimed at allowing the controller to make comparisons between the company's financial information over time, in order to evaluate its performance, compliance with regulations, and solidity. To do this, the balance sheet must be presented by opposing assets to liabilities. The income statement will be drawn up in two versions (by nature and by function), and the cash flow statement in two juxtaposed columns, covering the current and previous periods. Comparability also serves to compare numerical data with financial information from

[1] Article 13 of Law No. 07-11 of November 25, 2007 on the financial and accounting system states. op. cit.
[2] Article 19 of Decree No. 08-156 of May 26, 2008, implementing Law No. 07-11, op. cit.
[3] Article 7 of Law No. 07-11 of November 25, 2007 on the accounting and financial system, op. cit.

similar companies to evaluate their financial situations, performances, and developments in a relative way.[1]

b.The going concern principal

The continuity of operations is a hypothetical presumption. Its integration when establishing the balance sheet means that the company will continue its operations beyond the date of the end of the financial year.

The law states that the financial and accounting statements must be established assuming that the entity will continue its activities in the foreseeable future, unless events cast doubt on the continuity of operations, [2]in which case the annex must specify these uncertainties. [3]

The affirmation of the role of accounting in banking management and control, through its standards and principles, attests to its considerable contribution to the verification and analysis of the solidity of banking institutions.

Part 2: The contribution of the accounting framework in strengthening banking solidity control

Keeping accounts is a legal obligation,[4] and their regularity constitutes a guarantee of effective and efficient internal and external control.[5] It also attests to the good management of a banking company, as it is a good way to measure its performance.

Accounting is considered regular when it complies with legal provisions. The legislation imposes general rules requirements (A), which are complemented by additional obligations specific to the banking sector (B). The failure to comply with all the requirements imposed on banking institutions engages their liability and exposes them to sanctions (C).

A. General requirements imposed on banks and financial institutions

Imposed by the Commercial Code in its Articles 9 to 18 and by Law No. 07-11 of 25/11/2007 on the SCF and its implementing texts, the obligations incumbent on banking institutions, like companies in other sectors, are as follows:

1. **Obligation to establish and present financial statements**

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[1] Chérif Touahri, mesure de la complexité ou complexité de la mesure, Les normes comptables internationales IAS/IFRS, évolution et application, le cas de l'Algérie. op.cit.

[2] In case of a loss of three-quarters of the share capital. Refer to article 715 bis 20 of the Commercial Code.

[3] Article 7 of Executive Decree No. 08-156 of May 26, 2008, implementing Law No. 07-11 on the accounting and financial system, op. cit.

[4] Article 11 of Law No. 07-11 of November 25, 2007 on the accounting and financial system, op. cit.

[5] Ibidem. article 11, This article provides that the entity determines under its responsibility the necessary procedures for the establishment of an accounting organization allowing both internal and external control.

The persons subject to this obligation must establish financial statements annually, [1]within 4 months following the close of each financial year, under the responsibility of the social leaders.[2]

These informative statements must reflect the true picture of the company's accounting and financial situation in a way that allows comparison with previous financial years for perspective reasons, as well as for internal and external controllers' information.

It should be noted that the transmission of financial statements was often done without delay, usually between June and July, which removed any interest the statements could provide.[3] The fixing of deadlines for the transmission of financial statements undoubtedly responds to the relevance that financial information must require.

The legislator has extended the obligation to establish accounting and financial documents to all entities under the control of the subject, even if they are located outside the national territory, provided that the subject's registered office or main activity is located there.[4]

2.The obligation to keep accounting books and justify transactions

The faithful image that financial statements must reflect means that they can only contain operations whose origin, content, and allocation are specified according to a duly referenced supporting document of the recording that affected the balance sheet of the taxpayer.[5] This implies the obligation to keep regular commercial books: the journal, the general ledger, and the inventory book.[6]

3.Conservation of documents

The law requires taxpayers to keep journals and all equivalent documents, as well as all supporting documents ensuring the reliability and traceability of accounting operations, for a period of ten years from the date of closing each financial year. [7]

The conservation of information constitutes, for the various control bodies, the raw material that allows them to carry out their missions.[1]

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[1] Article 25 of Law No. 07-11 of November 25, 2007 on the accounting and financial system, op. cit.

[2] Ibidem. article 27.

[3] Rabah Boussaïd, La mission d'alerte du commissaire au compte et la prévention des difficultés de l'entreprise. op.cit.

[4] Art. 31 of Law No. 07-11 of November 25, 2007 on the financial and accounting system, mentioned above, should emphasize that the broadening of the territorial jurisdiction of national law poses the practical problem of the qualification and determination of the registered office and the main activity of the establishment concerned.

[5] Ibidem. article 17.

[6] Ibid. article 20, paragraphs 3, 4 and 5 of the Law No. 07-11 of November 25, 2007 on the accounting and financial system, op. cit.

[7] Article 20, paragraph 6 of Law No. 07-11 of November 25, 2007 on the accounting and financial system, op. cit.

