QUALITY OF INFORMATION DISCLOSURE
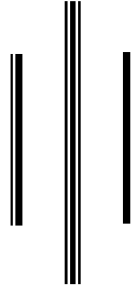
AND

ITS IMPACT ON STOCK PRICE

(A Study of Selected Nepalese Listed Commercial Banks)

By

Ramesh Aryal

Shanker Dev Campus

Exam Roll No. 4322-2061/062

T.U. Reg. No: 5-1-33-0589

A Thesis Submitted to

Office of The Dean

Faculty of Management

Tribhuvan University

In Partial Fulfilment of the Requirements for the Degree

of Master in Business Studies (M.B.S.)

Kathmandu, Nepal

March, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by

Ramesh Aryal

Entitled

QUALITY OF INFORMATION DISCLOSURE AND ITS IMPACT ON STOCK PRICE (A Study of Selected Nepalese Listed Commercial Banks)
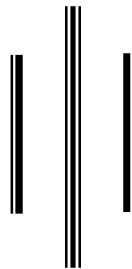
has been prepared as approved by this campus in the prescribed format of the faculty of Management. This thesis is forwarded for examination.

Supervisors

………………………   ………………………

Prof. Rishi Raj Gautam   Dr. ………………….

(Thesis Supervisor)   (Chief)

                                                              Shanker Dev Campus

………………………

Mr. ……………….

(Thesis Supervisor)

Date :

VIVA-VOCE SHEET

We have Conducted the Viva-Voce Examination of the

Thesis Presented by

Ramesh Aryal

Entitled

QUALITY OF INFORMATION DISCLOSURE AND ITS IMPACT ON STOCK PRICE (A Study of Selected Nepalese Listed Commercial Banks)

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirements for Master's Degree in Business Studies (M.B.S.)

<u>Viva-Voce Committee</u>

Head of the Research Department :   ……………………..

Member (Thesis Supervisor) :   ……………………..

Member (Thesis Supervisor) :   ……………………..

Member (External Expert) :   ……………………..

Date :

DECLARATION

I hereby declare that the work reported in this thesis entitled **"Quality of Information Disclosure and its Impact on Stock Price (A Study of Selected Nepalese Listed Commercial Banks)"** submitted to Shankar Dev Campus, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of Prof. Rishi Raj Gautam, Professor of Shanker Dev Campus, Tribhuvan University.

…………………………..

Ramesh Aryal

Researcher

Roll No. 4322

Batch : 2061-62

T.U. Registration No: 5-1-33-0589

Date :

TABLE OF CONTENTS

CHAPTER I : INTRODUCTION	Page No.

CHAPTER – II: REVIEW OF LITERATURE

CHAPTER – III: RESEARCH METHODOLOGY

CHAPTER – IV: PRESENTATION AND ANALYSIS OF DATA

LIST OF TABLES

ABBREVIATIONS

ACAN	:	Association of Chartered Accountants of Nepal
AGM	:	Annual General Meeting
APB	:	Accounting Principle Board
CA	:	Chartered Accountants
CDM	:	Central Department of Management
Co	:	Company
CPA	:	Certified Public Accountant
CRO	:	Company Registrar's Office
DS	:	Disclosure Score
e.g.	:	For Example
ed.	:	edition
et. al.	:	excreta
F/S	:	Financial Statement
FASB	:	Financial Accounting Standard Board
f^n	:	Function of
FY	:	Fiscal Year
GAAP	:	Generally Accepted Accounting Principle
i.e.	:	that is
IAARI	:	International Accounting and Review Issues
IAS	:	International Accounting Standard
IASC	:	International Account Standard Committee
ICAI	:	Institute of Chartered Accountants of India
ICAN	:	Institute of Charted Accountants of Nepal
IFRS	:	International Financial Reporting System
Ltd.	:	Limited
MBS	:	Masters of Business Studies
MPS	:	Market Price of Share
NAS	:	National Accounting Standard
No.	:	Number
NRB	:	Nepal Rastra Bank
Rs.	:	Rupees

S.N.	:	Serial Number
SEBI	:	security Exchange Board of India
SEBO/N	:	securities Board, Nepal
SPSS	:	Statistical Package for Social Sciences
T.U.	:	Tribhuvan University
USA	:	United States of America
Vol.	:	Volume
Vs	:	"Versus", against
WAN	:	Wide Area Network

CHAPTER- I
INTRODUCTION

1.1   Background

At this very age of modern and competitive business, information is the right of every investor. Along with the business firms operations and transactions of shares, business firms are obliged to provide with the transparent information of their financial reports i.e. past three years Audited income expenditure report, balance sheet, transaction reports and auditors report, for the purpose of being listed in the Nepal stock exchange limited (NEPSE). Only after the financial reporting is made to the NEPSE the companies are listed for the authorised transaction of stocks through NEPSE. Those relevant financial reports made available to the NEPSE are the most useful source of information for the investors to make upon analysis of the listed companies. It is through those financial reports that the investors can know about the performance and quality of the companies in which they are to invest. Those information provides the picture of the organizations strengths and weakness of its performance quality.

For a nation strong all round development its economic prospects hold great importance. Among them, in fact, the productive and financial sector investments pays greater return for the nations progress and prosperity. Economic sector in any part of the world reflects the country's actual level of performance and its rapid development and economic integrity with all other aspects. The financial sector serves as the basics of all the economic development and progress of the nation. In real sense it won't be wrong to say that financial sector serves as pillars or backbones to other sectors of economy. Financial system is thus one of the most influential and essential part of the overall economy. Financial system encompasses the financial markets, instructions laws, regulations and technique through which financial assets are traded, interest rates are determined and financial services are produced and delivered around the world. It serves as lever between investors with capital and market that in real sense helps to calibrate the money, towards the development and mobility of financial market.

Concept of stock market in Nepal is a recent and new phenomena with a history back of just a couple of decades. It is at a very infant stage of growth and has not been widely popular and well stabilized among the investors. It's not a long back history that has made our stock market a perfect blend of rational trading and investment knowledge. Still it is

not growth up and has not yet been able to be taken as a base for the economic development.

Initially the SEC limited its function for trading the Government bond and national saving certificates only. Them it acted as an issue manager for corporate securities and started to list and provide mark for the corporate stocks from fiscal year 1984/85 under the securities exchange act 1983. Thus the SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year 1984/85 (Nepal Stock Exchange, Annual Trading Report 16th July 1999-15th July 2000: 3).

Securities Board of Nepal (SEBO/N) was established on My 26, 1993, as an apex regulator of securities markets in Nepal. As per the securities Act 2006, the major objectives of SEBON are to regulate issue and trading of securities and market in termediaries promote the market and protect investors rights (SEBON, Annual Report, First Year 2005/06: 7).

SEBON can be viewed as an autonomous and an apex regulatory body for regulating, monitoring and promoting the securities market in Nepal. SEBON regulates the primary market and monitors the stock exchange. After the subsequent second amendment in the securities exchange act 1983, has widened the functional responsibilities and objectives of SEBON by bringing the market intermediaries under its jurisdiction. The amendment made it mandatory for the market intermediaries to be registered with SEBO before carrying on securities business and make them compulsory to submit their financial and trading activities to SEBON. The amendment also made it mandatory for the listed companies to submit their annual reports and semi annual progress report to SEBO. The second amendment in the act is considered as an important sty towards developing SEB as an apex regulatory body.

The governing board of SEBON comprises of seven members representing various government and private sectors. The seven member board includes a full time chairman appointed by 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 Nepal Rastra Bank (the central bank), a representative from institute of chartered accountants of Nepal, representative from federation of Nepalese chambers of commerce and industries, and a member appointed by the government of Nepal among market experts (Securities Board of Nepal, Annual Report, 2005/06: 9-7).

The establishment of securities exchange centre (SEC) in 1976 was he first attempt made by the government for the intuitional development of the stock market in Nepal. SEC was the only one capital market instruction undertaking the job of brokering, underwriting, managing public issue, market making for government bounds and other financial service. It was a cornerstone for instutional development of the securities market in Nepal.

In 1993, remarkable development trok place under the program initiated to reform the capital market, the securities exchange centre was convested into Nepal stock exchange (NEPSE) in order to increase marketability to government bounds and corporate securities. Nepal stock exchange (NEPSE) opened its trading floor in 13th January 1994 providing membership to 5 market makers and 25 brokers. The members are permitted to actions intermediary buying and selling of shares of listed companies.

NEPSE is a non profit making organization operating under securities exchange Act 1983. The basic object of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions. In its trading floor through market intermediaries such as broker and market makers.

For the effective functioning of the securities market and to protect the investors rights various rules, regulation and Act have been introduced. These prevailing act rules and regulations enforce the various participants of the investment interest to follow a fair practice of securities trading. SEBON also drafted the securities and disclosure regulation that prescribes the standards for issuing securities and disclosure, including financial and material information of the issuer and the format of the prospectus, which is required to be published at the time of enabling investors to make informed investment decision. These legal and other reform initiatives are intended to transform the securities market towards more acceptable international standard to strengthen the institutional capitality of securities Board of Nepal (SEBON) (Deepak Raj Kafle, Securities Board of Nepal, Annual Report, Chairman Statement, 2005/06).

Similarly, to make prospectus of issuing companies more informative and reliable, SEBON has found 'Securities Registration and Issue Approval committee' with representatives from SEBON. NEPSE and CRO, provision has also been made for the representation from central Bank and Insurance Board in the Committee us and when required (Securities Board of Nepal, Annual Report, 2006/07: 13).

To enhance, operate, systematize and regularize the securities market in Nepal, some acts,

their rules and regulations by laws and directives are in effect at present company Act 1997 is legislated for the establishment and effective operation and administration of corporate bodies.

Different legal provisions have been enacted with the provision of making more competitive, transparent and credible securities markets. Government securities trading management by laws 2005, securities Related Act 2006, securities board of Nepal regulation 2007, stock exchange regulation 2007, securities business persons (Broker, Dealer and Market maker) Regulation 2007, securities business persons (Merchant Banker) Regulation 2007. Draft of securities registration and issuance regulation 2007, have been enacted. These laws built and regulated for licensing, monitoring, supervising, enforcing, enhancing, implementing and making more competitive, transparent and creditable securities markets.

Table 1.1

List of Banks Included in the Study

S.N.	Name of Banks
1.	Nabil Bank Ltd.
2.	Nepal Investment Bank Ltd.
3.	Standard Chartered Bank (Nepal) Ltd.
4.	Himalayan Bank Ltd.
5.	Nepal SBI Bank Ltd.
6.	Everest Bank Ltd.
7.	Bank of Kathmandu Ltd.
8.	Nepal Industrial and Commercial Bank Ltd.
9.	Machhapuchhre Bank Ltd.

1.2   Focus of the Study

In this research as stated earlier the topic revolves around the company's information disclosure and its impact on the share prices. Company discloses information through various means. Brochures, pamphlets, annual reports, un audited quarterly financial reports, press releases and so on are the major sources of the information disclosure. Among these various means of disclosure annual report has been taken as the basic means

of the research. Thus simplifying, the research would make its study upon the factors of annual reports.

This study is mainly focused upon the information disclosure practice of the Nepalese listed companies. Since information disclosure is made mandatory by enacting various laws, regulation and Acts. The registered companies are obliged to submit their financial reports to the concerned authorities. It is also focused to see how many of these companies do follow the given direction by the concerned responsible authorities. It is also focused upon to see whether they are timely to submit these reports.

As a part of the study is also concerned on the quantitative and qualitative aspects of the information provided to the investors. It is of vital importance that the information disclosed be true towards the investors and represents the reality of the firms performance. As information disclosure is taken as an important part of the share market, there are thousands and million of investors waiting for the disclosure of information by the company they are interested upon. As upon the material fact the research is headed upon to find the correlation of price of stock in relation to the company's various characteristics it demonstrates using different statistical tools. It is not beyond the focus that the research will look upon the effect of different characteristics of the company upon it stock price while the investors apt to make investment decisions. The focus will also remain upon to observe the laws rules, regulation and acts that emphasis upon the company's information disclosure enhancing the investors rig towards of being informed about the areas of their interest of investment.

1.3   Statement of the Problem

In today capital market information discloser is of immense importance. Without the proper dissemination of information proper functioning of the efficient stock market is not possible. Information disclosure is much necessary for the determination of the stock price. The price of stock is much revenant in accordance to the information disclosed. There is an asymmetric effect on price due to the information disclosed. Different roles, regulations, acts and laws have been issued in Nepal making it compulsory for the lised companies to disclose the true information of their affairs for the sake investors. These companies of Nepal listed on the Nepal stock exchange have to compulsorily submit their annual financial reports to NEPSE and SEBON to make their affairs transparent and inform the investors about their performance condition. Investors can base their performance

condition. Investors can base their investment decisions by analysing and evaluating the information disclosed through the means of annual reports of the firms. The continuous flow of information is the precondition for the orderly function of the market. The more the information is disseminated or made public the more high is liquidity created in the stock market.

Information disclosure problem in the Nepalese context is even much more complex and irrational. To identify the information disclosure problem in the Nepalese context. Firstly the problem has to be categorised under two categories: first a broader level and second at a specific level. At the first level or broader level, the problem is related to the publication and distribution of annual reports of the company and its submission to NEPSE and SEBON. In the second level or specific the problem is related to the quantitative and qualitative aspect of the information disclosed. Are the information reliable to be trusted before making investment decision. Another important factor affecting the information disclosure is the enaction of the prevailing laws, rules and regulation. Is there laws, rules and acts sufficiently strong enough to make the company disclose the qualitative and quantitative information. And has the enacted regulation been effective to make it mandatory for corporations to cover sufficiently the amount of information to be disclosed for the purpose of investors decision making in their financial reports.

 The second amendment and the securities exchange act 1983, made it mandatory that the listed companies should submit their annual report along with the financial statements to SEBO within 4 months after the expiry of the fiscal year and semi-annual reports to SEBO within sixty days after the expiry of each six months period. Though the legislation and regulating bodies have made it mandatory for companies to provide corporate disclosure on time, many companies have failed to disclose their financial statements and reports. The disclosure of most of the companies are poor in condition. SEBO annual reports shows that in the fiscal year 2006/07 only 91 companies out of 135 listed companies helded their annual general meeting (AGM) and submitted their annual financial reports to SEBON.

Nepal is at a very primary stage of practicing financial disclosure. A corporate firm typically maintains at least three sets of books one for external reporting purposes. Regulatory bodies through various laws, roles and directives have sought some disclosures in financial statement. However methods of preparation and presentation of financial statement and disclosure of material information are not comprehensively specified. Most corporate firms in Nepal do not maintain separate sets of books. Usually one set of book

with charging depreciation as prescribed in the tax is prepared for reporting to share holders. This shows that the financial reporting practices is still infancy in Nepal.

