CHAPTER - I

INTRODUCTION

1.1 General Background

Security market can be defined as a mechanism for bringing together the buyers and the sellers of the financial assets in order to facilitate trading. With the result of dynamics of global changes and development, securities markets are being more crucial factor for the prosperous growth of the economy. Therefore securities market has become a global phenomena and a basic concern for financial and economic sector of any nation. As capital market is a crucial element for the development of the national economy, its role in reinvigorating and boosting the economic activities in the country holds significant.

Mass participation in industrialization process is possible through efficient capital market. Secondary market promotes efficient collection of small and scattered savings and provides returns.

It plays a key role in allocating capital to the corporate sector that will have the real effect in the economy (Dr. Chiranjivi Nepal, 2008).

Capital market is a medium through which scattered saving and inevitable resources are converted into actual investment. The corporate organizations assemble the funds by issuing various forms of securities from the surplus spending units directly and/or via financial intermediaries. Capital market has opened a new phase of business transaction in the country. It has grown in the country as an important base for collection allocation, mobilization and utilization of needed funds for the listed companies.

Capital market may mainly be categorized into two types – primary and secondary.

Primary market is the market where securities are sold at the time of their issuance. In other words, a market of newly issued securities is called primary market.

Secondary market on the other hand is that market where securities are traded which has been issued at some prior point of time. In other words, where outstanding securities are traded is referred to as secondary market.

The existence of transparent highly developed, widely assessable and smoothly functioning financial markets are of crucial significance in transmitting savings into the hands of those desiring to make investment expenditure. Those who can visualize and exploit potentially profitable investment opportunities are frequently not the same people who generate current savings. In a liquid and more efficient stock market, investors assume the low level risk of their portfolio. At the same time companies enjoy permanent access to capital raised through equity issues. By facilitating long term more profitable investment, liquid markets improve the allocation of capital and enhance prospective for long term growth. Future, by making investment is less risky and more profitable; stock markets can also lead to more investment (Levine, 1996). In this way long term capital needs for productive investment are fulfilled and mobilization of such capital is essential for economic development. Stock markets assist in increasing capital formation through mobilization of saving towards more productive sectors.

1.2 History and development of securities market in Nepal

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Shamsher when Gunjaman Singh, the first secretary of Nepalese Embassy in England returned back to Kathmandu and set up the "Industrial Council". The council drafted the Company Act and Nepal Bank Act in 1936. And Biratnagar Jute Mills Limited initiated the first public flotation of shares in the securities market in 1937. Similarly Nepal Bank Limited issued shares in the same year. After that for a long period of time till

1976, no any remarkable development could be seen in the security market. In 1976, establishment of Securities Exchange Center (SEC), under Company Act, facilitated great in the institutional development of security market in Nepal.

But due to the lack of proper mandate and sufficient rules and regulations, the function of Security Exchange Centre became very limited and had not been able to conduct secondary market activities until 1984.

Nepal Government under the program initiated to reform capital market, converted Securities Exchange Center into Nepal Stock Exchange (NEPSE) in 1993. Nepal Stock Exchange is a non-profit organization with the basic objective of imparting free marketability and liquidity to government and corporate securities by facilitating transactions in its trading floor. On 13^{th} January 1994, NEPSE started its floor trading with 25 licensed broker members.

For the inspection and regulation of security market, Security Board of Nepal (SEBON) was established in June 7, 1993 as an apex regulator of Nepalese Securities Market. The governing board of SEBON comprises of seven members representing various government and non-government sectors. The seven members of board include a full time Chairman appointed by the Government of Nepal for the tenure of four years. Other members of the board are Joint Secretary from Ministry of Finance, Joint Secretary from Ministry of Law, Justice and Parliamentary Affairs, a representative from Central Bank, a representative from Institute of Chartered Accountants of Nepal, a representative from Federation of Nepalese of Commerce and Industries, and a member appointed by the Government of Nepal amongst the market experts.

As per the Securities Related Act, 2006, the major functions duties and power of SEBON are as follows:

- Provide license to operate stock exchanges.

- Provide license to operate securities business.
- Permit the operation of collective investment scheme.
- Draft regulations, issue directives and guidelines, and approve byelaws of stock exchanges.
- Supervise and monitor stock exchanges and securities business activities.
- Take enforcement measures to ensure market integrity.
- Review reporting of issuer and listed companies and securities businesspersons.
- Conduct research, study and awareness programs regarding securities market.
- Coordinate and cooperate with other domestic as well as international securities related regulatory agencies.
- Formulate policies and programs related to securities markets and advise the Government of Nepal as and when required.

1.3 Corporate disclosure

"The essence of information lies in its appropriate disclosure." This saying highlights the importance of dissemination or disclosure of information. Management experts have also presented a question, "If a tree falls in a forest and no one hears it, does it make any noise?" They are of the opinion that this question must be answered negatively as there is no dissemination of information even if it occurred in reality. Thus dissemination of information is more important than the information itself. Such dissemination or disclosure of information is of utmost importance in the securities market also (Parista N. Poudyal, 2004).

Business shall operate as a two way open system with open receipt of inputs from society and open disclosure of its operations to the public (Vincent Barry, 1986). Corporate information is very crucial for the growth of fair and transparent securities market. Investors need to have access to accurate and timely information that greatly helps in rational decision making.

Transparency, accountability, information disclosure and stringent ethics practices by companies are fundamental in winning investors confidence. Capital market and so the corporate sector cannot develop with the minority shareholders, inadequate or non-disclosures, violation of laws, non compliance to the rules and regulations and lack of independent oversights of the directors (Deepak R. Kafle, 2004). In the global context, the investigation of most of the companies that were playing game with numbers providing unreliable information and improper disclosure has lead to massive financial scandals and corporate crimes. Also Nepalese corporate sector has yet to establish good governance practice and become more competitive sector of the economy.

Reliable, standard and timely disclosed information is the backbone of securities market. On one hand information helps an investor to decide whether or not to invest in stock of certain company and on the other, it contributes to the fair and transparent security market. When the security market becomes more transparent it can maintain and boost investors' confidence and such confidence will help the entrepreneurs and corporate bodies to raise necessary funds from the public (Parista N. Poudyal, 2004).

In today's liberalized environment corporate sector demands reduced interference by the government. It is in the context that operation of the companies should be transparent and they should adopt good corporate governance practices. The government has also very important role to promote good governance. It has the responsibility to shape the legal, institutional and regulatory climate.

Most of the information is generated from the accounting system of the company. Accounting is the process of identifying, measuring and communicating financial information to permit information judgment and decisions by the users of the information. Thus concept of accounting has two aspects: first, identifying and measuring information and second, communicating financial information to users for decision making purposes. The financial disclosure concept satisfies the second aspect of the definition of the accounting (Ajaya P. Dhakal, 1993).

Disclosure should be in line with the financial and audit compliance whereby the financial statements properly and truly reflect the financial transaction for the period under investigation and transactions undertaken are in compliance with applicable rules, regulations and laws that follows generally accepted accounting disclosures standards and principles. It is mainly because that the truth in disclosure standards has decisive impact on the performance of stock market and confidence of the investors.

Being an apex regulator of securities market Security Board of Nepal (SEBON) monitors and supervises the adequacy of disclosure norms regarding the primary market activities during the initial public offering. In fact SEBON monitors the primary issues related to status of disclosures provided in the prospectus, the proper timing of public issue, licensing of securities and reporting of issue management activities. In secondary market, SEBON monitors the status of corporate disclosure focusing on listed companies publishing annual reports, holding annual general meeting timely, dividend declaration and response to the grievance of the shareholders. But great emphasis is given to annual reports and its relationship with compliance with disclosure norms.

There is strong correlation between disclosure of financial statements, various measures of stock market development and long run economic growth. Stock market liquidity is said to have positive impact on long run economic growth, capital accumulation and productivity growth (Levine and Zervos, 1998). More liquid markets, markets where it is less expensive to trade equities, reduce the disincentives to investing in long duration projects because investors can easily sell their stocks of the project if they need their savings before the project's maturation. Enhanced liquidity therefore facilitates investment in long run, high return projects that boost productivity growth.

Disclosure and performance of listed companies have the greater impact on the liquidity of stock market. Higher relative performer companies attract the investors which provide more after tax return to the initial investment outlays. Shareholders wealth maximization is the maximization of the value of investment which is measured by the price of the firm's common stock (Weston and Brigham: 1996; 12-13). In an efficient market, however Nepalese market is striving towards efficiency and equilibrium, a disclosure is immediately and fully reflected in the market prices. Market prices of common stock informs the performance and capital gain (or losses) of the company simultaneously.

The earnings per share (EPS), dividend per share (DPS), net or book value per share (NWPS), and market price per share (MPS) are the key indicators of performance, overall operating financing and investing efficiency and dividend decisions made by the competent management. Nevertheless, the underlying source of value of share of common stock is earning, not dividend (Modigliani and Miller: 1961). The companies with sound financial position disclose the information timely; have higher book value and higher market price of the stock. The investors get returns through earnings, either in the form of dividend (cash or stock) or capital gain. Investors are more concerned with earning, dividends, capital gains; not with absolute values. The relation of disclosure with performance is latter measured by MPS, EPS, DPS, dividend yields and capital gain yields is very crucial to analyze. We strive to shed light on the disclosure and performance of the listed companies on the basis of regularly disclosing and non disclosing companies and their performance. Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share (NAS, 2003: 22).

1.4 Provisions regarding information disclosure

Present securities legislation in Nepal has made different provisions regarding corporate information disclosure. One of such provisions is that an issuing company at the time of public issue should publish prospectus that contains information such as introduction, objectives, financial position, details of promoters, directors, risk factors of its business etc. The public issue approval guidelines of SEBO also require the listing company to make additional disclosure in its prospectus. Thus prospectus is an informative document on which basis investors can make rational investment decision.

Once the issuing company lists its securities in the stock exchange, it becomes listed company. It is mandatory for such listed companies to disclose all price sensitive information continuously to the stock exchange once such information becomes available or generated in the company. They are also required to submit semiannual reports within sixty days after the end of that period and annual report within four months after the expiry of the fiscal year to the Stock Exchange and SEBO. If they fail to file their audited financial reports for more than two years, NEPSE can de-list the company as per the provision of its Securities Listing Bye-laws.

Securities Listing Bye-laws have prescribed that above mentioned information and reports disclosed by listed companies are to be made public by NEPSE. NEPSE places this information on its notice board and some information on its website.

As per the provision of Company Act 1997, public companies are required to prepare their annual books of account within five months after the expiry of a fiscal year. And they should make necessary arrangements for their shareholders to see the books of account. The act also requires the public companies to notify shareholders regarding the conduction of Annual General Meeting along with the agenda of meeting. They are also required to send the minutes of Annual General Meeting to their shareholders within thirty days after its conduction.

Companies Act 1997 requires all the corporate bodies including its listed companies to prepare their income statement, balance sheet and cash flow statement in the prescribed format.

1.5 Statement of problem

In the context of Nepal the concept of capital market is neither very old nor complex. It is still in beginning or introductory stage where various efforts have been made for its development. In comparison to the developed countries, the capital market of Nepal is still far behind. Even after the 16 years of establishment of SEBON, there seems very slow growth in Nepalese capital market.

The marketability and liquidity of the stock depends on the disclosure and performance of the company. So most of the countries have made provisions regarding corporate information disclosure in order to protect and promote investors' interest. As Nepalese capital market is in the developing phase, there exist various imperfections. The information dissemination is very poor in the market and most of the investors are not able to properly analyze the fundamentals like company's performance and profitability, past and current growth as well as the future risk and return prospects. The weak monitoring and regulatory system, unstable political environment, no well trained manpower and management are responsible for market imperfection. Inadequate information disclosure has created adverse impact on investors' confidence.

Security Exchange Act, 1983 has laid down some provisions concerning information disclosure. Security Exchange Regulation and Securities Listing Bye-Law, 1996 has also specified some provisions about the disclosure requirement of listed companies. Company Act 1997 has also stipulated some regulatory provisions on Annual General Meeting of the company. Though the board plays a regulatory role, some listed companies have been delaying to provide any information for a long period of time.

Inadequate information disclosure has adversely affected the performance of the listed companies. Inadequate and untimely information disclosure practice, ambiguity in legal provisions, lack of severity of punitive action in legal provision, no protection to minority interest, inadequate disclosure in respect of format content, accounting policies, performance, strength, weaknesses, opportunities, and threats etc. are the main problems for the prosperity of capital market.

As per the annual report of SEBON for the fiscal year 2006/07, many listed companies have not submitted their semiannual and annual reports timely. As well most of these companies have not conducted their Annual General Meeting for a couple of year. Some of the stock brokers and even NEPSE also failed to submit their semiannual reports in some years. Being an apex regulator of Nepalese Securities Market, SEBON has the major responsibility on all these weaknesses of market inefficiencies. But the board is mainly acting as a superfluous body and trying to fulfill formalities rather than seriously attending for corporate governance.

More specifically, this study is expected to answer some of the following specific research problems:

- Do all the listed companies at NEPSE promptly disclose the information on their affairs?
- Do the corporate annual reports contain adequate qualitative and quantitative information?
- Does the information disclosure affect the performance of the company?

1.6 Objectives of the study

Information is the key to rational decision making. Decision making under uncertainty is a risky game. So corporate information disclosure practices in Nepalese capital market is the matter of prime concern to build up the investors' confidence. Study of the information disclosure pattern of listed companies holds the prime objective of this study. Also the relationship of information disclosure to the performance of the company (reflected in market price per share, net worth per share, net profit per share etc.) is another objective of the study.

More specifically, the objectives of the study can be pointed as follows:

- To find out the information disclosure practice of listed companies in Nepal.
- To test the significance of information disclosure on performance of the companies.
- To analyze the importance of making investors aware about the significance of corporate information while investing in securities of the companies.

1.7 Research hypothesis

Hypothesis is defined as an assumption or statement made about the population parameter. It is a conjectural statement of the relation between two or more variables. Hypothesis is always in a declarative sentence form, and they relate either generally or specifically, variables to variables (F. N. Kerlinger, 2002). Generally two complementary hypotheses, namely null hypothesis and alternative hypothesis, are setup at a time. If one hypothesis is accepted then other will be rejected and vice versa. The null hypothesis is the hypothesis to be tested and it is referred as the hypothesis of no difference and the alternative hypothesis is called the hypothesis of difference (P.K. Sharma and A. K. Chaudhary, 2002). According to Fisher, "Null hypothesis is the hypothesis which is tested for the possible rejection under the assumption that it is true". It is denoted by H_0. In this study, Chi-Square (χ^2) test has been developed in regard to disclosure and performance of listed issuer companies. Accordingly the formulated hypotheses are presented in the following paragraphs.

