

Disclosure Regime for Mandatory Disclosures by Banks and Financial Institutions in Nepal

Narendra Sharma (Corresponding author)

Assistant Professor of Accounting,

Elizabeth City State University,

1704 Weeksville Road, Elizabeth City, NC 27909

Tel: 1-252-335-3186 E-mail: nsharma@mail.ecsu.edu

Received: January 04, 2013 Accepted: February 17, 2013 DOI: 10.5296/ijaf.v3i1.2996

Abstract

What are the components of the ‘disclosure regime’ in Nepal that require the mandatory disclosures by banks and financial institutions? The objective of this paper was to explore and trace the rules, regulations, and provisions governing disclosure by banks and finance companies listed on Nepal Stock Exchange. The banks and financial institutions had a two-pronged regulatory and monitoring regime requiring them to make disclosures: one as a financial institution and another as a public company. The disclosure regime comprised of accounting standards, directives from Nepal Rastra Bank (NRB), listing requirements of Nepal Stock Exchange (NEPSE), provisions of Companies Act 2006 and Banks and Financial Institutions Act 2006, and requirements placed by Securities Board of Nepal (SEBON). The study makes a significant contribution in understanding the disclosure expectations from banks and financial institutions in a developing country like Nepal.

Keywords: Mandatory disclosure, Nepal Rastra Bank (NRB), Nepal Stock Exchange (NEPSE)

1. Introduction

Corporate disclosure is a purposeful release of information by a corporate in the form of financial or nonfinancial, mandatory or voluntary, via formal or other channels (Gibbins, Richardson, and Waterhouse 1990) including special reports covering social responsibility, environment, intellectual capital, and other initiatives of a corporate. Williams (2008) described financial disclosures as: providing quantitative information in the financial statements; business segment information; financial review information; foreign currency information; and stock price information. On the other hand, nonfinancial information was the details about directors, employees, or intangible assets (Williams 2008). Owusu-Ansah (1998) explained that mandatory disclosures were limited to providing essential financial or nonfinancial information in compliance to disclosure regimes. Voluntary disclosure is information that is not required by law or regulations, and it is the information that exceeds the minimum requirement. Demands from companies for increased disclosure has gained momentum owing to the popular recognition of stakeholder approach rather than the traditionally recognized shareholder approach to disclosure (Boesso and Kumar 2007). Corporations use several means of disclosure like the annual reports, interim reports, conference calls, press release, prospectuses, and websites. The corporate annual report has been the most important medium (Lang and Lundholm 1993). Stakeholder's demand for more speedy and timely information, over the years, has carved a role for the Internet, as a means of disclosure (Aly, Simon, and Hussainey 2010) and it has become an alternative medium for timely disclosure by companies (Abdelsalam and El-Masry 2008).

Corporate disclosure is an emerging concept in Nepal. There are various promulgations governing the corporate actions and disclosures about them by companies in Nepal especially those listed on the only stock exchange i.e. Nepal Stock Exchange. So far, there have been some efforts directed at building regulatory mechanism for corporate disclosure. However, what constitutes the disclosure regime in Nepal and what are the specific disclosures required by them are not clear.

The banking system of Nepal is governed by Nepal Rastra Bank, the Central Bank there and it has issued several directives to develop transparent and strong financial sector needed as a catalyst in the growth of an economy (NRB 2010). However, there is so little empirical research available on Nepal in the area of accounting and in the field of corporate disclosures. Thus, a study of this kind will provide the basis for future studies. Hence, the objective of this qualitative research was to explore and trace the rules, regulations, and provisions governing disclosure by banks and finance companies listed on Nepal Stock Exchange.

The rest of the paper is organized as follows. The second section reviews the existing the literature related to mandatory disclosures and the need for such disclosures. The third section discusses the institutional setup and disclosure regime applicable to banks and financial institutions in Nepal. The fourth section provides the findings, contributions, implications and suggestions for further research.

2. Review of Literature

Firms are expected to make mandatory disclosures because of a mandate by some legal or statutory provisions of an Act like Companies Act, or as required by capital markets, stock-exchanges, directives of regulators, or standards of accounting authorities. Mandatory disclosure is a regulatory tool and is perceived as the minimum framework of transparency (Brown et al. 2008). What is being disclosed needs to be authentic, attested, and based on generally accepted accounting principles and standards issued by accounting bodies. Nevertheless, companies make voluntary disclosures guided by the desire to provide additional information on their own; hence, these are information entering the public domain through the organizations' free preference. Such disclosures are contingent upon the cultural, social, economical, and even behavioral factors that are germane to the concerned firms. Voluntary disclosure works as catalysts to reduce information asymmetries between managers and stakeholders (Cerbioni and Parbonetti 2007). Voluntary disclosures by reducing the information asymmetry can avoid impairment of allocation of resources in the capital market (Kristandl and Bontis 2007). There is evidence that companies with more comprehensive corporate governance disclosures in annual reports had more accurate and less dispersed earnings forecasts, and lower likelihood of earnings management and discretionary accruals than other companies (Chen, Elder et al. 2007; Yu 2010). Disclosure can enable investors to avoid operational risk by ensuring a framework of transparency (Brown et al. 2008). Since limited transparency puts demands on corporate governance systems to ease moral hazard problems (Bushman and Landsman 2010), the failure to disclose would signal the investors to assume the worst. Chen, Chung et al. (2007) concluded that poor corporate governance usually accompanied poor disclosure practices. As a result, poor governance induced higher levels of asymmetric information risk, which ultimately reduced the market liquidity of the stock (Chen, Chung et al. 2007). All these significant outcomes are crucial in keeping an efficient allocation of resources on the stock market (Arvidsson 2011). Hence, disclosures are made not only as mandated by law or regulations or directives but also to mitigate the agency problems arising because of separation of ownership and management (Jensen and Meckling 1976; Mahoney 1995).

