ISSN 2961-1504

THE NEPAL CHARTERED ACCOUNTANT

September 2022
Vol. 25 No. 1

Journal of The Institute of Chartered Accountants of Nepal

पुनन्तु मनसा धियः

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

(Established under the Nepal Chartered Accountants Act, 1997)

Fundamental Principles of Professional Accountants

- INTEGRITY
- OBJECTIVITY
- PROFESSIONAL COMPETENCE AND DUE CARE
- CONFIDENTIALITY
- PROFESSIONAL BEHAVIOR

Strategic Direction of ICAN

September 2022
Vol. 25 No. 1

THE NEPAL
CHARTERED ACCOUNTANT

(Quarterly Journal of The Institute of Chartered Accountants of Nepal)

The Institute of Chartered Accountants of Nepal
ICAN Marg, Satdobato, Lalitpur, P O Box 5289, Kathmandu, Nepal
Tel. No. 5530832, 5530730, Fax: 977-1-5550774
E-mail: ican@ntc.net.np, Website: www.ican.org.np

Branch Office Biratnagar
Tel: 021-471395, E-mail: icanbrt@ican.org.np

Branch Office Butwal
Tel: 071-533629, E-mail: icanbtl@ican.org.np

Branch Office Birgunj
Tel: 051-522660, E-mail: icanbrj@ican.org.np

Branch Office Pokhara
Tel: 061-587679, E-mail: icanpkr@ican.org.np

Branch Office Nepalgunj
Tel: 081-530050, E-mail: icannpj@ican.org.np

Branch Office Dhangadi
Tel: 091-527493, E-mail: icandhg@ican.org.np

Designed & Printed By
Global Nepal Printing Press Service Pvt. Ltd.
Tel: 4102772

Subscription Rates	Rs. 600 *(including courier charges for Organizations)*
Annual Subscription	Rs. 400 *(including courier charges for Member)*
	Rs. 300 *(if received by self)*

CONTENTS

Editorial

Pandemic and its Impact on the Nepalese Economy

Several concerns have been expressed due to COVID-19 pandemic that posted significant challenges to public health, the global economy, government and the common citizens, and Nepal was no exception to this. The country before embracing the Covid-19 impact, faced a downturn situation in 2072, as a post-earthquake impact. The overall situation was back then an alarming one, and today too poise an economy threat to the nation. With a sharp decline in foreign reserve, today, the government introduced a measure to curb imports and foreign exchange spending which appears to be a knee-jerk response reflecting the political interest of the institution that oversee the country's economy.

A year ago, foreign exchange reserves were near USD 12 billion. Now they are near to USD 9 billion, barely enough to cover imports for about 6 months. Despite taking up the import curb measure, Nepal's economic situation currently does not appear to be so appealing and promising for a country expecting foreign investment. Growing trade deficits, declining foreign exchange reserve and soaring inflation are the key contributors for the negative economy of Nepal, while Russia-Ukrainian conflict and COVID-19 pandemic adds more to it.

During mid-February 2020 to mid-February 2021, the nominal exchange rate was higher than the current price rate, but nowit has been declining. Nepal's foreign exchange reserves are mainly derived from remittance, which accounts for about 50% of all reserve, but the excessive import costs are the main cause of their decline. Similarly, from mid-February 2021, the foreign markets experienced a decline in purchase power. Even so, they haven't reached a historically low level.

As a result of a rapidly growing trade deficit, Nepal's trade deficit has increased by 14 times between 2003-04 and 2021-22. Among the most troubling aspects of the country's economic situation is the rapid increase in import-export ratios. As a result, exports in 2003-04 were worth 1 NPR and imports were worth 2.5 NPR. It is alarming that the country will import 2.5 NPR worth of goods for the same level of exports in 2021-22. Economic structural problems are evident from the trend. In order to improve the situation,investment in private and public sectors must increase their production efficiency to expand exports, which are constrained by lack of investment.

Based on these trends, what conclusions can be drawn?

It is true that Nepal's foreign exchange reserves have declined, but they have not reached a level that threatens the economy. While the country is running a trade deficit, this trend needs to be addressed through policy level.

Foreign investments have a hard time being attracted to the country due to its current tax regime, market size, availability of raw materials for production, wage rates, technology quality, transportation costs, and labor productivity. The indicators are not favorable, resulting in a decrease in investment and productivity. On the other hand, we know from various sources that the minimum wage for Nepali workers is the highest in South Asia. Infrastructural quality is another factor affecting production and exports.

Besides low productivity and high production costs, Nepal also has low raw material resources. It is not common for Nepal to export large quantities of its own products. It is common for large quantities of products to be exported to India without much addition of value from other countries.

The current economic climate could worsen food security due to rising prices and depleted foreign exchange reserves. In Nepal, 4.6 million people lack access to food. Many people may be unable to afford food with the increase in price. In the meantime, food exports have been banned in at least 14 countries, including India. As Nepal imports a net amount of food grains, food export restrictions could exacerbate the situation.

In a bid to increase the foreign exchange reserve, the government has imposed import restriction on certain non-essential items like vehicle, motorcycle, finished liquor, beans, black piper, smart phones etc. by notifying a notice in Nepal Gazette. But such restriction only cannot increase the foreign reserve as it is short term option.The government through its budget speech of 2022-23 has announced cash subisdy upto 8 percent on goods and services which are with highly potential for export to promote their exports like clinker, cement, steel, software, refined water and IT based services etc. Similarly, in order to develop the industrial sector in the country, attract foreign investment and contribute to import substitution by increasing production and export promotion, the government has announced to provide a 2 to 15 percent rebate on electricity tariffs to industries consuming monthly more than Rs. 100 million worth of electricity.

However, along with the administrative measures, it is time for Nepal to take measures to improve production and productivity considering the current economic situation. The country should identify its resource strength such as electricity and export it for a greater revenue. Likewise, the regulatory should also encourage more on protecting the manufacturing industry and work out on the local consumption rather than encouraging foreign goods consumption.

Further, it is also important for Nepal to formulate evidence-based economic policies that promote transparency and accountability which can then be implemented effectively to avoid an economic crisis. Also,a comprehensive study is required by concerned authority to overcome the situation.

From the President

CA. Bhaskar Singh Lala
President, ICAN

Dear Professional Colleagues,

At the outset, I would like to express my gratitude to the Council Member for unanimously electing me as the 26th President of our esteemed organization. I would also like to offer my special thanks to the Immediate Past President, CA. Yuddha Raj Oli for his leadership and guidance during the first tenure of the ninth Council.

The activities of the Institute are guided by the objectives and priorities laid down in the third Strategic Plan 2021/22 -2024/25 and running in the second year of its implementation. The annual program and budget have been formulated in line with the strategic plan and ongoing developments is accounting sector. During my tenure I will give particular emphasis on implementing the strategic issues as envisioned in the plan.

With this prelude, now let me take you through the activities of the Institute undertaken during the period from July to September 2022.

Regulation and Supervision

In continued effort to enhance the regulatory function of the Institute, the Institute has issued explanatory notes on accounting for Business Combination which clarifies the provision of applicable NFRS with respect to accounting for business combination. Likewise, a carve out on some provision of NFRS 9 to Bank and Financial Institutions was also issued and will be effective until Fiscal Year 2023/24. Similarly, with the objective to facilitate members by providing further guidance in the field of their professional expertise the Institute has issued a guideline on verification of Working Capital and School Audit Guidelines. Besides, the Quality Assurance Division is conducting routine quality assurance review of the practicing audit firm throughout the country.

Professional Development

As an initiative to orient its practicing members and audit firms on their roles and responsibilities as reporting entities in matters of Anti-money Laundering and Counter-terrorism Financing (AML/CFT) compliance requirements, the Institute organized a webinar on "AML/CFT Compliances by Accountants and Auditors" in September, 2022.

Further, with the objective to promote ethical conduct of the Members, the Institute organized workshop on contemporary issues in accounting profession specially related with judiciary role in protecting public interest, cyber security, and info-tech. Moreover, an interaction program on federal and provincial budget 2022/23 was conducted at all branch offices of the Institute in July 2022. Likewise, an interaction program on accounting and auditing issues in Insurance Sector was also organized in participation of Insurance Board of Nepal, delegation from insurance companies and auditors of insurance companies.

Education

The result of CA examination held in June 2022 was published in August 2022, and I congratulate and extend my best wishes to all the students who qualified in CAP -III level. Subsequently, a GMCS training and Pre-Article Orientation Program was organized for the students who qualified the CAP-III and CAP-II level CA examination respectively. The Institute also organized CAP-I student orientation program to the newly enrolled students eligible to appear in December 2022 examination. Likewise, CA membership examination of September 2022 was also conducted in six different examination centers across the country.

The Institute has also conducted election of the fifth Executive Committee of the Nepal Chartered Accountants Students Association (NCASA) in August 2022. Besides, the minimum stipend for article trainee was also revised which was applicable from fiscal year 2022/23.

National Relation: Public and Government

In course of ongoing coordination and maintaining strategic relation with the Office of the Auditor General of Nepal, I along with the Vice President, CA. Sujan Kumar Kafle had a courtesy meeting with the Hon'ble Auditor General Mr. Tanka Mani Sharma Dangal in August 2022. Similarly, the Institute in coordination with the Insurance Board of Nepal has formed a NFRS implementation taskforce comprising of the representative from the Institute, Insurance Board, and Insurer's Association with the objective to facilitate NFRS implementation in insurance companies in Nepal.

A delegation from the Institute participated in different program organized by Nepal Rastra Bank, Securities Board of Nepal, Inland Revenue Department and Nepal's Bankers' Association. Moreover, a National Best Presented Annual Report (BPA) Award 2021 ceremony was also organized by the Institute whereby, nine companies received BPA award in four different categories.

International Relation Global Positioning and Leadership

As a continuing effort of the Institute to broaden the reach and influence of ICAN Members, initiatives are being made for having a Mutual Recognition Agreement with the Chartered Accountants Australia and New Zealand (CA ANZ). In this course, a delegation from the Institute led by me visited the office of CA ANZ in Australia and had meeting with the President of CA ANZ, Kate Boorer, FCA and other officials of CA ANZ on 9th August 2022.

I also participated as a panel speaker in the SAFA Foundation Day Conference 2022 on theme "Environmental, Social and Governance (ESG) and Sustainable Finance" on 22nd August 2022 hosted by the Institute of Cost Accountants of India (ICMAI) in New Delhi, India. Similarly, I also attended the SAFA Board meeting and delegation from the Institute participated in various SAFA committee meetings.

Institutional Development and Sustainability

The Oath Taking Ceremony of President and Vice-President for the second tenure of the ninth Council of the Institute was held on 22nd July 2022 in Kathmandu. I took the oath of office from the Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal) at the Office of the Auditor General thereafter, I administered the oath to the Vice-President CA. Sujan Kumar Kafle. Financial Comptroller General Mr. Suman Raj Aryal also addressed the program as a Special Guest. During the program, the Institute also felicitated the members of the Interim Council and presented *DirghaSewaPadak* to the staffs who served the Institute for more than twenty years.

During this quarter, four staffs participated in outdoor training on data analytics, business intelligence and manager's workshop training. An inhouse workshop on procurement process for public entities was organized for the staffs designated to Procurement Division. In addition, the Employees' Union of the Institute also organized full day training on Leadership and Team Building for the entire staff of the Institute.

Concluding Remarks,

Currently, the country's economies have been experiencing challenges like high inflation, low economic growth rate, decline in foreign reserve and increasing trade deficit. As a Professional Accounting Body and the only regulator of Accounting Profession in the country, I urge all the Members to work in the national interest that help economic prosperity and sustained growth.

To conclude, I am hopeful that as usual the Institute will receive support and cooperation from the Government, International Professional Accounting Bodies, Development Partners and Members and Stakeholders in the activities of the Institute.

With Best Wishes,

CA. Bhaskar Singh Lala
President, ICAN

Corporate Sustainable Finance Disclosure Requirements

There is strong support for the ISSB's aim to develop a comprehensive global baseline of sustainability-related finanical disclosures for capital markets It aims to complete discussions and related decisions about the feedback on the proposed Standards by end of 2022 and develop shakeholders' capacity building strategy, to support and include stakeholders in emerging and developing economies as well as small and medium-sized companies.

Dr. Nabaraj Adhikari, PhD
The author is the Executive Director, Suvervision Department, Securities Board of Nepal.
He can be reached at mail to: nabaraj.adhikari@sebon.gov.np

1. Context and Global Initiatives

Climate change and global warming and consequent adverse effects to the life and property and businesses of the people have been concerning issues to all stakeholders of the corporate sectors including Governments. The concern on environment, social and governance (ESG) provides the sustainability to the business and finance. Investor-oriented, industry-specific information on all three ‘ESG’ categories, acknowledging that a wide breadth of sustainability factors can be material to company prospects. Furthermore, there is strong interdependence between them. Asset managers value investor-oriented information, including identification of sustainability factors that are likely to be material to enterprise value creation.

To address the issues of sustainable business and finance, global summit and gathering such as UN Climate Change Conference UK 2021 and COP 26 Announcement, G20 gathering, G7 Communique, 20 May 2022, etc. have been organised and called upon professional bodies and regulatory authorities to find out reasonable solution to the sustainable finance and climate change. There is TCFD is the Task Force on Climate-related Financial Disclosures, and SASB is the Sustainability Accounting Standards Board Standards that identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for 77 industries. There are continued discussion roundtable about the regulatory roadmap forward and the challenges hindering the adoption and implementation of future corporate sustainability reporting standards with the presentation from the World Bank and various Growth and Emerging Members Committee (GEMC) members of IOSCO. GEMC members noted the next steps regarding the ISSB exposure drafts and the IOSCO in-depth review of these documents to determine whether they meet the expectations of securities regulators

and would serve capital markets well. Sustainability-related financial information provides information about a specific reporting entity which if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting. Sustainability-related information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value, entity-specific, an entity shall apply judgement to identify material sustainability-related financial information, no need to provide disclosure if the information is not assessed as material, consider whether to disclose additional information when compliance with the specific requirements in an IFRS Sustainability Disclosure Standard is insufficient to assess the effect on enterprise value.

The International Sustainability Standards Board (ISSB) is an independent, private-sector body that develops and approves Sustainability Disclosure Standards (SDS) and it is supporting to the International Financial Reporting Standards (IFRS) Foundation for developing sustainability standards. The ISSB operates under the oversight of the IFRS Foundation, which in turn is overseen by the Monitoring Board that is chaired by International Organisation of Securities Commissions (IOSCO). Objectives of ISSB Standards include develop standards for global baseline of sustainability disclosures, and a digital taxonomy to enable electronic tagging; meet information needs of investors; enable companies to provide comprehensive sustainability information for global capital markets; and facilitate addition of disclosures that are jurisdiction-specific / aimed at broader stakeholders. ISSB has prepared and proposed two IFRS Sustainability Disclosure Standards- a) General Requirements standards, and b) Climate-related disclosure standards. Proposed General Requirements Standard's objective is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general-purpose financial reporting when they assess enterprise value. Disclose material information about all significant sustainability-related risks / opportunities. Proposed Climate-related Disclosures Standard is the disclosure of material information about significant climate-related risks and opportunities. This standard requires disclosure of information about physical risks (e.g. flood risk), transition risks (e.g. regulatory change), climate-related opportunities (e.g. new technology). More specifically, the climate exposure draft requires information that enables investors to: determine the effects of climate-related risks and opportunities on the company's enterprise value, understand the company's response to and strategy for managing its climate-related risks and opportunities, evaluate the ability of the company to adapt its planning, business model and operations to climate related risks and opportunities. Consistent with the general requirements exposure draft, the climate exposure draft focus is on significant climate-related risks and opportunities, and information provided must be material for assessments of enterprise value.

The International Accounting Standards Board (IASB) and ISSB are jointly assume responsible for the Integrated Reporting Framework. The Boards envisage a long-term role for a corporate reporting framework. There is strong support for the ISSB's aim to develop a comprehensive global baseline of sustainability-related financial disclosures for capital markets. It aims to complete discussions and related decisions about the feedback on the proposed Standards by end of 2022 and develop stakeholders' capacity building strategy, to support and include stakeholders in emerging and developing economies as well as small and medium-sized companies.

The public consultation of the aforementioned draft ended in 29 July 2022. Sustainable Finance is IOSCO´s key priority areas. Establishing a global baseline for corporate sustainability disclosures is a key ambition of IOSCO's Workplan for Sustainable Finance, which aims to increase transparency and mitigate greenwashing in financial markets. The potential IOSCO endorsement of the standards issued by the ISSB for corporate sustainability disclosures is envisaged to be a crucial step towards increased comparability in sustainability reporting under either voluntary or mandatory reporting regimes. IOSCO's criteria for assessing whether the final ISSB standards are fit for potential endorsement include whether the standards can support the application of a robust assurance framework for information reported in accordance with those standards. If endorsed, IOSCO members and relevant authorities would be encouraged to consider the ISSB standards when setting their national sustainability-related disclosure requirements as appropriate and consistent with their domestic legal frameworks. IOSCO is closely monitoring the stakeholder feedback around the world on the ISSB's exposure drafts on general sustainability disclosure requirements and climate-related disclosure requirements for capital markets.

The recent global initiatives and expectations on sustainable finance include emphasizes need for consistency and connections between financial statements and sustainability reporting by requiring companies to explain linkages in information and use consistent assumptions when relevant; requires financial statements and sustainability disclosures to be published at the same time and for the same reporting period; and facilitates application in different jurisdictions by not specifying a particular location for sustainability information and allowing additional information to be provided. Global initiatives also include digital reporting-by digitalizing financial reports, information becomes machine-readable, allowing investors to access and analyse information efficiently; digital financial reporting provides opportunities to improve capital market efficiency and reduce cost of capital; and over 90% of global market capitalisation now require some form of digital financial reporting (e.g. US, EU, UK, China, India, Japan). Digital reporting-decision-useful, high-quality, comparable and globally accessible digital financial reports, ISSB plans to prioritise enabling digital consumption of sustainability related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset, and to facilitate digital consumption, IFRS Foundation is developing an IFRS Sustainability Disclosure Taxonomy.