4. The obligation to have a satisfactory information system

Accounting must be kept by the taxpayer manually or through a computer system. In the latter case, it is mandatory to have a system with an audit trail allowing for the traceability and transparency of operations in accordance with the requirements and obligations of the new framework.

The significant volume of banking operations, their complexity, and the need for relevant information at all times, however, make it impossible to manually keep the accounts of a banking establishment, so all banks are equipped with suitable information systems.

A performing computerized system must integrate automated management and application procedures, allowing for the collection of global accounting and financial information by clients, as well as highlighting risk information.

Indeed, the need for identification, security, and reliability of information are major concerns that the information system must address, in addition to its ability to store information and retrieve it faithfully.[2] Executive Decree No. 09-110 of 07/04/2009 defines the conditions and modalities for keeping accounts using computerized systems. The system must include both physical hardware and data management software[3] capable of cross-referencing accounting and non-accounting information contained in the bank's files. [4]

The integration of automated management and application procedures into the information system is likely to allow for monitoring of all components: currency operations, profitability tracking, etc.[5] To this end, the monetary authority pays particular attention to the information systems of banks. In its activity report, it also announces that 2017 is also marked by technological improvements in information systems.[6]

B. Strengthened accounting requirements for banks and financial institutions

Given the specific nature of banking companies, the 2003 law “Monnaie et credit” places particular emphasis on three accounting obligations that it imposes on those

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[1] These journals are also an important tool for monitoring and controlling the management of the company by its manager. Moreover, the accounting journals can constitute evidence in favor or against the banking institution, provided they are well maintained, as they represent means of evidence.

[2] A reliable information system constitutes an important prevention device, as it allows for the strengthening of transparency, a factor of trust. In Saïd Dib, Les procédures collectives appliquées aux banques, première journée parlementaire de droit bancaire, numéro spécial du conseil de la nation, 05 Juin 2005.P. 21.

[3] Executive Decree No. 09-110 of April 7th, 2009 setting the conditions and methods for keeping accounting records using computer systems. op. cit.

[4] KPMG Algérie, Le nouveau système comptable et financier, N° 3, du 24 Mai 2009.

[5] Bank of Algeria report, 2017, P.78

[6] Bank of Algeria report, 2017, P.78

subjects to it, in addition to the obligations contained in the general rules. [1]This is due to the desire to enhance transparency and reliability of information. Thus, the regulation issued in 2009 on the new banking accounting plan significantly increased the level of accounting requirements, particularly in terms of publication, consolidation, and accounting for certain items on the bank's balance sheet.

1. Publication of annual accounts

One of the major requirements of prudential control of banks and financial institutions, among the only ones stated in the "la monnaie et le credit" law, is the obligation to publish accounting and financial statements.[2] This is a central obligation as it aims to provide information on the adequacy of regulatory capital, on exposure to risks, in order to increase transparency and confidence.[3]

This publication must take place, in accordance with Regulation No. 09-05 on the publication of financial statements,[4] within six (06) months following the end of the accounting period, in the official bulletin of legal announcements (B.O.A.L.), [5]which is 2 months longer compared to the date set by Law No. 07-11 of 25/11/2007 on the SCF.[6]

The publication must clearly correspond to the principles of clarity, completeness, relevance, consistency, and comparability required by Law No. 07-11 of 25/11/2007 on the accounting and financial system and specified in the banking sector by Regulation No. 09-04 of 23/07/2009 on the banking chart of accounts and No. 09-05 of 18/10/2009, relating to the preparation and publication of financial statements for banks and financial institutions.

2. Preparation of consolidated financial statements

In accounting, the term "consolidation" refers to the combination of financial statements from multiple companies with different activities and geographic locations that belong to the same group. The group must present consolidated financial statements to simplify interpretation and obtain complete information on its financial position as if it were a single entity.

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[1] Article 103 of the Law « Monnaie et Crédit », op.cit.

[2] According to the Basel principles, institution-specific or confidential information is taken into account in the context of communication requirements, by maintaining a fair balance between the need to disclose relevant information and the protection of confidential information. In exceptional cases, the subject must provide general information about such information. In addition, the subject must add a note indicating that such elements have not been disclosed and explaining the reasons why. The Basel Committee on Banking Supervision, The Fundamental Principles of Effective Banking Supervision, Financial Disclosure Requirements under Pillar 3, P.3. www.bis.org.

[3] This is an obligation to publish financial statements that is strongly recommended by the Basel Committee. In Financial Disclosure Requirements under Pillar 3, Revised version, P.1.

[4] Regulation No. 09-05 of October 18, 2009, regarding the preparation and publication of financial statements of banks and financial institutions. op. cit.

[5] Article 7 of Regulation No. 09-05 of October 18, 2009, regarding the preparation and publication of financial statements of banks and financial institutions. op. cit.

[6] In accordance with Article 27 of Law No. 07-11 of November 25, 2007, concerning the financial accounting system, companies in other sectors are granted a period of no more than 4 months.

The structural organization of banking companies into small entities spread over geographic areas that sometimes exceed the limits of a single country, as well as their ownership stakes in other companies, can affect the structure of banking capital and threaten the stability of a bank. Consolidating the financial statements of all entities related to a given bank into a single document can provide a comprehensive and global view of the entity's situation and its divisions, thereby providing insight into the bank's overall financial situation.