There are also evidences of tangible benefits like reduced cost of capital: both equity and debt. The levels of disclosures affect the cost of capital and the rational expectation are a lower cost of capital as levels of disclosures increase (Botosan 1997). The researcher studied the effect of disclosure level on the cost of equity capital to verify the expectation that increased disclosure will reduce the cost of equity capital. Botosan (1997) concluded that greater disclosure was associated with a lower level of cost of equity capital for firms with a low analyst following. The extent of effect was about one-to-twenty eight i.e. one unit of difference in the disclosure measure was associated with a 28 units difference in cost of equity capital after controlling for market beta and firm size. However, for firms with a higher analyst following, no evidence of an association between the levels of disclosure and cost of equity capital was observed (Botosan 1997).

It is also consistently argued that a policy of timely and detailed disclosure would reduce lenders' and underwriters' perception of risk for the disclosing firm thereby reducing the cost

of debt. Sengupta (1998) provided the evidence regarding the relationship between cost of debt and corporate disclosure based on an investigation of the link between a firm's overall disclosure quality and its cost of debt financing. The results indicated that there was a statistically significant negative association between a measure of a firm's overall disclosure quality and two alternative measures of a firm's incremental borrowing costs. The findings support the argument that lenders and underwriters considered a firm's disclosure quality while evaluating estimates of default risk. The results also indicate that there was greater reliance on disclosures when the market uncertainty surrounding the firm was high. These results suggest that the cost of capital arising from disclosure quality was not limited to the cost of equity, but extends to cost of debt, as well.

Recognizing the relevance of the effect of legislations on the mandatory disclosure practice Owusu-Ansah and Yeoh (2005) investigated the effect of the Financial Reporting Act (FRA) of 1993 on mandatory disclosure practices of companies listed on the New Zealand Exchange using a before and after research design. A comparison of mean corporate disclosure compliance levels in the pre-FRA period to those in the post-FRA period was done by controlling for the effect of other mandatory disclosure related variables. To quantify the mandatory disclosure practices of each company, a scoring template, developed for each year under investigation, was used to derive an index of mandatory disclosure. The mean differences of disclosure compliance levels for the companies during the post-FRA years were significantly higher than the pre-FRA years. Even after controlling for the effects of other influential factors, the results show a positive and significant impact suggesting that corporate disclosure practices improved as a result of the enforcement regime introduced by the FRA.

Similarly, Al-Akra, Eddie, and Ali (2010) examined the influence of disclosure regulation on mandatory disclosure compliance of listed companies in Jordan for the years 1996 and 2004. Disclosure checklists based on International Financial Reporting standards (IFRS) for these two years were used to assess the compliance levels. The researchers concluded that compliance was significantly higher in 2004 than in the year 1996. The results of regression analysis indicated that disclosure regulation was the most significant factor influencing the mandatory disclosure compliance.

3. Institutional setup and disclosure environment in Nepal

The banks and financial institutions were found to have a two-pronged regulatory and monitoring regime requiring them to make disclosures: one as a bank and another as a public company. All banks and financial institutions are required to be registered as public companies and seek license from Nepal Rastra Bank to conduct the banking business (NRB, 2010). The disclosure regime applicable to banks and financial institutions in Nepal comprised of the accounting standards issued by Accounting Standards Board (ASB) of Nepal, requirements of Securities Board of Nepal (SEBON) based on Securities Act 2006, provisions of Companies Act 2006, Banks and Financial Institutions Act 2006 (BFIA), listing requirements of the Nepal Stock Exchange (NEPSE), apart from the directives from Nepal Rastra Bank (NRB) - the Central Bank of Nepal. Most of them were mandatory requirements,

but there were some accounting standards, which have been suggested for voluntary compliance by Accounting Standards Board. A brief discussion about each of the components of the disclosure regime is done in the following section.

3.1 Accounting Standards Board (ASB) of Nepal

Accounting Standards Board (ASB) of Nepal was established in March 2003 when the Institute of Chartered Accountants of Nepal Act 1997 was amended incorporating the required provisions for its establishment and operation. The board was an independent statutory body entrusted, with the responsibility, to set and issue accounting standards for preparation and presentation of financial statements in Nepal. The ASB was primarily established to issue standards for accounting and financial reporting for business enterprises in line with the International Financial Reporting Standards (IFRSs). However, in 2007, ASB has also taken-up the responsibility to develop accounting standards for public sector in line with the International Public Sector Accounting Standards (IPSASs). Currently, there are 19 standards for accounting and financial reporting for business enterprises including the banks and financial institutions that are applicable for mandatory compliance (ASB n.d.). Table 1 shows the list of Nepal Accounting Standards with their corresponding International Accounting standards and their effective dates.