The structure prepared for proposed general disclosure requirements and climate-related disclosures standard include: Governance- The governance processes, controls and procedures a reporting entity uses to monitor climate-related risks and opportunities; Strategy- How an entity's strategy addresses significant climate related risks and opportunities; Risk management- How climate-related risks are identified, assessed, managed and mitigated; and Metrics and targets- Information used to manage and monitor the entity's performance in relation to climate-related risks and opportunities over time.

In line with global concern and initiatives on sustainable finance and climate change, Government of Nepal has approved the draft amendment made by Securities Board of Nepal (SEBON) prepared in support of World Bank in Securities Registration and Issuance Regulations, 2016 incorporating a provision that require the corporate issuers to disclose the activities affecting climate change and also SEBON is currently working for amending Securities Issuance and Allotment Directives, 2018 by incorporating the detail provisions that require the corporate issuers to make disclose the activities affecting climate change.

2. Need and Significance of Sustainable Finance Disclosure Requirements

Enterprise value reflects the expectations of the amount, timing and certainty of future cash flows over the short, medium and long term; the value of those cash flows in light of the entity's risk profile and cost of capital; and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information. Sustainability-related financial information is forward-looking information on how a company's business model and strategy may be affected over time.

As prudent and rational investors, they need to expect a sustainable increase in enterprise value. There is sustainability-related risks and opportunities across an entity's value chain. This includes activities, resources and relationships within a company's operations, such as human resources. along a company's supply, marketing and distribution channels, such as materials and service sourcing and product and service sales and delivery, and the financing, geographical, geopolitical and regulatory environments in which the company operates. With the increased focus on short-cut and immediate returns, immediate increase in enterprise value is expected undermining sustainability and climate change. With the global warming and abnormal changes in climate, global finance and climate change have lately been highly concerned issues. Climate change impacts the global businesses in different ways. Among others, asset impairment, changes in the useful life or fair valuation of assets; increased costs or reduced demand for products and services; provisions and contingent liabilities arising from fines and penalties through more stringent regulations; and changes in expected credit losses for loans and financial assets (e.g., severe weather losses). There are potential sustainability-related opportunities as well. That include growth and innovation through the development of products and services that contribute to sustainability goals; reduced costs through improved energy and resource efficiency; improved reputation with employees, customers and other stakeholders; improved resilience to business disruptions.

A common reporting structure would facilitate data collection, enhanced digitalisation and storage, e.g. structured electronic tagging to support machine-readability and a global central repository. Sustainability disclosure standards are critical to ensure comparable, consistent, and comprehensive disclosures in a cross-border environment, and securities regulators have role in adopting and implementing these standards and reducing market fragmentation. Current sustainability reporting landscape has three facets and implications:

a) Voluntary initiatives-incomplete application; multiple standards available; need for rationalisation,
b) Mandatory jurisdictional initiatives-different jurisdiction different requirements; differences in scope, ambition, and pace.
c) Unfavourable consequences of multiple standards
    - o Myriad requirements- costly and complex reporting
    - o Multiple, voluntary standards- difficult to benchmark performance, limits transparency
    - o Different requirements by different jurisdictions-limited global consistency or comparability
    - o Lack of capital market rigour-diminished confidence and trust in information
    - o Growing and urgent demand for global standards to improve consistency and comparability, and sustainability-related financial information, starting with climate.

In the capital markets, information provided must enable an assessment of the effects of sustainability-related risks and opportunities on a company's enterprise value. a) Significant sustainability-related risks and opportunities; b) Impacts of a company on people, the economy and the planet disclosed when it affects assessments of enterprise value; c) Information that is material, i.e., that could reasonably be expected to influence decisions that investors would make. High quality, consistent and comparable corporate sustainability disclosures underpin investor decision-making and capital allocation as well as private sector promotion.

Better integration of investee companies' sustainability reporting with their financial reporting will facilitate for consolidated reporting providing comprehensive information to the investors and other stakeholders of the corporate sector. Investors welcome a number of industry initiatives looking at integrating reporting of climate, sustainability and financial disclosures in annual financial accounts. Asset managers want to see the linkage between a company's sustainability strategy, risk management and its business, strategy and financials. Greater scrutiny by auditors or third-party assurance. More clarity around regulatory expectations regarding audit and assurance.

3. Regulatory consideration in implementing the Sustainable Finance Disclosure Standards

Growing and urgent demand for global standards to improve consistency and comparability, and sustainability-related financial information, starting with climate. The global professional and regulatory bodies including IOSCO, IFRS Foundation, ISSB, etc. have been engaging in drafting and finalising the sustainable finance disclosure standards. The capital market regulators from developed and developing countries are engaging to provide feedback on exposure draft of sustainable finance disclosure standards and also building capacity to implement them once they are endorsed. Regulators need to have different considerations in implementing the sustainable finance disclosure standards. The regulatory consideration in brief include:

a) Potential Challenges

- Preparer capacity limitations
- Specific jurisdictional circumstances of the domestic economy
- Number of small entities in the jurisdiction
- Securing company and investor engagement
- Assurance capacity limitations
- Regulator familiarity with new topic

b) Implementation Guidance

- Establishing Regulatory Framework
- Developing Market Infrastructure

c) Getting Ready for Adoption

- Assessment of Legal/Regulatory Framework – what needs to be done to adopt ISSB standards?
- Right team in place? International standards team, but also others might be relevant

- Implications of ISSB adoption/enforcement for securities regulator policy mandate
- Understanding Market Disclosure Trends: Benchmark what the practice is in the jurisdiction
- Participate in ISSB due process and IOSCO processes
- Look at guidance from ISSB to see what is available to support application assess the maturity of sustainability disclosure in the market
- Understand the domestic economy's sustainability risks relevant to investors
- Implications for industries in jurisdiction?
- Domestic capacity regarding assurance and needed technical resources for application, assurance and enforcement
- Where is the market expertise and how do we get it?

d) Potential Responses to Challenges

- Allowing different pace of application for different sizes of entities and/or industries/sectors
- Phased in approach to full adoption
- Proposing that smaller entities use the SASB industry-based standards
- Phased in approach to assurance

e) Preparing investors in using sustainability-related financial disclosures

- Building on established approaches to wider strategic and financial disclosure to capital markets and regulators.
- Pricing sustainability-related risks into their company valuations.
- Better informed proxy voting.
- Efficient allocation of capital towards resilient businesses in the long term.
- Mobilising private sector finance to deliver upon sustainability goals and outcomes.

4. Way Forward to Nepal

Based on the aforementioned discussions a way forward to Nepal in this direction are as follows:

In the part of Security Exchange Board of Nepal

- Establishing a global baseline for corporate sustainability disclosures is a key ambition of IOSCO´s workplan for sustainable finance, which aims to increase transparency and mitigate greenwashing in financial markets. The potential IOSCO endorsement of the standards issued by the ISSB for corporate sustainability disclosures is envisaged to be a crucial step towards increased consistency and comparability in sustainability reporting. SEBON is the IOSCO Associate Member, as IOSCO, IFRS Foundation and other related bodies such as ISSB are actively involving in addressing the increasing global concern of sustainable finance and climate change and, among others, by developing sustainable finance disclosure standards and bringing them in implementation with the objective of promoting sustainable finance and private sector development and investment, hence it should be a significant issue to consider by SEBON. Moreover, ssustainability reporting (multi-stakeholder focus) required by different jurisdictions/ Global Reporting Initiatives.
- In order to contribute by developing capacity in materialising global initiatives of developing Sustainable Finance Disclosure Standards and bringing them into implementation in the home country as well as globally, SEBON needs to get involved by joining in webinar on ISSB meetings and also participating in-person capacity building programme, responding to live consultations sign up for news alerts; discovering which IFRS Foundation services can support us, including membership and education; downloading proposed IFRS Standards and supporting materials.
- SEBON should make necessary preparation to decide how to use ISSB standards within context of own domestic legal and regulatory frameworks in a way that promotes consistent and comparable sustainability disclosures across jurisdictions as individual jurisdictions have different domestic arrangements for adopting, applying, or otherwise availing of international standards. Once ISSB standards are endorsed by IOSCO, IOSCO will consider creating guidance so that adoption of ISSB standards can proceed in a comparable manner across jurisdictions.
- Given the pre-emerging status of the capital markets and differing size of the listed companies, SEBON can adopt the standards by establishing regulatory framework, and developing market infrastructure and in Size-based phasing- earlier phase-in for large listed companies (i.e., top 50 large market cap), which have

more resources and experience with sustainability reporting and later phase-in –or lighter requirements –for small and medium enterprises (SMEs) which may find it challenging to implement the standards in full immediately, and Sector-based phasing- **e**arlier phase-in for certain sectors that face higher climate risk (e.g. energy, manufacturing & processing, hotels).

In the part of The Institute of Chartered Accountants of Nepal (ICAN)

- The Institute of Chartered Accountants of Nepal (ICAN) established under the Nepal Chartered Accountants Act, 1997 for enhancing social recognition and faith of people at large in the accounting profession by raising public awareness towards the importance of accounting profession as well as towards economic and social responsibility of the accountants. It has immense role in promoting uniform financial reporting standards in the country. ICAN has also been engaging as an expert agency in developing various reporting standards as per the request and requirements of the financial regulatory bodies of the country. In this context, ICAN needs to support and provide technical expertise to the SEBON in providing feedback to the ISSB's proposed draft of general sustainability reporting standards and climate-related sustainability reporting standards in order to finalise them in due time and also with view to potential implementation of ISSB final standards. For this purpose, ICAN may form a technical committee to assess if the final ISSB standards are fit for purpose in the context of Nepal and country's corporate sector in line with core capital market needs; serve as a baseline for consistent and comparable approaches to mandatory disclosures globally; compatibility with existing accounting reporting standards and promote good governance among preparers; and form the basis for audit and assurance.

In the part of Corporate Sector

- Corporate sector affecting climate change should have transition planning which is how the entity is responding to significant climate-related risks and opportunities including how it plans to achieve any climate related targets it has set. This might include: information about current and anticipated changes to its business model, changes the entity is making in strategy and resource allocation to address these risks and opportunities, information about direct adaptation and mitigation efforts it is undertaking, etc.

In the part of Government of Nepal

- Government of Nepal should also follow climate resilience policy and programme for international and national climate policy responses, green-house gas (GHG) emissions reductions targets, changes required to the energy mix and infrastructure, increased investment in new technologies in view of shifts in consumer behaviours and demands, and potential sudden changes under high warming scenarios.

At last, but not least, the entire sustainability-reporting ecosystem is evolving. Stakeholders will need to adapt to new sustainability-related reporting standards and to enhanced expectations among increasingly sophisticated users of sustainability-related information across financial markets. IOSCO will continue to support its members and other stakeholders in the journey to improve the consistency, comparability, and reliability of corporate sustainability-related reporting, including the assurance of sustainability-related information.

References

IFRS Foundation, 2022, Sustainable Finance Disclosure Requirements for Corporate Issuers, Programme Proceedings, IOSCO-ISSB capacity building programme.

IOSCO, 2022, IOSCO´s endorsement criteria and how the ISSB standards fit into the overall public regulatory framework, IOSCO-ISSB capacity building programme.

The Board of the IOSCO, 2022, IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting, IOSCO STATEMENT

IOSCO, 2022, IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets, MEDIA RELEASE

www.iosco.org

www.ifrs.org

www.ican.org.np

www.sebon.gov.np

Development of Banking System in Nepal and Way Forward

To ensure smooth operation of banking sector and handling of forthcoming crisis, adequate timely measures and actions should be taken by the government and the central bank. The bank must be focused for the neo-banking, digital banking instead of traditional banking. The customer must be literate about the digital products as well possibilities of fraud to be occured from the product to be used.

CA. Prem Subedi, MBS, LLB
The author is the Member of ICAN and Head of Credit Risk at Shine Resunga Development Bank Ltd.
He can be reached at mail to: capremsubedi@gmail.com

Introduction

Bank is the financial institution established under the prevailing act, rules and regulations of the country which has authority to accept money from the public as a deposit and make loan. According to the Bank and Financial Institution Act 2073, Bank or Financial Institution means a bank or financial institution which has obtained a license pursuant to this Act for carrying on banking or financial transaction.Here, 'License' means the license issued by the NepalRastra Bank under the Bank and Financial Institution Act 2073 in the name of a bank or financial transactions.

A banking system is a group or network of institutions established under the prevailing act, rules and regulations to provide financial services. These institutions mainly provide and work for operating a payment system, providing loans, taking deposits, providing consultancy services, aware people and investors and helping with investments.

Key Words
Traditional banking was in the hands of *Tankadhari,Tejrath, Mahajan(Sahu) & Desi Bankers*
Development of banking system in Nepal was started in the reign of Ranodip Singh in year 1933 BS with the establishment of *'TejarathAdda'*. It used to lend money against gold and silver to the general public.
Development of modern banking system in Nepal was started after establishment of Nepal Bank Ltd in 1994 BS

Earlier, separate Act to regulate the various BFIs but after Banks and Financial Institution Act 2073, all BFIs are governed through this Act.
The way forward of Nepalese Banking are Human Resource Management, Focusing on Development of digital technology, adoption of Neobanking, Increasing financial and digital literacy, research and development, reduction in the cost, focus on the corporate social responsibility, timely review of policies and guidelines, adoption of new risk management procedures, proper guidelines of relief of central bank as well as Government of Nepal etc.

1. Development of Banking System in Nepal:

Banking system means generally the modern banking system but we have to understand the historic

development of traditional banking system towards the modern development of banking system in Nepal.

a) **Traditional Banking System of Nepal:** The evolution of the traditional banking had been made in 723 AD after Gunkam Dev borrowed money for the reconstruction of the Kathmandu city. In traditional Banking, the task related to accept money and lending it to public was conducted. In traditional banking, the banking system was in the hands of *Tankadhari, Tejrath, Mahajan (Sahu) & Desi Bankers.*

The development of banking system in Nepal was started in the reign of 'Ranodip Singh' in the year 1933 B.S with the establishment of an office named 'TejarathAdda'. The main purposeof the establishment of 'TejarathAdda' was to provide loan in lower interest rate. Before establishment of 'TejarathAdda', people used to take loan from 'Tankadhari' who used to charge higher interest rate and there was also no any mechanism to regulate the transactions which was creating the issue of transparency. The maintask of 'TejarathAdda' was to rid off from the problems created by 'Tankadhari'. In 'TejarathAdda' they used to provide loans to the government officials and people against pledge of gold and silver in a very lower interest rate. Although, the demand of the 'TejarathAdda' was expanding in a rapid way, it was unable to fulfill the demand of public due to capital shortage for the lending. The demand for the loan was alsoincreasing due to rapid growth of the industry and trade. It had also extended its branches outside Kathmandu valley but this office had no right to accept deposit of public and it had no characteristics of modern bank.

b) **Modern banking System in Nepal:** The establishment of Modern Banking system in Nepal can be summarized as follows:

i) **Nepal Bank Ltd:** The modern banking system in Nepal was established with the establishment of Nepal Bank Ltd. on 30th Kartik 1994 B.S.The establishment of this bank is created major steps for the development towards the modern banking system in Nepal. It is the first Bank of Nepal which was established under the Nepal Bank Act 1994 and it has been inaugurated by King Tribhuvan Bir Bikram Shah Dev on 30th Kartik 1994 B.S. Nepal Bank was established as a semi-government bank with an authorized capital of Rs.10 million and the paid-up capital of Rs. 892 thousand.

ii) **Nepal Rastra Bank:** Until the foundation of Nepal Rastra Bank in 2013 BS, Nepal Bank Ltd. remained the only financial institution of the country. The banking system of the Nepal was operated through the Nepal Bank Act, 1994 and there was the absence of central bank. Therefore, Nepal Bank Ltd had to play the role and function of central bank.

Nepal Rastra Bank was established as central bankon 14thBaishakh 2013 BS under Nepal Rastra Bank Act, 2012. The bank has issued the Nepali Notes on 7thFalgun 2016 to stop the maximum use of Indian currencies in Nepal and to increase the uses of Nepalese notes. Further, it has been established to keep stability in the exchange rate of Nepalese currencies and to encourage national industries by mobilizing the national resources and development of the capital formation and rid off from the dual monetary system.

iii) **Nepal Industrial Development Corporation (NIDC):** The establishment of Nepal Industrial Development Corporation was made in 2013 BS to provide capital and promote Nepalese industries.Later, the center was converted into NIDC in 2016 BS underNepal Industrial Development Corporation Act, 2016.

iv) **Agriculture Development Bank Ltd:** The development bank was established under Cooperative Bank Act, 2019 in 2020 BS as a cooperative Bank. Later, it had been converted into Agriculture Development Bank Ltd in 2024 BS with authorized capital of Rs.50 Million after formulating Agriculture Development Act 2024. The main aim of the Bank was to give priority for the development of agriculture sector of the country. It used to provide short term and long term loan to the farmers for purchasing of agricultural equipment, pump-sets, motors, seeds, fertilizers, establishment of agricultural industries etc.

v) **Rastriya Banijya Bank:** Nepal Bank Ltd was only the bank to conduct the commercial transactions in the country before the establishment of Rastriya Banijya Bank. The Rastriya Banijya bank was established in 2022 BS through Rastriya Banijya Bank Act 2021 with the aim to develop the trade, commerce and finance of the countryand to maintain the uniformity. Initially the authorized capital of the bank was Rs. 10 million.

vi) **Foreign Banks:** The firstforeign bank was established with the joint venture of Nepalese investor and foreign investor. The main aim of the establishment of the foreign bank is to attract the foreign investment in Nepal. The NABIL Bank Ltd was the first foreign bank established on 2041 BS. The Dubai Bank had made 50% investment; rest 20% and 30% had been made by Nepalese Financial Institution and Nepalese people respectively. Similarly, Nepal Indosuez Bank Ltd had been established in 2042 BS. The Indosuez Bank from France had made 50% investment in the Bank and rest 50% had been made by Nepalese people and financial institutions. Later, the British Bank named Greenlays Bank Ltd was also established in 2043 BS. Similarly, several other foreign banks were established as Himalayan Bank Ltd in 2049 BS, Nepal SBI Bank Ltd in 2050 BS, Nepal Bangladesh Bank in 2051 BS and Everest Bank Limited, Bank of Kathmandu limited in the same year.