The Business Manager, in one of its articles states that the shareholders friendliness or as it is called nowadays the shareholder value orientation of a company is another very important factor for finding the right shares. Indicators of these are the distribution of a reasonable proportion of profit to shareholders, publishing annual reports in time and holding regular Annual General Meeting (Business Manager, 2000: 50).

It is suggested that the present financial reporting or corporate disclosure practices are not satisfactory by the various accounting and financial literature experts and professionals. The users of the information are seen to be dissatisfied with the published financial reports as a means of reliable information which has lead to the loss of faith of the potential investors on stock market and companies.

In Nepal to encounter the problem of uniformity in the corporate information disclosure, the accounting standard board has came into existence since 2002. It has pronounced the framework for the presentation of financial statements and six Nepal accounting standards (NAS) which have been duely adopted by the council of ICAN. These six standards are :

ʃ   NAS – 01 presentation of financial statement.
ʃ   NAS – 02 net profit or less for the period, fundamental errors and changes in accounting policies.
ʃ   NAS – 03 cash flow statements.
ʃ   NAS – 04 inventories.
ʃ   NAS – 05 Events after the balance sheet date.
ʃ   NAS – 06 property plant and equipment and depreciation.

These standards have become operative for financial periods beginning on after 16th July 2004 (The Nepal Chartered Accountant, 2003: 38).

There are different factors that have relation with the information disclosures. So among the various factors some of the most important factors has been tried to be identified in the study that are likely to have effect on the information disclosures. Factors that can influence the stock price can be, earnings margins, assets size, rate of return No 8 shares outstandings dividends distributed, changes in board of directors company's investment patterns, promoters shares changes in market price per share, initial public offerings, issue

of rights shares, and so on.

Information disclosure practices and its regulation and monitoring thus is also not free of certain problems and illusions. Though information disclosure has been made mandatory by the NEPSE and SEBON for the companies that are listed and trading their stocks. But despite the fact, many of the company fails to submit their annual reports to NEPSE and SEBON. It is clearly seen that there is problem in the compilation of information by the listed companies and its proper and effective disclosure to the investors.

In practice it is an undenying fact that there are generally two facts of information disclosure problem. Firstly is related to the publication of the information and second is the amount of quality and quantity that investors can trust upon the relayed information through the means of annual reports of the issuing company.

The research is thus revolving around the study of following stated problems that has been identified for the study.

1.   Is the information disclosure made on time by the listed responsible companies (do they submit their annual reports on time to NEPSE and SEBON).

2.   Is the information disclosed or annual reports submitted by the companies quantitative and qualitative (Does it holds adequate information for the investors purpose).

3.   Do the information disclosed on the annual reports helps in predicting the price of the stock (To what extent does the independent variables/company characteristics help in predicting the dependent variable or stock price).

4.   What kind of relationship do exists between the dependent variable (stock price) and the independent variables (company characteristics).

5.   Are the rules, regulations and acts issued for the purpose of disclosure effective enough (Are these issued laws sufficient compel companies to disclose the information required by the investors).

1.4   Objectives of the Study

The primary objective of this study is to obtain and insight on the corporate information disclosure with special reference to the Nepalese stock market and its listed companies.

The specific objectives of the study are set as follows.

i.   To examine the level of practice of corporate information disclosure by the Nepalese companies.

ii.   To analyze the extent of disclosure of the item of information and to develop information disclosure index.

iii. To explore out the qualitative and quantitative aspects of the information disclosure in respect to the company characteristics i.e. assets size, rate of return, earning margin and number of shares outstanding.

iv.   To examine the relationship of the stock price of the company in relation to the company's information disclosure.

1.5   Importance of the Study

Research leads to the finding of new facts and results. This research too is oriented towards certain objectives and focused to dig out meaningful findings. Since this research study is focused on the study of the corporate information disclosure. This research is focused upon basically the disclosure of corporation's information and its impact upon the price of the stock. It is focused to the study of the correlation of different independent factors or company characteristics to the dependent factor or price of the stock. So it is an important study that would reveal the different thematic conclusions after the research. These thematic conclusions would serve to be fruitful to different research students, scholars, experts, analysts and to the most for investors and many others who are seeking for the basic information upon this topic. It would also serve to be important for the apex regulatory bodies to make further improvement on the existing rules, regulations and acts to strengthen the quality and remove out the weakness of the existing stock market in the market of information disclosure better offering investors with valuable information in their decision making

1.6   Limitation of the study

Now briefly note its principle limitations, which are as follows:

i.   The design questionnaire consists of only 60 items of information and 10 questionnaires for experts.

ii.   The study has confined to only 9 banks and their annual reports, which are selected by judgmental sampling from 15 listed banks.

i.   Financial statement observation is fiscal year 2007/08 and out of these, all the 9

samples are from group "A", which is ranked by SEBO/N.

v.   Only commercial banks have taken for the study purpose.

The above limitation no doubt has some impact on quality of the study but such impact will not affect usefulness of the study is a significant manner. In fact this study would provide a base for further study in the area of financial statement and disclosure practices in the country.

1.7   Organization of the Study

The study contains five chapters. The Introduction, Literature Review, Research Methodology, Presentation & Analysis and Summary, Conclusions and Recommendations are the major chapters.

)   The first chapter, introduction, deals with general introductions, focus of the study, problem statement, objectives of the study, importance of the study and chapters organization.

)   The second chapter, Literature Review, deals with the review of different literatures which are closely related to this study. The disclosure practices in the Nepalese stock market and the provisions made in the legislation are also reviewed in this chapter.

)   The third chapter, Research Methodology deals with the detail research methods that are planned for conducting this study.

)   The fourth chapter, Presentation and Analysis is concerned with the application of defined research method on the collected data and information. The generated results after the application of research method on data are analyzed and interpreted in this chapter.

)   The fifth chapter, Summary, Conclusions and Recommendations part deals with the summary, conclusion of the analysis. Brief conclusion from the analysis is drawn and necessary recommendations are made through this.

CHAPTER – II
REVIEW OF LITERATURE

In this chapter an attempt has been made to provide the theoretical foundation of financial statements and disclosures. It deals with the past studies done over the subject of information disclosure. It covers the study of previous articles, books, journals, encyclopaedias, etc. on the topic "information disclosure" within and outside the country. Only a negligible number of studies have been conducted in Nepal. This chapter also provides some conceptual theory of corporate information disclosure and reviews related to finance and accounting books and articles and studies from various journals. Care has also been taken to highlight the legal provisions related to the capital market in the area of "corporate information disclosure".

2.1   Conceptual Framework

Financial reporting is the communication of published financial statements and related information from a business enterprise to third parties, (external users) including shareholders, creditors, customers, governmental authorities and the public. It is the reporting of accounting information of an entity (individual, company, firm, government enterprise) to a user or group of users. Disclosure can be defined as a process through which a business enterprise communicates with the external parties.

Adequate disclosure in annual reports is expected, in the long run, to enhance market price of company's shares in the investment market. Higher price of company shares resulting from the full disclosure will have a favourable impact on the company's cost of capital. It also enhances the future marketability of subsequent issue of company's shares (Lele and Lal, 1985: 19).

There are three concept of disclosure generally proposed, viz. adequate, fair and full disclosure. These terms are indicative and relative and not definitive. Of these three the most commonly used is adequate disclosure. Fair and full are more positive concepts. Fair disclosure implies an ethnical objective of providing equal treatment for all potential financial statement readers. Full disclosure implies the presentation of all relevant information. However, it is contended that there is no difference among these concepts (Hendriksen, 1982: 546).

Accounting is not an end in itself. As an information system, the justification for accounting can be found only in how well accounting information serves those who use it. Many security investment and credit decisions are made on the basis of information disclosed in corporate financial statements. These economic decisions are made through out the year rather that at year end reporting dates. The present accounting practice is oriented towards annual reporting, but the investors need making continuous evaluation of general economic industry, and company developments and making or revising projections of earnings and financial position as a basis for investment decisions. More frequent disclosure of adequate information on a time basis will be useful to the investor corporate reporting should continuously measure and report on the firm's progress and provide more than annual benchmarks and checkpoints.

The corporate disclosure is used by a variety of groups and for diverse purpose. Sophisticated and unsophisticated individual investors, institutional investors, creditors, bankers, employees, customers, suppliers, potential investors, tax authorities, government trade associations and the general public are the major users of corporate disclosure. The uses, purposes quality, quantity, methods and timing of disclosures are generally identified to make it an adequate one.

The quality and quantity of information depend on needs of users and degree of uncertainty prevails in the investment market. The concept of adequate disclosure involves identifying the purpose for which information is to be disclosed. The making of disclosure a standard involves the establishment of the purposes to be served. The user's purpose in using financial information can result from the identification of the target user group.

The method of information disclosure is another question in corporate disclosure. Several methods of making disclosure, is another question in corporate disclosure. Various methods of making disclosure are formal statements, terminology and detailed presentation, parenthetical information, footnotes, supplementary statements and schedules, comments in the auditor's certificates, chairman's letter or report and report of the board of directors etc. Timeliness is another essential element in adequate disclosure. Delayed information is usually of no use and they increase the degree of uncertainty in decision making. The timeliness in disclosure and financial reporting is recognized both by the legislation and accounting professional.

Lele and Lal (1985) have identified some of the characteristics of information disclosure. The information that is reported to facilitate economic decision should possess certain characteristics or criterion. Such characteristics make financial information more useful. These characteristics denote the quality of information and hence satisfy user's needs. These characteristics are relevancy, materiality, understand ability, comparability, consistency, reliability and freedom from bias. Relevancy is closely and directly related to the concept of useful information. Relevance implies that all those information should be reported that may aid the users in making prediction or decision. In general, information that is given greater weight in decision making is more relevant.

Materiality permeates the entire field of accounting and auditing. The materiality concept implies that not all financial information need or should be communicated in accounting reports – only material information should be reported. Information should be disclosed in an annual report which is likely to influence economic decision of the users. Information that meets this requirement is material.

Information in annual reports should be presented in a way which can be understood by reasonably well-informed as well as by sophisticated users. Presenting information which could be understood only by sophisticated users and not by others create a bias which is inconsistent with the standard of adequate disclosure. Presentation of information should not only facilitate understanding but also avoid wrong interpretation of financial statements.

In making decisions, the decision maker will make comparisons among alternatives, which is facilitated by financial information. Information, if comparable, will assist the decision maker to determine relative financial strengths, weaknesses and prospects for the future, between two or more firms or between periods in a single firm. The primary objective of comparability should be to facilitate making of prediction and financial decisions by users of information.

Consistency in information reporting is an important factor within a single enterprise. Lack of consistency produces lack of comparability. In accounting, "Consistency has been used to refer to the use of same accounting procedures and methods by a firm or accounting entity from period to period, the use of similar measurement concept and procedure for related items within the statement of a firm for a single period and the use of same procedures by different firms" (Hendrikson, 1977: 61).

Reliability of financial information disclosure is an important characteristic. Reliable information is required to form judgements about the earning potential and financial position of a firm. Reliability of information is important to users because it influences their economic decisions. But it should be noted that most reliable information may not be most significant for users in making economic decisions.

Freedom from bias: Information, free from bias, that is objective and fair, would enhance the relevance of information to selected purposes and users. Freedom from bias means facts that have been impartially determined and reported. Accounting information should not concentrate at a few users to the determinant of others who may have opposing interest.

These above mentioned characteristics, relevancy, materiality, understand ability, comparatively, consistency and reliability and free from bias make reportable information useful and adequate, but the conflicting objective, environmental influence and lack of understanding of the objectives limit this criterion of adequate disclosure.

Jawahar Lal has stated that, the company management is usually reluctant to disclose some of the information.

The benefits of the adequate disclosure inspire many companies to disclose relevant information in their annual reports. There are many arguments why adequate disclosure is desirable. The adequate corporate disclosure will help in decision making of investors, management, employees customers and others, and it helps reduce the firm's cost of capital. The adequate disclosure will also reduce the investment uncertainty to investors and thus minimizes the fluctuations in company's share prices.

2.1.1 Corporate Information Disclosure

Information disclosures have been made mandatory by the securities board of Nepal to make the investors informed about the true performance of the companies. This disclosure obligation has helped the investors to make appropriate and secure investment decisions. The listed companies should submit their annual reports to the NEPSE while on the other hand the issue managers and the stock brokers 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 every of the fiscal year (Securities Board of Nepal, Annual Report 2006/07: 23).

The basis for financial planning, analysis and decision making is the financial information disclosure. A firm communicates financial information to the users through financial statements and reports. The financial statement contains summarized information of the firms financial affairs, organized systematically (Pandey, 1993: 25) .

SEBO is performing its responsibility, is also taking expert opinions from accounting and legal professionals as and when required. Similarly to make the prospectuses of issue companies more informative and reliable, SEBO has formed "Securities Registration and Issue approval committee with representation from SEBO, NEPSE and CRO provision has also been made for the representation from Nepal Rastra Bank and Insurance Board in this committee (SEBON, 2003/04: 8).

It is important that the information contained in financial reports be both highly reliable and clearly understood. Also it is important to prepare financial information in a manner that facilitates proper comparisons with past year's report and with financial information of other enterprises. Therefore we need a body of broad concepts as well as detailed practices to guide business enterprises in preparing financial reports that would be useful in decision making (Narayanaswamy, 2002: 11).

For the investors before investment decision are made they need to understand the general relationships of the accounting information presented in the financial reports. The items mentioned in the financial report are the key factors that present the true and clear picture of the company's financial performance.

Corporate information disclosure refers to any kind of information, which is disclosed to the user of information such as shareholders and other investors on the company's affair and performance. Most of such information are generated from the accounting system of the company. According is the process of identifying, measuring and communicating financial information to permit information judgements and decisions by the user of information. This concept has two aspects first identifying and measuring information and second communicating financial information to the users for decision making purpose. The financial disclosure concepts satisfy the second aspect of the definition of accounting (Dhakal, 1993: 85).

The term "disclosure" refers to the publication of any economic information relating to a business enterprise, quantitative or otherwise, which facilitates the making of investment decisions (Choi, 1973: 160).

Investors should be protected from misleading, manipulative or fraudulent practices including insider trading and the misuse of clients' assets. Full disclosure of information materials to is the most important means for ensuring investors protection. This makes investors more capable of assessing, the potential risks and rewards of their investment and thus helping them to protect their own interests. As a key component of disclosure requirement, accounting and auditing standards should be in place and should be of internationally acceptable standard (Giri, 2004: 52).

Government of Nepal has established accounting standards boards and auditing standards boards for improving accounting and auditing standards. These boards have developed some accounting and auditing standard to be implemented in the country. It is expected that the implementation of these standards would improve quality of financial information. Improved financial information would help to make informed investment decisions in the securities market leading to efficient securities market in the country (Adhikari, 2004: 81).