Table 1: Accounting standards for mandatory compliance in Nepal

NASs	IASs	Name of Standards	Effective Date
1	1	Presentation of Financial Statements	17 July 2008
2	8	Accounting Policies, Changes Accounting Estimates & Errors	17 July 2008
3	7	Cash Flow Statements	17 July 2008
4	2	Inventories	17 July 2008
5	10	Events After the Balance Sheet Date	17 July 2008
6	16	Property, Plant and Equipment	17 July 2008
7	18	Revenue	17 July 2008
8	23	Borrowing Costs	17 July 2008
10	20	Accounting for Government Grants and Assistance	17 July 2008
11	21	The Effects of Changes in Foreign Exchange Rates	17 July 2008
12	37	Provisions, Contingent Liabilities and Contingent Assets	17 July 2008
13	11	Construction Contract	17 July 2008
9	12	Income Taxes	17 July 2007
15	17	Leases	17 July 2008
16	24	Related Party Disclosures	17 July 2008
17	34	Interim Financial Reporting	17 July 2008
18	36	Impairment of Assets	17 July 2008
19	40	Investment Property	17 July 2008
20	IFRS 5	Non-current Assets Held for Sale & Discontinued Operations	17 July 2008

Source: Accounting Standards Board (<http://www.standards.org.np/>)

Currently, there are 7 standards that are suggested for voluntary compliance. Table 2 lists those voluntary Nepal Accounting Standards with their corresponding International Accounting standards and effective dates.

Table 2: Accounting Standards for Voluntary Compliance in Nepal

NASs	IASs	Name of Standards	Effective Dates
14	19	Employee Benefits	17 July 2007
21	IFRS 3	Business Combinations	17 July 2007
23	14	Segment Reporting	17 July 2007
24	26	Accounting & Reporting by Retirement Benefit Plans	17 July 2007
25	28	Investment in Associates	17 July 2007
26	33	Earnings Per Share	17 July 2007
27	38	Intangible Assets	17 July 2007

Source: Accounting Standards Board (<http://www.standards.org.np/>)

3.2 Securities Board of Nepal (SEBON) and securities related Acts

Securities Board of Nepal (SEBON) was established on June 7, 1993 as the regulator of securities markets in Nepal. The board derives its functions, duties, and powers from the Securities Act, 2006. It functions as an advisor to the Government on matters relating to the capital market. It registers the securities issued by public companies and regulates the issue, transfer, and exchange of those registered securities. The board sanctions the permission to establish a stock exchange and monitors the activities of the stock exchange. It licenses the companies or institutions desirous of dealing in securities and fund management, supervises and monitors the activities of those registered securities-dealers or fund managers. It is also entrusted with the responsibilities of preventing insider trading or any other offenses relating to transactions in securities. The board reviews the financial statements submitted by public companies, securities dealers and fund managers and issue directives as deemed appropriate by it (SEBON n.d.). The Kathmandu Post (one of the national English dailies of Nepal) reported in its May 31, 2011 issue (Money section) that SEBON has started a website www.sedfar.gov.np to facilitate listed companies, merchant bankers, stockbrokers, and other participants to submit online, their financial reports and other filings required by Law. Initially, 12 banks and financial institutions have been provided usernames and passwords to start using the service (SEBON allows online report submission 2011).

SEBON issued Securities Registration and Issue Regulations, 2008 to regulate the securities market and its members, which was amended in 2010. The Regulation makes mandatory for the listed companies to file their financial reports with SEBON. The provisions relating to disclosure were outlined in section 22 which required all listed companies to: (a) submit their annual reports including balance sheet, profit and loss statements, and other statements of the business to Securities Board within five months from the end of the financial year; (b) submit their quarterly reports to Securities Board within 30 days of the expiry of the quarter; and (c) publish their quarterly reports in the national dailies (SEBON, 2010a).

While preparing the financial statements, SEBON makes mandatory for the listed companies to comply with accounting and financial reporting standards set by the Accounting Standard Board of Nepal, the directives issued by Nepal Rastra Bank in case of Bank and Financial Institutions, and other standards set by the Board for the Stock Exchange and the Securities Businesspersons. The companies were required to inform the Board about the general meeting together with the agenda prior to the general meeting, make a report and submit to the Board regarding the subject discussed and resolutions made in the general meeting within thirty days of the meeting. All price sensitive material information on events or transactions were to be reported within three days of such occurrence. Apart from the annual, quarterly, and price-sensitive information, all listed companies are required to provide details, data or information to the Board or related Stock Exchange as and when asked (SEBON 2010a).