The first hypothesis is based on the significance of market price per share between the disclosing and non-disclosing companies.

Null Hypothesis

Ho: $\rho = 0$

i.e. market price per share between disclosing and non disclosing companies does not differ significantly.

Alternative Hypothesis:

H1: $\rho \neq 0$

i.e. market price per share between disclosing and non disclosing companies differs significantly.

The second hypothesis is based on the significance of net worth per share between disclosing and non-disclosing companies.

Null Hypothesis:

H0: $\rho = 0$

i.e. net worth per share between disclosing and non-disclosing companies differs significantly.

Alternative Hypothesis:

H1: $\rho \neq 0$

i.e. net worth per share of disclosing and non-disclosing companies does not differ significantly.

The third hypothesis is based on the significance of net profit per share of disclosing and non-disclosing companies.

Null Hypothesis:

H0: $\rho = 0$

i.e. net profit per share of disclosing and non-disclosing companies does not differ significantly.

Alternative Hypothesis:

H1: $\rho \neq 0$

i.e. net profit per share of disclosing and non-disclosing companies differs significantly.

The fourth hypothesis is based on the significance of market price per share to paid value per share between disclosing and non-disclosing companies.

Null Hypothesis:

H0: $\rho = 0$

i.e. there is no significant difference in market price per share to paid value per share between disclosing and non-disclosing companies.

Alternative Hypothesis:

H1: $\rho \neq 0$

i.e. there is a significant difference in market price per share to paid value per share between disclosing and non-disclosing companies.

The fifth hypothesis is based on the significance of market price per share to net worth per share between disclosing and non disclosing companies.

Null Hypothesis:

H0: $\rho = 0$

i.e. there is no significant difference in market price per share to net worth per share between disclosing and non disclosing companies.

Alternative Hypothesis:

H1: $\rho \neq 0$

i.e. there is a significant difference in market price per share to net worth per share between disclosing and non disclosing companies.

The test statistics is;

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Where;

O = observed frequency;

E = Expected frequency;

1.8 Significance of the study

Taking into consideration the importance of information to the investors, this study focuses on the disclosure and performance of the listed companies in NEPSE.

Investors invest their saving funds in securities of different companies with good expectation of higher capital gain in future. But most of the investors are not well informed about the real financial strength and weaknesses of the companies concerned. The extent of relationship of information disclosure through prospectus and other statutory reports with market price of the stock, earnings and return on investment have been analyzed. The inferences drawn from the study is expected to be helpful for the issuer companies to see the association of disclosure with performance of the impact of information disclosure on performance. Also it is expected to be worthwhile to stock authorities, researchers, shareholders, financial analysts, potential investors, students, policy makers and other interested parties.

1.9 Limitations of the study

This study has been conducted to fulfill the partial requirements for MBS program of Tribhuwan University. The main limitations are time and resource constraints, limited data, lack of research experience and lack of recent information. The study based on the disclosure of prospectus and annual reports of the companies in the last five fiscal years. It is basically based on the secondary data published by the companies, SEBON and other institutions. Only the issuer companies listed in NEPSE are considered for this study. So the study may not identify the accurate result on the information disclosure representing the whole companies. Moreover, the lack of accurate data in the name of confidential and window dressing is common bitter truth.

1.10 Organization of the study

The whole study is mainly organized into five different chapters according to their significance.

Chapter – I: Introduction

Chapter – II: Review of Literature

Chapter – III: Research Methodology

Chapter – IV: Presentation and Analysis of Data

Chapter – V: Summary, Conclusion and Recommendation

Chapter – I: Introduction

This chapter includes general background and introduction of the Nepalese Securities Market, focus of the study, statement of problem, objective of the study, significance of the study, limitations of the study, research hypothesis and organization of the study.

Chapter – II: Review of Literature

This chapter includes the review of books, articles, journals, reports and other relevant material of previous studies on the area of study.

Chapter – III: Research Methodology

This chapter includes research design, population and sample, sources and nature of data, methods of analysis of data, and the introduction to the analytical tools etc.

Chapter – IV: Presentation and Analysis of Data

This chapter attempts to analyze and evaluate data with the help of analytical tools and interpret the results disclosed.

Chapter – V: Summary, Conclusions and Recommendations

This chapter sums up the results obtained through analysis, and the recommendations for further improvement of disclosing practice of Nepalese listed companies are made on the basis of conclusions drawn.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is the stock taking of the available research work as well as other relevant studies in one's area of study. The similar effort is made here to know the extent of research work and studies in all the study areas relevant to the information disclosure and performance of companies. It covers various studies conducted within and outside the country. Whatever researches have already been conducted in the subject matter of this study is revealed here by this review of literature so as to prevent the duplication and repetition of previous work. As well it helps to explore the areas that have still been left from the reach of researchers.

2.1 Conceptual review

Information can be defined as a data that has been processed into a form that is meaningful to the recipient and is of real or perceived value in the current or the prospective action or decision of the recipient. It has a value in decision making and in updating the level of knowledge. Disclosure means to disclose or release the related or essential information where it is necessary.

Corporate disclosure plays a very significant role in allocation of resources through sound economic decision. There are abundant interest in corporate bodies among lenders, shareholders, creditors, employees, customers, government authorities and general public. It normally involves the publication of relevant qualitative and quantitative information in annual financial reports which are often supplemented by interim financial statements and other relevant means. This has caused the corporate bodies to accept economic, financial, social and legal responsibilities of growing information disclosure.

The basic objective of information disclosure is to provide useful information to the users. There are three concept of disclosure that is generally given emphasis, viz. adequate, fair, and full disclosure. These terms are relative and definitive. Adequacy demands the sufficiency of informational items. Fair disclosure means ethical objective of providing equal treatment for all potential information users. Full disclosure means the presentation of all relevant information about itself.

The usefulness of information can be determined by its relevance to the needs of the users and the extent to which users can rely on such information.

Relevance: information is relevant if it is capable of influencing an evaluation or an immediate or future decisions or if it is normally expected to be included in a statement. The timeliness, materiality, and predictive value and feedback contribute to the relevance of information should be provided in information disclosure.

Reliability: Reliability is an inherent quality of information that assures its users not only that it corresponds to and satisfactorily reflects the event that it purposes to represent, but also it is free from material error and bias.

Comparability: Comparability enables users to undertake in a meaningful way both inter-temporal and cross-sectional analysis. Information disclosure helps to examine the performance of different companies. If the change in any policy has a material effect on the current or subsequent period, the change and its effect should be disclosed so that users can differentiate the result with and without change.

Understandability: information must possess the quality that enables users to perceive its nature and meaning. Clearly understandable information requires that the form of presentation of reports, descriptive headings, concepts used, assumptions made, bases of classification of data used, narratives in notes and other parts be relevant, unambiguous and without unnecessary details.

The corporate information is used by a variety of groups and for diverse purposes. Sophisticated and unsophisticated individual investors, institutional investors, creditors, bankers, employees, potential investors, tax authorities, governments, trade association, and the general public are among the major users of corporate information. The concept of adequate disclosure involves identifying the purpose for which the information is to be disclosed.

2.2 The Efficient Market Hypothesis of Information Disclosure

"An efficient market exists when security price reflects all the available public information about the economic, about the financial market, and about the specific company involved. The implication is that market prices of individual security adjust very rapidly to new information. As a result security prices are said to fluctuate about the intrinsic value", (James C. Vanhorne, 1998). "An efficient capital market is one in which it is impossible to earn an abnormal return by trading on the basis of publicly available information", (Stewart L. Brown, 1978). "A stock market is said to be efficient if all currently available information is rapidly reflected in stock prices" (Fama, Eugene F., 1976). The main assumptions of efficient market are:

i. All investors have costless access to currently available information about the future.
ii. All investors are good analysts.
iii. All investors pay close attention to market process to adjust their holdings appropriately.

The efficient market hypothesis says that market rapidly incorporates all the information affecting the value of security. If the prices respond to all relevant new information in a rapid fashion, we can say the market is relatively efficient. A test to see whether stock prices sometimes fluctuate in patterns, as technical analysts claim, or whether they fluctuate randomly in continuous equilibrium is essentially a test of efficiency of the stock market. There are three forms of efficient market hypothesis.

a. Weak efficiency market hypothesis,
b. Semi-strong efficiency market hypothesis
c. Strong efficiency market hypothesis.

2.2.1 Weak efficiency market hypothesis:

The weakly efficient market hypothesis assumes that all the past information is reflected in security prices. Weakly efficient markets were defined as markets where past prices provide no information that would allow a trader to earn a return above what could attained with a naïve (it refers to investment policy of randomly selecting securities, buying them, and holding them over at least one complete business cycle while investing all dividends) buy and hold strategy. “Under the weak form of efficient market hypothesis, stock prices are assumed to reflect any information that may be contained in past history of the stock prices itself” (Haugen, Robert A., 1997). “ A market could be described as having weak efficiency if it is impossible to make abnormal profit by using past prices to make decisions about when to buy and sell securities” (William F. Sharpe, Gorden J. Alaxender, Jeffery V. Bailey, 1999).

2.2.2 Semi strong efficient market hypothesis

The semi strong efficient market hypothesis requires more evidence of market efficiency than the weakly efficient market hypothesis. Weak efficiency only requires that security prices tend not to follow repetitive patterns. The more demanding semi-strong efficient market hypothesis requires that all public information be fully reflected in security prices. “Under all semi-strong form of the efficient market hypothesis, all publicly available information are presumed to be reflected in securities prices” (Haugen, Robert A., 1997).

2.2.3 Strong efficient market hypothesis

The strongly efficient market hypothesis suggest that all information, public or not, is fully reflected in security prices. This idealistic economic situation results in perfectly efficient market where prices and values are always equal as they fluctuate randomly together in response to the arrival of new information. “Under this form, those who acquire inside information act on it, buying and selling the stock. Their actions affect the prices of the stock and the prices quickly adjust to reflect inside information” (Haugen, Robert A., 1997).

2.3 Overview of legal framework

SEBON and NEPSE are main two bodies to regulate the securities market in Nepal. The SEBON is an apex regulatory body established under the Securities Exchange Act, 1983, with the objective of promoting and protecting the investors' interest. It is also responsible for the development of securities market in Nepal. NEPSE, a non-profit organization operating under Securities Exchange Act, 1983 is a front line regulatory body of securities market. The basic objective of NEPSE is to impart free marketability and liquidity of government and corporate securities in its trading floor. NEPSE is only a single stock exchange in Nepal.

In order to accomplish the objectives of these regulatory bodies; adequate, full and fair corporate disclosure practice by corporate bodies should be enforced and encouraged. Adequate, full and fair disclosure greatly helps in decision making by the investors and therefore creates the investors' confidence on stock market. It is also very crucial for promoting and protecting the interest of investors and growth of fair and transparent securities market. The increased investors' confidence in the stock market will help in developing the securities market in the country. Similarly marketability and liquidity of corporate securities can also be maintained by making such corporate disclosure.

There are some regulatory provisions in the company Act, 1997, Securities Exchange Act, 1983 and Securities Exchange Regulation, 1993 regarding the preparation of annual reports, submission of annual reports to regulatory bodies and holding annual general meeting on time.

The Company Act, 1997 has made some provisions on the financial reporting issues and holding annual general meeting of the company. Section 62, 63, 82, 83, and 84 of the Company Act, 1997 and their subsections deals with regulatory requirements of the corporate reporting and holding annual general meeting. The sub-section 1 of section 63 states, this act requires the company to hold its first annual general meeting within one year from the date of license issued to the company for operation and thereafter within six months after the expiry of each fiscal year. The sub-section 1 of section 82 requires that the books of accounts be kept in Nepali language as prescribed. The company can use other languages too for the sake of its simplicity. The books of accounts kept in Nepali language are regarded as the standard one. Sub section 2 of the same section requires the books of accounts be kept according to the double entry system of accounting so as to clearly reflect the true state of transaction of the company. The section 83 of the act deals with the preparation of annual accounts and reports. The sub-section 1 of section 83 requires the following annual accounts to be prepared by the board of directors of public limited company at least 30 days before the conduction of annual general meeting.

- Balance sheet till the end of the year.
- Profit and loss account of the fiscal year.
- Cash flow statement of the fiscal year.

The annual accounts prepared under the sub-section 1 have to be, under sub-section 2, approved by the directors and audited by auditors. The contents of 'Board of Directors' report at minimum is laid down in the sub-section 3 of the same section. The Board of Directors' report should cover

- State of company's past years transaction,
- State of national and international influence on business,
- The Board of Directors' statement on current year's achievement and future plans,
- Industrial and business relations,
- Change in Board of Directors' and its reasons,
- Major factors affecting the business transactions,
- Board of Directors' comment, if any remarks in the auditor's report,
- The percentage of profit purposed for distribution.

The annual account prepared under the section 83, must be under the sub-section 5, should be made available to shareholders willing to see it. The section 83 of the act deals with the balance sheet and profit and loss accounts.

2.4 Review of related studies

A. K. Sen Gupta (1996), in his article titled,' Presentation of Annual Accounts and Financial Reports to Shareholders' observes that annual reports should provide maximum information and its presentation should be simple and meaningful. According to him, presentation can be improved by introducing uniform terminology and proper classification and subdivision of heads of accounts. As regards financial reporting, he is of view that it should be geared to the perspective of the company.

Peter S. Albin (1974), in his article titled, 'Information Exchange in Security Market' has discussed some behavioral foundations about the communication between shareholders and managers. He writes, the theory of finance and its partial equilibrium sub branches, the theory of optimal capital budgeting and the theory of security valuation are all founded in the presumption that shareholders and managers can communicate perfectly with one another across the intervening capital market. The specific behavioral foundations of the theory are that: 1) the preferences of owners (shareholders) have their image on their structure of security prices and yields; 2) managers, by judicious reading of the information imbedded on this structure, can determine guidelines for optimal behavior; 3)managers act on the information to determine the firms policy so as to optimize in behalf of the owners and 4) sufficient information on the firm's choice space and the firm's investment strategy is available to owners so that a basis for intelligent choice among securities exist.

The information that facilitates economic decision should posses certain characteristics, which make financial information more reliable. These characteristics show the quality of information and satisfy the users need.