Nepal has recently introduced its own standards, which are six in numbers. It has made some provisions to prepare financial reports and follow the standards published by the institution of chartered Accountants Nepal (ICAN). These Nepal accounting standard (NAS) has been declared mandatory while preparing the accounting statements of the organizations. It is in effect from 1ˢᵗ Shrawan 2061. All the organizations in Nepal need to comply with the NAS when they are applying the policies and rules for the preparation of financial statements. Though most of the contents of the NASS are same as it was in the international financial reporting system (IFRS) they are slightly changed as per the need of local market in Nepal. Hence, slowly with the development of capital market and the corporate sector, some steps have been taken in the process of making the society aware of the need for financial reporting system. With the implementation of Nepal Accounting standard system it is expected that the corporate financial reporting practices will enhance.

2.1.2 Regulatory Bodies and Legal Frame Work for Disclosure

The various laws in Nepal have designed the following agencies as the regulators for the disclosure of the information in financial statements in Nepal.

1. Nepal Rastra Bank (NRB)
2. Company Registrar's Office (CRO)
3. Securities Board, Nepal (SEBO/N)
4. Nepal Stock Exchange Ltd. (NEPSE)

5.   Institute of Chartered Accounts of Nepal (ICAN)

There are some regulatory provision in the Company Act 1997, Security Exchange Act 1983, Nepal Rastra Bank Act 2002, Securities Exchange Regulation, 1993, Nepal Chartered Accountant Act 1997, Commercial Bank Act 1974 regarding the preparation of annual reports, submission of annual reports to regulatory bodies and holding annual general meeting on time.

The NRB Act 2002 authorizes NRB to issue mandatory directives to commercial banks and financial institutions on banking operations, currency, and credit. So far, NRB has issued 10 directives dealing respectively with maintenance of minimum capital fund by commercial banks; loan classifications and loan loss provision; limit on credit exposure and facilities to a single borrower, group or sector, accounting policies and format of financial statements; minimization of inherent commercial bank risk; good corporate governance; timeframe for implementation of regulatory directives; investment in shares and securities; statistics and information to be furnished to NRB and transfer or sale of shares of the promoters. The NRB directives have prescribed principle accounting policies for commercial banks dealing with: disclosure of accounting policies; consistency in accounting policies; explanations of required to publish their annual financial statements in public newspaper and to create audit committees and carryout internal audits.

Although the latest directives require commercial banks has to prepare their account in accordance with International Accounting Standard (JAS). There is no similar requirement for development banks or finance companies. No auditing standards are prescribed for any of the three types of financial institution.

In the legal area, a NRB Act 2002 involves:

)   Maintenance of account in compliance with internationally accepted accounting principles and convention;

)   Ensuring that three board members have expertise in finance, accounting or banking;

)   Constituting and Audit committee by one of the board members; and

)   Strengthening the internal audit function and bringing it up to international standards either by using departmental staff or by hiring a professional audit firm.

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 and 84 of the company Act 1997 and their sub section deal with regulatory requirements for corporate reporting and holding AGM.

The subsection 1 of section 63 of this act requires the company to hold its first annual general meeting within one year from the date of license issued to company for operation and there after within six months from the expiry of each fiscal year. The subsection 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 simplicity. The books of account 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 83 requires the following annual accounts be prepared by the board of directors of public limited company at least 30 days before conducting annual general meeting.

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

The annual accounts prepared under sub section 1 have to be under subsection 2, approved by the board of directors and audited by auditors. The contents of Board of Directors' report at the minimum lay down in the sub section 3 of the same section. The Board of Directors' report should cover: state of company's past years' transactions; state of national and international influences on business; the Board of Directors' statement on current year's achievement and future plan; Industrial and business relation; changes in Board of Directors and the reasons; major factors affecting the business transaction; Board of Directors comment, if any remarks in the auditor's report and the percentage of profit proposed for distribution.

The annual account prepared under the section 83 must be, under sub section 5, made available to shareholders willing to see it. The section 84 of the Act deals with the Balance sheet and profit and loss account. This section requires the Balance Sheet and profit and loss accounts be prepared showing true and fair state of income expenditure and transaction. The Balance Sheet Profit and Loss accounts are to be prepared in accordance

with the format set out. The recent Nepal Gazette (Nepal Rajpatra Bhag 3, Khanda 51, Shankhaya 5, 2058/2/1) part 3 has prescribed the formats of balance sheet, profit and loss accounts, cash flow statement and other relevant schedules which relates to the section 84 of the company Act, 1997. It has also provided guideline concepts for the preparation of financial statement.

The prospectus of the company is also one of major means of corporate disclosure, but it is usually made at the time of company establishment and new issue of securities. Prospectus includes the extensive introduction of the company. The contents of prospects for each item of information are compulsorily required to disclose according to the company act, 1997. The section 20, 21, 22, 23 and 24 of the Act have laid down the provisions regarding the prospectus of company. Section 20 (1) requires the limited company to publish prospectus before issuing the securities. Section 21 (1) has included 26 items of information which are required to contain in the prospectus. A prospectus of company is also required to prepare as per the format prescribed by the Act. The format of prospectus is provided in the schedules of the Act which is related with section 21 (1) and (2).

The review of Securities Exchanges Act, 1983, Securities Exchange Regulation, 1993 and Securities Listing By laws 1996 have also been made in this study. Under the section 15 (1) of Securities Exchange Act, 1983 the provision of submission of corporate profit and loss account, balance sheet and annual report to SEBO/N and NEPSE have been specified. The section 15 (A) 1 of the Securities Exchange Act, 1983 states that a corporate body which has listed its securities under this Act shall, every year, submit the balance sheet, profit and loss account, financial reports as prescribed and annual report of the year within four months from the date of closing of its annual accounts, to the Board and Stock Exchange. Sub section A (2) states, a corporate body which has listed its securities under this Act shall submit the bi-annual progress report of its transaction within sixty days after the expiration of each bi-annual period to the Board and Stock Exchange. Sub section A (3) states, in case any statements or documents submitted by a corporate body which has listed its securities under this Act while getting the securities enlisted or submitted under sub section (1) are to be altered or amended or any property or assets are altered so that it affects the securities transaction of such corporate body, or an agreement is concluded with any person or association so that it affects the management of such corporate body, the concerned corporate body shall as soon as possible give the information thereof to the Board or Stock Exchange. As per the section 22 (3), the corporate bodies must disclose information data and statements as

demanded by the Board to systematize and regularize the securities transaction.

Similarly, Securities Exchange Regulation, 1993 has also provisioned the requirements of corporate information reporting by corporate bodies to SEBO and NEPSE on periodic and non-periodic basis. The sections 19, 23 and 24 and their sub-sections of the regulation have provisioned the various informational items which are required to be disclosed to SEBO/N and NEPSE. Section 19 (3) and 23 (3) have laid down the other provision of informational items to be provided to NEPSE. The section 24 (1) of the Securities Exchange Regulation, 1993, has also provisioned some additional information disclosure in addition to profit and loss account, balance sheet and annual report of the year. Those information should be submitted to SEBO/N and NEPSE within 4 months from the expiry of fiscal year.

SEBO/N and NEPSE are two main bodies to which corporate bodies must provide the corporate information annually and in different time interval. Although there are regulatory provisions in corporate reporting, many companies have failed in timely reporting. The SEBO, therefore, has prepared and published a booklet including the various informational items, which are made statutorily required, with the objective to remained and educate those companies. The booklet contains the compilation of that information which is provisioned in Securities Exchange Act, 1983, Securities Exchange Regulation, 1993 and Securities Listing By-Laws, 1996.

The companies are required to list their securities issued and allotted in the stock exchange before making transaction of such securities. The companies have to submit the Memorandum, Articles of Association, and Prospectus, both audited or projected Profit and Loss account and balance sheet of three years along with application for listing. They also have to provide the progress report of the operation and the plan about future strategy. The section 15 and its sub-sections of Securities Listing By-Laws, 1996 have provisioned various informational items which are required to be provided by corporate bodies to NEPSE immediately. Further corporate bodies are liable to make an agreement with the NEPSE to list their securities. In such agreement, commitment of corporate bodies needs to be clearly stated as such that they will give the information that affects transaction price of the securities to the NEPSE, so that the information could be disseminated in the market. The information received by NEPSE is made available to the general investors through media or its brokers.

2.2   Review of Books, Articles and Dissertation.

In this part, a major review of studies made concerning the information disclosure an annual report, experts view, investors view on financial statements an disclosure is being done. This study draws heavily from these studies to carry it out. Several books, dissertations, research papers, reports and articles published in journals and newspapers have been reviewed while preparing this thesis.

2.2.1 Review of Books

Bardish (1965:757-766) has highlighted some essential disclosure items by conducting interview method to financial analysts the major users of corporate annual reports. Various disclosure of information has been put to the financial analysts to criticize on them and purpose solution to them. In the conclusion, he outline that expressions and criticism made by financial analysts, who are extensive users of financial information published in corporate annual reports, may prove helpful to accountants. He states that disclosure to be adequate. Most fill the need for which it is intended. To disclose less may mislead the decision.

Alvin Martin (1971:45-49) has empirically tested the decision relevance or unity of accounting information reported to holders (or prospective holders) of common stock equities through published financial statements (annual reports). The regression model, the accounting model has been used to test the decision variables. The study has presented empirical evidence report data for investment decision. Based on the result, writer concludes that area and definite relationship exists between annual report data and market rate of return.

Nicolas Dopuch (1971:32-40) has made some criticism on the work of Martin. He says that he was not as confident as Martin on the utility of accounting information which the Martin's study has demonstrated. William. C. Norby (1971) has also made some comments on the work of Alvin Martin. For both of comments, Martin (1971) has made the reply.

Report of the committee on corporate financial reporting (1972:525-533) has dealt with the potential uses for accounting data in external reporting and suggested areas in which further and additional empirical research efforts might be directed. This has also identified the specific problems in corporate reporting and focused the study on accounting information for external users. The report concludes that the financial statements and

related schedules represent a great potential for aiding full and fair disclosure of financial information. This potential is not being used to its fullest extent.

Jawahar Lal (1985) in his book has examined the disclosure practices by measuring the extent of disclosure in published corporate annual reports, as well as examined the influence of four company characteristics, viz. Asset size, earning margin, nature of industry and association with large industrial house on the extent of disclosure in corporate annual report. His extensive study (author's Ph.D. Thesis) of 180 manufacturing companies in India has evaluated the disclosure practices of Indian manufacturing industries. He has also highlighted the various aspects of disclosure issues. The summery findings of his study reveal that many items of information are not being disclosed in the published annual reports of manufacturing companies in India.

S.K. Bhattacharya and John Deardon (1999) in their book have outlined the Regulatory Framework of Financial Reporting in India. They have highlighted the various essential provisions regarding the financial information in the companies Act, 1956 of India. The role of ICAI (Institute of chartered Accounts of India), the stuatory body set up under chartered accountants Act, 1949, has also been highlighted. Similarly security Exchange Board of India (SEBI), which was set up in 1992 under an act of parliament to regulate the functioning of capital market in India is also introduced in the book and issuing and managing guidelines for disclosure and investor's protection as major function of (SEBI) has been outlined.

2.2.2 Review of Articles

In an article, **Choi (1973:159-173)** has attempted to provide some evidence concerning the relationship between financial information and firm's entry into capital market on the assumption that corporations will be motivated to upgrade their financial disclosure in order to obtain scarce capital as cheaply as possible. To assess the relationship between disclosure and capital market entry, he has selected the entry of an international new issue market or the European capital market for analysis. He has tested the effect of entry on disclosure practices of representative sample of Eurobond participants relative to changes in disclosure practices of control group of non-participants. The writer, after testing the set hypothesis in the study, concludes that the firms significantly improve their financial disclosure upon entry into the European capital market.

Gyan Chandra (1974:733-742) has developed empirical evidence concerning the adequacy of disclosure in published corporate annual reports. He examines that whether the public accountants and security analysts have any consensus about the value of information which is included in published corporate annual reports for equity investment decision. In the study, the extent of consensus between preparer and user group of information was measured on the basis of comparison of values consigned to information items by the two groups. Writers have assumed that accountants have an understanding to provide the desired information in annual report. For the study, writer developed a set of questionnaire containing 58 item of information which was mailed to public accountants and security analysts requesting to rate each item of information on the basis of their significance in investment decision. He has developed three hypotheses and tested individually for each information item. Those hypotheses are:

H_1: There is no significant difference between the value of information to security analysts as perceived by accountants and the value of information of security analysts for equity investment decision.

H_2: There is no significant difference between the accountants and the security analysts on the value of information for equity investment decision.

H_3: There is no significant difference between the value of information to security analysts as perceived by accountants and value of information to accountants for equity investment decision.

The first hypothesis was rejected for 35 of the 58 item of information, the second hypothesis was rejected for 40 of the 58 information items and the third hypothesis was rejected for only 2 information items. Concluding the study, writer states that accountants generally do not value information for equity investment decision the same as security analysts do, although they tend to have equivalent value preferences in their dual roles as prepares and users of information. He further state that lack of consensus should be due to lack of communication between preparer and users group, time lag which May exist between what user group needs and what preparer group is ready to give and due to the tendency by accountants to adhere the established order rather than experiment with new ideas and approaches. The study shows that the users, namely security analysts, do not quite agree with accountants on the usefulness of information developed under generally accepted accounting principle (GAAP).

Stephen L. Buzby (1974:423-435) has attempted to measure the extent to which selected items of information are presented in corporate annual reports. The writer has 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 items to a 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 item on "o" to "4" scale, "o" being not necessary for the item to appear in annual report and "4" being very essential to appear in the annual report. He has calculated the mean weight for each individual item of information with the help of responses received. He has also attempted to test the non-response bias. In the study sample annual reports of 1970/71 of 88 medium and small size companies have been taken for analysis purpose. His study shows that many of the items are inadequately disclosed in the sample and that the correlation between relative importance of the items and extent of disclosure is small. Writer concludes that an opportunity exists for an expansion of the extent of disclosure in the annual reports of small and medium size companies.

Kenneth S. Axelson (1975:42-46) in his article highlights how the financial information disclosure can be made more useful for user investors. In this regard, he has stated that it is the responsibility of both management and its auditors to make financial statement disclosure more useful to investors. He concludes that management needs to provide stronger leadership in identifying the disclosures required by the intelligent decision by the investors and auditor should add credibility and objectivity by attesting, to the fairness of the resulting presentations.

H. Franzier Moore (1981:295) outlines that, corporations annual report is the primary medium of communication. The annual report is one opportunity a company has each year to tell shareholders and other public what it has done, is doing and plans to do. It reflects a corporation's image and the calibre of its management, and it may attract new investors and affect the prices of its stock.