The development of the Banking System can also be overviewed from the development of banking law. The development of banking law can be summarized as follows:

a) TejarathAdda:

- First step for the development of banking system and established in 1933 BS by Ranodip Singh
- Loan sanctioned against the gold and silver

b) Establishment of *Taksar* and *Muluki Khana*:

- First step for the issuance of coins after establishment in 1988 BS.
- Further, first Nepalese currency notes were issued by Sadar Muluki Khana of Nepal Government from 1StAshoj 2002 BS.

c) Nepal Bank Act, 1994:

- The Nepal Bank Ltd was established in 1994 BS as a modern banking system of Nepal with the establishment of Nepal Bank Act 1994. Later this act had been repealed after formulating the Commercial Bank Act 2020.

d) Nepal RastraBank Act, 2012:

- Established on 13th Baishakh 2013 as the Bank of Bank and work as Central bank of Nepal.
- Issuance of Nepalese Currencies
- Work as an advisor to Government of Nepal
- Capital formation of the Country and control of foreign exchange
- Determination of Interest Rate
- Work for the establishment of the stability of the Country

e) Rastriya Banijya Bank Act, 2021:

- Rastriya Banijya bankwas established in 2022 BS as a modern banking system of Nepal under Rastriya Banijya Bank Act, 2021. Later this Act was repealed after formulating the Commercial Bank Act. It is second commercial bank established after Nepal Bank Ltd.

f) Agriculture Development Bank Act, 2024:

- Formerly established Agriculture Cooperative Bank in 2021 BS was converted to Agriculture Development Bank Ltd in 2024 BS after formulation of this Act.
- The purpose this bank was to develop agriculture sector as well as upliftment of living standard of the farmer.

- Later, this Act has been repealed after formulation of Commercial Bank Act, 2031

g) Commercial Bank Act, 2031:

- The Nepal Bank established under Commercial Bank Act 2020, Rastriya Banijya Bank Act had been repealed after the formulation of Commercial Bank Act, 2031.
- Work for the development of industry, trade and commerce
- Loan against collateral as well as security, investment, Hire Purchase, consortium financing, foreign exchange, cheque, bills of exchange etc.

h) Finance Company Act, 2042:

The enforcement of the Act aimed to collect the scattered capital in one place. After enactment of this Act, 58 financial institutions were established.

i) Nepal Industrial Development Corporation Act, 2046:

- Nepal Industrial Development Corporation Bank had been established under Industrial Development Corporation Act, 2016. The Industrial Development Corporation Act, 2016 was repealed and replaced by Nepal Industrial Development Corporation Act 2046.
- The corporation aimed to provide short term as well as long term loan to the entire Industries sector.

j) Development Bank Act, 2052:

- The aimed of this Act is to develop agriculture, industry, service sector, trade and commerce and to increase in the productivity of these sectors.
- 5 rural Banks and 37 Development banks were established under this act.

k) Nepal Rastra Bank Act, 2058:

- This Act is also currently prevailing.
- In order to overcome from the situation of problematic Banks and Financial Institutions, this Act has been come into force. The earlier enacted Nepal Rastra Bank Act, 2012 had been repealed.

l) Bank and Financial Institution Act, 2073:

- With the enforcement of this Act, the earlier Commercial Bank Act, Finance Company Act, Nepal Industrial Development Corporation Act and Development Bank Act had been repealed.

The major provisions of this Act are:

- Incorporation of Bank and Financial Institution
- Capital formation and share transaction, buy back of shares
- Provision related to Board of Directors and Chief Executives
- Provision of License
- Disbursement and recovery of credits
- Account, records, details and reporting
- Provision related to merger and acquisition, voluntary and mandatory liquidation
- Provision related to the actions, offences and punishment.

  Currently this Act is prevailing for Bank and Financial Institution.

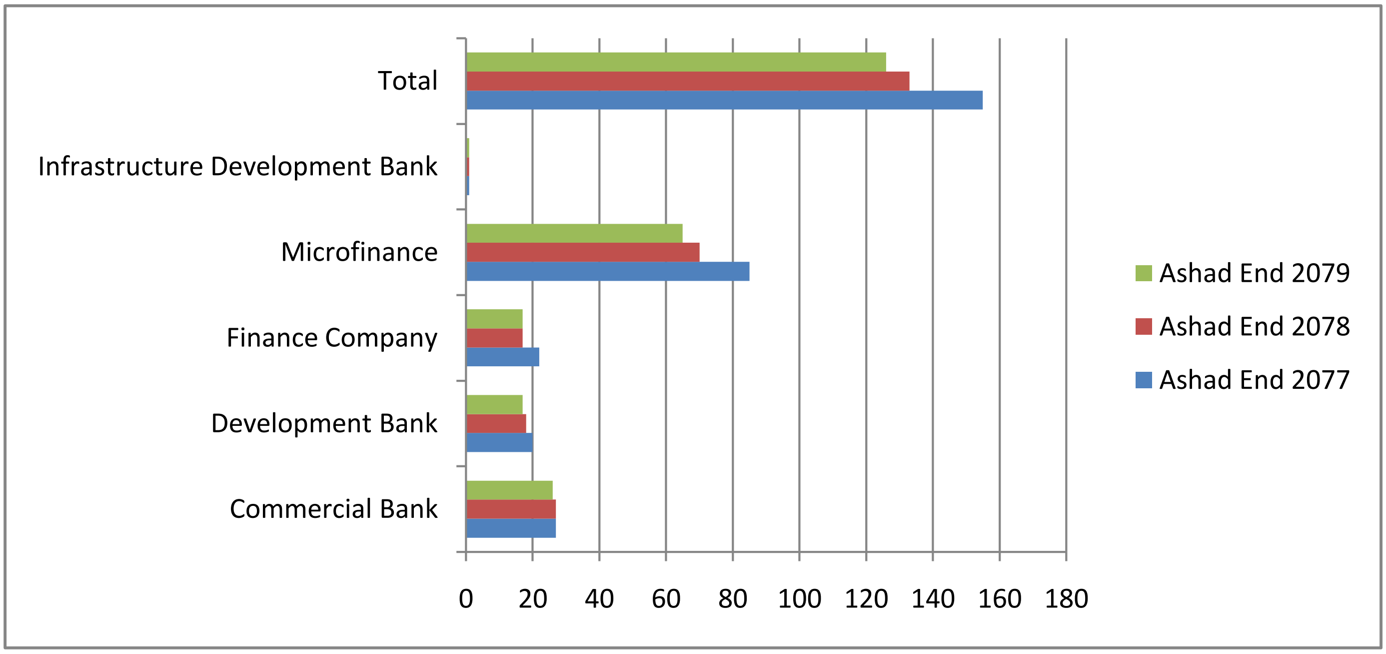
2. Overview of Bank and Financial Institution:

The current number of Bank and financial Institution and their branches across the country as onAshad end 2077 to Ashad End 2079 are as follows:

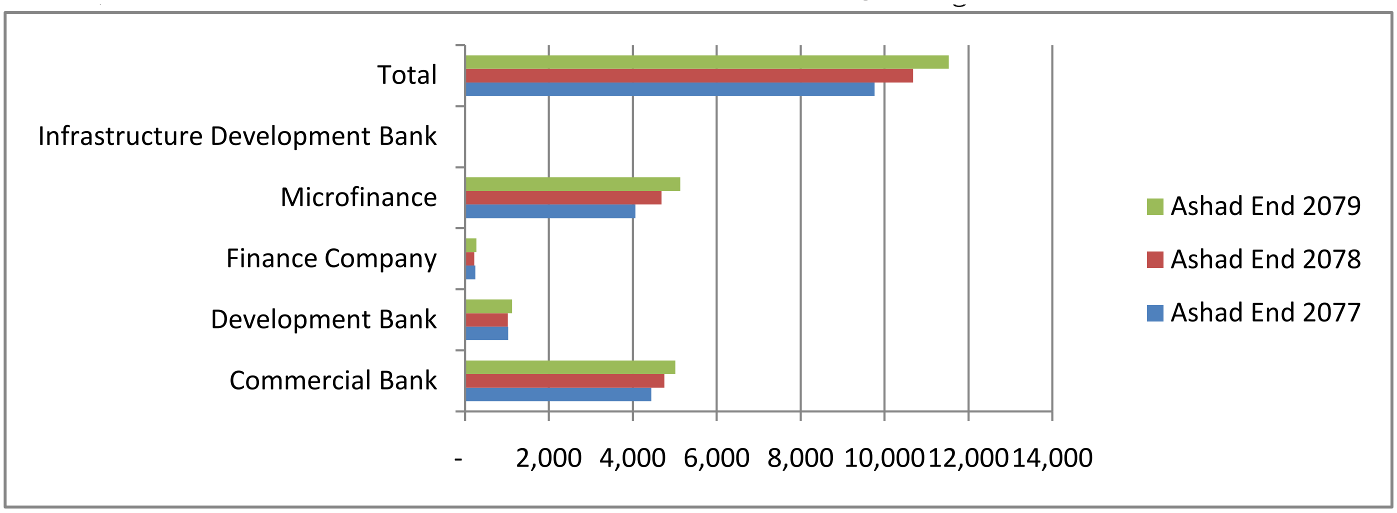
Bank and Financial Institution (BFIs)	Nos. of BFIs			Nos. of Branches of BFIs		
	Ashad End 2077	Ashad End 2078	Ashad End 2079	Ashad End 2077	Ashad End 2078	Ashad End 2079
Commercial Bank	27	27	26	4,436	4,753	5,009
Development Bank	20	18	17	1,029	1,023	1,118
Finance Company	22	17	17	243	222	267
Microfinance	85	70	65	4,057	4,685	5,134
Infrastructure Development Bank	1	1	1	-	-	-
Total	**155**	**133**	**126**	**9,765**	**10,683**	**11,528**

Source: https://emap.nrb.org.np/

Further, the nos. of BFIs can be shown in the below Bar-diagram:



Further, the nos. of Branches of BFIs can be shown in the below Bar -diagram:



From the analysis of the above Bar-diagram and Table the numbers of BFIs are decreasing. The main reason for decreasing the BFIs is the merger and acquisition among them. The provisions related to merger and acquisition has also been incorporated in the Chapter 10 of Bank and Financial Institution Act, 2073 and Unified NRB Directives, 2078.

3. Way forward of Banking System:

The pandemic of COVID-19 has hit the development and growth of Nepalese banking severely. The world had already faced many epidemics including Spanish flu, plague and swine flu, bird flu etc before COVID19. Due to impact of COVID19 it leads the global economy towards the global recession, sinking many businesses, leading to a rise in non-performing loans (NPLs) and bankruptcies. The impact of the COVID 19 has still made the change in the life style of the people, organization, nature of Banking Transactions, the dependency on the information technology, virtual work and meetings and the value of brands. Nepalese banking sector must make proper guideline and change in strategy to come from this obstacle. Further, each and every individual staffs must be trained physically to increase the efficiency of each of them as during the COVID 19 they used to work virtual and physical training has been provided less which might impact in the sustainable growth of banking portfolio. Some of the key points are represented below which Banks must implement in near future to make the organization sustainable and strong.

a) **Human Resource Management:** As the Human Resource is the primary asset of all Banks. The portfolio management and the sustainable growth of the Banks only be made with proper updated, knowledgeable, efficient staff of the Banks. So, it is necessary to bring change in human resource structure, nature of training provided, organization structure and working style of banking sector. According to the nature of work, Banks can develop the idea of work from home, virtual work which will be helpful in reducing the cost of transportation, operational cost of office and rent for the bank's office. Further, the Bank must be transparent to all staff and there must be equal opportunity to growth for efficient staff and establish the culture of promotion and appreciation on time. Also the human resource of the Bank shall be honest, diligent and accountable to the organization.

b) **Digital Technology:** Today's era is the era of globalization, modernization, digital based and people have less time to visit Bank and conduct the banking transactions as they used to do earlier. Now a day people are focusing for the digital banking based on the digital technology. It emphasis that more and more banking transaction should be done through digital systems. The cash transaction can be reduced by using of internet banking, mobile banking, Quick Response, POS and other electronic payments. All Banking activities, service delivery, customer transactions, documentation and other financial activities should be based on digital system and automated. Every Bank must maintain a proper policies and guidelines to minimize the risk which might be occurred from the digital transactions and adoption of digital technology. It seems necessary to develop mechanism, policies and guidelines that can make payments by showing a card, reading or scanning of face, payment by thumb scanning etc.

c) **Focusing on Neobanking:** The people of the today's era are more conscious about the time. They have less time tovisit the Banks to conduct their banking transaction. They need all banking transactions and activities through internet at their home and mobile. A neobank is a digital bank that does not have any branches. Instead of having a physical presence at a set location, neobanking is entirely online. Neobanks bridge the gap between the services that traditional banks offer and the evolving expectations of new-age customers. So, the Banks of Nepal should also focus of the implementation of neobanking which will be helpful by providing personalized experiences, employing data-driven insights and offering value-added services. Adequate risk assessment must be done prior to the implementation of this policies and guidelines.

d) **Increasing Financial and Digital Literacy:** The literacy rate of the Nepal is approx 70% and most of the people are not aware about the digital banking products and they are still accustomed to traditional banking. They are not aware about the recent changes in the Banking digital products. So, all banks must focus for the financial and digital literacy with support of government of Nepal, federal government, local authority, central bank, should give priority to alerting their target customers into digital and electronic transactions. The customer of the banks should also be aware about the possible fraud might be occurred in the products and its impacts.

e) **Research and Development:** The Banks must constitute a department for research and development purpose. Simply, copy and paste of the other countries product may not be suit for the customer of those banks. So, the product must be made suitable according to the category of the customer, their religion, beliefs and knowledge.

f) **Cost Reduction:** The operating cost of the bank is increasing day by day due to unhealthy competition among them, opening of new branches, hiring of more staffs than hiring qualified and efficient one. The cost can be reduced by hiring the efficient and qualified staff, merger and acquisition between Banks etc.

g) **Review of Policies and Guidelines:** The policies and guidelines of the Bank must be updated according to the directives and guidelines given by the central Bank. Non-updation of the policies and non review of the policies and guidelines on time leads to raise wrong information and may affect the branch image and the portfolio of the bank.

h) **Proper Guidelines and Relief:** The provision of providing some special relief by categorizing the industries and projects which may have significant impact and contribution towards the states should be provided by Government of Nepal. The proper guidelines related to the category of industries and its eligibility must be prepared. Also, the guidelines should focus for the construction of business including hotel, transportation, airline, travel and trekking so on.

i) **Implementation of Risk Management Procedures and Practices:** Banks are focusing for the quantitative business growth rather than qualitative growth. The sustainable growth of the bank only is possible with the implementation of the proper risk mitigation procedures and practices which also helps to maintaining the qualitative growth of the portfolio. Every business is associated with the risk, but the risk associated can be reduced by implementing the proper risk management procedure and practices. The risk management policies and procedures also be reviewed periodically and it must be aligned with the overall industry and international best practices.

j) **Focus on the Corporate Social Responsibilities:** The compulsion of the corporate social responsibilities has been made to the Banks. The CSR must be made in the sector from which the people of the country can be benefitted. Further, the relationship with of general people towards the bank could be created through proper conduct of CSR activities. The central bank shall also make proper updated guidelines for CSR.

k) **Additional Loanable Fund:** There may be lack of fund for new loan due to non recovery of loans on a regular basis due to various reasons such as impact of the business due to economic crises, effect of international war between two powerful countries etc. So, to get rid off this problem it is necessary to increase limit of loans that can be provided by the central bank and to make arrangements for some loan eligible funds until the problem is resolved. The money supply can be made though refinancing concept by Central Bank to the various borrowers of BFIs.

4. Conclusion:

Banking sector is central to a country's economy due to its crucial role in channeling resources from the surplus sector to the deficit sector. Sound and effective banking system is one of the major backbones of financial stability (NRB, Bank Supervision Report, 2021). Banking sector also seems to have made significant contribution to the development and expansion of Nepal's economy (Poudel, 2005). It is necessary to increase substantial investment in reliable information technology in the banking sector which will help to reduce potential impact from COVID19 in Nepal's banking sector, In addition, the bank should encourage for the merger and acquisition among Banks and encourage staff to ‘Work from Home’ and to prioritize more virtual transaction. The banking industry now needs to focus for the business functions, employee health, lending portfolio and recovery. It should focus on how to revive all services with strong internal and external communication strategies, along with a recovery plan. Therefore, to ensure smooth operation of banking sector and handling of forthcoming crisis, adequate timely measures and actions should be taken by the government and the central bank.The bank must be focused for the neo-banking, digital banking instead of traditional banking. The customer must be literate about the digital products as well possibilities of fraud to be occurred from the product to be used. The extant laws, policies and procedures are in place however, such legislation, policies, procedures and guidelines of the bank must be timely reviewed with the directives, circulars of the central bank.