3.3 *Banks and Financial Institutions Act 2006*

In the past, there were several Acts governing the functioning of banks and financial institutions in Nepal. They were Agricultural Development Bank Act, Commercial Bank Act, Finance Company Act, Nepal Industrial Development Corporation Act, and Development Banks Act. To bring uniformity and unity in regulations, an unified act known as Banks and Financial Institutions Ordinance was promulgate as an ordinance in 2005 which was passed as an Act in 2006. The Act has twelve chapters. The first chapter deals with preliminaries, the second deals with the establishment of banks and financial institutions and their securities, the third deals with the management committees and chief executive officer of those companies, the fourth chapter deals with licensing, the fifth deals with their capital, the sixth deals with financial operation, the seventh deals with compliance, monitoring, and inspections, the eighth deals with disbursement and collection of loans, the ninth deals with the accounts, records, information, and reports, the tenth chapter deals with amalgamation of institutions, the eleventh deals with default and punishments, and the last chapter deals with miscellaneous matters.

Chapter 9 of the Act relates to accounting and disclosure by the banks and financial institutions. All institutions governed by this act were required to follow double entry system of accounting and prepare their financial statements in the format specified by Nepal Rastra Bank (Section 59). The companies were required to get their financial statements audited within five months after the end of the fiscal year. The statements were to be signed at least by two directors, chief executive officer and the auditor. The audit report was to be submitted to Nepal Rastra Bank, as well as the concerned company by the auditors. Apart from the above provisions, chapter 5 deals with capital adequacy and maintenance of reserves. According to section 44, all companies are required to transfer at least 20% of net profit every year to general reserve till it becomes double of the paid-up capital (Nepal Government 2006).

3.4 *Companies Act 2006*

The evolution of the company law in Nepal began in 1936 with the enactment of the first Company Act 1936. The companies did not have provisions of separate legal entity and limited liability and hence the new Act enacted to reflect the new found democracy and open

society in 1951. The Act incorporated many contemporary principles of Company Law existing in the British jurisdiction. This law defined company as a legal entity with limited liability. The second law survived till the end of 1963, and a new law came into existence in the year 1964. It was more comprehensive and ended the far reaching exemptions accorded to private companies. It also added provisions relating to the foreign company and government company. The fourth Act was promulgated in 1997 after the restoration of democracy in Nepal. It was drafted to incorporate the democratic aspirations and facilitate growth potential of companies in Nepal. However, it was repealed in the shortest span of company law in Nepal (Shrestha 2006).

The new Companies Act and the fifth company law came into effect from October 9, 2005 as an ordinance. The major shift in the law was its orientation towards good corporate governance. The ordinance was endorsed by the rejuvenated parliament in the year 2006, and a new law in the form of Companies Act 2006 came into existence as the sixth company law. Companies Act 2006 has strengthened the status of the shareholders and provide a better framework for financial transparency of the company affairs than in the past (Nepal Government 2006a; Shrestha 2006).

There are several provisions relating to disclosure especially sections 76, 108 and 109 of the Act. The main gist of them are listed below; the information within the parenthesis refers to section numbers in the Act:

1. All public companies are to hold their annual general meeting within 6 months after the expiry of its financial year (Sec 76);
2. All companies are to maintain their accounts in either of two languages: Nepali or English, in accordance with the double entry system and in consonance with applicable accounting standards and other directives by monitoring agencies. It is the responsibility of management to maintain such books of accounts and their records (Sec 108).
3. A balance sheet, profit and loss account, and a cash flow statement are the components of the financial statements and are to be finalized at least 30 days prior to holding annual general meeting (Sec 109).
4. A report by the board - Management Discussion and Analysis (MDA) - is only required for companies having a paid-up capital of 10 million (NRs) or more or with an annual turnover of 10 million (NRs) or more. The report was to include:
 - (a) review of the transactions of the previous year;
 - (b) impact of national and international situation on the transactions of company;
 - (c) achievements during the current year and the outlook of the Board of directors;
 - (d) industrial or business relation of company;
 - (e) alterations in the board of directors and reason thereof;
 - (f) major factors effecting the transactions of the company;

- (g) comment of the board of directors on the remarks, if any, on the auditor's report;
- (h) amount of dividend recommended for distribution;
- (i) the number of forfeited shares, if any, the face value of the shares forfeited, the total amount forfeited, and the amount received on forfeited shares and details of the amount refunded, if any;
- (j) progress report of the company and its subsidiary;
- (k) the principal transactions completed by the company and its subsidiary including any material changes in transactions;
- (l) the information provided to the company by the substantial shareholders;
- (m) the details of shares held by directors and officials in the previous financial year and details of information received from them regarding their involvement in transactions in the company's shares;
- (n) the details provided in relation to the personal interest of any director and their close relative in agreements entered into with the company in the previous year;
- (o) if the company has purchased its own shares, the reasons for such purchase, number of shares so purchased, face value of the shares purchased and payment made by the company for such purchase;
- (p) information whether there is the internal control system or not and details of such system;
- (q) the total management expenses in the previous year;
- (r) names of the members of the audit committee, remuneration, allowances and facilities received by them;
- (s) the amount due to be paid to the company by a director, managing director, chief executive, substantial shareholders or their close relatives or by the firms, company, corporate body in which they are involved;
- (t) the amount of remuneration, allowances and facilities paid to the director, managing director, chief executive and officers;
- (u) the amount of unclaimed dividend by the shareholders;
- (v) details of purchase or sale of properties;
- (w) details of transactions carried on between associated companies;
- (x) the reports are signed by the chairperson and at least one director; and
- (y) comparative figures for two years in all financial statements (Sec 109).