3. Requirement to prepare additional financial statements

Two important financial statements are required of banks and financial institutions: the statement of changes in equity and the cash flow statement. These statements help ensure the liquidity and solvency of banks and financial institutions.
In this regard, the cash flow statement is transmitted quarterly to the banking commission, which is responsible for monitoring the past and projected liquidity of the institutions. For their part, managers are required to monitor their liquidity situation on a weekly basis based on a cash flow forecast table.

The statement of changes in equity is an analysis of the movements that have affected each of the components of the entity's equity during the year. This means that it identifies changes in equity that could affect regulatory requirements in this area. The movements concerned are those related to the net result, significant error corrections, charges and products that may affect capital, or any changes in accounting methods.

4. Revision of accounting methods for certain balance sheet items

The accounting, classification, and provisioning of receivables and commitment by banks and financial institutions have undergone a major overhaul aimed at strengthening the banking system.[1] This strengthening of provisioning rules aims to improve the quality of banks' commitments and receivables.[2]

The classification of receivables is thus divided into two main categories: current receivables and classified receivables. The former are those for which full recovery within the time limits appears assured, while the latter are those presenting a risk of non-recovery and are divided into three categories: potentially problematic receivables, very risky receivables, and compromised receivables.[3]

5. Strategic management of financial securities

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[1] Regulation No. 14-03 of February 16, 2014, concerning the classification and provisioning of receivables and commitments under signature. JORA No. 5 of September 25, 2014, p.28.

[2] In recent years, the provisioning methods practiced by banks have received increased attention from accounting and tax authorities, as well as financial control managers. This development partly reflects the essential role of loan loss provisioning for banks in improving the transparency of balance sheets and its impact on the volatility and cyclical evolution of profits. In addition, proposals for a new Basel Capital Accord have highlighted the respective functions of provisions and capital in protecting against credit losses. In Claudio Borio et Philipe Lowe, Le provisionnement en question, rapport trimestriel BRI 2001, P.36.Cf. www.bis.org.

[3] Article 3 and following of Regulation No. 14-03 of January 15, 2014, concerning the classification and provisioning of receivables and commitments under signature, op. cit.

The financial securities held by institutions are accounted for according to their management.

In fact, the use of the items in the income statement table[1] allows us to distinguish between securities held for trading purposes and those available for sale. This accounting measure requires banks to have a strategic management in acquiring securities to determine the type of assets of the bank according to their maturity.

6. Emphasis on bank profitability

Finally, the new presentation of financial statements, which includes intermediate profit and loss balances in the income statement table, allows for the measurement of bank performance, which is a determining factor in solidity. Intermediate profit and loss balances allow for an analytical study of a bank's finances, as it aims to determine the elements that contributed to the bank's results. These balances include commercial margins, gross operating surplus, net exceptional and current income.

Banks and financial institutions are therefore subject to reinforced accounting requirements. These have the aim of improving management and unifying and standardizing rules for better assessment of banking solidity. Thus, any failure to comply with legal accounting obligations, defined by general and specific texts for the banking profession, results in the responsibility of the taxpayer.

C. Responsibilities and Sanctions

The liability of subject entities is engaged for non-compliance with accounting rules. It can be civil, criminal, and disciplinary. Intentional false declaration, irregularities, and inaccuracies as determined in the general rules (commercial code and Law 10-01 on the accounting profession) may result in the liability of the relevant institution. This falls under criminal liability in case of fraud.

Thus, Instruction No. 03-2011 of September 20, 2011, concerning periodic accounting statements of banks and financial institutions, in its article 13, states: the failure to report periodic accounting statements and their annexes is subject to a penalty determined by the Banking Commission. The penalty applies to each situation subject to failure to report. [2]

The set of accounting and financial obligations imposed on banks and financial institutions aims to improve bank management in order to provide timely information on the financial health of banks and financial institutions. These rules coexist and influence the prudential rules that prevail in the banking sector.

Conclusion

[1] Annex No. 2 of Regulation No. 09-04 of July 23, 2009, concerning the bank chart of accounts and accounting rules applicable to banks and financial institutions, op. cit.

[2] www.bank-of-algeria.dz.

In conclusion, the accounting rules imposed on banking and financial institutions are a set of rules defining the system for organizing accounting and financial data for these entities. The rules of bank accounting, which are deeply technical, allow for the continuous and real-time provision of the financial situation of these entities.

When combined with prudential rules, these two sets of rules coexist to form a coherent whole, whose components influence one another, in order to provide users of accounting and financial information, and particularly banking regulators, with a faithful image of the situation of a given bank. [1]

Bank accounting has evolved in tandem with significant changes in prudential rules, spurred by banking innovations. This has generated interdependence between the two disciplines in pursuit of coherence and efficiency.

The accounting rules, which now aim to inform on the real situation of the bank for shareholders, clients, investors, and regulatory authorities, are considered as "the infrastructure on which the prudential constraint rests", allowing for the strengthening of the bank's solidity.

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