Diamond and Veorechia (1991:1325-1351) in their study have shown that the revealing public information to reduce information asymmetry can reduce firms cost of capital by attracting increased demand from large investors due to increased liquidity of its securities large firm will disclose more information since they benefit most. Disclosures also reduce the risk bearing capacity available through market maker. If information asymmetry is large, reducing it will increase the price of securities. However, the maximum current price occurs

with some asymmetry of information further 6 education of information asymmetry accentuates the undesirable effect of exit from market making.

Ajay P. Dhakal (1993:85-93) has conducted the study of corporate annual report of 14 sample listed companies of securities exchange centre for the fiscal year 2046/47. The objective of this study was to identify the extent of disclosure for each of the items of information and to develop the disclosure index and to identify some characteristics of Nepalese companies which are associated with and probable implication of quality of corporate disclosure. The company characteristics selected for the study were asset size and earning Margin. He has used questionnaire survey method for constructing the disclosure index that contains 38 items of information. Disclosure score has been calculated for each sample annual reports with the help of disclosure index. Simple as well as multiple regression analysis have been applied by the writer to examine and test the significance of relationship between disclosures score and two company characteristics (independent variables) asset size and earning Margin. His study has also demonstrated the disclosure impact on share price fluctuation. His study concludes that association between disclosure score and earning Margin and asset size is positive and statistically significant. The individual association between disclosure and asset size is insignificant. He also concludes that the company which discloses adequate information are greater in size as measure by total asset and profitable as measured by earning Margin.

The financial information is derived from the accounting methods, policy and principles. The knowledge of GAA (Generally Accepted Accounting Principle), in this regard is very essential for corporate reporting. David chopping and more Stephen (1998) in their book have dealt with the GAAP.

I.M. Pandey (1999) has highlighted the sources of financial information and users of financial information. In his book, 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 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. These information and statements are contained in firm's annual report.

K.K. Singh (1999:51-60) in his article has dealt with the state of capital market and financial reporting in Nepal. In the article, he has highlighted on securities market and financial reporting. He has also dealt with Nepalese reporting issues with International Accounting Standard (IAS) and highlighted the need for NAS (National Accounting Standard).

Guruamy and Pramanik (2000:44-52) have mentioned the financial statements objectives which financial objectives specified by the Accounting Principle Board (APB), USA, has also been included. In conclusion, according to them, to develop qualitative, it is necessary to set forth the objectives and concept of financial accounting and reporting.

In his next article, he has thrown some light on universal accounting practice. In the article, they have tried to explain what universal accounting refers and how it functions in harmonizing the universal accounting practices.

Aravanam Sikidar (2000:185-227), have made a very detail introduction of Indian accounting standard which also have dealt with various issues of accounting standard. They suggest in the conclusion that, all the standard must be made mandatory so that all companies prepare and exhibit these accounting standard in their financial statements and annual reports which benefit to many users.

Greuning and Koen (2001:1-4) in their work which was called "the disclosure in the financial statement of banks and similar financial institution (IAS, 30)". The main objectives of this study were to describe the reporting requirements of bank, encourage management to provide a commentary on the financial statements that describes the way it manages and controls its liquidity and solvency, as well as the full spectrum of risk associated with the operations of the bank. They suggested that disclosure in the financial statements needs to be sufficiently comprehensive to meet the needs of users (within reasonable constraints).

2.2.3 Review of Unpublished Dissertation

Pradhan (2000) has conducted a study entitled, "Stocks Market Behavior on a small Capital Market: A case study of Nepal". The study was based on the data collected from seventeen enterprises from 1986 to 1990, focused on the objective of stock market behavior. The results from the studies are presented as follows.

- Dividend per share and Market price per share was positively correlated.
- There are positive relationship between dividend payout and liquidity.
- Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.

Dahal (2002) entitled to "Stock market behavior of listed companies in Nepal" focused his objective to seven events (Royal massacre, September 11 attack, State of emergency, Prime ministers Visit to USA, Parliament dissolve and king's visit to India) as signaling the investors attitude toward stock price in the market. Major finding of his study are as follows:

- Investors prefer to make major portion of their investment on banking sector.
- Rumor is the most predominant factor to determine the market priced of share compare to Dividend policy, companies performance and others.
- The price trend of NEPSE index in year 2001 was in decreasing trend.
- Volume of stock traded in stock exchange during period (1997-2001) was found in increasing trend but in year 2001, it was decreasing.
- With reference to major seven events, signaling factors played major role in fluctuation in stock price in the market.

Mahato (2002) on Risk and Return Analysis of investing in Mutual Funds focused on the objective to examine the practice of mutual fund in Nepal. From the study conclusion made by him are as follows.

- Overall practices in mutual fund in Nepal are not in good condition due to lack of professionalism of funds manager.
- Investors are not positive toward the funds due to high risk and less return comparison to the market.

Sapkota (2003) "Risk and Return Analysis in common stock investment" has concluded that common stock is the most risky and lifeblood of stock market because of higher risk and higher returns. Private common stock holders are the passive owners of the company but they play a vital role in economic development of the nation by mobilizing the dispersed capital remained in different form of the society. If investor is successful to

analyze risk and return than common stock is the best financial assets for the stock investor.

Pandey (2004) "Risk and Return Analysis in Common Stock Investment" with special reference to portfolio of insurance company. In the study, she has taken six insurance companies in account and has given following conclusions.

- On the basis of market capitalization, size of NIC is the biggest one, expected return on the common stock of NLGI is maximum i.e. 65.39%. This high rate of expected return is due to unrealistic annual return in 2050/51. Expected return of common stock of HGI and DLC is lowest with negative value. Expected return of finance and insurance sector is with unexpectedly high return over 50%. Annual realized return is unexpectedly high in the FA 2050/51 and then declines in the preceding years.
- About risk, she had concluded; NLGI is regarded as the most risky security with higher return and EIC have the lowest risk and return. As per CV, NIC is chosen as the best company for investment.

- Nepal due to inefficiency on management.

Bhatta (2005) conducted a study entitled "Assessment of the performance of listed companies in Nepal." His study was based on 10 listed companies with 5 year data (1990-1995). One of his major objectives was to analyze the performance of listed companies in term of risk and return which is related to our study.

From his study, Bhatta address the following regarding the risk and return analysis of different stocks. A highly significant positive correlation has been addresses between risk and return character of the companies. Investors generally accept higher return from those stocks which associates higher risk. Nepalese market is inefficient market thus; stock price does not reflect the information related to market as well as company. Neither investor analyzes the overall relevant information relating to the market nor stock exchange broker try to disseminate the information. Therefore, the market return and risk both do not represent the reality. In his study, he also explore that many companies among his sample have an unsystematic or diversifiable risk, which can be minimized through portfolio

management using financial analyst.

Timilsina (2007) "Dividend and Stock Price" the study was carried out by the data of 16 enterprise from 1990 to 1994 with 45 observations. The study on dividend and stock price was conducted in context of Nepal and is based on secondary data. The objectives of his study were to determine the impact of dividend policy on stock price, and to identify possibility of increasing market value of the stock after changing dividend policy.

To explain the price behavior, the study has been used simultaneous equation model developed by friend and pocket (1964). The main findings of his study were as follows:

- The relation between dividend per share and stock prices have positive relation; in the sampled companies.
- Dividend per share affects the share prices variedly in different sectors.
- The relation between stock price and retained earnings per share is not prominent.
- Insurance Company broke level 330 in one chance, it retrace some points, after that is starts to go upward slowly with sustainable growth that's there is high chance that it will break high 340 and sustain above it.
- Market index of Finance Companies goes upward two steps with 20 points each time. For next year, sustain to that points is very important to this Industry.
- Development Banks Index tried to break and sustained two times but is couldn't. Next Year, if it breaks 255, it will sustain above it. If it doesn't able to break 255 it will sustain at level 330.
- Paid-up value and market Capitalization shows the development or progress of the sectors. Banking sector has the dominant power in capital market. If this sector looses the status or some up and down occur than capital market position will be in miserable condition. So, it is necessary to maintain the balanced development of capital market.
- From graph of commercial banks' market index, it sustained in level of 310, in next year it will above 310.
- Manufacturing Industry index decreases heavily, no strong reason is there that's market force will retrace and will improve its value and will maintain level above 278.
- Market Index of Hotel Industry decreased heavily and it is trying to retrace its loss

but it sustained in level of 178, there is no chance to come down to this point. Its target is to break 180.

- Market Index of other Industry sustained and moved in 300 to 350 range. One day it will certainly break its High, at least by 20 to 50 pips.

- Market Index to Trading Industry improved slowly in average five points each time. It is sustainable development but there is not such retrace amount that's in next year it will not able to sustain its growth. Its major challenge is to sustain in this level.

Conclusion

The study on security Analysis on listed Companies in Nepal has concluded the following solutions to the problem of the study.

- General economy of Nepal is seemed to be in recovery. Market index and return are improving slowly. Peace and security is the major reason for such problem.

- According to Company Analysis return on Banking, Finance and Trading sector is profitable. Banking and finance companies return is higher compared to other sectors. Higher returns to investors make these sectors more impressive.

- Increasing trend in Listed Company reveals the importance and growth of capital market in Nepalese scenario. Although, trading and manufacturing companies' de-listing rate is increasing. Growing banking and financial companies justify the potentiality in Nepalese market in financial sector.

- Trading, hotels and others sectors turnover is not so good. Banking, Finance and insurance sectors trading ratio is well compared to others. Liquidity ratio on Banking, Finance and insurance sectors' shares is definitely superior to others.

CHAPTER – III
RESEARCH METHODOLOGY

This study is aimed towards the determination of disclosure practices by measuring the extent of disclosure in published corporate annual reports. It is also tried to study and examine the influence of four company characteristics such as earning margin asset size, rate of return and number of share outstanding on the extent of disclosure in corporate annual reports and its influence upon the price of stock. A systematic and defined research methodology has been followed in order to accomplish this study for which the objectives have been set in the first chapter. Research methodology is a way to systematically solve the research problem. It is the methods or process applied to solve defined research problem. Here within this chapter it is focused upon the research design, nature and sources of data, data gathering procedures and instruments and methods of empirical analysis.

3.1   Research Design

A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure (Claire et al. 1962:50). A research design is a plan of action to be carried out in connection with research project (Micheal, 1990: 27). Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Kerlinger, 2000: 300).

In fact the research design is the conceptual structure within which the research is conducted. Analytical as well as descriptive research design is applied for the study. Descriptive approach has been followed, Mainly to analyze the relationship among disclosure scores, earning margin, asset size, rate of return, outstanding number of shares, market price per share and other variables.

3.2   Nature and Sources of Data

For this study different data have been collected from different sources. Basically the study has its focus on financial statement and disclosure practices based on the information collected from nine listed banks annual reports and survey questionnaire to the investor's, brokers, executives, C.A., academicians, officer and experts of related field. This study has generated its data from primary and secondary sources.

A, Primary data were collected from the responses of persons representing various sectors through structured questionnaire (Appendix A).

B, The secondary sources of data were the information received from books, journals, newspaper, reports and thesis etc. the majour sources of secondary data are as follows.

i.   Annual reports of sample banks.

ii.   Reports from ICAN, SEBO/N, NEPSE and Websites.

iii.   Various Acts and directives of NRB.

iv.   Journal of finance, accounting journal and journal of international accounting and reporting issues.

v.   Some publication of Central Bureau of Statistic.

vi.   International accounting standards.

Vii, Dissertations related to share price , available at central library, Tribhuvan University, Nepal

vii.   Different literature and articles on finance and accounting

3.3 Data collection Procedure

The secondary data will be used through the study consist of all the listed commercial banks in NEPSE. All the obtained data are used from official record of NEPSE, SEBO, NRB, and their available annual report, which are recently published.

The primary data are collected, schedule of questionnaire are developed and distributed to the Chairman/Executives of financial sector, director of NRB, SEBO/N and NEPSE, C.A., financial manager of banks, internal auditors of banks and others.ten tick mark and two open ended questionnaire are distributed. To get reliable information, discussion was also conducted with Chairman of financial sector, NEPSE staff, investor and other related parties with NEPSE.

3.4 Data analysis Procedure

The primary data collected from questionnaires were raw form. They are classified and tabulated in the required form. Data analysis was made by applying different tools like mean, simple percentage, regression analysis, correlation analysis, multiple determination, regression coefficient, T-test, F-test etc.

3.5 Statistical tools used

Information collected from questionnaire was in raw form. They were classified and tabulated as required. Data analysis was made by applying different tools. These statistical tools used in this study are as follows:

3.5.1 Regression Analysis

In this study, regression analysis both simple and multiple has been used to study the influence of independent variables on dependent variables. The simple regression analysis has helped in studying the effects and magnitude of the effects of a single independent variable on the dependent variables. The general form of simple regression is :

$$y = a + bx$$

Where,

y = dependent variable

a = intercept

x = impendent variable

b = coefficient of impendent variable

For our purpose y is indicates the disclosure score and x indicates the company characteristics.

Similarly, to determine the combined effect of the four independent variables on disclosure score. The multiple regression models have been applied. The multiple regression analysis is a method for studying the effect and magnitude of effect of more than one independent variable on one dependent variable using principle of regression and correlation. This method estimates the magnitudes of different sources of influence on y-through analysis of interrelations of all the variables. In short multiple regressions is an efficient and powerful hypothesis-testing and inference-making technique, since it helps study with relative precision, complex interrelation between independent and dependent variables and thus helps to explain the presumed phenomenon represented by dependent variables. The general form of multiple regressions is:

$$y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$$

Where,

y = dependent variable

a = intercept

x_1, x_2, x_3 and x_4 = independent variables

b_1, b_2, b_3 and b_4 = coefficient of independent variables

For our purpose y is disclosure score and x_1, x_2, x_3 and x_4 are company characterises, earning margin, rate of return, asset size and number of outstanding share respectively.

3.5.2 Correlation Analysis

Correlation analysis is the essential tools that can be used to describe the degree to which one variable linearly related to another (Levin and Rubin, 1997: 613). In this study, coefficient of correlation (r) is calculated between disclosure score and yearly closing market price of the shares as stated in the objectives. Coefficient of determination (R^2) will be used to interpret the coefficient of correlation. The model formula for Karl Pearson's coefficient of correlation (r) is:

$$r = \frac{xy}{\sqrt{x^2 \times y^2}}$$

Where,

r = coefficient of correlation

$x = (x - x\supset)$ and $y = (y - y\supset)$

For our purpose, x is disclosure score and y is yearly closing price of share.

The correlation analysis between disclosure score and company characteristics are also made.

Coefficient of Correlation (r)

The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square root of coefficient of determination. Correlation can either be positive or it can be negative. If both variables are changing in the same direction, then correlation is said to be positively correlated but when the variation of two variables take

44

place in opposite direction, the correlation is termed as negative. Thus, correlation coefficient lies in between +1 to -1. While interpreting correlation coefficient, due care should be provided as it misleads the result and decision.