3.5 *Nepal Stock Exchange (NEPSE)*

Nepal Exchange Center was established, in 1976, to facilitate trading of securities on its floor through its members. The center was converted into Nepal Stock Exchange (NEPSE) in 1993 as part of the reform of capital markets in Nepal. It is a public company sponsored by Government of Nepal. Apart from the government, Nepal Rastra Bank, Nepal Industrial Development Corporation and members of the exchange are the shareholders. Currently it has 23 member brokers, 2 market makers, 11 sales and issue managers, and 2 dealers in the secondary market (NEPSE, 2007). It operates under Securities Exchange Act 1983 and is regulated by SEBON.

NEPSE issued Securities Listing Byelaws in 1996, which was approved by the securities board. The bye-laws contained six chapters and a listing contract in the form of an appendix. The first chapter dealt with preliminaries; the second chapter with provisions relating to listing of securities; the third chapter with provisions relating to types of listing, and classification of listed; the fourth chapter with information and filings to be done on a regular basis by listed corporate bodies; the fifth chapter with the terms and conditions to be followed by listed corporate bodies; and the sixth chapter dealt with other provisions relating to listing of securities.

Out of these chapters, the fourth one deals with disclosures. There are also listing requirements to be agreed upon by the listed corporate body. The main requirements were as following:

1. Submit the records of its securities-holders along with the particulars prescribed by the Stock Exchange within 15 days from the date of completion of its annual general meeting;
2. Transactions of the securities of a company can be suspended in case a company fails to have its accounts audited and submit reports thereof to the Stock Exchange for two years consecutively. In case, transactions in securities are suspended, the company needs to complete the required audit and submit reports to the Stock Exchange within six months from the date of such suspension (NEPSE 2007).

3.6 *Nepal Rastra Bank and its directives for disclosures*

Nepal Rastra Bank is the Central Bank of Nepal. The bank was established in 1956 as a result of Nepal Rastra Bank Act 1955. Since then, a new act, Nepal Rastra Bank Act 2002 has replaced the erstwhile Act that has provided operational autonomy and independence to the Bank (NRB, 2010). Its primary role was to discharge the central banking responsibilities including monitoring, facilitating, regulating, supervising and guiding the development of an efficient banking and financial system. Other responsibilities included: (a) to formulate monetary and foreign exchange policies to ensure sustainable development of the economy of Nepal; (b) to develop a secure, healthy and efficient system of payments; and c) to enhance the public confidence in Nepal's entire banking and financial system. Its mission was "to maintain macro-economic stability through sound and effective monetary, foreign exchange and financial sector policies" and its vision was to "become a modern, dynamic, credible and effective Central Bank" (Nepal Government, 2006b).

NRB has so far issued 21 directives to the licensed Banks and Financial Institutions. The directives are listed in Table 3. Although, most of the directives were related to disclosures, numbers 1, 4 and 6 were specifically related to corporate governance, accounting policies and formats of financial statements respectively (NRB 2010).

Table 3: Nepal Rastra Bank directives to licensed banks and financial institutions

SN	Subject
1	Provisions Relating to Capital Adequacy
2	Provisions Relating to Classification of Loans/advances and Loan Losses
3	Provisions Relating to Single Borrower and Limitation of the Sectoral Credit and Facilities
4	Provisions Relating to Accounting Policies and Format of Financial Statements
5	Provisions Relating to Mitigation of Risks in Transactions of Licensed Institutions
6	Provisions Relating to Good Corporate Governance
7	Provisions Relating to Timeframe for Implementation of Regulatory Directives Issued in connection with Inspection and Supervision
8	Provisions Relating to Investment
9	Provisions Relating to Filing of Statistical Returns by Licensed Institutions to Nepal Rastra Bank
10	Provisions Relating to Transfer or Sale of Promoters Shares of licensed institutions
11	Provisions Relating to Consortium Financing
12	Provisions Relating to Credit Information and Blacklisting
13	Provisions Relating to Compulsory Reserve/Statutory Liquidity
14	Provisions Relating to Opening of Branch/Offices
15	Provisions Relating to Interest Rates
16	Provisions Relating to Collection of Financial Resources
17	Provisions Relating to Lending to Deprived Sector
18	Provisions Relating to Amalgamation, Merger and Upgrading
19	Provisions Relating to Know Your Customers
20	Provisions Relating to Subsidiary Companies
21	Miscellaneous Provisions

NRB stipulated, through Directive 1, that the licensed banks and institutions were to maintain a minimum of 6 percent (for A class), 5.5 percent (for B and C class), and 4 percent (for D class) capital adequacy ratios. The ratio was to be based on risk-weight assets (NRB 2010).