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL
(Established under the Nepal Chartered Accountants Act, 1997)

आर्थिक बर्ष २०७९/८० मा संचालन हुने सि.पि.ई तालिमहरु निम्न मिति र स्थानमा संचालन हुने भएकोले ईच्छुक सदस्य महानुभावहरुले उपयुक्त हुने स्थान र मितिमा सम्वन्धित संस्थासंग सम्पर्क गर्नको लागि यो सूचना प्रकाशित गरिएको छ ।

आर्थिक बर्ष २०७९/८० को सि.पि.ई. कार्यक्रम तालिका

क.सं.	मिति	तालिम संचालन हुने स्थान	तालिम संचालन गर्ने संस्था
१.	२०७९ आश्विन १ र २	पोखरा	ACAN
२.	२०७९ कार्तिक २५, २६ र२७	काठमाडौं	ICAN
३.	२०७९ मंसिर २३, २४ र २५	जनकपुर	AuDAN
४.	२०७९ माघ ६, ७ र ८	काठमाडौं / वुटवल / हैटौडा	ICAN / ICAN / AuDAN
५.	२०७९ माघ १३, १४ र १५	नेपालगंज / पोखरा / चितवन	ICAN / ICAN / AuDAN
६.	२०७९ माघ २०, २१ र २२	विरगंज	AuDAN
७.	२०७९ माघ २७, २८ र २९	धनगढी / वागलुङ्ग	ICAN / AuDAN
८.	२०७९ फाल्गुण ५, ६ र ७	काठमाडौं	ICAN
९.	२०७९ फाल्गुण १२, १३ र १४	विराटनगर / दाङ्ग	ICAN / AuDAN
१०.	२०७९ फाल्गुण २६, २७ र २८	महेन्द्रनगर	AuDAN
११.	२०७९ चैत्र ३ र ४	विरगंज / वुटवल	ICAN / ACAN
१२.	२०७९ चैत्र ३, ४ र ५	काठमाडौं	ICAN
१३.	२०७९ चैत्र १०, ११ र १२	धनगढी	AuDAN
१४.	२०७९ चैत्र १७, १८ र १९	भैरहवा	AuDAN
१५.	२०७९ चैत्र २४, २५ र २६	काठमाडौं	AuDAN
१६.	२०८० वैशाख ८, ९ र १०	पोखरा	AuDAN
१७.	२०८० वैशाख १५, १६ र १७	विर्तामोड	AuDAN
१८.	२०८० जेठ ५, ६ र ७	काठमाडौं / विराटनगर	ICAN / AuDAN
१९.	२०८० जेठ १२, १३ र १४	काठमाडौं	AuDAN
२०.	२०८० जेठ १७	काठमाडौं	ACAN
२१.	२०८० जेठ २६, २७ र २८	काठमाडौं	AuDAN
२२.	२०८० आषाढ ८, ९ र १०	काठमाडौं	ICAN
२३.	२०८० आषाढ १५, १६ र १७	काठमाडौं	AuDAN
२४.	२०८० आषाढ २९, ३० र ३१	काठमाडौं	AuDAN

विस्तृत जानकारीको लागि सर्म्पक:

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था (ICAN) आईक्यान मार्ग, सातदोवाटो, ललितपुर, फोन नं: ०१-५५३०७३०, ५५३०८३
ईमेल: ican@ntc.net.np, वेवसाईट: www.ican.org.np
नेपाल चार्टर्ड एकाउन्टेन्ट्स संघ (ACAN), काठमाडौं, फोन नं ०१ ४२५३०६८, ईमेल: acan@ntc.net.np, वेवसाईट: www.acan.org.np
नेपाल अडिटर्स एशोसिएसन (AuDAN), काठमाडौं, फोन: ०१ ४४८७८८३, ईमेल: audan.nepal@gmail.com, वेवसाईट: www.audan.org

पुनश्च : प्राविधिक कारणले उपरोक्त समय तालिका तथा कार्यक्रम प्रकृतिमा हेरफेर हुन सक्ने छ ।

Preference Shares as Debt or Equity Instrument: Legal and Accounting Perspectives

Correct classification of financial instruments in the balance sheet into equity and liabilities is important for assessing the financial position of any entity. There should be specific guidelines unifying both legal and accounting principles to determine whether preference shares resemble debt or equity. Concerned regulatory authorities such as IRD, NRB and OCR should outline the factors determining preference shares as debt or equity instruments.

Advocate, Lazzu Shrestha
The author is practicing corporate lawyer and currently pursuing MSc Law and Finance at the University of Leeds, UK. She can be reached at mail to: lazzu.shrestha@gmail.com

Issuing preference shares is one of the means of raising capital by a company. Both the investor and the company have respective commercial interests in transacting through preference shares. Investors look for a secured investment through fixed dividends and return of capital whereas, companies tend to lower their debt-equity ratio by issuing preference shares instead of debentures. Preference shares having the nature of hybrid instruments are often subject to debate on whether they are debt or equity instrument. The parameters in determining preference shares as debt or equity instrument may have impact from accounting, regulatory, and tax treatment perspectives. This article analyzes both equity and debt elements of preference shares and concludes how Nepalese company laws and accounting principles support in favor of preference shares as debt or equity instrument. The first section gives a brief introduction of preference shares. The second and the third sections respectively discuss in detail equity and debt elements of preference shares. The fourth and the fifth sections respectively highlight legal and accounting treatment of preference shares. The last section suggests the requirement of a uniform guideline outlining the factors determining preference shares as debt or equity instrument from both legal and accounting aspects.

1. Meaning of Preference Shares

Preference shares give preference to its holders over ordinary shareholders in terms of payment of dividend, and/or return of capital at the time of liquidation.[1] Ferran defines preference share as "a share that, in respect of dividends and/or capital, enjoys priority, for a limited amount, over

1 Paul L. Davies & Sarah Worthington, *Gower & Davies' Principles of Modern Company Law*, Sweet & Maxwell, London, 9th edition, 2012, p. 866.

the company's ordinary shares".[2] From an accounting perspective, preference shares are financial instruments issued by a company to raise capital. The Nepal Accounting Standard 32 – Financial Instruments: Presentation (NAS 32) defines a financial instrument as "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity".[3]

The exact nature of preference will vary from company to company, but most preference shares provide their holders with fixed or preferential rights to a dividend, and/or priority claims on the assets of the company upon liquidation.[4] It is to be noted that preference over dividend does not necessarily entitle preference on return of capital[5] and thus, preferential rights are to be explicitly stated in the articles of association (AOA) of the company[6].

Preference shares are hybrid financial instruments possessing the characteristics of both debt and equity thereby creating the debate as to whether they are debt or equity instrument. The below sections briefly highlight equity and debt elements of preference shares.

2. Equity Elements of Preference Shares

2.1 Formation of Share Capital

Payment by preference shareholders against subscription of preference shares form share capital of a company, meaning that preference shares are issued out of the issued share capital. Such paid-up capital by the preference shareholder generates a residual interest in the company, thereby suggesting preference shares as an equity instrument.[7] Redemption of preference shares results in the reduction of issued share capital of the company though it does not affect its authorized capital.[8]

2.2 Payment of Dividends

Preferential dividends[9] are payable only out of distributable profits[10] and when declared by the general meeting of the company[11]. Irrespective of the cumulative or non-cumulative nature of preferential dividends, they cannot be paid if the company does not have sufficient distributable profits.[12] Unlike debt, preferential dividends cannot be paid out of capital.

2.3 Voting Rights in General Meeting

Generally, preference shares are issued without granting voting rights to preference shareholders. For example, Butwal Power Company (BPC) holds non-voting preference shares in Khudi Hydropower Limited, one of its subsidiaries.[13] If preference shareholders are entitled with voting rights, they are normally limited only to those resolutions which directly affect the rights attached to preference shares, such as return of capital on liquidation, preferential dividends in arrears, or variation of preferential rights.[14] Irrespective of entitlement over voting rights, preference shareholders can participate in general meetings, and their representatives can be appointed as observers of those meetings.

2.4 Representation in Board of Directors

Preference shareholders are generally not given control over the company. This is one of the reasons for companies tending to issue preference shares – the company gets financed on one hand and the existing board will not have to struggle with the new investor on the other.[15] However,

2 Ellis Ferran, *Principles of Corporate Finance Law*, Oxford University Press, UK, 1st edition, 2008, p. 151.

3 NAS 32 – Financial Instruments: Presentation, s. 11, available at http://www.standards.org.np/asb/resources/409291_34.0%20NAS%2032_SetPassword.pdf, accessed on 2 October 2022.

4 Lee Roach, *Company Law Concentrate*, Oxford University Press, UK, 3rd edition, 2014, p. 122.

5 *Birch v. Cropper*, House of Lords, United Kingdom, 1889, 14 App Cas 525.

6 *Company Ain 2063* (Companies Act 2006), Nepal, s. 65.

7 Income Tax Treatment of Hybrid Instruments (Second Edition), *Inland Revenue Authority of Singapore*, 2019, s. 5.3(a), available at https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguide_cit_income-tax-treatment-of-hybrid-instruments_2014-05-19.pdf?sfvrsn=f30e87d7_0, accessed on 1 October 2022.

8 Companies Act (n 6), s. 65(10).

9 Ferran (n 2), p. 154 "A preferential dividend is commonly expressed as a specified percentage of the nominal value of the share; sometimes, however, it can be expressed as a specified percentage of the amount paid up on the share."

10 *Company Nirdeshika 2072* (Companies Directives 2015), Office of the Company Registrar, Nepal, s. 40(2).

11 Companies Act (n 6), s. 182.

12 Companies Directives (n 10), s. 40(2).

13 Butwal Power Company Limited, *Annual Report 2020-21*, available at https://www.bpc.com.np/images/annualreport/Annual_Report_2021.pdf, accessed on 2 October 2022.

14 Janet Dine, *Company Law*, PALGRAVE, UK, 4th edition, 2001, p. 298; *Willow International Investments Ltd* v *Smiths of Smithfield Ltd*, United Kingdom, 2003, BCC 769.

15 Jakob Bundgaard, 'Debt-flavored Equity Instruments in Interna-

in the absence of the Companies Act restricting the same or unless specifically restricted by the AOA, preference shareholders may have seat in the board of directors as ordinary shareholders. When an investor holds both ordinary and preference shares in a company, corporate practice shows that the investor is granted board seat only in proportion to the ordinary shares owned. For example, along with preference shares, BPC owns 60% ordinary shares in Khudi and holds board seat only in respect to the ordinary shares.[16]

3. Debt Elements of Preference Shares

3.1 Redemption of Capital

Redeemable preference shares are issued with a condition to be redeemed at a later date by the company. Alike debt, the preference share capital invested by the shareholder in the company is returned to the shareholder by redeeming the preference shares.[17] There are certain company law provisions which characterize the redemption feature of preference shares as debt.

- A company cannot issue redeemable preference shares, without issuing ordinary shares.[18] Issuance of redeemable preference shares at a time when there is no ordinary share leaves the company with the risk of having no permanent share capital upon redemption.[19] If a company's shares were all redeemable, the shareholder could redeem whole of the share capital and end up with no shareholder.[20] This relates with the company law provision that a company cannot raise loan unless its issued shares are fully paid-up.[21]
- Redemption of preference shares results in the reduction of issued share capital of the company,[22] and they cannot be held in treasury like ordinary shares.[23]

3.2 Repayment Obligation

Redeemable preference shares are issued with redemption rights on a fixed date or occurrence of a certain event. If the redemption rights require the company to unconditionally repay the capital invested by preference shareholders, with or without premium, regardless of its business performance, this characterizes the preference shares as debt instrument since this sets an obligation on part of the company.[24]

From the standpoint of a company, preference shares are mandatorily redeemable not only when the company agrees to redeem them at a fixed event or on the happening of a contingency, but also when it gives the holder an option to demand redemption.[25] The holder of such preference shares will most likely exercise the option to demand return of capital if the shareholder believes that the company is unsuccessful[26] or wants an exit. A company which has such shares outstanding is, therefore, subject to the burden of having to pay out a part of its capital.[27]

3.3 Cumulative Dividends

Cumulative preference shares impose liability on the company to allocate dividends even for the year when it does not make profit. Thus, where a company cannot distribute dividends for a particular fiscal year, it will still owe the dividend to preference shareholders. The company will have the obligation to repay all omitted dividends to preference shareholders in forthcoming fiscal years before it delivers any funds to ordinary shareholders.[28] Moreover, preferential dividends are presumed to be cumulative unless expressly indicated otherwise.[29] The nature and the presumption of preferential dividends being carried forward, irrespective of the company deriving profit, characterize preference shares as a debt instrument.[30]

---

tional Tax Law', *INTERTAX* p. 416, volume 42: 6&7, 2014, p. 417.

16 *See* BPC Annual Report (n 13).
17 Gower (n 1), p. 324.
18 Bharat Raj Upreti, *Company Kanoon*, Forum for Legal Research and Development, Kathmandu, 2nd edition, 2007, p. 362.
19 Ferran (n 2), p. 156.
20 Charles Wild & Stuart Winstein, *Smith & Keenan's Company Law*, Ashford Color Press, UK, 14th edition, 2009, p. 129.
21 Companies Act (n 6), s. 34(1).
22 Ibid, s. 65(10).
23 Ferran (n 2), p. 228.
24 IRAS e-Tax Guide (n 7), s. 5.3(d).
25 E. Merrick Dodd, Jr., 'Purchase and Redemption by a Corporation of its Own Shares', *University of Pennsylvania Law Review* p. 697, volume 59: 6, 1941, p. 730.
26 Ibid.
27 Ibid.
28 Ibid.
29 Gower (n 1), p. 869.
30 IRAS e-Tax Guide (n 7), s. 5.3(e).

4. Legal Treatment of Preference Shares

4.1 Provisions under Companies Act, 2063

Section 2(o) of Companies Act, 2063 defines preference share as "the share issued as preference share pursuant to this Act". Further, the Act defines share as "the divided unit of share capital of the company".[31] By virtue of these two definitions, it can be perceived that preference shares are divided units of share capital of the company, which indicates preference shares to be an equity instrument.

Section 65 of the Act has brief provisions on issuance of preference shares. Section 65(3) enlists mandatory provisions which need to be explicitly mentioned in the AOA such as priority in receiving dividends, preferential dividend rate, cumulative or non-cumulative dividends, priority in receiving return of capital at the time of liquidation, voting rights, convertibility into ordinary shares, redeemability of preference shares, and redemption at premium price or without premium. The Act prescribes certain rules regarding redemption and conversion of preference shares but is silent on whether preference shares are debt or equity instruments.

4.2 Provisions under NRB Unified Directives, 2078

In relation to the qualifying capital structure of licensed commercial banks, Nepal Rastra Bank (NRB) has classified bank capital into Tier I Capital (Core Capital) and Tier II Capital (Supplementary Capital).[32] Besides other forms of financial instruments, the Tier I and Tier II capital comprise following types of preference shares:[33]

Tier I Capital	Tier II Capital
Perpetual Non-Cumulative Preference Shares (PNCPS)	Perpetual Cumulative Preference Shares (PCPS)
	Redeemable Non-Cumulative Preference Shares (RNCPS)
	Redeemable Cumulative Preference Shares (RCPS)

4.2.1 Tier I Capital

PNCPS are irredeemable, and their dividends are non-cumulative, meaning that the issuing bank will have no obligation towards their holder to either repay the capital invested or pay dividend irrespective of the business performance of the company. The NRB Unified Directives does not consider PNCPS as common equity shares but considers it as equity under relevant accounting standards i.e., NAS 32.[34] Therefore, preference shares issued by commercial banks which are irredeemable and non-cumulative are treated as equity instrument. The dividends of PNCPS can be distributed only from current year's profit and are not tax deductible.[35]

4.2.2 Tier II Capital

Preference shares which are redeemable and/or cumulative are categorized as Tier II Capital. For example, Everest Bank has accounted its 7% cumulative convertible preference shares as Tier II Capital as per the Unified Directives.[36] Unlike the Reserve Bank of India, NRB does not explicitly classify these preference shares as debt instruments.[37] However, commercial banks have treated them as subordinated liabilities in their financial statements.[38] This is because redeemable and/or cumulative preference shares impose liability on the issuing company to mandatorily repay the capital at a fixed date and/or payout dividends irrespective of whether the company has earned profit or not.

4.3 Supreme Court Precedent

The Supreme Court precedent on *Everest Bank Limited v. Inland Revenue Department, et. al.*[39] has propounded that preference shares and its dividend cannot be treated as debt and interest. Everest Bank had issued irredeemable cumulative preference shares with 9% dividend rate to meet the minimum capital requirement of NPR 50 crore. Since the bank had the obligation to pay the said dividend

31 Companies Act (n 6), s. 2(n).
32 NRB Unified Directives 2078, Schedule 1.1 relating to Directive No. 1/078, s. 2.1, available at https://www.nrb.org.np/contents/uploads/2021/11/Unified-Directives-2078-1.pdf accessed on 1 October 2022.
33 Ibid, ss. 2.1(I)(B) & 2.1(II).
34 Ibid, s. 2.1(I)(B).
35 Ibid.
36 Everest Bank Limited, *Annual Report 2020-21*, available at https://everestbankltd.com/wp-content/uploads/2021/12/27th-Annual-Report-2020-2021.pdf, accessed on 2 October 2022.=
37 *See Guidelines for Issuing Preference Shares as Part of Regulatory Capital*, 2007, Reserve Bank of India, s. 2, available at https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3899&Mode=0, accessed on 1 October 2022.
38 *See* EBL Annual Report (n 36).
39 *Everest Bank Limited v. Inland Revenue Department et. al.*, 2064 (2007), Decision No. 0478, *Compilation of Decisions/Precedents Made by the Supreme Court Relating to Tax*, Inland Revenue Department, Kathmandu, 2073 (2015), p. 104.

for each fiscal year, the bank treated the dividend as tax deductible. The issue before the court was whether cumulative dividend is tax deductible or not.

The Supreme Court held that though the bank had the obligation to pay fixed dividend even if the company did not earn profit in a particular fiscal year, such dividend cannot be treated as interest. Dividend is always distributed after payment of tax and hence, dividend cannot be deducted as business expenses like interest. Therefore, the Supreme Court held that dividends distributable on preference shares are not tax deductible, thereby rendering preference shares as equity instrument. However, this decision should not be followed as a general rule and determination of whether preference shares are debt or equity instrument should be made also on the basis of how accounting standards treat them.