Coefficient of (Multiple) Determination (R^2)

Coefficient of determination is a primary way we measure the extent, or strength of the association that exists between two variables x and y (Levin and Rubin, 1997: 619). One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use square of coefficient of correlation, which is called coefficient of determination. The coefficient of determination measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination can have value ranging from zero to one or is always positive. The coefficient of determination (R^2) = 0.81 indicates that the 81 percent of variation in dependent variable has been explained by the independent variable. In this study, R^2 is calculated for all model prescribed above.

Regression Constant (a)

The value of the constant, which is the intercept of the model, indicates the average level of dependent variable when independent variable (s) is (are) zero. In other words, it is better to understand that 'a' (constant) indicates the mean or average effect on dependent variable if the entire variable omitted from the model.

Regression Coefficient (b_1, b_2, b_3, b_4)

The regression coefficient of each independent variable indicates the marginal relationship between that variable and the value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other word, the coefficient describes how changes in independent variables affect the value of dependent variable's estimate.

Standard Error of Estimates (SEE)

With the help of regression equations perfect prediction is practically impossible. Standard error of estimates is a measure of the reliability of the estimating equation, indicating the variability of observed points around the regression line, that is the extent to which observed value differ from their predicated values on the regression line. The smaller the

value of SEE, the closer will be the dots to regression line and better the estimates based on the equation for this line. IF SEE is zero, correlation will be perfect. Thus with the help of SEE, it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

T-statistics

For applying t-statistics the t-value is calculated first and then compared with the table value at certain level of significance for given degree of freedom. If calculated value of t exceeds the table value (Say at 5%) level of significance. We infer that the differences is significant at 5 percent level, but if 't' value is less than the concerning table value the 't', the difference is not treated as significant.

F-Statistics

To test the validity of our assumption we can use F-test also. The differences between two sample means can be studied through t-test whereas to examine the significance of the differences between more than two sample means at one and same time, f-test is used. F-test, i.e. the technique of analysis of variance enables us to test or for the significance of the differences between more than two sample means. Using this technique, one will be able to make inferences about whether this regression equation provides statistically significant result or not.

Weighted Mean

Weighted mean is an average that takes into account how important each value is to the overall total. In this study, weighted mean is calculated to analyses rank wise number of responses to field survey.

CHAPTER – IV
PRESENTATION AND ANALYSIS OF DATA

In the previous chapters, different aspect of the thesis work has been made. The introduction relating to this work has been made in the first chapter. The theoretical concept of disclosure has been provided and reviews of related literature and regulatory provision have been made in the second chapter. The research methodology which is used to analyze the data gathered has been dealt in third chapter. The defined research methodology is used on the gathered data in order to achieve the defined objectives in this chapter-Presentation and Analysis of Data. This part of the thesis helps to draw the results and inferences and there by make conclusion and recommendation. This chapter includes the descriptive analysis of the annual report submission practices, empirical analysis between the stated variables and experts' opinion on the various aspects of financial statement and disclosure practices of listed bank in Nepal.

4.1   Annual Reports Submission Practices of Listed Banks in Nepal

Table 4.1

Status of Annual Report and Financial Statement Disclosure by Listed Banks

Duration	Fiscal Year					
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*
Within 4 month (within 14th July-14th Nov)	-	-	-	1	-	-
Within 4 month to 6 month (14th Nov-14th Jan)	1	-	2	3	3	5
Within 6 month to 1 year (14th Jan-14th Jul)	4	8	6	2	7	5
Within 1 to 2 year or above	9	8	8	6	10	10
Total no. of listed commercial	12	9	11	12	13	15
Total no. of listed companies and banks	96	108	114	125	135	135

) This includes the annual reports submitted till 21st May 2008.

The Table No. 4.1 shows the trend of annual report submission practices by listed commercial bank for the last six year. The regulatory requirements sates that companies most submit their annual report to SEBO/N, NEPSE and NRB within four months from the expiry of each fiscal year. For this case 14th July is the expiry date of each fiscal year.

For the analysis and study purpose the annual report submission data provided by SEBO/N

for the last six fiscal years are used. The table shows the status of annual report disclosure by the listed commercial banks for the last six fiscal years. During the six fiscal years, none of the banks have submitted their annual report within 4 month except one bank. In the year 2004/2005 only one bank has made the annual report submission within prescribed time. The above table showed the commercial banks' capability in submitting annual report within 6 months to 1 year period after the expiration of each fiscal year. Till 21st Jan. 2008 or within 2 months after expiration of fiscal year 2001/2002, 5 commercial bank have submitted their annual report to SEBO/N within 4 to 6 months (14th Nov – 14th Jan) and remaining 5 have submitted within 6 month to 1 year (14th Jan – 14th July). It shows the improving state of disclosure practices by listed commercial banks than previous years. From the analysis it also can be concluded that most of listed banks have breached the regulatory provisions of Company Act 1997, Securities Exchange Act 1983, and Securities Exchange Regulation, 1983.

4.2   Empirical Analysis

The extent of disclosure in annual reports may also vary company to company due to the varying quality and quantity of information contain in them. The calculated disclosure scores for sample annual reports in this study prove this statement. The present chapter has made an attempt to identify and determine the extent to which company characteristics influence the extent of disclosure in corporate annual reports. The characteristics selected for this study are earning margin, asset size, rate of return an outstanding number of share. The assumption of the study is that disclosure in annual report is not an independent variable but it is likely to be influenced by the above variables. Assets size, rate of return and earning margin have been taken as they are assumed to be truly associated with the quality of disclosure. Another characteristic-number of outstanding share's relation with disclosure has also been assumed. The number of outstanding share has been taken as independent variables for disclosure assuming that its greater number represents larger number of stockholders and lesser number represents lesser number of stockholders. The assets size rate of return and the earning margin are anther characteristics recognized of firm's size, its management and profitability measures. Therefore, assets size, rate of return and earning margin selected in this study are assumed to be true and key explanatory variables associated with the extent of disclosure in corporate annual reports.

4.2.1 Earning Margin and Disclosure Score

Earning margin is the measures of firm's profitability. Earning margin is defined as the ratio of net profit to operating income and is the overall measures of management's ability to turn each rupee of income to profit. The total income revealed by profit and loss account has been taken as the income of the company for calculating earning margin. If earning margin is higher, the company will have additional capacity to absorb rising costs. The position of the company thereby would become stable and strong to face the interest competition in the market. If earning margin of the company is more than that of the company in average, the investors will have greater confidence in the company. The company would then prefer to disclose more information to better inform the public about its stable position in the market. If the earning margin is low, its competitors may squeeze it out of the market by reducing their interest rate. Thus, the company with higher earning margin discloses more detailed information than that of low earning margin. Earning margin influences the overall efficiency of the company.

The following table reveals the disclosure scores of the banks and their respective earning margin percentage.

Table 4.2

Disclosure Score (DS): Earning Margin (EM)

Name of the Banks	DS	EM%
NABIL	117.50	16.56
NIB	130.54	14.54
SCBN	148.32	33.12
HBL	138.06	16.96
NSBI	138.72	8.04
EBL	150.54	6.13
BOK	130.59	15.93
NIC	132.83	1.62
MBL	135.88	2.05

To determine the relationship of earning margin with disclosure score, the following simple regression model is applied for the above data.

$$y = a + bx$$

Where,

      y = Disclosure Score

      a = Intercept (constant)

      x = Earning Margin (Measure in percentage)

After the application of SPSS programming, the regression result has been derived, which is presented in Appendix - C.

The summary result of this simple regression analysis in between DS and EM are as follows:

Regression Results: Earning Margin %

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
DS	134.389	0.117	0.116	0.013	-0.128	10.5261	0.308	0.767

Regression line: DS = 134.389 + 0.117 EM

The result shows the relationship between disclosure score and earning margin. As for the regression of DS and EM is concerned, the regression coefficient of EM is positive and 0.117, which indicates that 1% changes in EM leads to an average 0.117 change in disclosure score, holding other variable constant. The coefficient of determination (R^2) is 0.013, which indicates that only 1.3% of the variation in disclosure score is explained by earning margin. The calculated t-value for the regression coefficient is 0.308, which is significant only at 76.65% level of significance the result of this regression is not statistically significant at 10% level of significance. From this, it can be said that the regression equations cannot explain more accurately. The second research proposition i.e. the information disclosure is explained by earning margin is rejected when it tested at 10 percent level of significance. The constant of this equation tell us that the average disclosure score won't fall below 134.389 even if earning marine is assumed to be zero. The SSE 10.526 here indicates that the variation or error in disclosure score equal to 10.526 can arise if this regression line is used to estimate the disclosure by given earning margin percentage.

The results of previous researchers made by Singhvi and Desai (1971), Lal (1985), Dhakal (1993), Sherpa (2001) and Shah (2003) have shown the positive and statistically significant

association between DS and EM within the 10% level of significant except Sherpa. He has shown the positive and not statistically significant at 10% level of significant.

4.2.2 Asset Size and Disclosure Score

To examine an association between assets size and disclosure in an annual report is, in fact, to study the association between size of company and disclosure because assets size of a company generally determines the size of a company. The total assets revealed by balance sheet are used as a measure of size in this study. Other researchers, such as Singhvi and Deasi (1971), Lal (1985), Dhakal (1993), Sherpa (2001) and Shah (2003) have used the total asset to examine its influences on disclosure.

There are several possible reasons for expecting the positive relationship between size of company and the extent of disclosure in annual report. Firstly, the accumulation and dissemination of information is a costly affair. Smaller companies may not possess necessary resources together the huge amount of information and to disseminate it to the public. In larger companies such information is collected for internal reporting and managerial decision because such companies generally make many products and services and distribute them over huge geographical areas. Therefore reporting such data is not too much costly affairs for management. Secondly, the management of large companies is likely to realize the possible benefits of better disclosure, such as easier marketability of securities and greater ease in financing. Smaller firms usually do not raise funds in the securities market and therefore, cannot realize the possible benefit of better disclosure. Thirdly, the smaller companies feel that the full disclosure of information could endanger their competitive position. The larger companies are usually less fear of aiding information even to its competitors. Therefore, there is possible positive relation between size of a company and the extent of disclosure. Fourthly, larger companies are generally subject to more public attention and watched by various government authorities: Full disclosure of their affairs, such companies believe, will create confidence and minimize the public criticism and pressure from government. Fifthly large companies usually have more shareholders to satisfy with information. Finally, because of regular interaction with the financial community, larger companies are probably more aware of informational needs.

The disclosure scores of companies and their respective asset size are presented in the following table.

Table 4.3

Disclosure Score (DS): Asset Size (AS) Rs. in Million

Name of the Banks	DS	AS
NABIL	117.50	17629.25
NIB	130.54	4973.89
SCBN	148.32	18443.10
HBL	138.06	20672.43
NSBI	138.72	7021.14
EBL	150.54	11101.23
BOK	130.59	6606.17
NIC	132.83	6356.64
MBL	135.88	3768.70

For this data a simple regression model is applied the model is :

$$y = a + bx$$

Where,

y = Disclosure Score

a = Intercept (constant)

x = Asset size (Rs. in million)

The regression result, after applying SPSS computer programming is shown in Appendix – D.

The summary result of this simple regression analysis in between disclosure score and asset size are as follows:

Regression Results: Assets Size (Rs. in Million)

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
DS	134.246	0.0001529	0.100	0.010	-0.131	10.5439	0.266	0.798

Regression line : DS = 134.246 + 0.0001529 AS

The result shows that the association between DS and AS is positive. The regression coefficient is 0.0001529 and the constant is 134.246. The coefficient of determination (R^2) 0.010 represents 1% variation in disclosure scores is explained by asset size. The t-value for the regression coefficient is 0.266, which is significant at 79.8% level of significance.

Hence, the relationship between DS and AS is positive and statistically insignificant. The third research proposition i.e. the information disclosure is explained by asset size is rejected at 5% level of significance. Hence the SEE is 10.5439, which indicates the error in using this regression line.

4.2.3 Rate of Return and Disclosure Score

Variability in the quality of disclosure can be explained to some extent, by differences in the rate of return. Rate of return is defined as a ratio of net profit to net worth. Such rate of return is generally considered as a measure of good management. When the rate of return is high in a corporation, the management may disclose detailed information in order to support the continuance of its positions and compensations. On the other hand, when the rate of return is low, the management may disclose less information in order to cover up the reasons for losses or declining profits. The corporate management is reluctant in giving information on earnings or revenue breakdown by divisions are unprofitable. Instead, management discloses its total profit figure so that divisional downward trends are hidden in the whole.

The disclosure scores of bank and their respective rate of return are presented in the following table.

Table 4.4

Disclosure Score (DS): Rate of Return (ROR) in %

Name of the Banks	DS	ROR
NABIL	117.50	23.70
NIB	130.54	10.91
SCBN	148.32	38.77
HBL	138.06	27.42
NSBI	138.72	7.29
EBL	150.54	10.55
BOK	130.59	16.23
NIC	132.83	1.77
MBL	135.88	1.31

For this data simple regression model is applied, the model is :

$$y = a + bx$$

Where,

       y = Disclosure Score

       a = Intercept (constant)

       x = Rate of Return (in %)

The regression result, after applying SPSS computer programming is shown in Appendix – E.

The summary result of this simple regression analysis in between disclosure score and rate of return are as follows:

Regression Results: Rate of Return (in %)

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
DS	134.280	0.105	0.132	0.018	-0.123	10.5040	0.353	0.734

Regression line: DS = 134.280 + 0.105 ROR

The result shows that the association between DS and ROR is positive. The regression coefficient is 0.105 and the constant is 134.280. The coefficient of determination (R^2) 0.018 represents 1.8% variation in disclosure scores is explained by rate of return. The t-value for the regression coefficient is 0.353, which is significant at 73.4% level of significance. Hence, the relationship between DS and ROR is positive and statistically insignificant. The forth research proposition is explained by rate of return is rejected at 5% level of significance. Hence the SEE is 10.5040, which indicates the error in using this regression line.

4.2.4 Outstanding Shares and Disclosure Scores

The number of shares, which the shareholders are presently holding is number of outstanding shares. In this study, it is assumed that large companies have larger number of outstanding shares and that represent the company's larger number of stockholders. The association between number of outstanding shares and quality of disclosure is argued on the above assumption that number of outstanding shares reflects the number of shareholders.

The ownership distribution has significant influence on the quality of disclosure in annual reports. A positive relationship between the number of stockholder and quality of

disclosure can result for many reasons. First, company with large number of stockholders tend to be more in the public eye and are therefore, more subject to stockholders' and analysis' pressure for better disclosure. Second, the corporation with large number of stockholders may disclose more information in order to minimize excessive pressure from regulatory agencies. Third, in order to promote market ability of the corporate securities, corporation with the large number of stockholders may disclose more information. Last, as the number of stockholders increases, the corporations are likely to disclose more information than the non-professional managers because the former group is relatively more conscious of its social responsibility than the latter.