Deriving the powers from section 79 of Nepal Rastra Bank Act 2002, NRB had issued the following accounting policies and formats of financial statements for the licensed institutions:

1. All licensed institutions were required to prepare financial statements as per the NRB guidelines and followed the same fiscal year which is defined as the period from Shrawan 1 to the end of the month of Ashad (mid-July), except in the in the year of incorporation, the period covering from the date of incorporation to the end of the month of Ashad was deemed

to be the fiscal year. Formats were prescribed by NRB, and they were to be regarded as Statutory forms for preparation of the Balance Sheet, Profit and Loss Account, Cash-flow Statement, and other schedules and statements. The independent audit was to be completed within 5 months from the closure of the fiscal year. The financial statements were to be prepared according to Nepalese Accounting Standard (NAS) except when prescribed otherwise by the Central Bank, and when areas were not covered with the NAS, International Accounting Standard (IAS) were to be taken as the basis. All licensed institutions need to submit the audited Annual Report comprising of the Balance sheet, Profit and Loss account, and Cash Flow Statement, including the schedules relating to such financial statements to NRB and the entire annual report shall also be made available on the website. Apart from the annual financial statements, all banks and financial institutions were required to prepare trimester internally audited financial statements and financial indicators and publish them in any national-level dailies within 35 days of the tri-semester along with furnishing them to the concerned department of NRB. Class "D" financial institutions were exempted from this publication on the national dailies, but the said statements (published annually and quarterly) could only be affixed on their own notice boards. However, at the end of the fiscal year, unaudited financial statement and audited financial statement were reconciled using format (NRB schedule 4.35) in a separate sheet in the annual report of the institutions with reasons for the difference, if any. No changes were allowed to be made in the prescribed format and accounting heads, even in cases when there were no transactions to report. Those accounting heads were to be retained and left blank without altering in the format prescribed by NRB. However, additional items could be added under the "other" category in the schedules. Before making it public, all licensed banks and financial institution were required to submit a preliminary report to the concerned supervision department of NRB for approval. The annual accounts, prepared for the annual general meeting, were made public only after obtaining approval of the concerned supervision department and the letter to form part of the annual report (NRB 2010).

2. All licensed institutions were required to disclose the accounting policies followed as Schedule 4.32 which included policies on (a) depreciation; (b) income tax provision; (c) investments: the investment held for trade, investment available for sale, and investment held to maturity; (d) adjustment of exchange fluctuation; (e) accounting of non-Banking assets; (f) capitalization as assets, like the threshold amount etc; (g) accounting of revenues and expenses (generally accrual basis was the acceptable method except for recognizing interest income from loan and advances for which, cash basis was permitted); (g) loan loss provisions and writing-off the bad loans; (h) provisions relating to priority in recovering principal and interest of loan (normally, while recovering the amount from the debtors, all interest amount was recovered first and then the rest was used to reduce the principal amount); (i) any other policies which will help understand and interpret the financial statements (NRB 2010).

3. Notes accompanying annual accounts were published in Schedule 4.33 incorporating at least the following details: (a) loans disbursed, recovered, and principal and interest waived, if any, during the year; (b) changes in deposit liabilities (receipt, payment and balance) during the year under each heading; (c) weighted average interest rate spread on deposit and credit;

(d) unamortized expenses, yet to be written off; (e) concentration of institutions' assets and liabilities as well as off-balance sheet items in one individual, single firm or organization or sector, if any; (f) classification of assets and liabilities prepared on the basis of the maturity so as to assess liquidity risk; (g) borrowings by the institution against collateral of its own assets, if any; (h) nonbanking assets (previous year's balance, assumed/sold this year, and net balance); (i) paid-up share capital relating to amount paid in advance, calls in arrears and forfeited but not reissued, if any; (j) amortization of leased hold property up to the previous year and in the current year separately; and (k) any other notes (NRB 2010).

4. The accounting heads of the Balance Sheet on the capital and liabilities side were: (a) share capital; (b) reserve and funds including general/statutory reserve, capital reserve, dividend equalization reserve, capital equalization reserve, accumulate profit (or loss); (c) debentures and bonds; (d) borrowings; (e) bills payables; (f) deposit liability; (g) proposed dividend payable; (h) income tax liabilities; and (i) other liabilities. The accounting heads of the Balance Sheet under the assets side were: (a) cash balance; (b) balance with Nepal Rastra Bank; (c) balance with other banks and financial institutions; (d) money at call and short notice; (e) investments: investment held for trade, investment available for sale, and investment held to maturity; (f) loan, advances and bills purchased; (g) long-term (fixed) assets; (h) non-Banking assets; and (i) other assets. A list, appended to the balance sheet, of contingent liabilities in schedule 4.17 was required (NRB 2010).

5. The accounting heads of Profit and Loss Account were: (a) interest income; (b) interest expenses; (c) commission and discount; (d) other operating income; (e) exchange fluctuation income; (f) employees expenses; (g) exchange fluctuation loss; (h) provision for possible loss; (i) non-Operating income/Expenses; (j) write back of loan loss provision; (k) income/expense from extraordinary transactions; (l) staff bonus; (m) provision for income tax; and (n) net profit/loss (NRB 2010).