4.4 Determination of Preference Shares as Debt or Equity

The afore-mentioned laws do not provide a clear distinction as to whether preference shares are debt or equity instruments. Though the Unified Directives gives a slight hint of PNCPS being an equity instrument, it does not explicitly prescribe whether redeemable and/or cumulative preference shares are debt instruments. Such legal ambiguity is omitted in the Singaporean jurisdiction where the Inland Revenue Authority of Singapore (IRAS) has issued *IRAS e-Tax Guide on Income Tax Treatment of Hybrid Instruments* outlining the determinants of hybrid instruments like preference shares as debt or equity instrument.[40] As per the Guide, classifying hybrid instruments as debt or equity in terms of their legal form require examination of legal rights and obligations they create.[41] If the legal form of a hybrid instrument is not indicative of or does not reflect the legal rights and obligations, the facts and circumstances surrounding the instrument and a combination of factors should be examined.[42] The IRAS identifies certain of these factors including nature of interest acquired, right to participate in business, voting rights, obligation to repay the principal amount, right to enforce payment dividend distribution and ranking for repayment in the event of liquidation.[43] Given the silent Nepalese laws in distinguishing preference shares as debt or equity instrument, corporate law practice so far has rendered preference shares as equity instrument. However, as suggested by IRAS, the legal rights and obligations conferred by preference shares must be carefully examined and accounting treatment must also be considered before legally characterizing preference shares as debt or equity instrument.

5. Accounting Treatment of Preference Shares

In determinning whether preference shares are to be classified as debt or equity, accounting principles suggest that the classification should be assessed as per the substance of their contractual arrangements rather than their legal form[44], and therefore, uses the principle-based definition of equity and liability.[45] The classification of preference shares as debt or equity instrument for accounting purposes is regulated by NAS 32. It states that the issuer of a financial instrument, i.e., the company, shall classify the instrument, or its component parts, on initial recognition as a liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial liability and equity instrument.[46]

5.1 Accounting Grounds for Determination of Preference Shares as Debt or Equity

A financial instrument is a liability for the purposes of accounting when it contains a contractual obligation whereby the company is or may be required to deliver

40 IRAS e-Tax Guide (n 7).

41 Ibid, s. 2.2 "The first step in determining the characterization of a hybrid instrument is to determine its legal form, which involves examination of the legal rights and obligations created by the instrument."

42 Ibid, 2.3.

43 Ibid, 5.3.

44 NAS 32 (n 3), s. 18 "The substance of a financial instrument, rather than its legal form, governs its classification in the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance and other may combine features associated with equity instruments and features associated with financial liabilities."

45 'Liability or Equity?: A Practical Guide to the Classification of Financial Instruments under IAS 32', *Grant Thornton*, 2013, s. A3 available at https://www.grantthornton.com.au/globalassets/1.-member-firms/australian-website/technical-publications/ifrs/gtal-2013-ias32-aasb132-financial-instruments-presentation---liability-or-equity.pdf, accessed on 12 October 2020.

46 NAS 32 (n 3), s. 15.

cash or another financial asset to the instrument holder.[47] This is the critical feature that distinguishes a liability from equity.[48] An instrument is classified as equity when it represents a residual interest in the net assets of the issuer.[49] The common types of contractual obligations pertaining to preference shares that give rise to financial liability classification under NAS 32 are discussed in the sub-sections below.

5.1.1 Redemption at a Fixed Date

NAS 32 terms redeemable preference shares as puttable instrument and defines it as "a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder".[50] A puttable financial instrument includes a contractual obligation on the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put.[51]

The basic principle of NAS 32 has the effect that preference shares having a fixed redemption date, or which give the holder an option to redeem shares at some point of time are classified as financial liabilities.[52] This is because the company is not able to avoid its obligation to pay cash upon the redemption of shares.[53] The inability of the company to satisfy its obligation to redeem the preference shares because of lack of funds does not release it from the liability.[54] If the option to redeem preference shares had instead been at the discretion of the issuer, the shares would have been classified as equity.[55] In this situation, the company has a right to pay cash to redeem the shares, but not an obligation to do so.[56] Thus, Ferran entitles redeemable preference shares as "impermanent debt finance".[57]

47 Ibid, s. 11.
48 'Financial Instruments under IFRS: A Guide through the Maze', *PricewaterhouseCoopers*, 2009, p. 6, available at https://www.pwc.com/gx/en/ifrs-reporting/pdf/financial_instruments_guide_maze.pdf, accessed on 13 October 2020.
49 NAS 32 (n 3), s. 11.
50 Ibid.
51 NAS 32 (n 3), s. 16A.
52 Ibid, s. AG25.
53 Ibid.
54 Ibid.
55 Ibid, s. AG26.
56 Grant Thornton (n 45), p. 7.
57 Ferran (n 2), p. 206.

5.1.2 Mandatory Dividend Payments

For accounting purposes, NAS 32 considers preference shares that pay a fixed dividend, whether cumulative or non-cumulative,[58] as liabilities because the substance is that they are a contractual obligation to deliver cash.[59] The potential inability of the company to pay the dividend because of insufficient profits or reserves does not negate its liability.[60] However, NAS 32 recognizes preference shares as equity if the payment of dividends is at the discretion of the company, i.e. if there is no contractual obligation on part of the company.[61]

The classification of preference shares into equity and liability hinges on whether the company has or has not an unconditional discretion to decide whether to deliver cash or another financial asset to the instrument holder.[62] If preference shares provide the entity an unconditional discretion regardless of being cumulative or non-cumulative, they are equity instruments because the company has no obligation to repay the contributed capital.

5.2 Determination of Preference Shares as Debt or Equity

Hybrid instruments such as preference shares can be treated as both debt and equity at the same time for accounting purposes. When preference shares are issued with different preferential rights – for example, redeemable preference shares with discretionary dividends, then the preference shares will be treated as liability for the redemption part and equity for dividends.[63] Such financial instruments which are treated as both debt and equity are termed as compound financial instruments by NAS 32.[64] In such a case, NAS 32 requires that the component parts be accounted for and presented separately according to their substance based on the definitions of liability and equity.[65]

58 NAS 32 (n 3), s. AG26.
59 Ibid, s. 18(a).
60 Ibid, s. AG25.
61 Ibid, ss. AG25 & AG26.
62 Anish K. Bhattacharya, 'Incorrect Classification Affects Equity in Financial Liability', *Business Standard*, 2013, available at https://www.business-standard.com/article/economy-policy/incorrect-classification-affects-equity-in-financial-liability-110032200065_1.html, accessed on 3 July 2021. .
63 PwC (n 48), p. 7.
64 NAS 32 (n 3), s. 28.
65 Ibid, s. 29.

6. Conclusion

The determination of preference shares as debt or equity depends on the terms of their issuance and the rights they confer.[66] While preference shares could be treated as both debt and equity at the same time as per accounting standards, corporate laws tend to treat preference shares as a single financial instrument, i.e., either debt or equity. Be it from a legal or an accounting perspective, it is important that preference shares be distinguished as debt or equity instrument from the time they are issued. From a legal context, this distinction is important for claiming ownership interest of the preference shareholder in the company, i.e., if preference shares are deemed as equity instrument, preference shareholders will have rights in the company, whereas, in case preference shares are recorded as debt instrument, the preference shareholders will have right against the company. From an accounting perspective, the distinction is necessary to provide a true and fair presentation of financial affairs to the stakeholders, and has a direct impact on the company's reported results and financial position. Correct classification of financial instruments in the balance sheet into equity and liabilities is important for assessing the financial position of an entity.[67] Therefore, there should be specific guidelines unifying both legal and accounting principles to determine whether preference shares resemble debt or equity. Concerned regulatory authorities such as Inland Revenue Department, Nepal Rastra Bank and Office of Company Registrar should outline the factors determining preference shares as debt or equity instrument.

References

Anish K. Bhattacharya, 'Incorrect Classification Affects Equity in Financial Liability', *Business Standard*, 2013, available at https://www.business-standard.com/article/economy-policy/incorrect-classification-affects-equity-in-financial-liability-110032200065_1.html, accessed on 3 July 2021.

Birch v. Cropper, House of Lords, United Kingdom, 1889, 14 App Cas 525

66 Gower (n 1), p. 867 "…whether any particular issue of preference shares is located more at the debenture end, or the ordinary share end of the spectrum will depend on the construction of the articles or other instrument creating them.".

67 Bhattacharya (n 62).

Bharat Raj Upreti, *Company Kanoon*, Forum for Legal Research and Development, Kathmandu, 2nd edition, 2007

Butwal Power Company Limited, *Annual Report 2020-21*, available at https://www.bpc.com.np/images/annual-report/Annual_Report_2021.pdf, accessed on 2 October 2022

Charles Wild & Stuart Winstein, *Smith & Keenan's Company Law*, Ashford Color Press, UK, 14th edition, 2009

Company Ain 2063 (Companies Act 2006), Nepal Paul L. Davies & Sarah Worthington, *Gower & Davies' Principles of Modern Company Law*, Sweet & Maxwell, London, 9th edition, 2012

Company Nirdeshika 2072 (Companies Directives 2015), Office of the Company Registrar, Nepal

Ellis Ferran, *Principles of Corporate Finance Law*, Oxford University Press, UK, 1st edition, 2008

E. Merrick Dodd, Jr., 'Purchase and Redemption by a Corporation of its Own Shares', *University of Pennsylvania Law Review* p. 697, volume 59: 6, 1941

Everest Bank Limited, *Annual Report 2020-21*, available at https://everestbankltd.com/wp-content/uploads/2021/12/27th-Annual-Report-2020-2021.pdf, accessed on 2 October 2022

Everest Bank Limited v. Inland Revenue Department et. al., 2064 (2007), Decision No. 0478, *Compilation of Decisions/Precedents Made by the Supreme Court Relating to Tax*, Inland Revenue Department, Kathmandu, 2073 (2015)

'Financial Instruments under IFRS: A Guide through the Maze', *PricewaterhouseCoopers*, 2009, available at https://www.pwc.com/gx/en/ifrs-reporting/pdf/financial_instruments_guide_maze.pdf, accessed on 13 October 2020.

Guidelines for Issuing Preference Shares as Part of Regulatory Capital, 2007, Reserve Bank of India, available at https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3899&Mode=0, accessed on 1 October 2022

Income Tax Treatment of Hybrid Instruments (Second Edition), *Inland Revenue Authority of Singapore*, 2019, available at https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguide_cit_income-tax-treatment-of-hybrid-instruments_2014-05-19.pdf?sfvrsn=f30e87d7_0, accessed on 1 October 2022

Jakob Bundgaard, 'Debt-flavored Equity Instruments in International Tax Law', *INTERTAX* p. 416, volume 42: 6&7, 2014

Janet Dine, *Company Law*, PALGRAVE, UK, 4th edition, 2001

Lee Roach, *Company Law Concentrate*, Oxford University Press, UK, 3rd edition, 2014

'Liability or Equity?: A Practical Guide to the Classification of Financial Instruments under IAS 32', *Grant Thornton*, 2013, s. A3 available at https://www.grantthornton.com.au/globalassets/1.-member-firms/australian-website/technical-publications/ifrs/gtal-2013-ias32-aasb132-financial-instruments-presentation---liability-or-equity.pdf, accessed on 12 October 2020

NAS 32 – Financial Instruments: Presentation, available at http://www.standards.org.np/asb/resources/409291_34.0%20NAS%2032_SetPassword.pdf, accessed on 2 October 2022

NRB Unified Directives 2078, Schedule 1.1 relating to Directive No. 1/078, available at https://www.nrb.org.np/contents/uploads/2021/11/Unified-Directives-2078-1.pdf accessed on 1 October 2022

Willow International Investments Ltd v *Smiths of Smithfield Ltd,* United Kingdom, 2003, BCC 769.

Evergrande Crisis: Is 2008 Repeating Itself or Will China Prevent It ?

In Nepal the real estate market is slowly becoming a bubble with the end consumers not being able to afford the real estate product. According to Numbeo, the Price to Income Ratio in Kathmandu is 29.66 i.e. an average person has to work 30 years to save enough money to afford buying his own house. Without external intervention and with rising prices, this number will keep on incressing and there might come a time when we will be facing a crisis similar to China.

CA. Anuraj Shrestha
The author is the Member of ICAN. He can be reached at mail to: anurajshrestha54@gmail.com

Introduction

Let me remind all of you of the horror that was 2008, "The Great Recession". It all began with the housing market bubble created by an overwhelming load of mortgage backed securities, high risk loans and reckless lending and left with it perhaps the worst economic recession in global history. Many people lost their jobs, the stock market crashed, inflation was at its peak, financial institutions started to sink and the US government had to offer bailouts to keep many institutions afloat. Now after 13 years of this nightmare, is history repeating itself in the form of Evergrande. The world is closely watching China Evergrande Group as it is struggling to pay its huge debts. If not resolved, it threatens to become the largest debt default by a company in Asia and could threaten the world economy.

What is Evergrande ?

The Evergrande Group was founded by businessman Xu Jiayin in 1996 in Guangzhou, Southern China. It is the second largest property developer in China by sales and is ranked 122nd on the Fortune Global 500. Its businesses range from wealth management, food and drink manufacturing, auto industry, fairyland, sports, heath etc. but its major business is real estate management. Currently, the total assets of Evergrande Group have reached RMB 2.3 trillion, and annual sales volume exceeded RMB 700 billion, with accumulated taxation of more than RMB 300 billion. Evergrande Real Estate currently owns more than 1300 projects in more than 280 cities in China. It was estimated that by 2022, Evergrande will have total assets of RMB 3 trillion, with annual sales reaching RMB 1 trillion, annual profit and tax reaching RMB 150 billion, becoming one of the world's top 100 enterprises.

The Beginning of the End

At early 2000s China was an ultra-fast growing country when the manufacturing revolution in China was at its peak. Companies from all

over the world were setting up their manufacturing hub in the cities of China and thus people started migrating towards the city areas. If we look at urbanization in China, after 1995 huge chunk of population started moving from the rural areas to the cities of China. Before 1995 only 29% of the population of China were living in the cities but by 2021, people living in the cities sky rocketed to nearly 63.89% of the entire population (nearly 900 Million people). In China however, the entire land is owned by the government and is leased out to the builders and developers. When so many people started moving to the cities the demand for houses sky rocketed and when demand sky rockets price also follows. Looking at this expanding real estate market, more and more builders started entering the market to take advantage of this real estate boom. Thus, 1000s of developers entered the Chinese real estate market to fulfill this growing housing demand and in this mix we saw the rise of the Chinese giant Evergrande.

As we know the construction business is a capital intensive business, thus these real estate builders borrowed huge amount of loans from Chinese banks to build houses and started selling those houses to the people of China. In the perspective of Chinese banks, construction business was a great business to lend to because there was already an over demand of houses in the market, these businesses had a hefty profit margin of 15-20% and most importantly from the state's point of view it generates a lot of employment, profits a huge supply chain of steel, glass, cement, bricks etc. and eventually contributes to the GDP of China. This is the reason why the banks kept on lending, the builders kept on building and the people of China kept on buying houses. Because of this continuing demand, the prices kept on rising and thus more loans, more building and more sales. The real estate prices kept on rising making the Chinese cities some of the most expensive cities in the world.

How the problem started ?

The housing prices in China reached new heights day by day. But there arises a question. If prices of houses in China were so high, why were the Chinese people still buying houses? Why weren't they renting properties? Well, there are a few reasons for this:

a. First of all, in China, you'll be a well settled person only if you own a house. So, if you don't own a house, a family will be hesitant to marry their daughter to you. Further due to the Hukou System, you'll be deprived of state facilities if you migrate to the cities unless you own a house there. Thus, it almost became a compulsion for Chinese people to own their own houses.

b. Also, Chinese people considered real estate as the best investment in the market just like gold and silver are in Nepal. Chinese people considered stock to be dangerous and real estate investment to be safe.

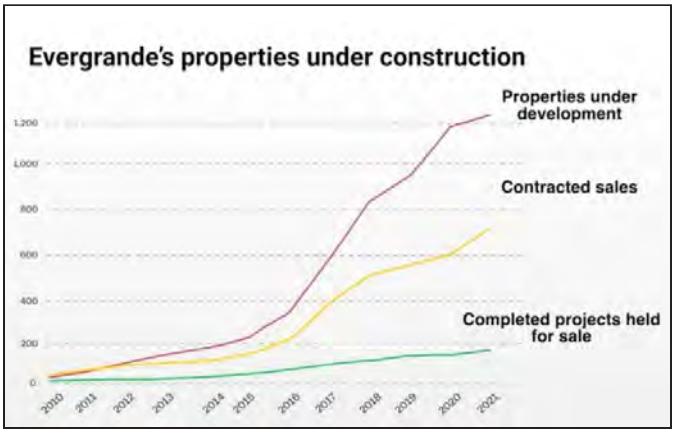
Thus, people kept pouring more money in real estate, the prices kept on rising and the construction companies kept on profiting from this scenario. Eventually, the builders built so many houses that currently there areso many vacant buildings that could accommodate over 90 Million people, the entire population of countries like France, Germany and Canada. This is what gave birth to the ghost cities of China where houses built for thousands of people remain completely empty. Finally, the government of China realized that real estate was becoming a huge bubble with real estate builders borrowing a huge sum of money and they had to intervene. Thus, The People's Bank of China and the Ministry of China introduced a policy called"The Three Red Lines" policy in August 2020 whereby they put forth 3 criteria that the large real estate developers in China had to clear to borrow additional sum of money. The three red lines criteria are:

a. Liability to assets ratio of less than 70%
b. Net gearing ratio of less than 100%
c. Cash to short term debt ratio of at least 1

If all three criteria are passed (green), the company can increase its debt up to 15%. A breach of one (orange), two (yellow), and three (red) criteria will decrease the allowable debt growing percentage to 10%, 5% and 0% respectively. Evergrande crossed all three red lines and became unable to borrow any more debt.

Why is Evergrande in trouble?