Because of this reasons and the above-mentioned assumption, the possible association between the disclosure score and number of outstanding shares exist and the data on disclosure and outstanding shares are presented below.

Table 4.5

Disclosure Score (DS): Outstanding Shares (OS) '000

Name of the Banks	DS	OS
NABIL	117.50	4917
NIB	130.54	2380
SCBN	148.32	3395
HBL	138.06	4290
NSBI	138.72	4259
EBL	150.54	3573
BOK	130.59	3993
NIC	132.83	4636
MBL	135.88	5000

For this data simple regression model is applied, the model is:

$$y = a + bx$$

Where,

y = Disclosure Score

a = Intercept (constant)

x = Number of outstanding share in thousand

The regression result, after applying SPSS computer programming is shown in

Appendix –F.

The summary result of this simple regression analysis in between disclosure score and outstanding shares are as follows:

Regression Results: Outstanding number of share (OS) in '000

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
DS	152.33	-0.00406	0.341	0.116	-0.010	9.9616	-0.096	0.369

Regression line : DS = 152.33 + 0.00406 OS

The result shows the negative relationship between disclosure score and outstanding number of shares. But t-value for the regression coefficient is -0.96, which is not statistically significant at 10% level of significance. This relationship has been found statistically significant only at 36.9% level of significance. The coefficient of determination (R^2) = 0.116 indicates that only 11.6% variation in disclosure score is explained by the number of outstanding shares. From this it can be said that the regression equation cannot explain more accurately. Here, the fifth research proposition i.e. the information disclosure is explained by outstanding number of shares is rejected at 10 percent level of significant. The standard error of the estimates is 9.9616, which indicates the error is using this regression line.

4.2.5 Multiple Regression Analysis

To determine the combined effect of the three variables on disclosure score, a multiple linear regression model has been applied. For this purpose, we take four independent variables. The four independent variables, earning, margin, assets size, rate of return and outstanding share are taken to examine their influence on a dependent variable disclosure score. The form of multiple regression models is:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$$

Where,

Y = Disclosure score

a = Intercept (constant)

x_1 = Earning Margin in percent

x_2 = Asset size Rs. in million

56

x_3 = Rate of return in percent

x_4 = Number of outstanding shares in thousand

The disclosure scores of the sample banks and their respective earning margin, asset size, rate of return and number of outstanding share data are presented below in the table.

Table 4.6

Disclosure Score (DS): Earning Margin (EM), Asset Size (AS), Rate of Return (ROR), Outstanding Shares (OS)

Name of the Banks	DS	EM%	AS (in million)	ROR%	OS ('000)
NABIL	117.50	16.56	17629.25	23.70	4917
NIB	130.54	14.54	4973.89	10.91	2380
SCBN	148.32	33.12	18443.10	38.77	3395
HBL	138.06	16.96	20672.43	27.42	4290
NSBI	138.72	8.04	7021.14	7.29	4259
EBL	150.54	6.13	11101.23	10.55	3573
BOK	130.59	15.93	6606.17	16.23	3993
NIC	132.83	1.62	6356.64	1.77	4636
MBL	135.88	2.05	3768.70	1.31	5000

The result of multiple regression models, as defined above, has been applied on this data. The SPSS computer program application has been made, the result of which is presented in Appendix – G.

The summary result of the multiple regression models are presented below:

Regression results : EM% AS (Rs. in million), ROR and OS (in thousand)

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
DS	180.958	EM = -3.575	0.521	0.272	-0.456	11.9620	-0.820	0.458
		AS = -0.0024					-0.597	0.583
		ROR = 3.714					0.755	0.492
		OS = -0.00756					-1.110	0.329

F statistics = 0.373   Sign. = 0.818

The regression lines

DS = 180.958 – 3.575 EM – 0.0024 AS + 3.714 ROR – 0.00756 OS

After applying the above mentioned overall model of multiple regressions the coefficient of determination (R^2) has been found to be 0.272, which shows that 27.2% of variation in disclosure score is explained by earning margin, asset size rate of return and number of outstanding shares together. The individual R^2 of outstanding share being 0.116 is the highest among other four variables. This means that outstanding share for most of the explained variation in disclosure score. The value of R = 0.521 shows the moderate degree of positive relationship between extent of disclosure and four independent variables. The t-value for EM, AS, ROR and OS are found to be statistically insignificant at 10% level of significance. The computed F-statistics for all variables is 0.373, which is significant at 81.8% level of significance. Hence, the sixth research proposition i.e. the information disclosure is explained by all those variables namely earning margin, asset size, rate of return and outstanding number of shares when taken together is rejected at this level of significant. The standard error of the estimates is calculated 11.9620, which indicates the error in using this regression line.

4.2.6   Market Price of Share and Disclosure Score

In this study, it is assumed that there is positive relationship between the disclosure score and market price of the share. The yearly closing market price of shares of each sample banks has been taken for the correlation and regression analysis. The positive relationship between disclosure and stock price can result for following reasons.

Adequate disclosure in annual report will help to establish sound relationship between the company and potential investors and others. Corporate information disclosure is very crucial for the growth of a fair and transparent securities market. With the help of this an investor can make a rational investment decision. Lack of adequate disclosure can create ignorance in securities market and can result in misallocation of resources in the economy. Adequate disclosure in annual report is expected, in the long run, to enhance market price of the company's share in the investment market. If other things are remained unchanged, the investors would prefer to investment in a company that discloses the information fully than in a company that does not. Such behaviour of the investors' will raise the price of better disclosing company's shares. Higher price of company's stock resulting from full

58

disclosure will have a favourable impact on companies cost of capital adequate disclosure can also bring increased public confidence in the stock market. This confidence will result increased participation of investors in stock market, which may have favourable impact on price of stock.

Another likely implication of inadequate corporate disclosure is the greater price dispersion in the security market. Inadequate disclosure in annual report is likely to widen fluctuations in the market price of a security since investment decision in the absence of adequate information, are based on less objectives measures. Adequate disclosure of information minimizes ignorance in the market and can cause the market price to reflect the true value of security. Consequently, the price dispersion is narrowed down. If securities markets are in full possession of full information, the ignorance and uncertainty will be reduced and the share prices will tend to maintain equilibrium. The equilibrium price of securities represent a consensus of the investors in the market about the true worth of a company's share based on publicly available information. These equilibrium prices of securities usually tend to be stable at the time of full disclosure and this tends to be high for the better disclosing companies. In brief, it can be said that the quality of disclosure is one of the variables, which has effect on the price of securities.

The empirical study of Singhvi and Desai (1971) and Sherpa (2001) have shown that increased corporate disclosure tend to narrow down in the security price fluctuation and this may further reduce excessive speculation and gambling in securities market. This study provides empirical evidence in connection with the likely relationship between corporate disclosure and share prices.

The disclosure scores of the companies and their respective yearly closing price of shares (MPS) are shown in table.

Table 4.7

Disclosure Score (DS): Yearly Closing MPS

Name of the Banks	DS	Yearly Closing MPS
NABIL	117.50	700
NIB	130.54	760
SCBN	148.32	1575
HBL	138.06	1000
NSBI	138.72	401
EBL	150.54	490
BOK	130.59	405
NIC	132.83	254
MBL	135.88	245

In order to examine the above hypothesis, a simple regression as well as correlation analysis is made in between MPS and DS. The regression model applied for this is:

Y = a + bx

Where,

y = Market price of share (MPS)

a = Intercept (constant)

x = Disclosure score

Correlation is also calculated. For both of these analysis computer programming (SPSS) calculation has been made, the result of which is presented in Appendix H.

The summary result of the regression and correlation is as follows.

Regression Results: Yearly Closing MPS

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
MPS	-1117.945	12.994	0.301	0.091	-0.039	435.63	0.836	0.431

Regression line: MPS = -1117.945 + 12.994 DS

The result of correlation coefficient (r) in between yearly closing MPS and disclosure score is 0.301, which is positive and statistically insignificant at the 0.05 level. The coefficient of determination R^2 is 0.091, which indicates that the 9.1% of variation in MPS is defined by

disclosure score. The regression coefficient of disclosure score is 12.994, which indicate that each score increase in disclosure (increase in information) will results Rs. 12.994 increase in the MPS. The regression equation shows that when the DS is zero the negative MPS will result. Since negative MPS is unrealistic, it can be said that zero MPS can result when no information is provided. The t-value for regression coefficient is 0.836, which is statistically insignificant at 5% level of significance. The F-statistics also shows the result is insignificant at 5% level of significance. Hence, the seventh research proposition i.e. the share price is explained by information disclosure is rejected at 5% level of significance.

4.2.7 Relationship of Market Price of Share with Earning Margin, Assets Size, Rate of Return and Outstanding Shares

To determine the combined effect of the four variables on MPS, a multiple linear regression model has been applied. For this purpose we take four independent variables. The four independent variables earning margin, asset size rate of return and number of outstanding shares are taken to examine their influence on a dependent variables, MPS. The form of multiple regression models is :

$$y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$$

Where,

y = Market price of share (MPS)

a = Intercept (constant)

x_1 = Earning Margin (in percentage)

x_2 = Asset size (Rs. in million)

x_3 = Rate of return (in percentage)

x_4 = Number of outstanding shares (in thousand)

The MPS of sample bank and their respective earning margin, asset size, rate of return and number of outstanding share data are presented below in the table.

Table 4.8

Market Price of Share (MPS): Earning Margin (EM), Asset Size (AS), Rate of Return (ROR), Outstanding Shares (OS)

Name of the Banks	MPS	EM%	AS (in million)	ROR%	OS ('000)
NABIL	700	16.56	17629.25	23.70	4917
NIB	760	14.54	4973.89	10.91	2380
SCBN	1575	33.12	18443.10	38.77	3395
HBL	1000	16.96	20672.43	27.42	4290
NSBI	401	8.04	7021.14	7.29	4259
EBL	490	6.13	11101.23	10.55	3573
BOK	405	15.93	6606.17	16.23	3993
NIC	254	1.62	6356.64	1.77	4636
MBL	245	2.05	3768.70	1.31	5000

The result of the model, as defined above, has been applied to this data. The SPSS computer program application has been made, the result of which is presented in Appendix – I.

The summary result of the multiple regression models is presented below:

Regression results: EM, AS, ROR and OS

Dependent variable	Constant	Regression coefficient	R	R^2	Adjusted R^2	SSE	T value	Significant
MPS	255.688	EM = 64.6	0.964	0.928	0.857	161.64	1.097	0.334
		AS = -0.06154					1.13	0.321
		ROR = -45.434					-0.684	0.532
		OS = -0.098					-1.065	0.347

F statistics = 12.980   Sign. = 0.015

The regression lines

MPS = 255.688 + 64.6 EM + 0.06154 AS – 45.434 ROR – 0.098 OS

After applying the above mentioned overall models of multiple regressions, the coefficient of determination R^2 has been found to be 0.928, which shows that 92.8% of variation in market price of share is explained by earning margin, asset size, rate of return and number

of outstanding share together. The value of R = 0.964 shows high degree of positive relationship between extent of market price of share and four independent variable, the t-value for all independent variables are found to be statically insignificant at 10% level of significance. The computed F-statistics for all variables is 12.580, which is insignificant at 10% level of significance. Hence, the eighth research proposition, i.e. the market price of share is explained by all those variables namely earning margin, asset size rate of return and outstanding number of share taken together is rejected at this level of significance. The standard error of the estimates is calculated 161.6437, which indicates the error in using this regression line.

From the analysis, it is found that all independent variables have positive relationship with disclosure. The relationship of earning margin asset size rate of return and outstanding shares with disclosure is found been positive and statically in significant at 10% level when all independent variables are taken together to see the combine effect of them on disclosure the association is found both positive and statistically insignificant at 10% level. The association between disclosure and MPS is found positive and statistically insignificant at 5% level of significant that means the company with the better disclosure has higher share price. When all independent variables are taken together to see the combined effect of them on market price of shares, the association is found both positive and statistically significant at 10% level that means the EM, AS, ROR and OS has effect on, MPS.

4.3   Survey Findings of Experts

An attempt was made to present the survey findings of experts hereunder. A survey was conducted with 30 experts, who included banking professionals, auditors of banking sectors, directors of NRB form supervision and monitoring sector of commercial banks. Director of NEPSE, SEBON, CA from ICAN to identify present financial statement and disclosure practices situation, expectation of public from financial statement, important issues of financial statement and disclosure, role of concern agency, function of SEBO/N and NEPSE. Along with the view of exerts regarding improvement in present situation.

In order to assesses whether the difference in the opinions of respondents as to major aspect of financial statement and disclosure practices, the response to each choice in those questions where choices are to be ranked is weighted by the value of the rank assigned to it by the respondents, and the weighted arithmetic mean was calculated to find the overall

rank for each choice for all respondents.

4.3.1 Disclosure as Important Medium of Information and its Present Situation in the Country

An attempt has been made to assess the importance of financial statement and disclosure as important tool of communication of the information and its present situation on the basis of the opinion of experts.

Table 4.9

Importance of Financial Statement and Disclosure as Medium of Communication

Response	Number	Percent
Yes	30	100
Just Right	-	-
No	-	-

Source: Field Survey, 2008.

Of these 30 experts, none of them denied financial statement and comprehensive disclosure as an important medium of communication to its investors and readers. All of them with one voice have responded, as shown in Table No. 4.9, that financial statement and disclosure is the important tool of communication of the information to its stakeholders.

Table 4.10

Present Situation of F/S and Disclosure Practices

Rating	Number	Percent
Very good	2	6.67
Good	14	46.67
Satisfactory	7	23.33
Needs improvement	7	23.33
Very poor	-	-
Total response	30	100.00

Source: Field Survey, 2008.

As far as the present situation of financial statement and disclosure practices of the listed bank is concerned, the majority of 14 respondents, (46.66%) have perceived good where as 7 respondents, (23.33%) regarded it as not only satisfactory but also needs improvement. 2

respondents, (6.67%) have opined it as very good, but none of the respondent has viewed that its practices has very poor as shown in Table 4.10.

4.3.2 Expectation of the Information Additional to Financial Position

There is various information which is public expected to publish in financial statement additional to financial position. This information is not compulsory to publish from the legal point of view but there is no restriction to publish it. The experts were asked to poll the information which public expect to disclose in financial statement of listed commercial banks.

Table 4.11

Addition Information Expectation by Public as Assessed by Experts (n=30)

Information	Number	Percent
Market condition and company's position	20	66.67
Information on future and present competitive position	18	60.00
Historical summary of importance financial statistics for last 6 years or above	13	43.33
Information about effective periods and about the way the bank manages control risk and exposures associated with different maturity and interest rate profiles of assets and liabilities	13	43.33
Describe the financial risk management objectives and policies	7	23.33
Information about risk like: currency and market risk governmental/political risk, operating risk, market liquidity risk and funding risk	6	20.00
Others	4	13.33

Source: Field Survey, 2008.