6. A profit and loss appropriation account is to be prepared with the following heads: (a) previous year accumulated loss; (b) transfer to general reserve; (c) transfer to contingent reserve; (d) transfer to institutional development fund; (e) transfer to dividend equalization fund; (f) transfer to employees related funds; (g) transfer to proposed dividend; (h) proposed bonus share; (i) transfer to special reserve fund; (j) transfer to exchange fluctuation reserve (NRB 2010).

7. All licensed institutions were to prepare "Statement of Changes in Equity" as an integral part of financial statements in accordance with Nepal Accounting Standard (NAS).

8. All licensed institutions incorporated as a company were to prepare a "Cash Flow Statement," in the prescribed format.

9. Any loan, if obtained by mortgaging the shares subscribed by promoter shareholders, of a financial institution must submit the details to NRB and disclose that fact in the annual report of the concerned bank/financial institution.

10. All banks and financial institutions were required to disclose regarding the treatment of deferred tax according to Nepal Accounting Standard - 9 (NRB 2010).

Directive 6 of NRB related to the provisions regarding good corporate governance. Banks and financial institutions were expected to formulate a code of conduct and create good governance units and monitor the status of good governance on a monthly basis. According to NRB (2010), all directors of the licensed banks and financial institutions were to observe the code of conduct. They were to sign a declaration to observe the regulation relating to code of conduct and inform whether or not they have any financial interest in the institution. The directors were also required to agree not to interfere in the daily activities of management and would be liable for any ultra vires act committed exceeding their authority (NRB 2010).

NRB had also a provision for an Audit Committee. A committee under a nonexecutive director, was to be entrusted with the responsibilities to: (a) review matters raised in the audit report of the independent auditors and initiate necessary corrective actions; (b) review the adequacy of provisioning against contingencies and classified loan; (c) ensure annual report was accurate and free from misrepresentation; and (d) ensure that the reports of the board of directors were accurate and fair; (e) review the compliance of the regulations issued by NRB and include the same in its report; (f) review the activities of the company with respect to its integrity, timeliness, efficiency, effectiveness in operations, and give necessary suggestions to the Board of Directors (NRB 2010).

4. Findings, Implications, contributions of the study, and further research

4.1 Findings and Implications

The banks and financial institutions in Nepal had a two-pronged regulatory and monitoring regime requiring them to make disclosures: one as a bank and another as a public company; the later because all banking companies are required to register as public companies in Nepal. The disclosure regime comprised of accounting standards, directives from Nepal Rastra Bank (NRB), listing requirements of Nepal Stock Exchange (NEPSE), provisions of Companies Act 2006 and Banks and Financial Institutions Act 2006, and requirements placed by Securities Board of Nepal (SEBON). Some of the provisions are duplicated. For example, the Accounting Standards Board requires a Statement of Changes in Equity and Nepal Rastra Bank requires a Profit and Loss Appropriation account, both of which contain several duplicate items. It may be cost effective and useful if a unified mandatory disclosure requirement was designed and implemented. However, there was no provision in any of the mandatory disclosure requirements that a company certifies that all disclosure and reporting requirements have been adhered to. Such a provision might positively impact the adherence to disclosure requirements.

4.2 Contributions of the study

The study makes significant contributions towards understanding the expectations of disclosures required of banks and finance companies in a developing country like Nepal. First, this is one of the very few papers on disclosure in the Nepalese context; it is expected to generate interest in the area for policy makers, companies, and various users of company information. Second, the study provides a basis for future studies in Nepal on other aspects of disclosures, which would be quite difficult without a baseline study of the mandatory

requirements of this kind. Third, Nepal has declared itself a republic at the national level and its desire for democratic principles, and accountability needs to be expressed in terms of its policy guidelines for corporations, especially considering recent banking bubbles in Nepal (Sapkota 2011). Especially, this paper will provide the basis for future studies about compliance to transparency and effectiveness of disclosure regimes in Nepalese financial sector.

4.3 Further Research

There is so little literature available on Nepal's accounting and disclosure practices there are endless opportunities for further research. A research to study the mandatory disclosures made through the annual reports and through the Internet will provide the baseline data for future research and enable assessment of the progress and direction of disclosure by public companies in Nepal. Another area would be to study the impact of legislations that have been introduced, especially the Companies Act of 2006 and Banking and Financial Institutions Act of the same year. At the same time, the accounting standards board has issue standards for accounting and financial reporting for business enterprises in line with the International Financial Reporting Standards (IFRSs), but their adherence and the impact has not been studied. A study to see the compliance level to those standards and the their impact on accounting environment may provide data to regulators and policy makers. Similarly, study of contemporary issues like corporate governance and intellectual capital will add to the body existing literature.