These characteristics are relevancy, materiality, understandability, comparability and freedom from bias.

I. M. Pandey (1999) has highlighted the sources of financial information and users of financial information. He has stated that the firm communicates its financial information to the users through financial statements and reports, which contain the summarized information of firm's financial affairs, organized systematically. He further states since the financial information are used by investors and financial analysts to examine the firm's performance in order to make investment decision; they should be prepared very carefully and contain as much information as possible.

In a study by Stephen L. Buzby (1974, 423-435), titled 'Selected Items of Information and their disclosure in Annual Reports', has attempted to measure the extent to which selected items of information are presented in corporate annual reports. The writer constructed a list containing 39 items of financial and non-financial information, which might appear in annual reports. The relative importance of each of the item to the prime user group and for a scientific purpose (investment in common stock) has been estimated by survey of financial analysts. For this, financial analysts were asked to assign weight to each of item ranging from 0 to 4, '0' being not necessary to appear in the annual reports and '4' being very important to appear in annual reports. He has calculated the mean weight for each individual items of information with the help of responses received. He also attempted to test the non-response bias. He had taken sample annual reports of 88 small and medium sized companies for his analysis purpose. His study shows that many of the items were inadequately disclosed and that the correlation between relative importance of the items and the extent of disclosure was small. He concluded that an opportunity exist for an expansion of information disclosure in the annual reports of these companies.

Jawaharal (1985) has identified some of the characteristics of information disclosure. The disclosure of information is valuable for economic decision making to shareholders, lenders, employees, bankers, government, customers and general public. The disclosed statement should be adequate, fair and contain full information that comprises all relevant information. The quantitative and qualitative realities are to be disclosed as per the expectation of the shareholders and statutory requirements through the reports, seminars, prospectus, and statement of chairman. The disclosure should posses some qualities that satisfy users' needs viz. relevancy, materiality, understandability, consistency, reliability, freedom from bias.

Companies should be more informative in their account and shareholders should be enabled to better appreciate the working and real financial position of the companies in which they have invested their capital (A. C. Rangarajan, 1969).

Dr. B. L. Jaggi, in his article (1973) writes that the main source of information for the investors and creditors' decision is the financial statements published by the firms. These statements in their present form provide information on the effective utilization of financial resources to accomplish the financial goals of the firms which are expressed in terms of profits and financial soundness of the firm. These statements enable the users to evaluate firms financial effectiveness by developing several indices from the information contained in them, which include earnings per share, dividend per share, financial ratios etc.

The financial statement do not contain any information on the social consequences of firms' activities, with the increased awareness of business' social responsibility and government intervention in this regard, the external users are becoming more aware of the importance of the firm's social performance. Therefore those users are developing a need for information on firm's social effectiveness. This need for social information is posing challenge to accountants to include the information in external reporting.

Prof. M. K. Shrestha (1992), in his book, “Shareholders Democracy and Annual General Meeting (AGM) Feedback” has focused various relations to protection of shareholders’ expectations. He writes, success of company directly depends upon the protection of their owner. But how can this be accomplished is the main question. Thus it is necessary to develop guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome returns to shareholders on the other hand to make their investment meaningful and worthwhile. The encouraging and growing confidence of shareholders over their investment seek an independent inquiry of disclosed contents of prospectus. This helps to satisfy a minimum standard of faith on investment on shares through relying on pros and cons of the prospectus. It is, thereof, important to disclose in prospectus, which could reasonably influence the mind of the prudent investors. Various Annual General Meeting by different public limited companies reveal a greater gap between disclosure made on prospectus and the actual results. In this context, the disclosure reduces the investment uncertainty, fluctuation of stock price, and misallocation of resources in the economy. The expression of disclosure philosophy and investigation of frauds in prospectus needs to be reconciled to check the growing problems in the development of capital market in Nepal (Shrestha: 1992, 17-19).

Performance is earnings of losses made on a security or by a company (International Dictionary of Banking and Finance, 1999, 257).

Lack of adequate and effective trading mechanism with Nepal Stock Exchange, the only secondary market for securities transaction is virtually blocking an early issuance of newer financial instruments into the capital market. Even officials at the Securities Board, the regulatory authority governing the stock market operations in the country conceded that lack of proper setups has prevented new entrants into the financial markets and marked the development of capital markets (The Kathmandu Post, 2003).

Dr. Chiranjavi Nepal (2008), in his article titled, “Capital Market Drives Economy”, observes various challenges to adopt free pricing and proportionate allocation system in public issue of securities. He inspects the need and challenges to introduce and encourage the different types of securities instruments. The diversity in security market instruments will attract the investors of various risk return preferences and thereby promoting the size of the market. He again points a very poor disclosure practice in Nepalese securities market supported by the fact that during the fiscal year 2004/05 to 2006/07, only 7.34% of the total listed companies presenting their annual reports and other financial statements on time.

Article written by Nabraj Adhikari (2005), “Securities Market development in Nepal”, assesses that the Nepalese securities market is in an underdeveloped stage. Weak regulation, insufficient market infrastructures, poor corporate governance, insufficient trading system, low instrument diversification, low involvement of institutional investors are major issues of Nepalese securities market. These issues should duly be addressed to develop the markets as an important venue for funds mobilization in Nepal.

Thesis entitled, “Investors Awareness in Securities Market in Nepal”, (Subedi: 2003), concludes that fair and timely disclosure is essential for the securities market to function efficiently. Investors have very little knowledge of the trading procedure and price formation mechanism in NEPSE.

Information deficiency in capital market may be one of the reasons for the determination of share price by excessive speculation. This may lead to domination by the gamblers and speculators in the capital market. Regular submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investors protection. The quality of information and the rationality of investors in Nepal seem to be quite low. There is lack of investors’ awareness about listed companies, their operation and potential role of securities market techniques of financial analysis and risk and return of holding securities.

Thus he recommends, the concerned regulatory bodies should make more effort to disclose the company’s all price sensitive information and make investor aware about the security market.

Thesis entitled, “Legal Provisions to the Protection of Investors under Nepalese Laws: an Analytical and Critical study” (Pokharel, 2000), has focused to identify the investors and finding out the legal lacunas and weaknesses of executive bodies in regards to investors’ protection.

According to his study, investment and investing process both are separate but interrelated due to the present modern investing patterns. Investor’s protection belongs to the various rights of investors as like to make an action against the insider trader, fraud, defaulters and mal-practitioners over the investors. Nepalese investors are not governed under the corporate norms and values due to lack of proper knowledge of their rights. They can be victimized but they do not complain at concerned authority. Rules and regulations alone would not be able to protect the interest of investors.

In his study it can be found that Nepal’s legal provisions are not sufficient to protect the interest of investors and on the other hand there are existing genuine lacunas and loopholes. Besides existing legal provisions are not properly exercised due to weak implementing mechanism, contradiction on jurisdiction and lack of awakes of investors about their rights and obligations themselves. So the legal provision for protection of the investors and its practical implication is in weak condition in Nepal.

Pandey, (2002), in his thesis entitled, “Legal and institutional arrangements for investors protection in capital market in Nepal”, has observed that the existing legal provisions for the protection of investors’ interest are insufficient especially in case of timely disclosure of price sensitive information. It is found that there is duplication and redundancy of regulation between Company

Registrar's Office (CRO) and Security Board of Nepal (SEBON). Both the institutions are doing some of the task under the conflicting regulatory measures. For example; prospectus of issuing companies is first submitted to CRO and thereafter to SEBON. It is not clearly defined that which agency is responsible for analyzing it. Collective performance of regulation of SEBON, CRO and NRB were found to be less effective and unsuccessful. No proper coordination among regulatory bodies was found. He also adds that insider trading practice exists in Nepalese capital market. Sufficient legal provision to check insider trading do not exist. Regulatory authority like SEBON has no appropriate and adequate power to make investigation and take action.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a vital part of research study. In this chapter description of various sequential steps adopted while studying research problem along with the topic behind them have been described. Being research methodology is a way to systematically solve the research problem various methods and process applied in the entire aspect of the study have been summarized in this chapter.

3.1 Research design

This study is designed to study the disclosure and performance of listed companies in NEPSE. Both primary and secondary source of data has been used. Descriptive cum analytical approach of research design has been followed.

3.2 Nature and sources of data

The main source of data for this study will be collected from the secondary sources. Effort will be made to collect some data from primary sources also. The main sources of secondary data will be published financial statements, reports, and prospectus of listed companies; annual reports of SEBON, NEPSE etc. The data from respective companies, Company Registrar's Office, Ministry of Finance, unpublished thesis of senior students, reports published by Nepal Rastra Bank, and other economic journals, books and newspaper will also be used wherever they seems relevant. Also the various relevant websites will be visited as per the needs.

Survey of opinion of financial executives, experts and scholars will be conducted to collect the primary data so as to verify the results obtained from the analysis of secondary data. The survey will be based on the structured questionnaire.

3.3 Population and sample

All the companies listed in Nepal Stock Exchange (NEPSE) will be considered for the study. The companies de-listed by NEPSE and the companies losing their existence are not under its scope. So this study is limited to the companies that issued securities and listed in NEPSE and SEBON, as the total population. The study has covered all the disclosing and non disclosing companies on the basis of annual reports and other financial statements submitted to security Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE). As revealed by the annual report of SEBON for the fiscal year 2006/07, 91 companies have submitted their annual reports and financial statements and remaining 44 companies out of total 135 listed companies, have failed to do so.

3.4 Data processing techniques

Method of analyzing primary data

The primary data analysis will be based on direct or indirect responses given by respondents through questionnaire and interview. The questionnaire is prepared basically focusing the efficient market hypothesis. The questionnaire also includes other questions relating to disclosure and performance.

Method of analyzing secondary data

Various statistical analysis are applied to examine the influence of independent variable (corporate disclosure) on dependent variable (market capitalization, trading turnover and NEPSE index) and to get the relationship. The secondary data essential for drawing inferences are collected and different tools like percentage, average, index, rupee value, ratios, bar diagrams are used. In order to test the significance of relationship between the quality of information disclosure and various company performance indicators, statistical tests (t-test and f-test) are applied. The regression analysis, correlation analysis, coefficient of determination, and ANOVA test are used. Chi-square (χ^2) test is also used to test hypothesis.

Simple regression analysis has been used to study the influence of corporate disclosure (independent variable) on company's performance indicators (market capitalization, trading turnover and NEPSE index). The general form of simple regression is as follows:

Y = a + bx

Where,

Y = dependent variable (NEPSE index, trading turnover and market capitalization),

a = intercept of the line,

b = coefficient of independent variable,

x = independent variable (corporate disclosure percentage).

Correlation Analysis:

Correlation analysis is the essential tool that can be used to describe the degree to which one variable is linearly related to another (Richard Levin et. al: 1995). Coefficient of correlation between corporate disclosure with NEPSE index, market capitalization, and trading turnover is calculated. The formula for calculating Karl Pearson's Coefficient of Correlation (r) is:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left\{n\sum x^2 - \left(\sum x\right)^2 \}\{n\sum y).^2 - (\sum x)^2 \right)\right\}}}$$

Where,

r = Coefficient of correlation

x = corporate disclosure percentage,

y = NEPSE index, trading turnover and market capitalization

Coefficient of Determination

Coefficient of determination (r^2) is a primary way to measure the extent or the strength of the association that exist between two variables i.e. corporate disclosure and NEPSE index/ market capitalization/ trading turnover. The coefficient of determination measures the percentage of total variation in dependent variable explained by the independent variable.

Chi-Square (χ^2) Test:

Chi-Square (χ^2) Test is a non parametric test as it depends only on the set of observed and expected frequencies and degrees of freedom. It describes the magnitude of difference between observed and expected frequencies under certain assumptions. It is defined as:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Where,

$E = \frac{RT \times CT}{E}$

O = observed frequency

RT = Row total

CT = Column total

N = Grand total

In this study chi-square test has been developed test significance of difference of various performance indicators (MPS, EPS, MPS to PVS, Net profit, Net worth etc.) between disclosing and non disclosing companies.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

Data presentation and analysis holds the main body of thesis writing. This chapter deals with the presentation, analysis and interpretation of data collected through primary as well as secondary sources. The main objective of this chapter is to reveal the disclosure practice of Nepalese companies and identify the extent of relationship of disclosure with performance of the company.

In this chapter efforts have been made to process the obtained data and interpret them. The available data are presented in tables, graphs and they are analyzed with the help of statistical, mathematical and financial tools and finally interpreted to explore the facts.

The whole research is heavily based on the secondary source of data. The secondary data is collected from the annual reports of SEBON, journal of SEBON and annual reports of respective companies.

4.1 Review of Disclosure Practice

Disclosure standard implies to any kind of information disclosed to the users of information especially to shareholders and interested investors. This helps to understand the performance of companies that affect the capital market as a result of the primary and secondary market activities. There is no denying the fact that disclosure norms are proving weak as well as inadequate, as many institutions dealing with public funds are not feeling any responsibility to make full disclosure of information to the public.

The government and regulating authorities are trying to impose disclosure norms necessary to make public known about what is really going on the performance of the companies. Under surveillance and compliance, SEBON is trying to improve disclosure through adequate and timely reporting, response to investors' grievance, routine monitoring and supervision, ensuring financial compliance and professional conduct in securities transactions. But in practice, the management attitude towards disclosure is not found to be encouraging.

4.2 Submission of Annual Reports

As prescribed by law, every listed company should submit their annual report to the NEPSE and SEBON within four months of expiry of fiscal year. The annual report includes profit and loss account, balance sheet, and cash flow statement. The annual report submission practice of the listed companies for the last six years is observed here for our study purpose.