Note: The percentage have been calculated on the basis of the frequency of response of each item to the total sample.

What the public expect from the financial statement additional to financial position is a matter of great concern to the listed bank. In this context, experts in the sample have put forward their views. 20 respondents (66.67%) viewed that public expect "Market condition and company's position." Likewise, 18 respondents (60%) opined that public expect

"Information on future and present competitive position", where s 13 respondents (43.33%) look for "Historical summary of importance financial statistics for last 6 years or above", as well as "Information about effective periods and about the way the bank manages control risks and exposures associated with different maturity and interest rate profiles of assets and liabilities." Only 7 respondents (23.33%) and 6 respondents (20%) paid attention to "Describe the financial risk management objectives and policies" and "Information about risk like: currency and market risk, governmental/political risk, operating risk, market liquidity risk and funding risk" as observed by experts.

Four respondents have expressed their views as "Reliability and understand ability", "Performance of the company", "future projection and targets" and "variances of past projection and targets."

4.3.3 Important for Information Disclosure of Listed Banks than Other Sectors

According to the annual report of 2006/07 of SEBO/N, there are altogether 135 companies listed in NEPSE. Out of them 15 commercial banks (11.11%), 53 finance companies (39.26%), 16 development banks (11.85%), 16 insurance (11.85%), 4 hotel (2.22%), 21 manufacturing and processing (15.56%), 5 trading (3.70%) and 5 other (3.70%).

Table 4.12

Important for Information Disclosure of Listed Banks than Other Sectors (n = 30)

Area of attention	Number	Percent
It has the highest paid up value among all sectors	20	66.66
It covers the highest market capitalization among all sectors	15	50.00
It has the highest turnover among all sectors	12	40.00
It has highly competitive and risky among all sectors	10	33.33

Source: SEBO/N and Field Survey, 2008.

Note : The percentage have been calculated on the basis of the frequency of response of each item to the total sample.

The table above Table 4.12 presents the views regarding the way important for information disclosure of listed banks than other sectors. 20 respondents (66.66%) observed that "it has higher paid up value than other sectors." According to report of SEBO/N among all the sectors, banking sector has covered 42.36% (Rs. 4102.47 million) of total paid up value. Similarly, 15 respondents (50%) observed that "It covers the highest market capitalization

than other sectors", the annual report of SEBO/N reveals that market capitalization of banking sectors is the highest among all the sectors and its percentage on total market capitalization is 64.25% (Rs. 22298.51 million). Whereas 12 respondents (40%) observed that "It has the highest turnover among all sectors", according to report out of total amount of securities traded in this fiscal year the banking sector covers 76.26% (Rs. 1174.85 million). Only 10 respondent's (33.33%) observed that "It is highly competitive and risky among all sectors." It clearly showed that the important for information disclosures of listed banks than other sectors.

4.3.4 Evaluation of Efforts of Different Agencies for Financial Statement and Disclosures Practices

There are different agencies involved for financial statement and disclosure practices in Nepal and each of them is playing an important role. The main agencies concerning listed banks are : (a) NRB (b) SEBO and NEPSE (c) CRO (d) ICAN.

Table 4.13

Rating Efforts of Different Agencies for Financial Statement and Disclosure (n = 30)

S.N.	Agencies	Good (1)	Fair/Average (2)	Poor (3)	Total Respondent	Weight	Average score
1	NRB	18(60)	9 (30)	3(10)	30	45	1.5
2	SEBO/N & NEPSE	10(35.7)	12 (42.85)	6(21.42)	28	52	1.85
3	CRO	8(29.62)	10 (37.03)	9(33.33)	27	55	2.03
4	ICAN	4(14.28)	20 (68.96)	5(17.24)	29	59	2.03

Source: Field Survey, 2008.

Note: Figure in parentheses indicates percent.

The experts viewed that the NRB has a significant role to develop financial statement and disclosure properly. The role of NRB for listed commercial banks development has been defined as facilitation, developing plans and policies, and implementing/regulating them and acting as a development leader. Regarding the efforts made by NRB, majority (60%) rated as good, only 9 respondents (30%) rated them as fair/average and 3 respondents (10%) rated then as poor. It means that presents efforts made by NRB for financial statement and disclosure is good.

For the listed bank, SEBO/N and NEPSE has been playing a key role in handling and developing information disclosure in the country. Objectives of this organization are to promote and protect the interest of general investors; supervise and monitor the activities of their related firms carrying on securities business. According to the response regarding the efforts of SEBO/N and NEPSE, the highest number of 12 respondents (42.58%) rated as fair or average whereas 10 respondents (35.71%) expressed good and only 6 (21.42%) respondents viewed it as poor.

Similarly, there is a major role of CRO in registration of company, maintain of books of account within time frame; holding of AGM; preparation of BOD report; and others under the provision of company Act. Of the respondent 10 (37.03%) have rated the efforts of CRO as average. 9 respondents (33.33%) rated poor; and 8 (29.62%) respondents rated good.

The role of ICAN also is not less important in the arena of financial statement and disclosure in the country. They assist in advice the government; undertake educational and training activities; regulate accounting professional in Nepal; promulgate accounting and auditing standards. 20 respondents (68.96%) expressed their views as average/fair, 5 respondents (17.24%) rated the poor and only 4 r respondents (14.28%) expressed there views as good.

Regarding the evaluation of efforts of different agencies for financial statement and disclosure on the basis of average score, only NRB efforts have been rated sound with score of 1.5 followed by SEBO/N and NEPSE (1.85), CRO (2.03) and ICAN (2.03). The efforts of different agencies seemed to be relatively satisfactory. However, room for improvement is noticed.

4.3.5 Management Commentary on Describing and Controls the Risks

Although some banking risks may be reflected in financial statements, users can obtain a better understanding if management provides a commentary describing the way it manages and controls the risk

Table 4.14

Management Commentary Describing and Controls the Risks Assessed by

Experts

S.N.	Statements	Strongly Agree (1)	Agree (2)	Do not know (3)	Disagree (4)	Strongly Disagree (5)	Total respons
1	Information about risk like currency and market risk, market liquidity and funding risk, governmental/political risk, operating risk	10	11	5	3	-	29
2	Commentary about average interest rates, average interest earning assets and average interest bearing liabilities for a given period.	8	14	-	5	-	27
3	Information about effective period and about the way the bank manages and control risk and exposures associated with the different maturity and interest rate profiles of assets and liabilities.	5	6	8	7	-	26
4	Describe the financial risk management objectives and policies.	8	9	3	5	3	28
5	A discussion of management polities for controlling the risks associated with financial instruments.	18	8	3	1	-	30

Source: Field Survey, 2008.

The average scores of observation for the management commentary on describing and control risks varied from 1.56 to 4.30. Among them "Information about risk like currency and market risk, market liquidity and funding risk governmental/political risk" has been regarded as the most significant observation. The least significant observation for the majority of respondents is "A discussion of management policies for controlling the risks associated with financial instruments." "Commentary about average interest rates, average interest earning assets and average interest bearing liabilities for a given period" got second priority with score of 2.83 followed by "Information about effective period and about the way the bank manages control risk and exposure associated with the different maturity and interest rate profiles of assets

and liabilities" with score of 2.07 and "describe the financial risk management objectives and policies" with score of 2.5.

4.3.6 Supplemented Information on Auditors Reports

In almost all countries an independent auditor examines the accounts of banks. These examinations tend to be of two types: those where the auditor concentrates on whether the accounts are properly prepared in accordance with national laws and regulations and those where those has been a more through review and examination of the business and individual transactions to ensure that the financial statements reflect a true and fair view of the banks' state of affairs and the results of its operations.

The table below (4.15) presents overall ranks for the supplemented information on auditor's reports. The majority of the respondents gave the first priority to "Significant accounting policies and notes"; the second priority to "Whether or not action has taken according to the directive of NRB." The third priority to whether or not action has taken in the interest of and for the protection of the bank and depositors"; and the fourth priority to "give opinion on the financial statements and state whether it gives the true and fair picture of the transaction".

Table 4.15

Supplemented Information on Auditors Reports

S.N.	Statement	Rankwise no. of response							Total Response	Weight value	Mean weight	Overall rank
		1	2	3	4	5	6	7				
1	Significant accounting policies	14	5	-	5	3	-	2	29	73	2.51	1
2	NRB directives	8	10	3	-	7	-	-	28	72	2.57	2
3	Protection of banks & depositors	10	4	4	4	3	2	-	27	73	2.70	3
4	True and fair picture of the transaction	8	13	-	-	-	2	4	30	83	2.76	4
5	Internal control system	-	10	8	3	5	2	-	28	93	3.32	5
6	Management policy	4	3	7	3	-	4	5	26	102	3.92	6
7	Company's rule	5	5	3	5	-	7	5	30	121	4.3	7

Source: Field Survey, 2008.

4.3.7 Role of SEBO/N and NEPSE Regarding Financial Statement and Disclosure Practices more Reliable and Effective

An attempt has been made to assess the role of SEBO/N and NEPSE regarding financial statement and disclosure practices more reliable and effective on the basis of the opinion of experts.

Table 4.16

Role of SEBO/N and NEPSE for Improvement in Disclosure Practices of Listed Bank Assessed Experts

S.N.	Statement	Rank wise No. of response			Total Response	Weight value	Mean weight	Overall rank
		1	2	3				
1	Fin. Analysis	23	5	2	30	39	1.3	1
2	Strength and weakness of effective information	10	18	2	30	52	1.73	2
3	Supplementary audit report	5	5	20	30	75	2.5	3

Source: Field Survey, 2008.

In the overall rank for the role of SEBO/N and NEPSE for improvement in disclosure practices i.e. mentioned in above table, the majority of respondents gave the first priority to "NEPSE and SEBO should make financial analysis of the financial statement of listed companies"; the second priority to "SEBO/N and NEPSE should publish a brief of sub-financial indictors (strength/weaknesses) for effective information to investors" and the third priority to "prescribe the additional supplementary audit report on specific major activities."

4.3.8 Observations on the Financial Statement and Disclosures

In the questionnaire, the respondents were provided with a list of seven different statements of observation on financial statements and disclosure practices by listed banks in Nepal and they were asked to rank them in order of their significance.

In order to highlight the significance of the selected statements of observation average score values of responses for each statement of observation have been computed. The lower value of average score indicates that the statement is highly significant to majority of respondents. Similarly a high value of average score shows that the statement is not significant.

Table 4.17

Observations on the Financial Statement and Disclosure Assessed by Experts

S.N.	Statement	SA (1)	A (2)	DNK (3)	D (4)	SD (5)	Total Response	Weight value	Average score
1.	Effect stock price	12	17	-	-	-	29	46	1.58
2.	Convey future prospect	7	18	3	-	-	28	52	1.85
3.	Recognize risk	3	16	5	3	-	27	62	2.29
4.	AS effect disclosure	3	17	5	5	-	30	99	2.4
5.	EM effect disclosure	5	11	5	5	2	28	72	2.57
6.	ROR effect disclosure	5	8	6	7	-	26	67	2.57
7.	OS effect disclosure	-	9	6	10	3	28	91	3.25

Source: Field Survey, 2008.

The average score of observation statements varied from 1.58 to 3.25. Among them "Disclosures effects stock price" has been regarded s the most significant observation. The least significant observation for the majority of respondent is "outstanding share effects disclosure." "Financial statement and disclosure convey future prospects" got

the second priority; the third priority to "financial statement and disclosure recognize the risk", followed by "assets size effects the disclosure" and "earning margin as well as rate of return effects disclosure."

4.3.9   Problems in Financial Statement and Disclosure

Table 4.18

Problems in Financial Statement and Disclosure Assesses by Experts

S.N.	Statement	Rank wise No. of response					TR	WV	MW	Overall rank
		1	2	3	4	5				
1	Lack of addition reporting by auditor	8	10	5	5	-	28	63	2.25	1
2	Management does not want to disclosure	5	9	8	7	-	29	75	2.58	2
3	Lack of accountability	3	12	3	7	2	27	74	2.74	3
4	SOBO/N & NEPSE	-	9	11	8	2	30	93	3.1	4
5	Problems in implementation of law	-	10	8	7	3	28	87	3.1	4

Source: Field Survey, 2008.

In their overall ranks for the problems of financial statement and disclosure practices of listed banks, respondents gave the first priority to 'lack of additional reporting by auditors making financial statements understandable and generating confidence among investors"; "Management does not want to disclosure of information beyond the directives of NRB" got the second priority; the third priority to" lack of accountability of company directors to submit financial statement within time period specified by related laws; and fourth priority to SEBO/N and NEPSE have not proved effective" as well as "Problems in implementation of the law due to provisions are scattered across different laws."

73

4.3.10 Measures of Transparency and Reliability of the Financial Statement and Disclosure

Transparency refers to the principle of creating an environment where information on existing conditions, decisions and actions are made accessible, visible and understandable to all market participants.

Reliability refers to information should be free from material errors and bias. The key aspects of reliability are faithful representation, priority of substances over form, neutrality, prudence and completeness.

The objectives of financial statement is to provide information about the financial position (balance sheet) performance (income statement) and charge in financial position (cash flow statement) of an entity. The transparency of financial statements is secured through full disclosure and by providing fair presentation of economic decisions to wide range of users. In the context of public disclosures, financial statement should be easy to interpret. The adoption of internationally accepted accounting standards is necessary measures to facilitate transparency and proper interpretation of financial statements.

Table 4.19

Measures of Transparency and Reliability of the Financial Statement and Disclosure as Assessed by Experts (n = 30)

Measure	Number	Percent
Maintenance of accounts in compliance with internationally accepted accounting principles and convention	23	76.66
Financial statement should be submitted with time period specified by law	23	76.66
Strengthening the internal audit function and bringing it up to international standards either by using departmental staff or by hiring a professional audit firm	20	66.66
Ensuring the three boards members have expertise in finance, accounting or banking	13	43.33
Direct all financial institution to adopt online software compatible with NRB	3	10.00

Other	3	10.00

Source: SEBO/N and Field Survey, 2008.

Note : The percentage have been calculated on the basis of the frequency of response of each item to the total sample.

As regards transparency and reliability, the experts have suggested paying attention to some of the measures of efforts as presented in Table No. 19. The majority of the respondents (76.66%) feel that "Maintenance of accounts in compliance with internationally accepted accounting principles and convention" as well as "Financial statement should be submitted within time period specified by law." The regulatory requirements state that companies must submit their annual report to concern agency within four months from the expiring of each fiscal year, 20 respondents (66.66%) has opined that "Strengthening the internal audit function and bringing it up to international standards either by using departmental staff or by hiring a professional audit firm." While some other measures efforts opined by 13 respondents (43.33%) that "ensuring that there boards members have expertise in finance accounting and banking." Direct all financial institution to adopt online software compatible with NRB "is another measures that should be carefully taken into consideration as expressed by 3 respondents (10%). Similarly some other measures presented by 3 respondents (10%) were "an umbrella act should come which can govern all the regulator authorities." SEBO/N and NEPSE should judge how far disclosed information are reliable" and "By improving in present level of enforcement system and practice by bringing better co-ordination between the regulators and developing an integrated regulatory system of financial market."