References

- Abdelsalam, O. H., and A. El-Masry. 2008. The impact of board independence and ownership structure on the timeliness of corporate internet reporting of Irish-listed companies. *Managerial Finance*, 34: 907-918.
- Al-Akra, M., Eddie, I. A., and Ali, M. J. 2010. The association between privatization and voluntary disclosure: Evidence from Jordan. *Accounting and Business Research*, 40: 55-74.
- Aly, D., J. Simon, and K. Hussainey. 2010. Determinants of corporate internet reporting: Evidence from Egypt. *Managerial Auditing Journal*, 25: 182-202.
- Arvidsson, S. 2011. Disclosure of non-financial information in the annual report. *Journal of Intellectual Capital*, 12: 277-300.
- ASB. n.d. *Nepal Accounting Standards*. Nepal Accounting Standards Board: Kathmandu: Nepal. <http://www.standards.org.np/>
- Boesso, G. and K. Kumar. 2007. Drivers of corporate voluntary disclosure: A framework and empirical evidence from Italy and the United States. *Accounting, Auditing and Accountability Journal*, 20: 269 - 296.
- Botosan, C. A. 1997. Disclosure level and the cost of equity capital. *The Accounting Review*, 72: 323-349.
- Brown, S., W. Goetzmann, B. Liang, and C. Schwarz. 2008. Mandatory disclosure and

operational risk: Evidence from hedge fund registration. *The Journal of Finance*, 63: 2785–2815.

Bushman, R., and W. R. Landsman. 2010. The pros and cons of regulating corporate reporting: A critical review of the arguments. *Accounting and Business Research*, 40: 259-273.

Cerbioni, F., and A. Parbonetti. 2007. Exploring the effects of corporate governance on intellectual capital disclosure: An analysis of European biotechnology companies. *European Accounting Review*, 16: 791-826.

Chen, K. Y., R. J. Elder, and Y. Hsieh. 2007. Corporate governance and earnings management: The implications of corporate governance best-practice principles for Taiwanese listed companies. *Journal of Contemporary Accounting and Economics*, 3: 73-105.

Chen, W., H. Chung, C. Lee, and W. Liao. 2007. Corporate governance and equity liquidity: Analysis of S&P transparency and disclosure rankings. *Corporate Governance: An International Review*, 15: 644-660.

Gibbins, M., A. Richardson, and J. Waterhouse. 1990. The management of corporate financial disclosure: Opportunism, ritualism, policies, and processes. *Journal of Accounting Research*, 28: 121-143.

Jensen, M. C., and W. H. Meckling. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3: 305-360.

Kristandl, G., and N. Bontis. 2007. The impact of voluntary disclosure on cost of equity capital estimates in a temporal setting. *Journal of Intellectual Capital*, 8: 577-594.

Lang, M., and R. Lundholm. 1993. Cross-sectional determinants of analyst ratings of corporate disclosures. *Journal of Accounting Research*, 31: 246-271.

Mahoney, P. G. 1995. Mandatory disclosure as a solution to agency problems. *The University of Chicago Law Review*, 62: 1047-1112.

Nepal Government. 2006. *Banks and Financial Institutions Act 2063*. Kathmandu, Nepal: Nepal Law Commission.

Nepal Government. 2006a. *Companies Act 2063*. Kathmandu, Nepal: Nepal Law Commission.

Nepal Government. 2006b. *Nepal Rastra Bank Act, 2058 (amended November 2006)*. Kathmandu, Nepal: Nepal Law Commission.

Nepal Rastra Bank (NRB). 2010. *Unified Directives*. Kathmandu, Nepal: Author

Nepal Stock Exchange Limited (NEPSE). 2007. *Introduction*. <http://www.nepalstock.com>

Owusu-Ansah, S. 1998. The impact of corporate attributes on the extent of mandatory disclosure and reporting by listed companies in Zimbabwe. *The International Journal of Accounting*, 33: 605-631.

Owusu-Ansah, S. and J. Yeoh. 2005. The effect of legislation on corporate disclosure practices. *Abacus*, 41: 92–109.

Sapkota, C. 2011. Nepal's banking bubble troubles. *Republica* (June, 17, 2011), <http://www.myrepublica.com/>

Sebon allows online report submission. 2011. *The Kathmandu Post* (May 31, 2011) Money Section.

SEBON. n.d.. *Introduction*. Securities Board of Nepal, Kathmandu: Nepal. <http://www.sebon.gov.np/>

Securities Board of Nepal (SEBON). 2010. *Annual Report 2009-10*. Kathmandu, Nepal: Author.

Securities Board of Nepal (SEBON). 2010a. *Securities registration and issue regulations 2008*. Kathmandu, Nepal: Nepal Law Commission.

Sengupta, P. 1998. Corporate disclosure quality and the cost of debt. *The Accounting Review*, 73: 459-474. <http://www.jstor.org/stable/248186>

Shrestha, G. B. 2006. *A commentary on the company Act, 2063*. Kathmandu, Nepal: Pairavi Prakashan.

Williams, C. C. 2008. Towards a taxonomy of corporate reporting strategies. *Journal of Business Communication*, 45: 232-264.

Yu, M. 2010. Analyst forecast properties, analyst following and governance disclosures: A global perspective. *Journal of International Accounting, Auditing and Taxation*, 19: 1-15.

Glossary

Mandatory Disclosure: disclosure required of companies.

Nepal Rastra Bank: the Central Bank of Nepal

Nepal Stock Exchange: only stock exchange in Nepal

Copyright Disclaimer

Copyright reserved by the author(s).

This article is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/3.0/>).