Evergrande happily rode the real estate market boom in China and aggressively expanded its businesses to become one of the biggest companies in China. Evergrande was borrowing and building at such a speed that it started becoming more and more dangerous. If you look at the numbers, within 10 years they went from a revenue of 45.8 billion Yuan to 507 billion Yuan. Further, Evergrande has borrowed loans from 171 banks and 121 Financial Firms. And if that's not enough, they have also collected funds



from general people and their own employees through Wealth Management Products (WMPs). Also, they were starting new projects before completing and selling out their existing projects. Because of this after 2010, the gap between the properties under development, contracted sales and completed projects started increasing at a dangerous rate. And by 2021, the competed projects were merely 1/6th of the properties under development. Further, before getting into trouble, Evergrande had pursued an aggressive expansion of leveraged investments such as Ocean Floor Island, a 100 billion RMB project, electric vehicle development project of over 45 billion RMB and ownership of China's richest football club, Guangzhou F.C. Currently the group has over $ 300 billion debts with over 40% payable within a year. Further, with Evergrande breaching China's three red lines policy, it is unable to borrow more debt to fund its business operations. Secondly, China's property market is slowing and there is less demand for new apartments. Companies are offering properties at a deep discount which is causing the housing prices to fall. Even after offering huge discounts, people are unwilling to buy Evergrande properties because of the crisis news that has broken out. This crisis has led to Evergrande's share price to fall by around 80% this year. The news even quoted "Evergrande is a ticking time bomb and it's about to blow up."

Why Would it Matter if Evergrande Collapsed ?

One may wonder that Evergrande is just another company that is about to go out of business. How could one company threaten the growth of the second biggest economy in the world ? Well it's because of the huge chain reaction this failure might cause.

First of all, Evergrande is yet to pay bills worth of more than $ 100 billion to their suppliers which include steel suppliers, cement suppliers, paint suppliers, brick suppliers and thousands of other vendors. Since, they cannot be paid, it again affects their suppliers and their financials.

Secondly, the banks that had lent to Evergrande and the people who have invested in WMPs cannot get their money back unless all these Evergrande projects are sold out. Further, most of the projects are still under development and since no one is willing to buy even completed projects from Evergrande, the sales numbers are destined to go down. Furthermore, the 200,000 Evergrande employees are at a risk of losing their job.

What's even worse is that these incomplete apartments cannot be completed without more loans and people who have paid for these apartments in advance cannot get these house or will risk losing their hard earned money altogether. And these angry home buyers are waiting on as many as 1.6 million apartments to be completed. Further, many of these home buyers have themselves taken loans and are now threatening not to pay their mortgages at all. And again if these people also do not pay, the banks will have to write off $ 200 billion of mortgage loans which will put them in a disaster.

Why is the World Worrying ?

A collapsing property market in China has triggered alarm bells across the world. Everyone is fearing a 2008 level global financial crisis might be upon us which will impact the world economy. This crisis will impact:

a. **Future of Manufacturing:** Since China is still the manufacturing hub of the world, if its economy falters, countries around the globe would suffer from slower and more expensive exports. The pandemic has already stalled various sectors such as auto, consumer electronics and more, this crisis will only further the damage.

b. **Future of Belt and Road Initiative Projects:** China is also the global contractor of developing countries like Nepal who are dependent on China for infrastructure projects. Currently, Belt and Road Initiatives (BRI) projects are valued at over $1 trillion across 139 countries around the globe. These infrastructure projects could be left unfinished.

c. **Future of Financial Markets:** Nearly 30% of the Chinese GDP is locked up in housing. An impending collapse at the biggest real estate company could have a serious knock-on effect on the entire economy and could have a cascading impact on the global commodities and financial markets.

What is happening now ?

a. **Downgrades to credit rating:** On 22 June 2021, Fitch downgraded Evergrande from B+ to B, and further downgraded it to CCC+ on 28 July. On 3 August 2021, Moody's downgraded Evergrande's rating from B2 to Caa1. On 5 August, S&P Global Ratings downgraded Evergrande and its subsidiaries from B− to CCC, two steps on its scale. On 7 September, Fitch downgraded Evergrande further from CCC+ to CC.

b. **Bond payments put in question:** In a statement on 31 August 2021, Evergrande warned it would default on its debts if it failed to raise enough cash to cover them and then Evergrande missed off-shore bond payments totaling $83.5 million. On 12 October, Evergrande missed payments on three offshore bonds which totaled $148 million. On 20 October, Evergrande paid off all dues to avoid a default. On 10 November 2021, Evergrande defaulted on 3 additional bonds but reportedly fulfilled the payments after the deadline.

c. **Attempted asset sales:** In order to raise capital, the group has started to sell off some of its assets. On 29 September 2021, the company sold a 20% stake in Shengjing Bank raising 10 billion. Apart from this however, "there has been no material progress on sale of assets of the group" according to Evergrande.

d. **Chinese Government actions:** On 22 September 2021, the governments in Zhuhai and Nanshan District, took control of sales revenue for Evergrande's properties in a state-controlled custodial account to protect home-buyers and continue construction of the company's developments. Various provinces have been doing so since August as the developer has put hundreds of these projects on hold.

e. **Auditing:**Price Waterhouse and Coopers (PwC) has declined to comment on the financial statements of Evergrande amidst this ongoing crisis.

What can we learn from this crisis ?

“Investment instruments driven by mindless social norms will often cost both the people and economy heavily.” In this case, the Chinese definition of a well settled person piled up a lot of debt on the Chinese people in spite of the sky high prices. So, though it makes no economic sense, because of the social construct it has put millions of people’s lives at stake. In Nepal as well we consider owning a house a necessity and land as the safest investment even when the prices are so high these days. The real estate market is slowly becoming a bubble with the end consumers not being able to afford the real estate product. According to Numbeo, the Price to Income Ratio in Kathmandu is 29.66 i.e. an average person has to work 30 years to save enough money to afford buying his own house. Without external intervention and with rising prices, this number will keep on increasing and there might come a time when we will be facing a crisis similar to China.

Conclusion

A blow to one of the biggest players in its real estate sector would have implications for the wider Chinese economy. While the real estate sector accounts for about 30 per cent of China’s GDP, the assets of Evergrande alone are nearly equal to about 2 per cent of China’s GDP. Further, the company makes up about 4 per cent of total property sales in China. Now arises the question, is Evergrande “Too Big to Fail”? Will the Chinese government step in?

The Chinese Ministry could be reluctant to go against its own policy, but this collapse could cause unrepairable damage to the homeowners, suppliers, investors, and the economy. The Chinese government does have a good track record of bailing out companies that seem too big to fail such as Baoshang Bank, HNA Group etc. However, too much bailing out risks a moral hazard signaling to others that a guaranteed bubble still protects them. Saving one company could create more companies with greater risk in the market. So, there is a high degree of uncertainty whether Evergrande will survive or not. Even if the government allows the company to collapse, measures are expected to be taken to save the apartment buyers first. Though the investors might not be so lucky.

References:

https://en.wikipedia.org/wiki/2020%E2%80%932022_Chinese_property_sector_crisis

https://www.bbc.com/news/business-62287685

https://www.bbc.com/news/business-58579833

www.evergrande.com

Annual and Quarterly Financial Statements of Evergrande Group

Cyber Crime Status in Nepal

In cyber security, prevention is always better than cure, preventive cyber security measure shall assist as a ladder to establish the assurance of secure implementation of basic security processes within the organization, for prevention of cyber threats. Every organization need to conduct cyber security awareness to provide insights and adept solutions for building stronger cyber ecosystems through which organizations can benefit, learn from and move into the highly enhanced digital infrastructure in a secure and effortless way.

CA. Anima Pokharel
The author is the Member of ICAN, ISA, Forensic Professional, Cyber Security Professional. She can be reached in mail at: pokharelanimaa@gmail.com

Introduction

In the recent years, Nepal has been one of the top targeted countries in the world in terms of cyber threats. We do come across many news about severe attacks in Nepal recently, resulting the expensive damage on the financial status of the organization and the industry as a whole. The integrity of the organization has been violated and the internal data has been taken by criminals through such attacks, resulting as an open ground for hackers to play in Nepali Market.

In Nepal, many platforms have now been converted to digital platform like online shopping, digital payment, food delivery, transportation, banking transactions and more, ensuring that more n more users get connected to those platforms as compared to earlier years. As per the statistics, there are around 20 million internet users in Nepal and increasing rapidly every single day. Apart from that, social media has been the prime influencer in the recent days including Facebook, TikTok, Instagram, Youtube, WhatsApp, Viber to name a few and associating a massive citizen of Nepal into the internet platform. The recent pandemic was both regressive and opportunistic in the digital world as the world turned rapidly into e-commerce platform and so did the threat actors with effective approaches to loosen the security end on the organization side.

As per the official statistics regarding cybercrime rate, 4686 FIRs were filed at the Nepal Cyber Bureau in FY 2078/79, of which 3956 cases were related to cases from Facebook/ messenger, 307 cases relating to Tiktok and 127 cases relating to bank and financial institutions. Similarly in the previous fiscal year 2077/78, total 3906 FIRs were registered which is 70% increment with respect to cases of FY 2076/77 i.e., 2301 cases (source: Nepal Police Cyber Bureau). These were merely the reported incident cases; the darker side lies where the unreported cases increased rapidly

this year and stayed unreported because the organization were not ready to face the risk arising in their goodwill.

Major Security Breaches

A[1]n e-commerce food delivery company, Foodmandu suffered a major data breach on March 8, 2020, as 50,000 of their customer's confidential data were leaked on the internet by hacker, **Mr. Mugger**. The leaked database consisted of more than 150,000 user's personal details, latitude, longitude, address and personal email.

In the same year, Nepal's leading ISP, Vianet, suffered a significant data breach on April 8 2020, where the cyber-attacker named **SATAN and NARAPICHAS** leaked the personal data of about 170,000 customers online (source cyber bureau). Announced via twitter, the attack leaked the personal information of the users such as names, location, email address and phone number.

Apart from these, various multinational companies like Kantipur Daily, Daraz, Mercantile, National Nepal Library, Agricultural Department, National Museum, Nepal Electricity Authority, Prabhu Money Transfer and Nepali Congress amongst many, were found to be vulnerable in terms of security and where the threat-actors thoroughly advised the companies to resolve the issues beforehand.

On top of that, recent hackers' news in the financial institutions is growing rapidly where the ransomware was deployed in the server resulting to complete erase of data. This threat seems to be quite impactful in the days to come and if sufficient measures are not taken timely, it may result to the collapse of organization as a whole. We can imagine the economic status of a country itself if at least three hacking attempts become successful in the commercial banks resulting complete erase of bank data.

The Cybercrime Statistics Throughout the World

Over the years, the damage cost of cybercrime throughout the World is estimated to be around 50 million – 1 billion dollars. In 2022 alone, the damage was estimated to be about 6 trillion dollars. As per the reports, the cyber-attackers worldwide earn about 1.5 trillion dollars annually.

1 Published in National daily

[2]The major regions of the cybercrimes along with their estimated damages were found to be:

- Illicit, Illegal Online Market - 860 billion dollars
- Trade Secrets and IP Theft - 500 billion dollars
- Data Trading - 160 billion dollars
- Cyber-crime-as-a-service - 1.6 billion dollars
- Ransomware - 1 billion dollars

For those who are in myth that only the financial loss from banks is a loss, reality is that the data theft is the major loss that may impact the business from financial, brand and reputation, staff welfare, customer service perspective. For an individual too having your identity carried on by somebody else and committing crimes all over the world, is not less of a threat.

Attack techniques

Phishing

A kind of social engineering attack that uses its tactics, techniques and procedures to steal user data including login credentials and credit card details, is referred to as a Phishing attack. Often impersonating the trusted resources, an attacker tricks the victims to a phishing attack by sending email, instant message or a text message that comprises a malicious link, thereby allowing the victim to download the installation file of the malware for further attack procedures.

Moreover, phishing attack technique is used to set a foothold in corporate or governmental networks for a larger attack scheme such as Advanced Persistent Threat (APT) event, where the employees of the organizations are compromised in order to bypass the security perimeters for the proper distribution of the malware throughout the network within a secured and confidential environment, gaining access to the privileged data and information.

Types of Phishing attacks

Leading to a severe financial loss along with the deterioration of integrity and trust of an organization, the phishing attacks comprise 3 major techniques to manhandle the confidentiality of the users:

Email Phishing Scams: In this kind of phishing attack, an attacker sends out fraudulent email messages to the targeted users that comprises a malicious link, luring the users to download the link in order to install the malware

2 (Source: https://dataprot.net/statistics/cybercrime-statistics/)

onto their system to breach the security posture of their system, and the overall network of the organization. In the context of Nepal, 58 websites were compromised to the phishing attack in 2018, leading to a major loss of confidential data and information of the users.

Spear Phishing: This kind of phishing method targets specific individuals or a group of individuals within an organization using emails, social media, instant messaging, and other platforms to perform network compromise, data theft, and financial loss. Including an email with a malicious link, it differs from other phishing techniques as it only targets a specific group of users, and not the random ones.

Nepal's multiple government and military organizations fell prey to the SideWinder group's phishing attack techniques, where the group gathered user credentials with the phishing links to redirect the employees and other users to malicious documents or news pages. The malicious phishing pages or links were majorly related to either Covid-19 or recent territory disputes between Nepal, Pakistan, India and China.

In 2021, commercial bank was lured to a spear phishing attack where the attackers created a fake Facebook page and profile using their name. Also, another bank was targeted in the same year too, where the attackers created a fake Facebook account under the name of the bank, as the bank suggested it as a hideous act of phishing and alerted its users to be aware of the malicious attempts.

Whaling Phishing Attack: This whaling attack is a specific type of phishing attacks that target high profile employees such as Chief Executive Officer, Chief Technology Officer, Chief Finance Officer, in order to steal sensitive information from a company. In many whaling phishing attacks, the attacker's goal is to manipulate the victim into authorizing high value wire transfers to the attackers.

Due to their highly targeted nature, whaling attacks are often more difficult to detect and prevent that standard phishing attacks. In the enterprise, security administrators can help reduce the effectiveness of whaling attacks by encouraging corporate management staff to undergo information security awareness training.

Overview of Compromise Status

In the last year, various phishing attacks were conducted in Nepal with diverse tactics and techniques resulting in huge number of user and device compromise instances, along with higher number of affected individuals. The attacks were initiated through malware as a service that steals information and confidential data from our devices including our username and passwords. The stolen information was than publicly made available for sale in the dark web forums with the price ranging from $100-$800 as per the version attached.

Under these cyber-attacks there were list of organizations who got compromised including government organizations, commercial banks and financial institutions, insurance companies, hospitals, regulatory bodies, ministry, fintech industries, internet service providers, Ecommerce Sector, data centers, energy industries, universities and colleges, business groups and manufacturing companies, whose compromised data were on sale in the dark web:

User Compromised Statistics [3]

Description	Users Compromised
Nepal Government	6275
Regulatory bodies and national boards	826
Bank and Financial Institutions	2685
Fintech Industries	6566
Internet service providers and Telecom Operators	4300
E commerce Sector	3152
Data Center	59
Energy Industries	5
Hospitals and Medical Industries	143
Universities and Colleges	593
Business Group and Manufacturing	129

Statistics of Compromised Devices[4]

Internet Service Provider	No. of Compromised Devices
Various internet service providers in Nepal	1212

3 Threat Report based on report produced Private company working in Info Tech.

4 Threat Report based on report produced Private company working in Info Tech.

The phishing attacks that took place was consummated where an attacker impersonates an organization's authentic email and lures the target users to reply back to the same email consisting of malicious link, a successful phishing campaign was performed in the vulnerable systems, wherein the users unknowingly click the malicious link attached in the email, aiding the attacker to install the malicious code in their system and compromise their privileged user credentials along with confidential data and information, to the hands of attacker.

Still, it can be identified that around 120 phishing pages are observed to be used to host several websites of Nepal government and other regulatory and commercial organization in Nepal, compromising the IP address of 46 different websites nationwide, and the misery is they are still unaware of themselves as cyber victim. Recently many organizations have been hacked and information gets leaked in the dark web but the management team is unaware of this information due to lack of appropriate security review practices like Information system audit and lack of continuous cyber security threats monitoring. The major problem here is not being able to understand what are the security gaps that exist within the organization.

Recommendations

Here are few tips of what can be done by individuals to protect from such criminal attacks:

1. **Opening Emails from Unknown People**

   Email has been always preferred way of business communication and also the reason for scams in the business lines. Opening an unknown email, or an attachment inside an email, can release virus which will give criminals a backdoor to your devices for performing malicious activities. Therefore, do not open email from people you don't know and do not open malicious attachments or links. Confirm with the original sender through phone or other platform if the email was sent by them.

2. **Strong Login Credentials**

   During assessment it was observed that the national password of Nepal is "kathmandu', "Nepal123", "pokhara", "Sagarmatha", "Ktm123", "dharan". Do you have one of them ?

   It is highly important that the password should not be any personal nickname, street names or any potential word from dictionary. It should be mix of alphabets, numbers and special characters and minimum of 8 characters. Also, 80% of the users are found using same password for multiple sites. This increases the risk of single point of failure as if one site is compromised, automatically all other areas would be. Using password manager is recommended. Also, don't write down your password in the stick notes and hang it in your computer table. :D

3. **Security awareness training**

   Participate in security awareness training and campaign. There are many things out there which we may not know, and the only way to gain knowledge is to be part of this kind of campaign. It is important to stay updated and aware of ongoing cyber security threats in the technological environment.

4. **Antivirus Software**

   Deploying antivirus software in your devices is the protective measures to be followed to avoid the cyber security threats. Set up all the system updated with antivirus software and perform scan periodically. Make it a habit. Any new threats developed will be detected if your antivirus is timely updated.

5. **Mobile Devices**

   If you carry your devices like phone, laptop, tablets from one place to another then you are supposed to carry the security measures along with you. Every device has to be password protected. Make sure you note down the MAC address of your devices, in case you lost your device it will be easier to track it down. Do not connect your devices in public Wifi, or if essential make sure you do not perform any confidential transactions from such connection.