4.2.1 Annual report and financial statement disclosure of the listed companies

Table 4.1

Categories		**Fiscal year**				
		2002/03	2003/04	2004/05	2005/06	2006/07
Timely report submitting companies (within four months of the expiry of fiscal year)	Nos.	5	3	8	10	9
	%	4.63	2.63	6.4	7.8	6.67
Disclosing companies	Nos.	75	71	86	95	91
	%	69.44	62.28	68.8	70.37	67.41
Non-disclosing companies	Nos.	33	43	39	40	44
	%	30.56%	37.72%	31.2%	29.63%	32.60%
Total listed companies		108	114	125	135	135

SOURCE: ANNUAL REPORTS (SEBON)

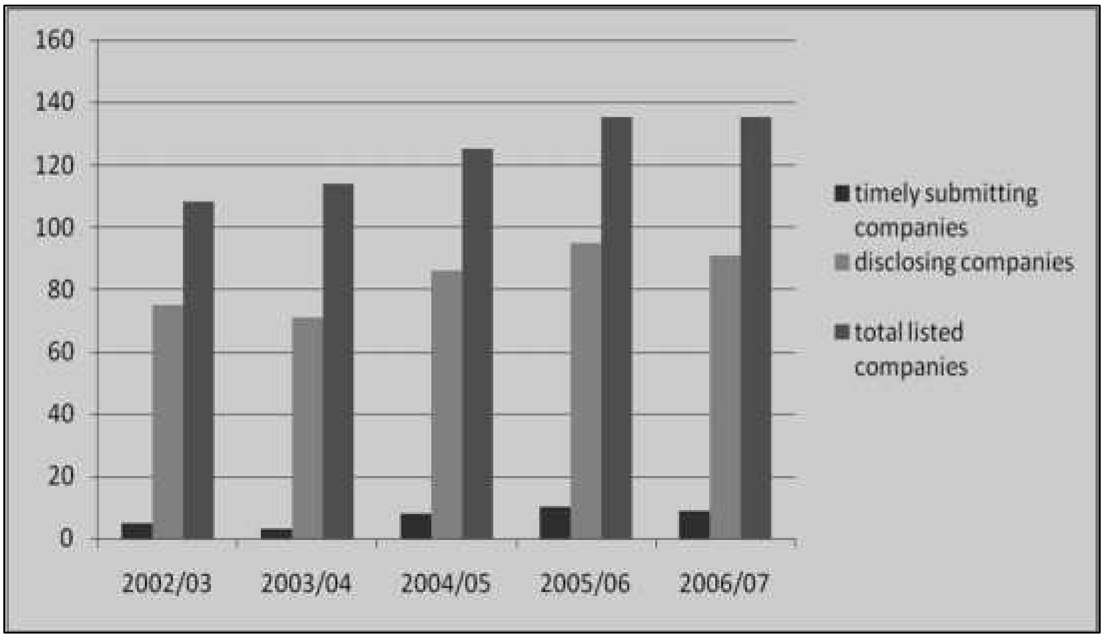

Fig. 4.1

The above table and diagram shows a very poor practice of timely submitting of the annual reports to the concerned authorities by the listed companies in NEPSE. But it seems improving in recent years indicated by 2.65% companies submitting timely in 2003/04, whereas it reached to 7.4% in 2005/06. The trend of timely submitting the report is increasing in recent years.

Disclosure practice after the expiry of the prescrbed time is also not strong. Some companies are delaying to submit their reports even after two years of the expiry of the fiscal year. Disclosure percentage seems highest at 70.36% in fiscal year 2005/06. It has again declined to 67.4% in the year 2006/07.

So the disclosure of information by Nepalese listed can not be taken satisfactorily.

4.2.2 Annual report and financial statement disclosure of the listed commercial banks

Table 4.2

Categories	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06	2006/07
Timely submitting companies	--	--	7.14%	7%	20.00%
Disclosing companies	80%	90.90%	85.71%	87%	73.33%
Total listed companies	15	11	14	15	15

SOURCE: ANNUAL REPORTS (SEBON)

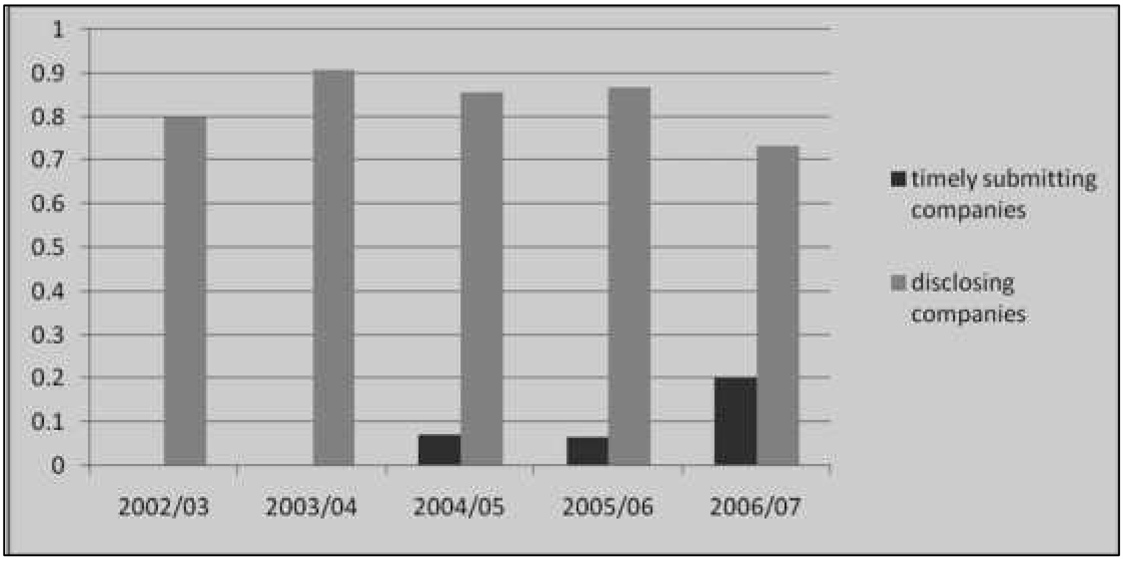

Fig. 4.2

As revealed by the above table and graph the timely disclosure practice in Nepalese commercial banks seems very poor. Most of the commercial banks have failed to submit their annual reports and financial statements. Only three commercial banks out of 15 listed banks i.e. only 20% of the listed commercial banks have submitted the annual report and financial statement on time in the fiscal year 2006/07. It seems even poorer in the previous years shown by 6.67%in 2005/06 and 7.14% in 2004/05, where there was only one bank each year to submit their annual reports and financial statements timely. No of total submitting is 11 in the fiscal year 2006/07 i.e. 73.33% as compared to the

86.67% in 2005/06, 85.71% in 2004/05, 90% in 2003/04. So the disclosing practice is going poorer.

4.2.3 Annual report and financial statement disclosure of the listed development banks

Table 4.3

Categories	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06	2006/07
Timely submitting companies	--	--	--	13%	--
Disclosing companies	50%	75.00%	71.43%	63%	50.00%
Total listed companies	4	4	7	8	16

SOURCE: ANNUAL REPORTS (SEBON)

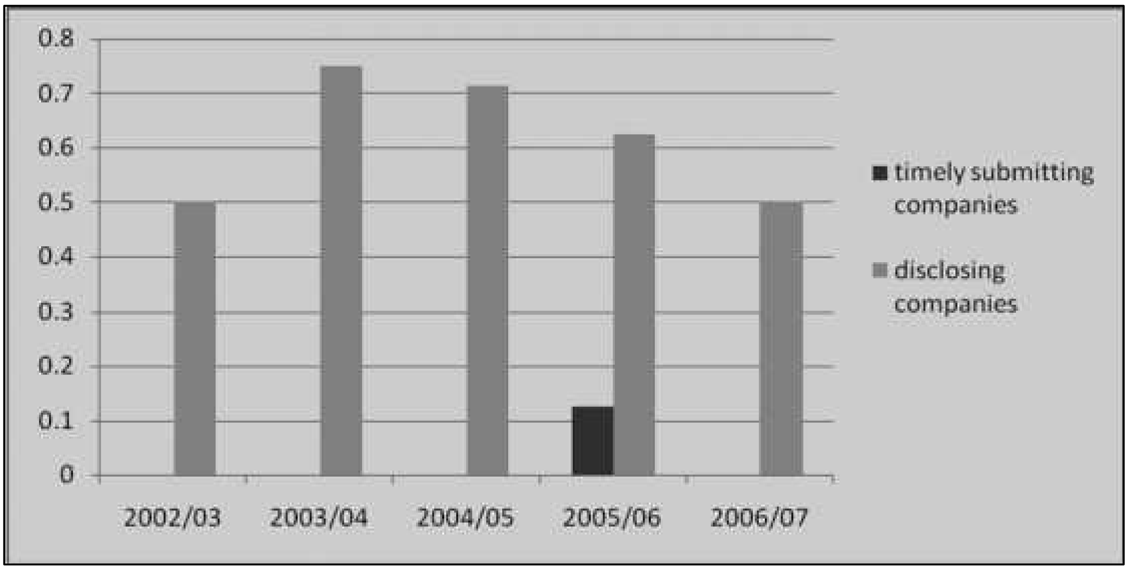

Fig. 4.3

The status of annual reports and financial statements submission by the listed development banks are summarized in the above table and chart. It reveals a too poor practice of listed development banks in submitting their annual reports and financial statements to the concerned authorities. Considering the previous five fiscal year, the timely submission can only be seen in the fiscal year 2005/06. In this year also this practice is made by only one bank i.e. by 12.5% of the total listed development banks. These banks are even hesitating to disclose their reports even until the two years of expiry of fiscal year. Only 50% i.e. 8 commercial banks have submitted their reports in the year 2006/07. It was 62.5% in the fiscal year 2005/06, 71.43% in 2004/05 and 75% in 2003/04. It shows the reducing practice of disclosing annual reports and financial statements by the listed development companies. Immediate corrective action to improve this deteriorating condition of information disclosure is necessary in the Nepalese financial market.

4.2.4 Annual Reports and Financial Statements Submission by Listed Finance Companies

Table 4.4

Categories	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06	2006/07
Timely submitting companies	14%	7.32%	4.09%	8%	7.55%
Disclosing companies	80%	80.45%	84.09%	78%	69.80%
Total listed companies	35	41	44	50	53

SOURCE: ANNUAL REPORTS (SEBON)

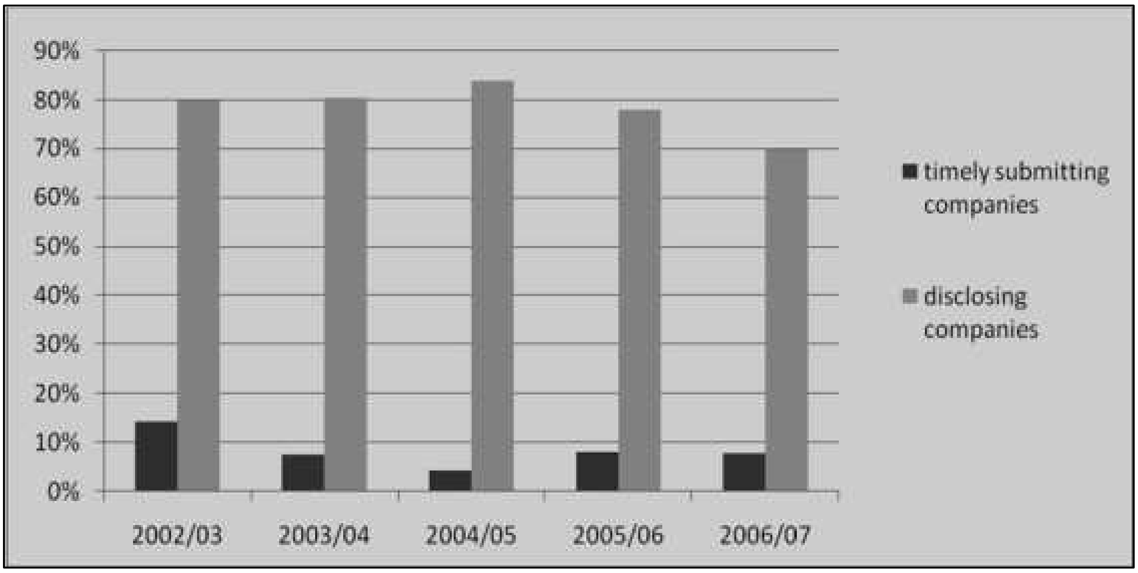

Fig. 4.4

The table and chart above is constructed to disclose the real situation of information disclosure practice in the Nepalese finance companies. As revealed by it, the timely disclosure practice seems very poor situation, but it is somewhat satisfactory as compared to the other sector of the economy. Only 7.55% of the listed companies submitted their annual reports and financial statements timely in the fiscal year 2006/07 i.e. 4 companies out of listed 53 companies. This practice is 8%, 9.09%, 7.32% and 14.23% in the fiscal year 2005/06, 2004/05, 2003/04 and 2002/03 respectively.

In the fiscal year 2006/07, 69.8% i.e. 37 companies out of 53 finance companies submitted their financial reports and annual reports to SEBON. This is poorer practice than that made on the previous years. In 2004/05, 84.09% companies had submitted the financial statements and annual report to SEBON which is the highest percentage among the concerned financial years.

4.2.5 Annual Reports and Financial Statements Submission by Listed Insurance Companies

Table 4.5

Categories	**Fiscal Year**				
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Timely submitting companies	--	--	14.23%	--	--
Disclosing companies	62%	76.92%	57.14%	67%	62.50%
Total listed companies	13	13	14	15	16

SOURCE: ANNUAL REPORTS (SEBON)

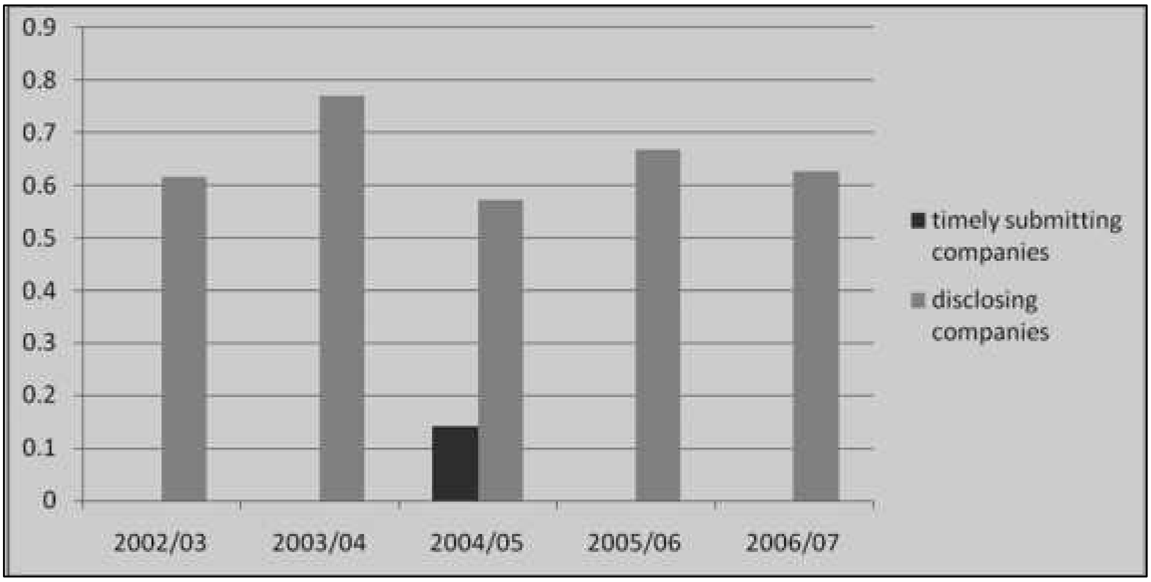

Fig. 4.5

Timely submission of annual reports and financial statements by listed insurance companies seem very poor as revealed by above table and graph. Timely submission can only be seen in just a single year among the concerned five financial years. It was 14.23% in 2004/05 i.e. 2 companies out of 14 listed insurance companies submitted their reports timely. In other fiscal years no one companies could timely submit their annual report and financial statement to the concerned authority.