CHAPTER – V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Summary

Corporate information disclosure refers to any kind of information which is disclosed to the users of information such as shareholders and other investors, on the company's affair and performance. Such information might be both financial and non-financial in nature. The adequate corporate disclosure helps in developing the securities market by allocating the economic resource effectively and by increasing investor's confidence. It also help to maintain equilibrium in the security prices in the stock market since investor make their economic decision with the help of the information can take several forms and the annual report to stockholders is very important form of periodical corporate disclosure.

The study mainly aims to asses financial statement and disclosure practices. Its specific objectives are : (1) to highlight the financial statement and disclosure by listed commercial bank in Nepal; (2) to check the quality of financial statement and disclosure practices of Nepalese listed commercial bank measured by company characteristics namely earning margin, asset size, rate of return and outstanding share; (3) to see the relationship between disclosure and stock prices; (4) to see the relationship between stock price and bank characteristics namely AS, EM, ROR and OS; and (5) to study the opinion of experts on financial statement and disclosure practices.

Important theoretical foundation of financial statement and disclosure, and relevant Nepalese literature were reviewed in this study. In the conceptual framework, review was made of the concept, characteristics of financial statement and disclosure mainly based on the literature of Desai (1971), Buzby (1974), Chandra (1974 and 1978), Choi (1974), Lal (1985), IAARI (1992 and 1996), Dhakal (1993), ICAN (2000), Greuning and Koen (2001), Sherpa (2001), CFAA (2002) and Shah (2003).

Survey and analytical research approach were used in this study. Both primary and secondary data were used. Primary data was collected from 50 respondents for construct the disclosure index and 30 experts for study of opinion on major aspect of financial statement and disclosure. Secondary data was collected from samples annual

reports, reports from ICAN, SEBO/N and NEPSE, directives of NRB, Websites and Various journals related to the study. Analysis was made using descriptive, analytical and statistical approaches.

In order to evaluate the quality of information disclosed in annual report an index of disclosure with 60 items of information is used. The mean disclosure score for each of the items of information in the disclosure index have been calculated with the help of the questionnaire survey of various user groups of corporate annual report. Using this disclosure index, the disclosure score for all the sample annual report has been calculated, which shows the quality and quantity of corporate disclosure. In order to test the significance of the relationship between the quality of corporate disclosure and company characteristics, multivariate analysis, such as regression and correlation analysis between market price of the share and disclosure as well as market price and banks characteristics have also been done in order to see the relationship between them.

In order to study the opinion of experts on financial statement and disclosure, a questionnaire survey of 30 experts were carried out. The results were analyzed to ascertain major aspects of financial statement and disclosure of listed commercial banks.

5.2   Conclusions and Findings

From the analysis made in the previous chapter, following conclusions have been drawn;

1.   The calculated disclosure score for the sample annual show that a large number of items of information contained in the disclosure index have been adequately disclosed in the annual reports of most of the banks.
2.   It was observed, during annual reports study, that most of the banks have scarcely disclosed any information other than directives of NRB, which is statutorily required and statutory requirements are generally confined to financial information only.
3.   The status of annual report disclosure by listed banks from the last six fiscal years is within 6 month to 1 year period after the expiration of each fiscal year.

4. The association between disclosure score and earning margin has been found positive, but statistically insignificant.

5. The association between disclosure score and the size of the bank (measured by total assets) has been found positive and statistically insignificant.

6. The association between disclosure score and rate of return has been found positive and statistically insignificant.

7. The association between disclosure score and number of outstanding shares has been found negative and statically insignificant.

8. The result of combined effect of earning margin, assets size, rate of return and outstanding number of shares on disclosure are summarized here. One independent variable rate of return has been found positively, but insignificantly associated with disclosure. Other remaining independent variables have been found negatively, and insignificantly associated with disclosure. Rate of return has greater influence on the disclosure in annual reports than the remaining three independent variables taken in this study.

   Summarizing those conclusions, it can be said that the banks which disclose inadequate information are likely to be : (a) less profitable as measured by EM; (b) small in size as measured by total assets; (c) poor management as measured by ROR, and (d) small in size as measured by number of OS.

9. The regression and correlation analysis have been mad between market price of share and disclosure score assuming that they are positively correlated. The result from the analysis shows that the association between market price of shares and disclosure statistically insignificant at 10% level of significance. That is the disclosure score; and independent variable has influence on the market price of shares. The bank having greater score has the higher price of stock. It is found that the disclosure is the explanatory variable for the bank's stock price.

   Singhvi and Desai (1971), Sherpa (2001) and Shah (2003) have also empirically demonstrated it in their study too. In brief, it can be said that the quality of disclosure is one of the variable which has effect on the price of security.

10. The result of combined effect of earning margin, assets size, rate of return and outstanding number of share on market price of share are summarized here. The two independent variables, earning margin and assets size have been found positively, bet insignificantly associated with market price of shares. Earning margin possesses a better association with the extent of market price of the share followed by assets size. That has the earning margin has greater influence on market price of share than the remaining three independent variables taken in this study.

The major results of expert's survey on financial statement and disclosure of listed banks are summarized as under:

1. All of the respondents with one voice responded that financial statement and disclosure as important sources of information.
2. With respect to present situation of financial statement and disclosure practice the majority of respondent rated as "good"; followed by "satisfactory" and "needs improvement." It indicates that present situation of financial statement and disclosure practices is good and there is room for improvement.
3. As regards to expectation of the information additional to financial position, majority of respondents assessed that public expect "market condition and company's position", as well as "information on future and present competitive position."
4. The highest paid up value; highest capitalization and highest turnover are the major factors for disclosure of more information to listed bank than other sectors observed by majority of experts.
5. Experts evaluated the efforts of different agencies involved in financial statement and disclosure on the basis of average score. The NRB efforts have been rated sound with score of 1.5 while the efforts of SEBO/N and NEPSE (1.85), CRO and ICAN (2.03) were below average in a scale of 1 to 3.
6. With respect to management commentary on describing and control the risk, as viewed by all respondents are concerned. "Information about risk like currency and market risk, market liquidity and finding risk, governmental/political risk, operating risk has been regarded as the most significant opinion in the list of five selected risks matter.

7. With respect to supplemented information on auditors reports, the majority of the respondents gave the first priority to "significant accounting policies and notes"; the second priority to "whether or not action has taken according to the directives of NRB"; the third priority to "whether or not action has been taken in the interest of and for the protection of the bank and depositors."

8. One of the questions asked to respondents is what is role of SEBO/N and NEPSE regarding F/S and disclosure practices more reliable and effective. In this connection, the majority of respondents gave the first priority "SEBO/N and NEPSE should make financial analysis of the F/S of listed companies" in the list of three selected role.

9. With respect to observation on F/S and disclosure, the majority of the respondents "disclosure effects stock price" have been rated most significant observation. The least significant observation for the majority of respondents is "outstanding share effect disclosures."

10. With regards to problems in F/S and disclosure, the majority of respondents gave the first priority to "lack of additional reporting by auditors making financial statement understandable and generating confidence among investors." The second priority "management does not want to disclosure of information beyond the directives of NRB."

11. With respect to measures of transparency and reliability of the financial statement and disclosure, the majority of respondent feels that "maintenance of accounts in compliance with internationally accepted accounting principles and convention" as well as "F/S should be submitted within time period specified by law." Similarly experts opined that "strengthening the internal audit function and bringing it up to international standards either by using departmental staff or by hiring a professional audit firm.

5.3   Recommendations

For a better improvement in F/S and disclosure practices in listed commercial bank in Nepal, following recommendations are given on the basis of this study.

)   The quantum of information items in the annual reports of the banks should be increased by bank themselves like "market conditions and banks' position", "information on future and present competitive position", "information about

risk like currency and market risk, market liquidity and funding risk, governmental/ political risk, operating risk" and regulatory bodies should encourage and enforce the banks in making disclosure adequate.

) In order to make banks submit their annual reports promptly, the regulator bodies should come up with suitable and strict laws, provisioning penalties and punishment in the laws for failure of disclosure and should enforce them strictly.

) The banks should make their information disclosure better and adequate as it will not only increase the banks profitability but also increases and stabilize the stock prices. The evidence in this study has shown that positive relation between earning margin and disclosure score, and the better disclosing bank have higher stock prices.

) CRO, ICAN, SEBO/N and NEPSE should be effective in the area of disclosure. SEBO/N and NEPSE should make financial analysis of the financial statement of listed companies. The auditor should supply additional information that would make F/S understandable and generating confidence among investors.

) The accounts should be made according to international accounting standards, and strengthening the internal audit function according to international standards.

BIBLIOGRAPHY

Adhikari, Nabaraj (2004), "Securities Market in Nepal", *Securities Board of Nepal Journal,* Vol. 1, June, P. 81.

Aravanar, Sikidar, et. al. (2006), "Accounting Standard: T eh Indian Scene", edited by Gurusamy and Pramanik, *Corporate Accounting and Financial Analysis,* Kanishka Publishers, Distributors, New Delhi, pp. 83-87.

Axelson, Kenneth S. (1975, July), "A Businessman's View on Disclosures", *The Journal of Accountancy,* pp. 42-46.

Bhattacharya, S.K. and Dearden, John (1999), *Accounting for Management: Text and Cases,* Vikash Publishing House Pvt. Ltd.

Brownlee, Ferris and Haskins (1990), *Corporate Financial Reporting : Text and Cses,* Boston, Richard D. Irwin Inc. pp. 25-26.

Busniess Manager (2000), *How to Invest Successfully in Shares ?,* February, pp. 50-51.

Buzby, Stephen L. (1974, July), "Selected Items of Information and Their Disclosure in Annual Reports", *The Accounting Review,* pp. 423-435.

Chandra, Gyan (1974, Oct.), "A Study of the Consensus on Disclosure Among Public Accounts and Security Analysis" *The Accounting Review,* pp. 733-742.

Chandra, Gyan (1975, Dec.), "Information Needs of Security Analysis", *The Journal of Accounting,* pp. 65-70.

Choi, Frederick D.S. (1973), "Financial Disclosure and Entry to the European Capital Market", *Journal of Accounting Research,* Autumn, pp. 159-173.

Claire, S. and Associates (1962), *Research Methods in Social Sciences,* p. 50.

Dhakal, Ajaya P. (1993), "Corporate Financial Disclosure of Nepalese Companies", *The Nepalese Management Review,* Vol. IX, No. 1, pp. 85-93.

Dopuch, Nicholas (1971), "Discussion of an Empirical Test of the Relevance of Accounting Information of Investment Decision", *Empirical Research in Accounting,* pp. 32-40.

Fertig, Paul E. (1971), et. al. *Using Accounting Information: An Introduction,* Harcourt Brace Tavanovich, Inc.

Francisco, Alberto K. and Smith, Keneth A. (1985), *CPA, Review of Theory and Practice,* 1984/85 edition, ADDISON WESLEY Publishing Company.

Garg, R.K. (2000), "Transparency in Corporate Reporting Practices in India : Problems and Prescriptions", Edition by Gurusamy and Pramanik, *Corporate Accounting and Financial Analysis,* Kanishka Publisher, Distributors, New Delhi, pp. 1-14.

Giri, Niraj, "IOSCO Principles of Securities. Regulation and Nepalese Regulator", *SEBO Journal,* Vol. 1, (June 2004), p. 52.

Grevnig, H.V. and Koen, M. (2001), "Transparency in Financial Statement", *International Accounting : A Practical Guide,* Washing D.C., USA, The World Bank, pp. 1-4.

Gupta, S.C. (1999), *Statistical Methods,* Sultan Chand and Sons Publishers, New Delhi, p. 43.

Gurusamy and Pramanik et. al. (2000), *Corporate Accounting and Financial Analysis,* Kanisha Publisher, Distributors, New Delhi, p. 44-52.

Hendriksen, Eldon S. (1982), *Accounting Theory,* Homewood, Richar d D. Irwin, p. 546.

Jawaharlal (1985), *Corporate Annual Report: Theory and Practice,* Sterling Publishers Pvt. Ltd.

Kafle, Deepak Raj (2005/06), *Chairman Statement, Securities Board of Nepal,* Annual Report.

Kerlinger, F.N. (2000), *Foundation of Behavioural Research,* Second Edition, Surject Publication, Delhi, India, p. 300.

Narayanaswamy, R. (2002), *Financial Accounting : A Managerial Perspective,* New Delhi Prentice Hall of India Pvt. Ltd.

Nepal Stock Exchange, Annual Trading Report (16th July 1999 – 15th July, 2001, pp. 1, 3.

Pandey, I.M. (1999), *Financial Management,* Vikash Publishing House Pvt. Ltd., New Delhi.

Panthi, Babu Ram (1999), *A Sudy of Prospectus Vs. Financial Statement of Nepalese Listed Companies,* Unpublished MBA Dissertation, T.U., Kirtipur.

Report of the Committee on Corporate Financial Reporting, *Accounting Review,* Vol. XLVII, Supplement, 1972, pp. 525-533.

Securities Board of Nepal, Annual Report, 2001/05.

Securities Board of Nepal, Annual Report, 2006/07.

Securities Board of Nepal, Annual Report (2005/06), pp. 7, 9, 9-11.

Securities Board of Nepal, Annual Report, 2003/04.

Sekarm, U. (1992), *Research Methods of Business: A Skill Building Approach,* Singapore, John Wiley and Sons, p. 73.

Shah, Shant Bahadur (2003), *Impact of Corporate Disclosure on Stock Price: A Study of Selected Listed Companies in Nepal,* MBS Dissertation, CDM, T.U., Kirtipur.

Sherpa, Lakpa Gelu (2001), *Corporate Information Disclosures and its Effect on Share Price: A Study of Nepalese Listed Companies,* MBS Dissertation, T.U., Kirtipur.

Shrestha, Manohar K. (1996), "Why Share Market Inactive ? Problems and Measures." *Nepalese Management Journal,* Management Dy Souvnir, pp. 1-13.

Shrestha, Manohar Krishna (2006, May), "Nepal Rastra Bank (NRB), Tendency Towardss Vidlation of Investors Right", Banjya Sansar, *A Journal of Management,* Association of Business Studies (ABS), CDM, Kirtipur, p. 17.

Shrestha, Manphar Krishna (2004), "Impact of Regulation on Capital Market in Nepal", Banigya Sansar, *Journal of Management*, p. 14.

Singh, K.K. (1999, Dec.), ICAN, Souvnir, Lanching Ceremony ……. Pp. 51-60.