Conclusion

With the ever-growing dependency on the technological environment, a greater number of high-profile security incidents are being witnessed in recent years, simultaneously increasing the importance of awareness of cyber security. Having been in the cyber security field for quite a time, I got to understand the current cyber security postures of different financial institutions, Fin-techs, Manufacturing, hospitals, and more, in both Local and International platforms. With this, we acknowledged that the cyber ecosystem needs a proper expansion and integration with an urgency to shift from cyber-defensive to cyber-resilience position. Organizations need to give more attention in information security, allocate needful budgets and build trust among customers. It's about time that the organizations prepare themselves to ensure that they can anticipate, recover and adapt quickly to the latest trends of cyber-incidents.

In cyber security, prevention is always better than cure. Hence, preventive cyber security measure shall assist as a ladder to establish the assurance of secure implementation of basic security processes within the organization, for prevention of cyber threats. Every organization need to conduct cyber security awareness to provide insights and adept solutions for building stronger cyber ecosystems through which organizations can benefit, learn from and move into the highly enhanced digital infrastructure in a secure and effortless way.

References

https://www.techpana.com/tag/us-offers-15-million-reward-for-info-on-conti-ransomware-gang/

https://kathmandupost.com/valley/2017/10/23/nic-asia-cash-stolen-in-cyber-heist

https://cio.economictimes.indiatimes.com/news/digital-security/nepal-telecom-call-details-stolen-by-chinese-hackers/84366457

https://myrepublica.nagariknetwork.com/news/foodmandu-s-website-hacked-50-thousand-users-data-dumped/

https://www.techpana.com/2022/121546/

https://cybersanchar.com/setopati-hacked-wanna-cry-ransomware-in-nepal/

https://www.yetiyap.com/culture/hacked-nepali-government-websites

---

पेशागत सदस्यहरुले प्रदान गर्ने सेवा तथा सो वापत जारी गर्ने प्रतिवेदनहरुमा प्रयोग गरिने Unique Document Identification Number (UDIN) सम्बन्धमा

मिति: २०७८/०९/१४

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाले लेखाव्यवसायप्रति सामाजिक मान्यता र विश्वास अभिवृद्धि गर्न तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन २०५३ तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ बमोजिम लेखापरीक्षणलाई थप व्यवस्थित गर्ने उद्देश्यले Unique Documnet Identification Number (UDIN) २०७६ कार्तिक १ गतेदेखि अनिवार्य रुपमा लागू गरेको व्यहोरा सबैमा अवगत नै छ। यस सन्दर्भमा, संस्थाबाट पेशागत प्रमाण पत्र प्राप्त सदस्यहरुले आफ्नो व्यावसायिक प्रयोजनको सिलसिलामा हस्ताक्षर गरिने कुनै पनि प्रकारको प्रतिवेदनहरुमा अनिवार्य रुपमा 18 Digit को UDIN समावेश गर्नुपर्ने व्यवस्था गरिएको छ। UDIN समावेश नगरी जारी गरिएका प्रतिवेदनहरुलाई संस्थाले मान्यता नदिने व्यहोरा समेत जानकारी गराईन्छ ।

तसर्थ, संस्थाका पेशागत सदस्यहरुले तल उल्लेखित लेखापरीक्षण तथा प्रमाणिकरण लगायत अन्य कार्य गर्दा प्रत्येक प्रतिवेदनको लागि छुट्टै अनुबन्धन गर्नुको साथै प्रतिवेदनहरुमा छुट्टा छुट्टै UDIN Number generate गर्नुपर्नेछ ।

- अन्तिम लेखापरीक्षण (Statutory Audit)
- आन्तरीक लेखापरीक्षण (Internal Audit)
- कर लेखापरीक्षण (Tax Audit)
- संचालन लेखापरीक्षण (Operational Audit)
- विशेष प्रयोजनका लागि गरिने लेखापरीक्षण (Special Purpose Audit)
- शाखा लेखापरीक्षण (Branch Audit)
- मूल्यांकन लेखापरीक्षण (Due Diligence Audit)
- मूल्यांकन प्रतिवेदन (Valuation Report)
- नियमकारी निकायलाई आवश्यक पर्ने प्रतिवेदन जस्तै Long Firm Audit Report - LFAR
- कुनै पनि प्रमाणिकरण कार्य जस्तै Working Capital Certification, Sec 78 of Company Act Certification, etc.
- अन्य (Others)

Salami Slicing Attack: How can it Affect you Adversely ?

Salami attack is the stealing of information from numerous sources where the victims remain unaware; this may occur internally within an organization or externally outside the organization and may be intentional or accidental. In context to our country Nepal, there are various loopholes in the system that can easily lead to unauthorized sharing/ stealing of personal details of a person

CA. Ayush Khetan
The author is Practicing Member of ICAN.He can be reached at mail to: ayushkhetan2007@gmail.com

A. Context- Say, just for fun, a kid takes out a Rs. 5 note from your pant's pocket daily after you return from the office. No what how big financial position you hold in the outside world or how renowned personality you are outside, you are just a parent to your kid!! Say he does this daily, I bet you will not notice it until you actually catch him in the act!!

Ok, this seems funny as the sum here is Rs. 5 note and the character involved is your own kid and the asset is your pant with petty cash!!. But the situation will turn worrisome instantly if that's pant is replaced by your savings bank account or your organizations important info containing pen drive or your organizational important document and the kid is replaced by some unknown cyber criminal/ perpetrator.

B. What is a "Salami Slicing" Attack?

A "Salami Slicing Attack" or "salami fraud" is a technique by which cyber-criminals steal money or resources a bit at a time so that there's no noticeable difference in overall size. The perpetrator gets away with these little pieces from a large number of resources and thus accumulates a considerable amount over a period of time. The essence of this method is the failure to detect misappropriation. The most classic approach is "collect-the-roundoff" technique.

Stealing money electronically is the most common use of the salami slicing technique, but it's not restricted to money laundering. The salami technique can also be applied to gather little bits of information over a period of time to deduce an overall picture of an organisation. This act of distributed information gathering may be against an individual or an organisation. Data can be collected from web sites, advertisements, documents collected from trash cans, and the like, gradually building up a whole database of factual intelligence about the (https://howtoinfosec.com/2021/06/11/what-is-salami-attack/).

There are two major types of Salami attacks:

a. Internal attacks:

This is the most common type of Salami attack which occurs when an individual working in the organization who knows about the security system within the organization try to steal from the organization and causes serious damage. For example, when an accountant of a particular bank who engaged with the bank customers on a daily basis, try to insert a program in to the bank server that will divert one rupee from each customer that makes a transaction from his work station to his account, at the end of the day after transacting with five thousand customers he will get a sum of 5,000 rupees into his (http://en.wikipedia.org/wiki/Salami_slicing_tactics).

b. External attacks:

As the name implies, external attack is a kind of Salami attack that occurs outside the organization. A situation where the attacker leaves outside the organization but try to steal information from the organization causing serious damage to the organization is known as external attack.

C. International History of Use of Salami Slicing Attacks:

This system is not new although the term may seem fancy. A search in Wikipedia will show the following past instances of use of Salami Slicing Technique to siphon funds illegally:

- In January 1993, four executives of a rental-car franchise in Florida were charged with defrauding at least 47,000 customers using a salami technique.

  Decision of Case Law: [1]The federal grand jury in Fort Lauderdale claimed that the defendants modified a computer billing program to add five extra gallons to the actual gas tank capacity of their vehicles. From 1988 through 1991, every customer who returned a car without topping it off ended up paying inflated rates for an inflated total of gasoline. The thefts ranged from $2 to $15 per customer - rather thick slices of salami but nonetheless difficult for the victims to detect.

- In Los Angeles, in October 1998, district attorneys charged four men with fraud for allegedly installing computer chips in gasoline pumps that cheated consumers by overstating the amounts pumped.

  Decision of Case Law: [2]Dist. Atty. referred to the alleged scheme as a "high-tech innovation used to steal money from consumers who don't know they're victimized."

- In 2008, a man named Michael Largent, 23, of Plumas Lake, California, was arrested for fraudulently creating 58,000 accounts which he used to collect money through verification deposits from online brokerage firms a few cents at a time.

  Decision of Case Law: [3]Michael Largent, 23, of Plumas Lake, Calif., pleaded guilty to computer fraud charges in connection with the scam, which ran between November 2007 and May 2008.Largent's arrest was widely covered on the Internet.

Salami Slicing Attacks as a subject for Movies and TV Series: Salami slicing has played a key role in the plots of several films including 1995's Hackers, 1983's Superman III and 1999's Office Space.

D. Relevance of Salami Slicing Attack in our Nepalese Economy Context:

We have now understood that this attack is basically stealing personal information by breaking it into parts or stealing money in partial amounts. i.e. the attack can be monetary theft (financial theft) or non-monetary theft (privacy theft).Here, we shall be discussing the direct Monetary theft part of Salami Slicing Attack.

In context to our country Nepal, there are various loopholes in the system that can easily lead to unauthorized sharing/ stealing of personal details of a person. Few examples are listed below:

1. **Nepalese Share Registrars:** Websites of various Nepalese Share Registrars can be seen displaying personal details of shareholders such as name, DEMAT number, addresses etc. either in pdfs in "Downloads" section of the website or in "Right Share Eligibility" section. Only few of them have

1 http://www.minich.com/education/wyo/java/lecture_notes/SalamiFraud.pdf

2 https://www.latimes.com/archives/la-xpm-1998-oct-09-fi-30669-story.html

3 https://www.networkworld.com/article/2256001/guilty-plea-for-man-behind-creative-e-trade-scam.html

applied check system like entering "Fathers name" or "Shareholder number" as a precaution step to verify that the person using it is genuine.

2. **Nepalese ATM Withdrawals using Counterfeit Cards:** Nepal Police had arrested five Chinese nationals on the charge of hacking bank data and stealing millions of rupees from automated teller machines (ATMs) of various banks in Kathmandu in Sep. 2019.

   They were arrested from Nabil Bank ATM counter at Durbar Marg, Kathmandu in connection with their involvement in stealing money from ATMs by hacking banking data. Police had recovered 132 counterfeit Visa cards, 17 genuine visa cards of foreign banks, one card printer, 6 mobile phones, one laptop and one data card from their possession. "The arrested persons are found to have used counterfeit cards to withdraw money from the ATMs of various banks. Our preliminary investigation has shown that they could withdraw money from any ATM by hacking their switch way," Nepal Police said.

   Besides ATM cards, police had also recovered a huge amount of money including some foreign currency from them. Police had recovered Rs 12.62 million, US$ 9,108, Chinese Yuan 1,191, Cambodian currency 5,000 and 80 Hong Kong dollars.

3. **Outdated E-banking Websites and Apps:** Most of the Nepalese financial institutions are now using the latest available IT Systems and Securities that has international acceptance. However, few are still found to be using the old softwares for financial operations. It is also seen sometimes that the website of the merged institution is still in display even months after merger completion

   Banks have gone into "big mergers" due to the positive pressures from our Central Bank, NRB. NRB has the intention that mergers will make the institutions stronger and expenditure on IT Systems will grab the necessary attention of the bankers.

4. **Manual Pass Book Money Collection by Co-operatives in Rural & Urban Nepal:** We regularly on daily basis see that the agents of various co-operatives visit our offices and home for petty cash collections throughout the day mainly targeted to rural areas where people are still new to banks and hesitate digital banking methods. The general people there prefer home collection of small funds and the same is then recorded manually by the agent in 2 passbooks- one copy of the depositor and in other copy of the financial institution.

   Due to such manual recording, chances of siphoning small amounts on regular basis may go unnoticed until huge amount of funds is found missing.SMS banking should be compulsory in all types of financial institutions dealing with general public.

5. **Dormant Accounts in Financial Institutions & Physical Share Certificates Pending Demat:** We frequently read and hear news and articles stating datas regarding large number of dormant accounts with Nepalese banks and financial institutions. Such accounts are highly prone to misappropriation via this Salami Slicing attack technique.

   Also, The CDS and Clearing Ltd. Study data suggest still a large number of physical shares are still yet to get demat. This also can be an opportunity for illegal and unauthorized use by the perpetrators.

   The concerned authorities must look into these areas also and solve it using digital means available now that were lacking few years back. Tracing of the actual beneficiaries can be done using IT System now to some extent and the process can be simplified to remove these dormant accounts and physical shares quantities.

Nepalese Law, Acts, Rules and Regulations Applicable in Nepalese Banking & Finance Sector:

Following are the major related laws of the land regarding Banks & Financial Institutions and its IT Security System:

a. Nepal Rastra Bank Act, 2058
b. Banks & Financial Institutions Act,2073
c. Banking Offence & Punishment Act,2064
d. Recovery of Debt of Banks & Financial Institutions,2059
e. Electronic Transaction Act,2063

Collection of Preamble Statement (Purpose & Objective of the Act) of the above mentioned Acts for the purpose of understanding the crux of the Act[4]:

4 *lawcommsion.gov.np, nrb.org.np*

a. **Nepal Rastra Bank Act,2058:**

Whereas, it is expedient to establish a Nepal Rastra Bank to function as the Central Bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the Nepal, and to develop a secure, healthy and efficient system of payment; to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system; and for the enhancement of public credibility towards the entire banking and financial system of the country.

b. **Banks & Financial Institutions Act,2073:**

Whereas, it is expedient to amend and consolidate forthwith the prevailing laws relating to banks and financial institutions in order to increase confidence of general public towards the overall banking and financial system of the country; to protect and promote the rights and interests of depositors; to provide quality and reliable banking and financial services to general public through healthy competition among banks and financial institutions thereby making national economy sustainable and strong; and to maintain financial stability and make necessary legal provisions concerning establishment, operation, management, regulation, inspection and supervision of banks and financial institutions;

c. **Banking Offence & Punishment Act,2064:**

Whereas it is expedient to provide legal provisions on banking offences and punishments with a view to promoting trust towards banking and financial system thereby mitigating the consequences and the risks that the banking and financial system may suffer on account of the offences may be occurred in course of transactions of Banks & Financial Institutions.

d. **Recovery of Debt of Banks & Financial Institutions,2059:**

Whereas, it is expedient to make provisions for the recovery of principal and interest of debts recoverable from borrowers by trying and settling cases relating to recovery of debts of banks and financial institutions in a speedy and prompt manner.

e. **Electronic Transaction Act,2063:**

Whereas, it is expedient to make, legal provisions for authentication and regularization of the recognition, validity, integrity and reliability of generation, production, processing, storage, communication and transmission system of electronic records by making the transactions to be carried out by means of electronic data exchange or by any other means of electronic communications, reliable and secured; And where as, for controlling the acts of unauthorized use of electronic records or of making alteration in such records through the illegal manner.

Punishment for Banking Offences in Nepal:

The major Act that deals with such electronic offenses and consequences in detail is "Banking Offence & (https://www.nrb.org.np/).

Among various offences dealt with inside this Act, one is stated in Sec.6 of the Act-*"6. Not to obtain or make payment by way of abuse or unauthorized use of electronic means.: No one shall, obtain or make payment by way of abuse or unauthorized use of a credit card, debit card, automated teller machine(ATM) card or other electronic means."*

The related Punishment has been dealt in Section 15 of the Act: *"15. Punishment:"*

(15.1) If person commits any offense specified under Section 3 (a), (b), (c) Section 4 or Section 11, such person shall be punished with a fine up to Rupees Ten thousand, depending upon the degree of the offense committed.

(15.2) If anyone commits any offense specified under Section 5, 6 Section 7 (d), (e), (f), (g) or (h) or Section 8,9,10,12 or Section 14, he/she shall be punished with fine and imprisonment as stipulated under on the basis of the claimed amount, after recovering the claimed amount, if any and depending upon the degree of the offense committed.

(a) If the suit amount is up to one million rupees	*Imprisonment up to 1 year*
(b) If the suit amount is above one million rupees and up to five million rupees	*Imprisonment from 1 year to 2 years*
(c) If the suit amount is above Five million rupees and up to Ten million rupees	*Imprisonment from 2years to 3 years*
(d) If the suit amount is above Ten million rupees with whatever amount	*Imprisonment from 3 years to 5 years*

(15.5) In case any organization commits any offense specified under this Act and if the concerned office bearer or the employee committing such offense be identified, he/she shall be held liable, if the office bearer or the employee could not be identified, the person working in the capacity of the organization head at the time of the occurrence of the offense shall be held liable.

(15.6) The person or organization attempting to commit a banking offense or the person or organization indirectly involved in committing such offense or the person

assisting in committing such offense or the employees or the Chief Executive Officer or Office bearer of such assisting organization shall be punished with a half of the punishment that the offender may be subjected to.

We can expect the Acts, Rules & Regulations to be more stringent in the coming future due to rise in cases of banking fraud especially using digital means.

E. Detection & Mitigation of Salami Slicing Attack:

a. **Detection:** There may be different software to verify the authentication of information in an organization but the most efficient and effective way to detect Salami attack according to researchers is to check each and every line of code and each and every process and transaction (also known as white box testing).

b. **Mitigations procedures:**

- The organization should establish a security policy that contains different privileges of who can access certain information at certain level and who to deny such access. This will reduce the internal attack on organizational assets.
- The organization should also frequently update their security systems in order to avoid any ongoing attack to the organization.
- The banking system should initiate both SMS and email message to alert their customers on any transaction that occurs and also advise the customers to immediately report any unaware money reduction no matter how small it is, so the bank can update their security system.
- Individuals should avoid using their date of birth, surname, mothers name or cell phone number as their password of their phone, ATMs or e-banking as it can be easily determined by the attackers.
- The most important one is bank should advise their customer to avoid saving their bank details inside their cell phone or on any of their social media.

c. **Detection & Mitigation in Nepalese Economy Context:**

- ***NRB "Gunaso Portal":*** Nepal Rastra Bank (NRB) has launched an online system to collect complaints from the stakeholders since April,2021. Now, complaints can be made directly through the online system in case of any problem or grievance with the banks and financial institutions.

  The central bank has launched a complaint registration website 'gunaso.nrb.org.np' for collection of complaints.

  According to the NRB, the online system has been started to ensure customers' rights to banking activities and financial transaction via fair, credible and transparent manner.