In 2006/07, only 10 companies out of 16 listed companies i.e. only 62.5% of the listed companies submitted their annual report and financial statements to SEBON. It was 76.92% in the fiscal year 2003/04, the highest among the last five fiscal years. The submission trend is not uniform. This condition of not submitting the financial statements and annual report even until two years of expiry of fiscal year cannot be taken satisfactorily.

4.2.6. Annual Reports and Financial Statements Submission by Listed Hotel Companies

Table 4.6

Categories	Fiscal Year				
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Timely submitting companies	--	--	25.00%	50%	--
Disclosing companies	50.00%	75.00%	75.00%	50.00%	75.00%
Total listed companies	4	4	4	4	4

SOURCE: ANNUAL REPORTS (SEBON)

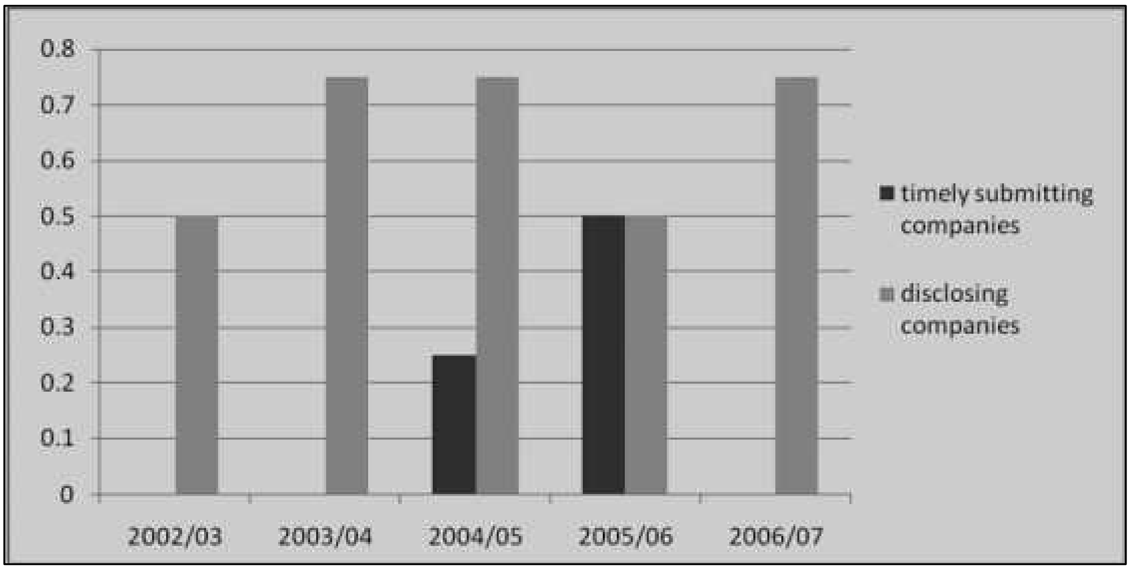

Fig. 4.6

Analyzing the above table and chart, the disclosure practice of hotel companies is very poor. In most of the fiscal year no one companies had submitted their annual report and financial statement in time. Submission within prescribed time can be seen in year 2004/05 and 2005/06 only. In 2005/06 all the companies submitting reports had submitted timely whereas in 2004/05, 75% of the companies submitted their annual report and financial statement but the submission by the prescribed time was made only by 25% of the companies.

In 2006/07, 75% of listed hotel companies submitted their annual report and financial statements to SEBON. It was the same percentage in the year 2003/04 and 2004/05 also. In 2003/04 and 2005/06 only 50% of the listed hotel companies submitted their annual report and financial statements.

Although most of the hotel companies have submitted their annual reports and financial statements each year, they have failed to submit it within prescribed time i.e. within the four months of the expiry of fiscal year.

4.2.7 Annual Reports and Financial Statements Submission by Listed Manufacturing and Processing Companies

Table 4.7

Categories	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06	2006/07
Timely submitting companies	--	--	--	7%	4.76%
Disclosing companies	45%	27.58%	31.03%	35%	33.33%
Total listed companies	29	29	29	29	21

SOURCE: ANNUAL REPORTS (SEBON)

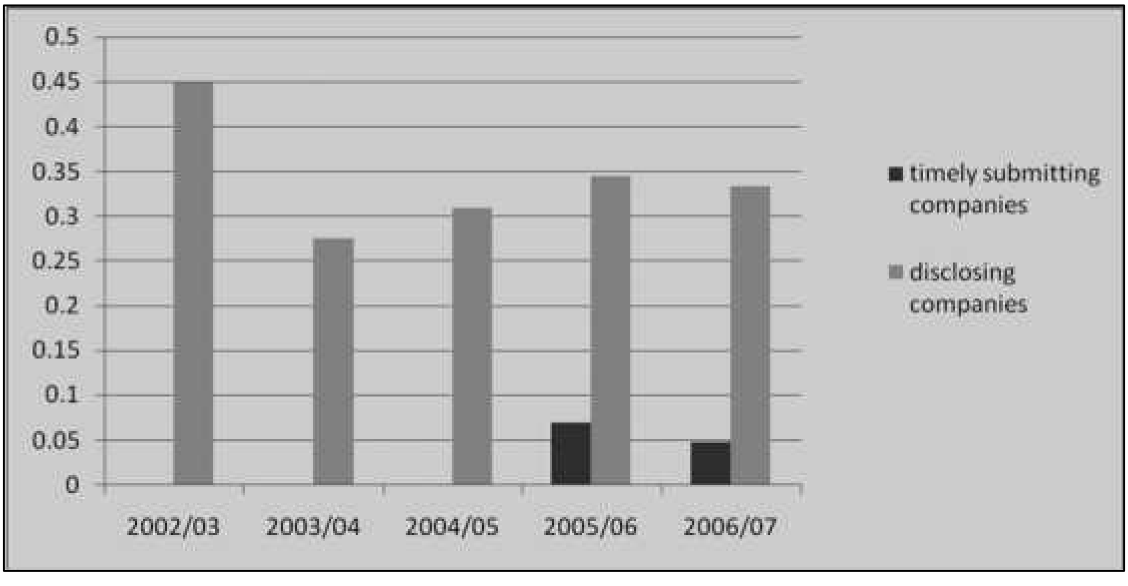

Fig. 4.7

Above table and chart is presented to disclose the scenario of information disclosure practice of manufacturing and processing companies listed in Nepal Stock Exchange. This presentation shows a very poor practice of report submission in Nepalese manufacturing and processing companies. It can be seen even 50% of the listed companies have not submitted their annual reports and financial statements in any fiscal year. The highest percentage is 45% in 2002/03, whereas it is only 33.33% in the fiscal year 2006/07.

The situation of timely disclosing is even more unexpected. In 2002/03, 2003/04 and 2004/05 it's nil. In 2005/06 it is highest at 7% being 2 companies out of 29 companies; whereas it is 4.76% in 2006/07 being only one company out of 21 listed companies submitting their annual report and financial statement in time. This is a very poor situation of obeying the rules and regulations prescribed by the concerned authorities.

4.2.8 Annual Reports and Financial Statements Submission by Listed Trading Companies

Table 4.8

Categories	**Fiscal Year**				
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Timely submitting companies	--	--	--	--	20.00%
Disclosing companies	50%	37.50%	37.50%	38%	40.00%
Total listed companies	8	8	8	8	5

SOURCE: ANNUAL REPORTS (SEBON)

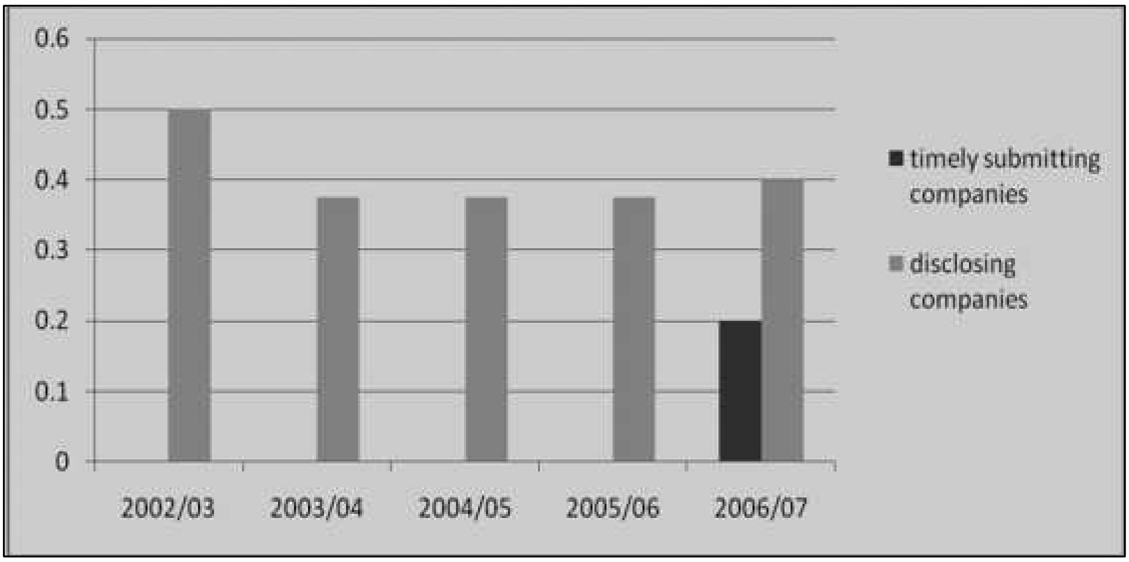

Fig. 4.8

Here presented the situation of listed trading companies in Nepal Stock Exchange in regards to their submission of annual reports and financial statements to Nepal Stock Exchange and SEBON in the above table. This shows a very critical situation in this matter. No companies have submitted their annual report and financial statement timely in any year except 20% i.e. a single company made it in 2006/07.

Also the submission even after the expiry of the prescribed time could reach above 50% in no year. In the year 2002/03, 50% of the listed companies i.e. 4 companies out of 8 listed companies submitted their annual report and financial statements. In succeeding 3 years it remained at 37.5% being 3 companies out of 8 listed companies submitting their reports. In 2006/07, 40% companies i.e. only 2 companies out of 5 listed companies submitted their annual report and financial statements after the prescribed time.

4.2.9 Annual Reports and Financial Statements Submission by Listed Other Companies

Table 4.9

Categories	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06	2006/07
Timely submitting companies	--	--	--	--	--
Disclosing companies	--	--	20.00%	33%	80.00%
Total listed companies	4	4	5	6	5

SOURCE: ANNUAL REPORTS (SEBON)

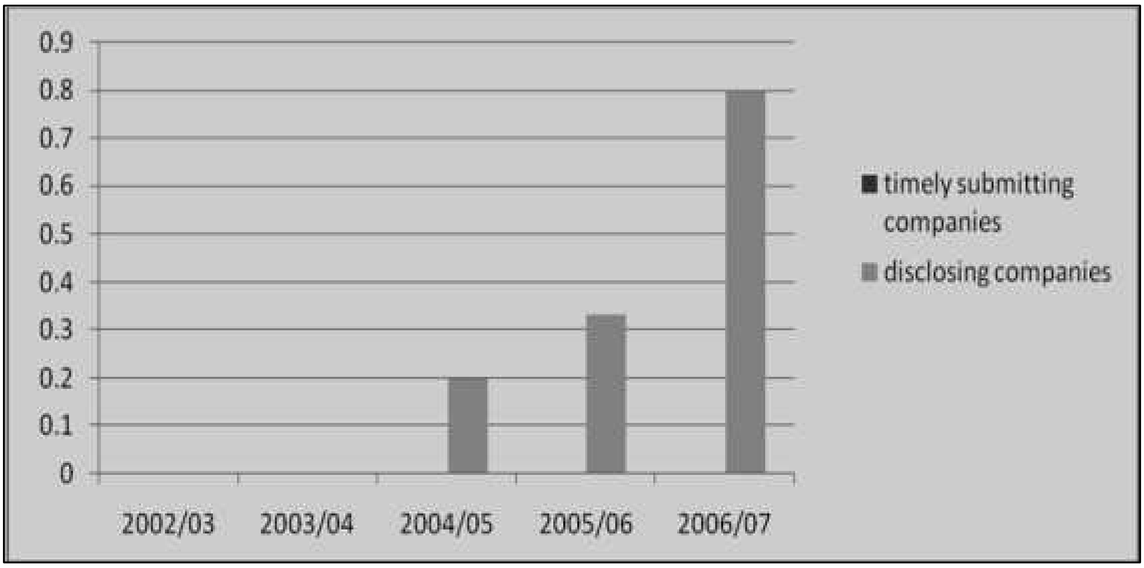

Fig. 4.9

Here the status of other listed companies in terms of submission of annual reports and financial statements is presented with the help of table and chart. Looking at the figures, a very unwanted situation of report submission practice can be seen. In the fiscal years 2002/03 and 2003/04, no companies have submitted their annual reports and financial statement even after the two years of expiry of fiscal year. Timely submission could not be seen in succeeding years also.

In 2004/05, 20% (one company) of the companies submitted their annual reports after the expiry of prescribed time. It reached to 33% (2 companies) in the year 2005/06 and 80% (i.e. 4 companies) in the fiscal year 2006/07.

4.3 Annual General Meeting

The company act, section 63(1), has provisioned that every public limited company should hold the first annual general meeting within one year of the date approval for the commencement of business, and thereafter within six months of expiry of each fiscal year. In the same act additional two months of time limit is given to hold AGM.

The status of annual general meeting (AGM) conducted by listed companies for the past five fiscal years is presented below.

Table 4.10

Categories	**Fiscal year**				
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**
AGM conducting companies	62	74	83	91	98
% of AGM conducting companies	57.41	64.91	66.4	67.4	72.59
Total listed companies	108	114	125	135	135

SOURCE: ANNUAL REPORTS (SEBON)

As prescribed by the prevailing legislation, listed companies should conduct their AGM within six months of expiry of fiscal year. Accordingly, out of 135 listed companies, 57 companies have held their AGM for the fiscal year 2005/06 on time. In the fiscal year 2006/07, 98 companies comprising 14 commercial banks, 8 development banks, 47 finance companies, 13 insurance companies, 3 hotels, 7 manufacturing and processing companies, 2 trading companies and 4 companies from other sector held their AGM for the fiscal year 2005/06.

Looking at the above data, it seems a very poor practice of conduction of annual general meeting of Nepalese listed companies. The timely conduction seems even poorer. Most of the companies are delaying to conduct AGM even after one year of expiry of fiscal year. But looking at the trend of AGM conduction, it seems improving year by year. 72.59% of the listed companies conducted their AGM in the year 2006/07, which is the highest of the previous 5 fiscal years. This percentage was 57.41%, 64.91%, 66.4% and 67.4% in the year 2002/03, 2003/04, 2004/05 and 2005/06 respectively.

Even if it seems improving in recent years, it could not be taken satisfactory. The regulating authorities must take immediate action to compel the companies to obey the regulatory provisions prescribed by law. Then only fair and efficient market could be maintained.

4.4 Reporting By Securities Businesspersons

SEBON has supervised the reporting status of the various market intermediaries like primary market dealers, secondary market dealers, brokers, market makers etc. to investigate how fair their involvement in securities transaction are in conformity to the disclosure standards. Special reporting format have been developed for adequate supervision of securities businesspersons. It is legally binding for the market intermediaries to submit their annual reports along with their financial statements within four months of expiry of fiscal year. Reporting status of issue managers and brokerage forms is presented below.

Issue Managers

Licensed Issue managers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within four months of the expiry of fiscal year. The status of report submission by issue managers are presented below:

Table 4.11

Fiscal year	Total issue managers	Report submitting issue managers	% of reporting issue managers
1995/96	3	2	67
1996/97	3	2	67
1997/98	3	2	67
1998/99	9	7	78
1999/00	9	7	78
2000/01	10	7	70
2001/02	10	7	70
2002/03	10	8	80
2003/04	10	8	80
2004/05	9	8	89
2005/06	9	8	89
2006/07	9	8	89

SOURCE: ANNUAL REPORTS (SEBON)

From the above table, the disclosure practice of issue managers seems to be improving. In fiscal year 2006/07, 8 issue managers out of total 9 licensed issue managers submitted their annual reports and financial statement to SEBON. It was the same in the year 2004/05 and 2005/06 also. Even if the disclosure practice seems to be improving, the timely submission i.e. within four months of expiry of fiscal year is very poor. In the fiscal year 2006/07, out of total 8 disclosing issue managers, only one issue manager had submitted its report on time, all the remaining had submitted the report for the fiscal year 2005/06 after prescribed time. Therefore it is not a satisfactory practice. Concerned authority should take insight so as to bring all issue managers within the periphery of prevailing legislation.

Stock Brokers

As per the provisions, licensed stock brokers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statement and securities trading report to SEBON within four months of expiry of fiscal year. The status of report submission of listed stock brokers is tabulated below:

Table 4.12

Fiscal year	Total stock brokers	Submitting stock brokers	% of reporting stock brokers
1995/96	25	7	28
1996/97	25	9	36
1997/98	29	15	52
1998/99	29	18	62
1999/00	26	19	73
2000/01	27	19	70
2001/02	27	26	96
2002/03	27	17	100
2003/04	27	19	70
2004/05	27	22	81
2005/06	24	22	92
2006/07	24	22	92

SOURCE: ANNUAL REPORTS (SEBON)

From the above table, the disclosure practice of stock brokers seems to be improving. In fiscal year 2006/07, 22 stock brokers out of total 24 licensed stock brokers submitted their annual reports and financial statement to SEBON. It was the same in the year 2005/06 also. The best result in the context of report submission was achieved in the fiscal year 2002/03 where all the stock brokers had submitted their annual reports and financial statements to SEBON. It declined to 70% submission ratio in the fiscal year 2003/04, but then after it has taken an increasing trend till now. Even if the disclosure practice seems to be improving, the timely submission i.e. within four months of expiry of fiscal year is very poor. In the fiscal year 2006/07, out of total 22 stock brokers submitting annual reports and financial statements, only three stock brokers had submitted their report on time, all the remaining had submitted the report for the fiscal year 2005/06 after prescribed time. So there seems lack of reporting practice of stock brokers.

4.5 Empirical Analysis of Disclosure

Status of Corporate disclosure, NEPSE index, Trading Turnover, and Market Capitalization in various years:

Table 4.13

Year	Corporate disclosure %	NEPSE Index	Trading Turnover (Rs. In millions)	Mkt. Capitalization (Rs. In millions)
1996	73	185.6	215.6	12295
1997	72.6	176.3	416.2	12698
1998	54.7	163.4	202.6	14289
1999	58.2	216.9	1500	23508
2000	57.3	360.7	1157	43123
2001	70.8	348.4	2344.2	46349
2002	62.5	227.5	1540.6	34704
2003	69.44	204.9	575.8	35240
2004	62.28	222	2144.3	41424
2005	68.8	286.7	4507.7	61366
2006	70.37	386.83	3451.4	96764
2007	67.4	683.95	8360.1	186301

SOURCE: ANNUAL REPORTS (SEBON)

4.6 NEPSE Index and Corporate Disclosure

An index is an indicator that indicates of represents the changes in the values between two distinct time periods; a base period and another particular point of time to measure the general price level change or inflation. A security market index is also a number that indicates the overall movement of securities prices in the secondary market. Market Index has been constructed to give a quick answer to the question: what is the market movement? There are different methods of computing market index, such as price weighted index, value weighted index, equally weighted index and geometric mean index. NEPSE uses the value weighted index to determine the market index, where the base year is 1994's indexing i.e. Rs. 100. By the end of fiscal year 2006/07, the price index of the listed securities (NEPSE Index) remained at 683.95 points which is 297.12 points higher than that of the last fiscal year end index.

Following analysis has considered corporate disclosure as an independent variable and NEPSE Index as dependent variable. The relationship shows the NEPSE index is positively correlated to the corporate disclosure percentage. As shown in the table presented below the coefficient of correlation between corporate disclosure and NEPSE Index (r) is found to be 0.13. Hence the coefficient of determination (r^2) is 0.0169. This relationship indicates NEPSE Index moves in the same direction as done by the corporate disclosure percentage. Accordingly, the conformation test (t-Test and f-test) shows that the calculated value of correlation coefficient is not significant indicated by the calculated t value and f-value being less than its tabulated value at 5% level of significance.

The regression equation is

Y = a + bX

Where,

Y = NEPSE Index

a = intercept of the line

b = coefficient of corporate disclosure

x = corporate disclosure percentage

Hereunder tabulated the results obtained from the calculations:

Table 4.14

Dependent variable	**Constant**	**Reg. Coefficient**	**R**	**R^2**	**t-value**	**Tabulated t-value**	**f-value**	**Tabulated f-value**
NEPSE Index	93.54	2.97	0.13	0.0169	0.415	2.228	0.1706	4.96

The output of the regression analysis gives the regression line for obtaining NEPSE Index is:

NEPSE Index = 93.54 + 2.97 * corporate disclosure

The above table is constructed for assuming the NEPSE Index as a dependent variable with respect to the corporate disclosure percentage.

4. 7 Trading Turnover and Corporate Disclosure

Trading turnover is the amount of securities traded in the market. It serves as a good alternative to measure the performance of the market. The securities in Nepal are traded under only one stock market, NEPSE. The total amount of securities traded in the fiscal year 2006/07 stood at Rs. 8360.1 million which was Rs. 3451.43 million in the fiscal year 2005/06.

Assuming trading turnover as a dependent variable and the corporate disclosure as an independent variable, correlation and regression analysis has been made in the following section so as to find out the relationship between the two. Calculation shows the positive correlation coefficient (r = 0.18) of trading turnover and corporate disclosure. It means to say that trading turnover is affected by the corporate disclosure percentage positively. So trading turnover moves in the same direction as that of corporate disclosure. Trading turnover serves as a good measure to identify the market performance. This shows the fact that the investors are gradually getting conscious to invest in shares of the disclosing companies. The test of significance of the calculated correlation coefficient is made by the t- test and f-test. The test shows that the calculated value of correlation coefficient is less than the tabulated value at 5% level of risk.

The regression equation is

Y = a + bx

Where,

Y = trading turnover

a = intercept of the line

b = coefficient of corporate disclosure

x = corporate disclosure percentage

Hereunder tabulated the results obtained from the calculations:

Table 4.15

Dependent variable	Constant	Reg. Coefficient	R	R^2	t-value	Tabulated t-value	f-value	Tabulated f-value
Trading Turnover	-2177.3	66.73	0.18	0.0324	0.578	2.228	0.338	4.96

The output of the regression analysis gives the regression line for obtaining NEPSE Index is:

Trading Turnover = -2177.3 + 66.73 * corporate disclosure

The above table is constructed for assuming the NEPSE Index as a dependent variable with respect to the corporate disclosure percentage.

4.8 Market Capitalization and Corporate Disclosure

Market capitalization is a technical yardstick to measure the performance of the stock market in general. It is simply calculated by multiplying the no of outstanding shares by their respective market prices. By the end of fiscal year 2006/07, the market capitalization of the listed securities reached to Rs. 186301.3 million. The capitalization was 96763.74 in the fiscal year 2005/06. The highest market capitalization recorded in the fiscal year 2006/07 was Rs. 186301.3 million on July 16, 2007.

Here correlation and regression analysis has been made assuming the market capitalization as a dependent variable and corporate disclosure as an independent variable. The result shows a positive correlation between the corporate disclosure percentage and the market capitalization. The correlation coefficient(r) is found to be 0.177. This clearly shows same direction of movement of market capitalization and corporate disclosure percentage. This means to say that for the periods of higher percentage of corporate disclosure the market capitalization will also rise. The test of significance of the calculated correlation coefficient (t-test and f-test) shows that the correlation coefficient is not significant at 5% level of significance

The regression equation is

Y = a + bx

Where,

Y = Market Capitalization

a = intercept of the line

b = coefficient of corporate disclosure

x = corporate disclosure percentage

Hereunder tabulated the results obtained from the calculations:

Table 4.16

Dependent variable	Constant	Reg. Coefficient	R	R^2	t-value	Tabulated t-value	f-value	Tabulated f-value
Market Capitalization	-39077.06	1367.77	0.177	0.0313	0.5687	2.228	0.327	4.96

The output of the regression analysis gives the regression line for obtaining NEPSE Index is:

Market Capitalization = -39077.06 + 1367.77 * corporate disclosure

The above table is constructed for assuming the NEPSE Index as a dependent variable with respect to the corporate disclosure percentage.

4.9 Hypothesis Testing

Generally there should be good disclosure practice of those companies who perform better. That is to say there should be positive relationship between disclosure and performance. Here, in this section, efforts have been made to examine the relationship between disclosure and performance. Performance can be measured in terms of market price per share (MPS), earning per share (EPS), net worth per share (NWPS) etc. whichever will be practicable for the concerned.

Here various hypotheses have been formed so as to find out if there is any significant difference between regularly disclosing and non disclosing companies so far as the performance is concerned. And chi-square (χ^2) test has been performed to test the hypotheses. Hypothesis formulation is done in terms of MPS, EPS, NWPS, MPS to PVS and MPS to NWPS.

Hypothesis 1

Market price per share between disclosing and non disclosing companies:

Market price per share is that price of share at which each outstanding shares of a company are traded. Market price of a share is determined by the interaction of demand and supply of the same in an organized stock exchange. In an efficient market, the better the performance of companies, higher will be its share price and vice versa. This is because the demand of high performer company's share will be high pushing the market price upwards.

Null Hypothesis (Ho):

There is no significant difference between disclosing and non disclosing companies in market price per share.

Alternative Hypothesis (H1):

There is significant difference in market price per share between disclosing and non disclosing companies.

Ranges of MPS between disclosing and non disclosing companies

Table 4.17

Companies	**Market price per share (MPS)**			**Total**
	Rs. 100 or less	**Rs. 101 to Rs. 500**	**Rs 501 or above**	
Disclosing	14	67	10	91
Non-disclosing	25	17	02	44
Total	39	84	12	135

SOURCE: ANNUAL REPORTS (SEBON)

From the data presented above the value of calculated χ^2 is found to be 24.849.

And the tabulated value of χ^2 at 5% level of risk for 2 degrees of freedom is 5.991.

Therefore form the above calculation it can be seen that the calculated value of χ^2 is greater than the tabulated value which means that the null hypothesis is rejected and alternative hypothesis is accepted. It intends to show that the market price per share between disclosing and non disclosing companies differ significantly. Therefore we can conclude that the market price per share of the disclosing companies is higher than that of non disclosing companies. Therefore this calculation clarifies that disclosure of information is an important aspect of marketability of company's security.

Hypothesis 2

Net worth per share (NWPS) of disclosing and non disclosing companies:

Net worth is owner's equity or book value of the company. The book value per share is computed by dividing the total amount of shareholders equity, which is called net worth by the number of shares outstanding (Weston & Brigham: 1996, 675). It represents the asset value per share after deducting liabilities and preferred stock. Book value is the historical cost amount. It represents the real or actual price of the common stock. Generally market price of the common stock is greater than its book value. It clearly indicates that higher net worth per share is the signal of better performance. Therefore NWPS is good measure of performance of company.

Null Hypothesis (H1):

Net Worth per Share (NWPS) between disclosing and non disclosing companies does not differ significantly.

Alternative Hypothesis (H0):

Net Worth per Share (NWPS) between disclosing and non disclosing companies differs significantly.

Ranges of Net Worth per Share between disclosing and non disclosing companies

Table 4.18

Companies	**Net Worth Per Share (NWPS)**			**Total**
	Rs. 100 or less	**Rs. 101 to Rs. 500**	**Rs. 501 and above**	
Disclosing	12	77	02	91
Non-disclosing	25	19	00	44
Total	37	96	02	135

SOURCE: ANNUAL REPORTS (SEBON)

From the data presented above, calculated value of χ^2 is found to be 28.7089.

Degree of freedom = (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated value of at 5% level risk of 2 d.f. ($\chi^2_{0.05\,(2)}$) = 5.991

Therefore, the above result shows that the tabulated value of χ^2 is less than its calculated value. It means that the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore it can be concluded that the net worth per share of the disclosing companies is higher than that of the non disclosing companies. It implies that the performance of those companies disclosing information is better than the non disclosing companies. Therefore disclosure practice is a very important aspect of company’s better marketability and performance.

Hypothesis 3

Net profit per share between disclosing and non disclosing companies:

Profit is the life blood of business to run smoothly over the long run. Company should have sufficient profit to keep owners satisfied. Profit is the excess of income over expenditure.

Null Hypothesis (H0):

Net profit per share between disclosing and non disclosing companies do not differ significantly

Alternative hypothesis (H1):

Net profit per share between disclosing and non disclosing companies differs significantly.

Ranges of net profit per share between disclosing and non disclosing companies

Table 4.19

Companies	**Net Profit Per Share (NPPS)**			**Total**
	Rs. 10 or less	**Rs. 11 to Rs. 50**	**Rs. 51 and more**	
Disclosing	30	47	14	91
Non-disclosing	36	8	--	44
Total	66	55	14	135

SOURCE: ANNUAL REPORTS (SEBON)

Calculated χ^2 (as calculated from the data presented above) = 29.4

Degree of freedom = (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated value of at 5% level risk of 2 d.f. ($\chi^2_{0.05\,(2)}$) = 5.991

Hence the calculated value of χ^2 is greater than its tabulated value. This is to say that the null hypothesis is rejected and the alternative hypothesis is accepted. It implies that there is significant difference in the net profit per share between disclosing and non disclosing companies. The net profit is an indicator of the company's performance. So it can be said that the performance of disclosing companies is better than that non disclosing companies. Therefore disclosure practice can be supposed to be a very important factor to raise company's reliability over the market.

Hypothesis 4

Market price per share to paid value per share of disclosing and non disclosing companies:

It shows the ratio between market price per share and paid value per share. Higher the ratio, the better will be the performance of the company. When market price per share increases, the investors are benefited by capital gain.

Null Hypothesis (H0):

MPS to PVS between disclosing and non disclosing companies do not differ significantly.

Alternative Hypothesis (H1):

MPS to PVS between disclosing and non disclosing companies differ significantly.

Ranges of MPS to PVS between disclosing and non disclosing companies

Table 4.20

Companies	**MPS to PVS**			**Total**
	1times or less	**1.o1 to 5**	**5.01 and above**	
Disclosing	14	67	10	91
Non-disclosing	25	16	03	44
Total	39	83	13	135

SOURCE: ANNUAL REPORTS (SEBON)

Calculated χ^2 (as calculated from the data presented above) = 24.846

Degree of freedom = (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated value of at 5% level risk of 2 d.f. ($\chi^2_{0.05\ (2)}$) = 5.991

The calculated value of is highly greater than its tabulated value. So the null hypothesis is rejected and the alternative hypothesis is accepted. Acceptance of alternative hypothesis here signifies the difference of market price per share to paid value per share ratio between the disclosing and non disclosing companies. MPS to PVS ratio, being a performance indicator, this test shows the better performance of disclosing companies than that of non disclosing companies.

Hypothesis 5

Market price per share (MPS) to net worth per share (NWPS) between disclosing and non disclosing companies:

MPS is the transaction price of the share of a company. It is determined by the interaction of demand and supply of the share concerned. Net worth of book value per share is the claim or worth revealed by the books of account and financial reports. This relation indicates the times of the market price per share to the book value per share. Higher result shows the better performance of company. At the same time investors are benefited by capital gains.

Null Hypothesis (H0):

MPS to NWPS between disclosing and non disclosing companies do not differ significantly.

Alternative Hypothesis (H1):

MPS to NWPS between disclosing and non disclosing companies differs significantly.

Ranges of MPS or NWPS between disclosing and non disclosing companies

Table 4.21

Companies	**MPS to NWPS**			**Total**
	1times or less	**1.o1 to 5**	**5.01 and above**	
Disclosing	27	59	05	91
Non-disclosing	35	9	00	44
Total	52	68	05	135

SOURCE: ANNUAL REPORTS (SEBON)

From the data presented above the value of calculated χ^2 is found to be 35.07.

Degree of freedom = (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated value of at 5% level risk of 2 d.f. ($\chi^2_{0.05\ (2)}$) = 5.991

Greater the calculated value of χ^2 means the rejection of the null hypothesis and acceptance of alternative hypothesis. So above test result shows that there is significant difference in market price per share to net worth per share ratio between disclosing and non disclosing companies. Again it shows the better MPS to NWPS ratio of disclosing companies than that of non disclosing companies than that of non disclosing companies. As better MPS to NWPS ratio can be taken as the indicator of better performance, it can be concluded that the performance of disclosing companies is better than the performance of non disclosing companies.

Survey on disclosure and performance

Analysis of secondary data only may not disclose the accurate result on disclosure and performance of companies listed in NEPSE. The material available may prove inadequate. Data collected from official records may have certain limitations. In order to check the reliability and validity of those records it is useful to perform a survey research to collect primary data. There may be the occasions where information requirements cannot be satisfied from secondary sources. Therefore, after analyzing the secondary data, primary data is collected for varying the conclusions drawn from the secondary data. The primary data is collected with the help of structured questionnaire.

For the purpose of collecting primary data for this study, various brokerage firms were visited so as to meet the investors who take interest in the fluctuations of Nepalese securities market. Such investors include finance managers, chief accountants, managers, directors, assistants and students of various firms and institutions.

A total of 100 questionnaires were distributed to the investors out of which 80 questionnaire were returned with useable responses indicating 80% response rate.

The questionnaire consisted of various open ended and close ended questions. The pro-forma of structured questionnaire and the details of responses obtained are presented in the appendix.

The following presentations show the details of responses relating to the major aspects of listed companies in Nepal Stock Exchange.

1. Publication of financial reports and its effect on performance positively?

   With respect to the publication of financial reports and its effect on performance, almost all of the respondents (i.e. 96.25%) think that it affects positively in the performance of company.

2. The financial reports of companies listed in NEPSE are one type of publicly available information useful in identifying the performance of the company.

   Majority of the respondents feel that the financial reports of the companies listed in NEPSE are one type of publicly available information useful in identifying the performance of the company. 78.75% of the respondents feel so.

3. There is publicly available information that can fairly and consistently be used to identify the performance of the company.

   Majority of the respondents feel that the fairness and consistency or publicly available information that can be used to identify the performance of the company is lacking.

4. Nepalese investors are indifferent whether the company makes or does not make information public

   Majority of the respondents (52.5%) feel that Nepalese investor are indifferent whether company makes or does not make information public. This shows the habit of Nepalese investors to run after the rumors.

5. Some investors who analyze the past pattern in the movement of the share prices by preparing various types of charts are able to beat the market without using any accounting information.

   Majority of the respondents (46.25%) feel that analysis of share price changes by preparing various types of charts will be useful to beat the market without using any accounting information. 10% of the respondents seemed to unaware on this matter.

6. Usually in short period of time, share price on the stock exchange fully reflect all the publicly available information.

Majority of respondents (52.5%) don't think in short period of time share prices on the stock exchange fully reflect all the publicly available information. 5% of them showed unawareness on that matter.

7. Inside information can be used to beat the market in Nepalese enterprises.

   With respect to inside information to beat the Nepalese securities market, most of the respondents (73.75%) feel that inside information can be used to beat the market in Nepalese enterprises.

8. Future price changes of a given share can be predicted from historical price changes.

   Most of the respondents (52.5%) are of the view that future price changes of a given share cannot be predicted from the historical price changes in Nepalese market. 46.25% of the respondents feel that such prediction can be made.

9. Disclosure practice in Nepal is very good, good, poor or very poor.

   With respect to disclosure practice in Nepal, most of the respondents (52.5%0 feel that it is poor in Nepal. 30% of them feels it's good and 12% of them fronted their ignorance on that matter.

10. What makes the disclosure practice poor in Nepal?

    Among the respondents who feel poor practice of disclosure of information in Nepal, 75% of them think that it is due to the poor government rules and regulations. 17.3% of them feel it is due to company's own negligence.

11. Information disclosure directly affects the performance the company.

    Almost all of the respondents (85%) think that disclosure of information directly affects the performance of the company. And remaining 15% don't feel so.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Corporate disclosure standard implies to any kind of reliable information disclosed to the users of information especially to shareholders and other interested investors. Corporations need to submit their annual and half yearly reports to the regulatory bodies within prescribed time. Corporate disclosure is the process through which a business organization communicates with its stakeholders. The level of performance and achievement of the organization can be conveyed to the concerned parties with the means of regular disclosure. The adequate corporate disclosure helps in developing the securities market by allocating the economic resources effectively by increasing investors' confidence. It also helps to maintain equilibrium in the securities prices in stock market since investors make their decision with the help of information to them. Lack of information can create ignorance in the securities market and can result the misallocation of economic resources. So the adequate corporate disclosure helps in developing the securities market by allocating economic resources effectively and efficiently by increasing investors' confidence.

Disclosure of information is an essential part of investment which not only helps the investors to decide whether or not to invest in the stock of certain company but also contribute to bring transparency in the securities market. In view of importance of corporate information disclosure, securities legislation has made certain provisions for the disclosure of price sensitive information to the shareholders, NEPSE and SEBON. As per the provision of securities exchange act, listed companies should submit their annual reports including profit and loss account, balance sheet and income statements to the NEPSE and SEBON within four months after the expiry of the fiscal year. In this study titled ‘Disclosure and Performance of Listed Companies in Nepal Stock Exchange’, effort have been made to analyze the annual report submission practice of listed companies in order to see whether the corporate bodies have been able to disclose their annual report to the concerned regulatory bodies on time. The data regarding annual report submission recorded by securities board have been used to analyze the annual report disclosure practice by Nepalese listed companies. The status of annual reports submission by listed companies shows the present disclosure practices in Nepal.

The compliance of disclosure norms is proving still a problem because the regulatory bodies are not finding so easy to enforce the full disclosure of information. The provisioning of disclosure norms specified in various acts, laws, bye-laws, directives and guidelines pertinent to securities transactions and determination of securities prices is not satisfactorily followed due to authority overlapping and conflict between different laws and regulations. The listed companies are not fulfilling the disclosure norms. Many of them even do not conduct annual general meeting timely.

The companies with good disclosure practice also have good performance report. The performance measured in terms of market price per share, net profit per share, net worth per share, market price to paid value per share, market price to net worth per share of disclosing and non disclosing companies have been assessed to get the relationship between disclosure and performance of the companies. The companies meeting all statutory requirements regarding disclosure have excellent performance in the market. Market price per share, net profit per share, net worth per share, market price to paid value per share and market price per share to net worth per share between disclosing and non disclosing companies differ significantly indicating the better performance of disclosing companies than that of non disclosing companies. Disclosing companies have covered almost all market capitalization in the securities market and non disclosing companies seem very poor in this regard. Many listed companies are not found to hold the annual general meeting of the shareholders to provide timely financial information. This shows management's negligence on the matter of timely disclosure.

5.2 Conclusions

Capital market remains important for all types of investors to participate in economic development. Nepal lags behind to develop a healthy capital market with a sound financial infrastructure though Nepal stock exchange was formalized 23 years ago in 1985 and NEPSE established only in 1994. Regulatory measures are slowly updating incorporating the contemporary issues but that has not been found effective because of governance problem in the corporate sector. Corporate sector is generally not transparent. The culture of keeping books of account secret is still alive. Minority shareholders have no access to the books of account kept as a secret document. Capital market in Nepal is confined to equity market only. Debt transaction is negligible. NEPSE is not integrated into world market. Capital market at present situation is beneficial only to those investors who can overlook the rules of the game. It is yet to be rational to discerning investor. Unless it is changed, capital market will not contribute in desirable to the economic growth. In order to improve it accounting and auditing standards, disclosure and corporate governance policies needs to be upgraded significantly and on the other side the monitoring and policy response capacity of SEBON should be enhanced.

In the corporate world, disclosure norms are climbing ladders of misrepresentation, fraud and deception. In Nepal too, there is no denying fact that disclosure norms are proving weak as well as inadequate as many institutions dealing with public funds are not feeling any responsibility to make full disclosure of information to the public in primary and secondary market. the disclosure of reports form issue managers, stock brokers, securities dealers and listed companies doesn't seem to completely follow the provisions prescribed by securities exchange act 1983. The management attitude towards disclosure is not found to be encouraging since a lot of lame excuses is taken for delaying in information disclosure either because of fear of losing secrecy of management's weakness or because of the abuse that the management has to face form the public. But improvement in the disclosure practice in recent years can be seen.

The presentation and analysis of secondary data have been summarized in the following points.

- The practice of submitting annual reports and financial statements to the concerned authorities within the prescribed time frame seems to be very poor. Out of total listed companies, only 6.67% companies have submitted their annual reports and financial statement in time for the fiscal year 2006/07. This practice was highest in 2005/06 at 7.8% among the last five fiscal year.

- The status of annual reports and financial statement submission after the expiry of prescribed time by the listed companies also seems poor. It was 67.41% in the fiscal year 2006/07. This was at its highest point at 70.37% in the fiscal year 2005/06 among the last five fiscal years.

- Among all the sectors, finance company sector seems to be the strongest in timely disclosing their annual reports and financial statements averaging 8.192% being the highest at 14% in the year 2002/03. But it is even a very poor practice.

- Commercial banks have better result in disclosing their annual reports and financial statements after the expiry of prescribed time averaging 83.38% for previous five fiscal years being the highest at 90.90% in the fiscal year 2003/04. But the timely disclosing practice seems to be very poor.

- Timely submission of reports by the listed development banks seems too poor. Except 13% of the listed development bank in the fiscal year 2005/06, no companies have disclosed their reports in time. Disclosing after the expiry of prescribed time is also poor. It averages only 61.88% for the previous five fiscal years.

- The situation of insurance is like that of the development banks. Timely disclosing of reports can be seen only in the fiscal year 2004/05 where 14.23% of total listed insurance companies have submitted their annual reports and financial statements in time. Submission after the expiry of prescribed time averaged 65.112% for the previous five fiscal years.

- The situation of listed hotel companies also seems somewhat the same. Out of 4 listed hotels, 2 hotels submitted their annual reports and financial statements timely in the fiscal year 2004/05 and 2005/06. Reporting after the expiry of prescribed time averaged 65% for the last five years.

- Listed manufacturing and processing companies have even poor result in the reporting issue. Timely reporting can be seen in the fiscal years 2005/06 and 2006/07 being 7% and 4.76% respectively. Reporting after the expiry of prescribed time also seems very poor averaging 34.388% for the last five years.

- In respect of trading companies, only one company out of listed five companies reported timely in 2006/07. Reporting after the prescribed time period averaged 40.6% for the last five fiscal years.

- The situation of other listed companies seems even worst. No companies found to submit their annual report and financial statement in time in previous five fiscal years. Reporting after the prescribed time is also very weak. It averaged only 26.6% for the previous five fiscal years.

- Report submission practice of brokerage firms seems satisfactory in recent fiscal years. All of the firms submitted their reports in the fiscal year 2002/03.

- Report submission practice of issue managers seems satisfactory but not good. It ranged from 67% to 89%.
- The status of annual general meeting is not satisfactory. It was to be conducted by all the listed companies but it averaged only 65.74% being the highest in the year 2006/07 at 72.59%.
- Corporate disclosure considering as an independent variable and NEPSE index, Trading Turnover and Market Capitalization considering as independent variables always showed the positive correlation. So it can be concluded that higher the corporate disclosure, better will be the performance in the market indicated by the NEPSE index, Market Capitalization and Trading Turnover.
- The hypothesis testing carried out by formulating various hypothesis in terms of market price per share, net worth per share, net profit per share, market price to paid value per share, and market price to book value per share concluded that the performance of disclosing and non disclosing companies differ significantly.

The survey on disclosure and performance of the listed companies in Nepal Stock Exchange revealed the following results;

- Disclosure practice in Nepal found to be very poor. The main cause of poor disclosure is poor government rules and regulations. Company's own negligence is another cause to poor disclosure practice.

- Majority of the respondents feel that disclosure has direct positive impact on company's performance. But they are of the opinion that Nepalese investors are indifferent whether companies make or do not make information public. Majority of them feel that publicly available information in Nepalese capital market is not fair and transparent. Inside information is being misused to manipulate the market by a few hands. They don't think the reflection of publicly available information can be seen in share price of given stock of a company in short period of time. Most of the respondents do not believe in the uniform pattern of share price change in Nepalese capital market. So they don't believe in technical analysis of Nepalese to predict the future price change.

- Most of the respondents feel a poor disclosure practice in Nepalese capital market. They think it is because of poor government rules and regulation as well as the company's own negligence.

From the overall analysis, the disclosure practice in Nepalese securities market seems to be in a poor condition. Comparing in between disclosing and non disclosing companies, the performance of disclosing companies is found to be better than that of non disclosing companies. So the disclosure of sufficient information to public is a very important part of company's operational schedule.

5.3 Recommendation

In accordance with the findings and conclusions drawn from the above study based on primary and secondary data, following recommendations/suggestions have been prescribed regarding disclosure and performance of the listed companies in Nepal Stock Exchange.

- The report submission practice in Nepalese capital market seems very poor. Therefore effort should be made to encourage the listed companies to follow the rules and regulations prescribed by the prevailing legal provisions.

- In order to make corporate bodies submit their reports in time, the regulatory bodies should get into action immediately. Suitable and strict laws with provisions of penalties and punishment for the failure of disclosure should be enacted. Besides various encouraging measures such as rewarding the companies for promptly obeying the rules and regulations should also be provisioned.

- A round table talk with all the concerned bodies should be conducted so as to find out the suitable ways that encourages companies disclosing their information in compliance with the prevailing laws. Research studies should be conducted to analyze the shortcomings existing in the prevailing laws concerning securities market. Immediate actions should be taken to rectify such shortcomings.

- Investor’s access to price sensitive information should be made favorable by discouraging inside trading of information. Strict laws with supervisory provision of such inside information should be enacted to discourage such inside trading of information.

- Initiatives should be directed toward making better use of new technologies which will help to provide information promptly to all the investors. Provisions of immediate disclosure of information will boost the security market in new era which ultimately uplifts the national economy by encouraging the efficient and meaningful allocation of economic resources.

- Due to lack of information about securities market, many potential investors are not stimulated towards investment in securities market. So seminars and workshops should be organized in a regular manner to make them updated about the securities market.

- As concluded in the above section, companies with good disclosure practice also have good performance report. So companies themselves should be effortful towards making the information public. It will create a faith on the company in the mind of investors.

Hence, there is many efforts remained to be executed by both the regulatory bodies as well as the companies themselves. All the concerned parties should think of undertaking significant measures for upgrading the disclosure quality for moving the Nepalese capital market towards efficiency.

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Appendix – I

Pro-forma of structured questionnaire

A survey on disclosure and performance of listed companies in Nepal Stock Exchange

This questionnaire is primarily designed for the thesis writing purpose of the MBS degree of T.U. You are kindly requested to fill up this questionnaire as instructed below:

Name: …………………………..   Organization: ……………………

Position: ……………………….

Please make a tick mark (✓)

1. **Publication of financial reports affects the company's performance positively.**
   a) Yes (   )   b) No (   )   c) Don't know (   )

2. **Financial reports of companies listed on NEPSE are one type of publicly available information useful in identifying performance a company.**
   a) Yes (   )   b) No (   )   c) Don't know ( )

3. **There is publicly available information that can fairly and consistently be used to identify performance of a company.**
   a) Yes (   )   b) No (   )   c) Don't know (   )

4. **Nepalese investors are indifferent whether the company makes or do not make information public.**
   a) Yes (   )   b) No (   )   c) Don't know (   )

5. **Some investors who analyze the past pattern in the movement of share prices by preparing various types of charts are able to beat the market without using any accounting information.**
   a) Yes ( ) b) No ( ) c) Don't know ( )

6. **Usually in short period of time, share prices on the stock exchange fully reflect all publicly available information.**
   a) Yes ( ) b) No ( ) c) Don't know ( )

7. **Inside information can be used to beat the market in Nepalese enterprises.**
   a) Yes ( ) b) No ( ) c) Don't know ( )

8. **Future price change of a given share can be predicted form historical price changes.**
   a) Yes ( ) b) No ( ) c) Don't know ( )

9. **Disclosure practice in Nepal is :**
   a) Strong ( ) b) good ( ) c) poor ( ) d) very poor ( )

10. **Only for those who chooses c or d in question no. 10, it happens due to :**
    a) Company's negligence ( )
    b) Poor government rules and regulations ( )
    c) Others (specify, if any) …………………
    d) Don't know ( )

11. **Information disclosure directly affects the performance of company.**
    a) Yes ( ) b) No ( ) c) Don't know ( )

12. **If you have any other remarks (comments), please mention.**

……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………
………………………

<u>Thank you.</u>

Appendix - II

Market price per share between disclosing and non disclosing companies

Row/ Column	O	E	(O-E)	(O-E)2	$\frac{(O-E)^2}{E}$
(1,1)	14	26.28	-12.28	150.79	5.74
(1,2)	67	56.62	10.38	107.74	1.90
(1,3)	10	8.08	1.92	3.686	0.456
(2,1)	25	12.71	12.29	151.04	11.88
(2,2)	17	27.38	-10.38	107.74	3.94
(2,3)	2	3.91	-1.91	3.648	.933
					$\sum \frac{(O-E)^2}{E} = 24.849$

Calculation of χ^2

$$\text{Calculated } \chi^2 = \sum \frac{(O-E)^2}{E} = 24.849$$

Degrees of freedom: (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2_{0.05(2)} = 5.991$

Calculated value of χ^2 is greater than tabulated value of χ^2, so null hypothesis is rejected and the alternative hypothesis is accepted. It means that market price per share between disclosing and non disclosing companies differ significantly.

Appendix - III

Net profit per share between disclosing and non disclosing companies

Calculation of χ^2

Row/ Column	O	E	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
(1,1)	30	44.48	-14.48	209.92	4.72
(1,2)	47	37.08	9.92	98.52	2.66
(1,3)	14	9.44	4.56	20.82	2.20
(2,1)	36	21.51	14.49	209.92	9.76
(2,2)	8	17.92	-9.92	98.52	5.50
(2,3)	0	4.56	-4.50	20.82	4.56
					$\sum \frac{(O-E)^2}{E} = 29.4$

$$\text{Calculated } \chi^2 = \sum \frac{(O-E)^2}{E} = 29.4$$

Degrees of freedom: (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2_{0.05(2)} = 5.991$

Calculated value of χ^2 is greater than tabulated value of χ^2, so null hypothesis is rejected and the alternative hypothesis is accepted. It means that net profit per share between disclosing and non disclosing companies differ significantly.

Appendix – IV

Net worth per share between disclosing and non disclosing companies

Calculation of χ^2

Row/ Column	O	E	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
(1,1)	12	24.94	-12.94	167.44	6.714
(1,2)	77	64.71	12.29	151.04	2.33
(1,3)	2	1.35	0.65	0.4225	0.3129
(2,1)	25	12.06	12.94	167.44	13.88
(2,2)	19	31.28	-12.28	150.79	4.82
(2,3)	0	0.652	-0.652	0.4251	0.652
					$\sum \frac{(O-E)^2}{E} = 28.7089$

$$\text{Calculated } \chi^2 = \sum \frac{(O-E)^2}{E} = 28.7089$$

Degrees of freedom: (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2_{0.05(2)} = 5.991$

Calculated value of χ^2 is greater than tabulated value of χ^2, so null hypothesis is rejected and the alternative hypothesis is accepted. It means that net worth per share between disclosing and non disclosing companies differ significantly.

Appendix – V

MPS to PVS between disclosing and non disclosing companies

Calculation of χ^2

Row/ Column	O	E	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
(1,1)	14	26.29	-12.29	151.01	5.74
(1,2)	67	55.95	11.05	122.14	2.18
(1,3)	10	8.76	1.237	1.53	0.175
(2,1)	25	12.71	12.29	151.04	11.88
(2,2)	16	27.05	-11.05	122.14	4.51
(2,3)	3	4.24	-1.237	1.53	0.361
					$\sum \frac{(O-E)^2}{E} = 24.846$

$$\text{Calculated } \chi^2 = \sum \frac{(O-E)^2}{E} = 24.846$$

Degrees of freedom: (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2_{0.05(2)} = 5.991$

Calculated value of χ^2 is greater than tabulated value of χ^2, so null hypothesis is rejected and the alternative hypothesis is accepted. It means that MPS to PVS between disclosing and non disclosing companies differ significantly.

Appendix – VI

MPS to NWPS between disclosing and non disclosing companies

Calculation of χ^2

Row/ Column	O	E	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
(1,1)	27	35.05	-8.05	64.8025	1.85
(1,2)	59	45.84	13.16	173.186	3.78
(1,3)	5	3.37	1.63	266	.78
(2,1)	35	16.95	18.05	325.80	19.22
(2,2)	9	22.16	-13.16	173.18	7.81
(2,3)	0	1.63	-1.63	2.66	1.63
					$\sum \frac{(O-E)^2}{E} = 35.07$

Degrees of freedom: (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2_{0.05(2)} = 5.991$

Calculated $\chi^2 = \sum \frac{(O-E)^2}{E} = 35.07$

Calculated value of χ^2 is greater than tabulated value of χ^2, so null hypothesis is rejected and the alternative hypothesis is accepted. It means that MPS to NWPS between disclosing and non disclosing companies differ significantly.

Appendix- VII

Summary of calculation of correlation coefficient and test of significance of the correlation coefficient

	Market capitalization	Trading turnover	NEPSE index
$\sum X$	787.39	787.39	787.39
$\sum Y$	608061	26415.5	3463.18
$\sum XY$	40505544	1762896.174	228562.15
$\sum X^2$	52110.1189	52110.1189	52110.1189
$\sum Y^2$	57076323989	118770485	1233407.47
$\sum Y_1$	608043.7	26414.93	3461.028
$\sum (Y-\bar{Y})^2$	26264809012	60622265	233939.495
$\sum (Y_1-\bar{Y})^2$	832256551	1980949	3924.521
$\sum (Y-Y_1)^2$	25436278832	58649978	23007.11

	Correlation coefficient (with corporate disclosure %)
Market capitalization	0.177
Trading turnover	0.18
NEPSE index	0.13

Formula for calculating of correlation coefficient

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left\{n\sum x^2 - \left(\sum x\right)^2\right\}\left\{n\sum y^2 - \left(\sum x\right)^2\right\}}}$$

Alternatively,

R^2 = explained variation / total variation

Appendix – VIII

F-test and t-test

Analysis of variance

Market capitalization and corporate disclosure

Model summary

Source of variance	Sum of squares	Degree of freedom	Mean sum of square	F-ratio	Sig.
Explained (regression)	SSR	2-1	832256551/1	0.327	4.96
Unexplained (error)	SSE	12-2	25436278832/10		
total	SST	11			

Trading turnover and corporate disclosure

Model summary

Source of variance	Sum of squares	Degree of freedom	Mean sum of square	F- ratio	Sig.
Explained (regression)	SSR	2-1	1980949/1	0.3377	4.96
Unexplained (error)	SSE	12-2	58649978/10		
total	SST	11			

NEPSE index and corporate disclosure

Model summary

Source of variance	Sum of squares	Degree of freedom	Mean sum of square	F- ratio	Sig.
Explained (regression)	SSR	2-1	3924.521/1	0.1706	4.96
Unexplained (error)	SSE	12-2	230007/10		
Total	SST	11			

Calculation of F-value

F = MSR/MSE

Where,

MSR = regression mean square or explained variation

MSE = error mean square or unexplained variation

Degree of freedom = n – k

Where

n = number of variables or sample size

k = number of constants in the regression equation

Summary of t-test

	Correlation coef.	Calculated t-value	Tabulated t-value
Market capitalization	0.177	0.5687	2.228
Trading turnover	0.18	0.578	2.228
NEPSE index	0.13	0.415	2.228

Correlation coefficient means correlation coefficient with corporate disclosure percentage

Calculation of t-value

$$t = \frac{r}{\sqrt{(1-r^2)}}$$

Where,

r = correlation coefficient between variables with corporate disclosure percentage