  Customers can register their complaints against any BFI via the website. Thereafter, the complainant will receive the registration information and registration number via e-mail. With the registration number, the customer will be able to track the status of their complaint.

  Based on the registered complaint, the NRB will investigate the matter and take action against the BFIs if deemed necessary.

  "In order to provide financial intermediate services, the licensed financial service providers of NRB are subject to the prevailing laws and instructions, circulars, information issued by this bank to ensure fair, reliable and transparent financial intermediate services to all types of clients," reads the notice.

  According to NRB, the main objective of this system is to minimize lack of cooperation, delay, negligence, bias, irresponsibility, misinformation and opaque transactions from financial service providers.

- ***"SEBON Grievance Hotline" , "Hello Sarkar", Bank's Grievance Dept., Toll Free Numbers*** These are few of the Government available and/or Government mandated portals and hotline services that can be availed to report such discrepancies or misappropriations for timely redressal of the genuine complaints.

F. Conclusion:

In a nutshell, Salami attack is the stealing of information from numerous sources where the victims remain unaware; this may occur internally within an organization or externally outside the organization and may be intentional or accidental.

a. **Suggestion for Nepalese Organizations/Service Providers:** The most efficient way to avoid Salami attack is to define efficient and robust user and security policy, which may involve keeping every sensitive information within an organization confidential or use of multi-step security authentication. Strong Internal Control System is the key factor.

b. **Suggestion for Nepalese Account Holders/Service Receivers:** This does not dissolve the responsibility of the account owners of remaining vigilant and keeping regular updates of ones accounts and finances.

   The account owners should also behave responsibly while using online banking, apps, social media, pen drives or any other IT resources. Even one should keep track of sim cards/ numbers provided in e-banking for OTPs and alerts and check that they are under one's control and authority. Similar precautions must be taken as a Shareholder like evaluation of Stock Qty. transaction history in one's **MeroShare**, being updated of verified informations through NEPSE and SEBON official websites only. etc. Rs. 250-500 annual charge for SMS alerts and other online banking facilities needs to be accepted as our own annual financial security charge say like an active anti-virus subscription rather than as a bank charge. We can cover those annual charges from the bank interest atleast over a year.

   "***NRB Gunaso Portal***" and ***Helpline Numbers*** of various Regulatory Authorities are available in public domain for immediate complaints by the general public.

c. **Auditor's Role:**

   Financial Audits are carried out on the basis of sampling and materiality due to large volume of client's business. It is also based on the nature, scope and extent of audit engaged. However, Concurrent audits, Internal audits etc. are the available tools to an Organization for chances of early detection and thus, prevention of these kinds of financially large attacks.

   Independent Individual All Branch Audits is also a win-win situation to all the parties involved. However, this adds to the responsibility upon the auditors to update themselves, get specialized training via Bank Audit Training Courses, IT Training Certification Courses via physical or virtual methods available nationally or internationally.

d. **Nepal Government and its Authorities Role:**

   Recently, Government, Taxation Authorities, Central Bank and Bankers, other associated entities including Private Entities and general public have taken into consideration the weight age of these issues related to online financial fraud cases and are now constantly taking the necessary steps towards its mitigation and prevention.

Major bold and remarkable steps are:

1. Issuance of "Rastriya Parichay Patra",
2. Upcoming "Centralised KYC Database" for banks, brokers ,SEBON, NEPSE, NRB as well as Telecoms,
3. "Nagarik App" for all Governments Services,
4. Upcoming merger of "Databases of Inland Revenue Dept. and Customs" ,
5. "Vehicle Consignment Tracking System"

Other steps include Amendment of old Information Technology related laws and regulations, regular monitoring by Central bank, Investment by banks for purchasing latest software systems for their organizations, regular issue of physical and virtual educational videos and programmes by banks for Public awareness, strong and robust IT Infrastructure of Private Entities.

Lastly, we must always keep in mind especially in this present digital world– *"For every lock, there is someone out there trying to pick it or break in."* - David Bernstein.

Reference

1. http://www.minich.com/education/wyo/java/lecture_notes/SalamiFraud.pdf
2. https://www.latimes.com/archives/la-xpm-1998-oct-09-fi-30669-story.html
3. https://www.networkworld.com/article/2256001/guilty-plea-for-man-behind-creative-e-trade-scam.html
4. https://howtoinfosec.com/2021/06/11/what-is-salami-attack/
5. https://lawcommission.gov.np/np/
6. https://www.nrb.org.np/
7. https://en.wikipedia.org/wiki/Salami_slicing_tactics

A New Model: Expected Credit Loss Model (NFRS 9)

The current incurred loss approach to impairment accounting was more backwards looking and not reactive in recognizing credit losses considering the changes in future condtion. However, due to the technical challenges faced by BFI's in implementation of new impairment model, ICAN have provided CARVE OUT with alternative treatment in IFRS 9 Para 5.5 (impairment) till FY 2080/81. The expected credit loss model under the new accounting standards also has its share of implementation challenges, the new guideline is a step toward a more proactive and effective loss recognition method.

CA. Manoj Ghimire
The author is Member of ICAN and currently working as an Assistant Director at ICAN. He can be reached at mail to: manojghimire.ca@gmail.com

Background

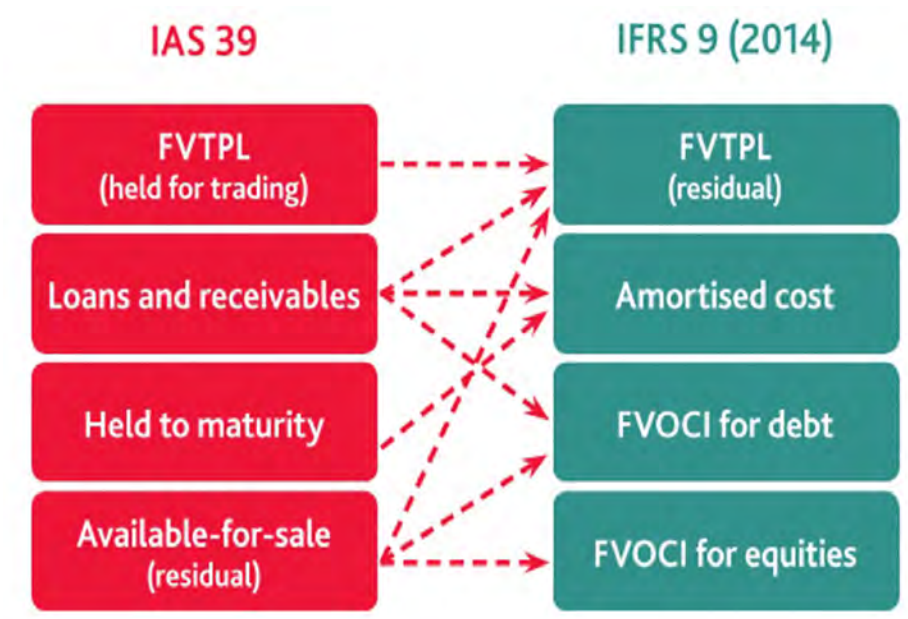
One of the main reasons of the Great financial crise in 2007-09, is considered as excess of risk taking by the bank and lender with lower and delayed recognition of credit loss. The provision and regulations at the time was not sufficiently addressed for booking provision on credit losses arising from emerging risks in market. The behavior of delaying in provision based on credit quality resulted in recognition of credit loss that was considered as "too little, too late". Furthermore, questions were raised about whether provisioning models, including the effect of provisioning on regulatory capital levels, contributed to procyclicality by spurring excessive lending during the boom and forcing a sharp reduction in the subsequent crises period.

Shortly after the crises, the decision on G20 meeting in London (April 2009) was made to strengthen the financial system resulting in a call to overhaul the accounting principles that existed at the time. The regulatory bodies and prudential authorities were called for action by accounting standard setters to improve loan loss provisioning standards and practices.A criticism of the previous accounting regime was that it was too backward-looking and too often deferring the recognition of loan losses. In response, the International Accounting Standards Board (IASB) and other accounting standard setters on July 24, 2014, published IFRS 9 *Financial Instruments*, which includes a new standard for loan loss provisioning based on "expected credit losses" replacing most of the guidance in IAS 39. Similarly, same have been adapted in preparation of NFRS standard.

In these articles, I have tried to present about the impairment model applied on financial instrument as per previous standard (NAS 39) with current standard (NFRS 9) without going through the definition of financial instruments and its types.

❖ **Incurred Loss Model**

Previously to the ECL, NAS 39 recognized the credit loss based on



incurred loss model, which recognize the recording of credit loss that have been incurred as of the balance sheet date rather than based on probable future losses.This model assume that all the loan will be repaid until the evidence to the contrary is identified.

Loss identification was based on the occurrence of "triggering" events supported by observable evidence (e.g., borrower loss of employment, decrease in collateral values, past-due status) combined with expert judgment. Point no 2 of CARVE- OUT issued by institute dated 2079.04.02 (18th July 2022) with regards to NFRS 9 have provided the list of events that provide objective evidence that indicates impairment in financial assets or group of assets.

Under incurred loss model no impairment loss is allowed to be recognized until a loss is incurred which leads to the consequences of lender accruing interest at the full contractual rate, even though the lender expects not to receive the full amount. Only after the existence of objective evidence of impairment on financial asset carried at amortized cost, loss is measured as the difference between the asset's carrying amount and the present value of estimate future cash flows discounted at financial assets original effective rate of interest.

In case of Nepal, the policy of provisioning prescribed by NRB based on default date of payment is an incurred loss model. The credit loss is derived considering the dateof default on payment ofprincipal and interest. This provisioning model assume that all the loan will be repaid until the evidence to the contrary is identified. Impairment or credit loss is calculated as per the Directive no 2 of NRB directives and presented after deduction with the figure of financial assets or group of assets in financial statements.

❖ **<u>Expected Credit Loss Model</u>**

The new "expected credit loss" standards replace previous model with more forward-looking approach that emphasizes shifts to the probability of future credit losses, even if no such triggering events have yet occurred. Under this model, entity is required to recognize ECLs at all times, taking into account past events, current conditions and forecast information, and to update the amount of ECLs recognized at each reporting date to reflect changes in an asset's credit risk.

➤ **What does this model apply for?**

✓ Debt instruments measured at amortised cost

✓ Debt instruments mandatorily measured at fair value through other comprehensive income (FVOCI)

✓ Trade receivables and lease receivables

✓ Other financial instruments subject to credit risk, such as: – some loan commitments – some financial guarantee contracts (*expands in the scope of the new impairment requirements*)

➤ **<u>Measurement of impairment</u>**

The mainapproach in measurement of impairment loss under this model as follows:

General Approach	Simplified Approach for trade and lease receivables

Before talking about the credit loss model and its different stages, the major factor determining the recognition of losses is assessment of significance increase in credit risk.

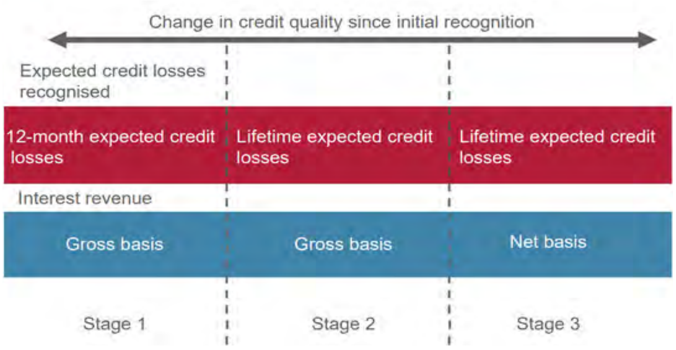
➤ **When is credit considered for significant credit risk?**

As per NFRS 9, at each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. Therefore, risk of default is assessed by comparing with the change in default risk from the date of initial recognition to date of reporting.

Financial instrument is considered having no significant risk since initial recognition if is determined to have low credit risk and supportable information is available without undue cost and effort. However, if the information is not available, an entity may use past due information to determine significant increase in credit risk. Financial instrument is considered having significant increase in credit riskwhen contractual payments are more than 30 days past due unless supportable information is available without undue cost and effort demonstrating no significant increase in credit risk.

➤ **<u>Under General Approach</u>**

Under the general approach, an entity must determine whether the financial asset is in one of the three stages to determine both the amount of ECL to recognise as well as how interest income should be recognised.



Stage 1 is where credit risk has not increased significantly since initial recognition or have low credit risk at the reporting date. For financial assets in stage 1, entities are required to recognise12-month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default as the weight.

Stage 3 – If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

Expected credit losses are updated at each reporting date for new information irrespective of whether a financial instrument stays at the same 'stage'.

➢ **Twelve-month versus lifetime expected credit losses**

ECLs reflect management's expectations of shortfalls in the collection of contractual cash flows. Twelve-month ECL is the portion of lifetime ECLs associated with the possibility of a loan defaulting in the next 12 months. It is not the expected cash shortfalls over the next 12 months but the effect of the entire credit loss on a loan over its lifetime, weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on loans that are forecast to actually default in the next 12 months.

Example:

Portfolio of 10m loans

Expect 2% to default in next 12 months

Entire loss that would arise on default is 10%

12-month expected loss = 20,000 (2%x10%x10m)

If an entity can identify such loans or a portfolio of such loans that are expected to have increased significantly in credit risk since initial recognition, lifetime ECLs are recognised. Lifetime ECLs are an expected present value measure of losses that arise if a borrower defaults on its obligation throughout the life of the loan. They are the weighted average credit losses with the probability of default as the weight. Because ECLs also factor in the timing of payments, a credit loss (or cash shortfall) arises even if the bank expects to be paid in full but later than when contractually due.

Example

Expected default for loans of 10,00,000 in Stage 2 within the first 12 months has been calculated based on historical experience at 5%, and then 10% in the second 12 months; and that through a historical analysis of post-default recoveries of loans in Stage 2, the Company has calculated a loss that would arise in default of 20% in the first 12 months and then 30% for the second 12 months:

12-month ECL = 10,000 (10,00,000*5%*20%)

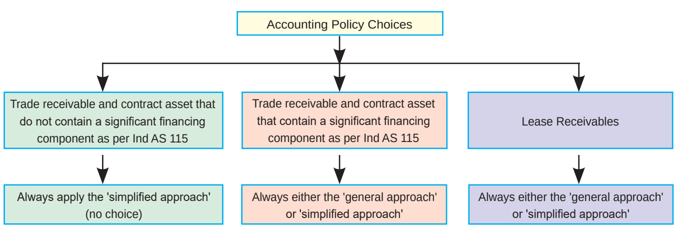
Lifetime ECL = 30,000 (10,00,000*10%*30%)

In total ECL recognized in financial statement would be on a lifetime basis, which in this case is 2 years. The total ECL charges in profit and loss would be 40,000 (***Note:*** *Figure shall be discounted to present value while charging)*

➢ **Simplified Approach for Lease Receivable and Trade Receivable**

Many assume that the accounting for financial instruments is an area of concern only for large financial entities like banks. This is not the case. Almost every entity has financial instruments that they need to account for. In particular, almost every entity has trade receivables, and the new financial instruments standard changes the way entities must think about impairment. Entity accounting under this approach do not calculate possibility of default (PD) and Loss given default (LGD) but instead use loss rate approach. Therefore, trade receivables that do not contain a significant financing component, the loss allowance should be measured as equivalent to lifetime ECLs.This is because they are very short-term in nature and are usually due within 12 months. So, the 12-month ECL and lifetime ECL would be the same. At the same time, in case of trade receivables or contract assets which do contain a significant financing component and extend for more than short term period (e.g., the trade receivables of an entity that provides customers with extended credit terms like a furniture retailer that allows its customers to pay for their purchases over three years), and for lease receivables, the entity can choose between the simplified approach and the general approach.

Accounting Policy Choices



(Source website:rvsbellanalytics.com*)*

Provision Matrix

For trade receivable with shorter periods e.g. with term of 30 days, forward looking for economic scenarios may be less significant considering the changes in economic conditions during the risk exposure period. In this suitation, the most appropriate basis would be historical loss rate for the estimated furture lossess. Therefore, under this approach, the calculation of the expected credit losses on trade receivables would be determined based on its historical credit loss experience for trade receivables calculated by segmenting the receivables into appropriate groupings, based on shared credit characteristics. A provision matrix is simply a table that analyses the trade receivables into groupings and applies a calculated loss rate to each one. The groupings can be by product type, which can be sub-analysed into geographic regions. These groups are then, finally, split into aged bandings.

Example:

Due Status	Expected default rate	Gross carrying amount (NPR)	Credit loss allowance (NPR)
1-30 days past due	2%	100,000	2,000
31-60 days past due	5%	500,000	25,000
61-120 days past due	15%	200,000	30,000
More than 120 days	25%	150,000	37,500
Total		**950,000**	**94,500**

Additionally, As per NFRS 9, companies need to consider the relationship between the loss rates and future macro-economic indicators incorporating forward-looking macro-economic information in hisotrical loss rates.

Conclusion

The introduction of new impairment accounting standard based on the expected credit loss of a financial asset is a welcome convergence between credit risk management practices and the new accounting standards. The current incurred loss approach to impairment accounting was more backwards looking and not reactive in recognizing credit losses considering the changes in future condtion. However, due to the technical challenges faced by BFI's in implementation of new impairment model, ICAN have provided CARVE OUT with alternative treatment in IFRS 9 Para 5.5 (impairment) till FY 2080/81. The expected credit loss model under the new accounting standards also has its share of implementation challenges, the new guideline is a step toward a more proactive and effective loss recognition method. The core benefits of the expected credit loss model include

- Early recognition of expected credit losses and consistency with standardized pricing or valuation of financial instruments,
- Relevant and forward-looking approach is closer to the future value concept in determining the initial carrying value of a financial asset,
- Increased transparency and reduced uncertainty over loan valuations enables financial institutions to acquire easy and economical funding.

Refrences:

1. *Imapaimrent of financial assets* The Expected Credit Loss Model – European financial Reporting Advisory Group (EFRAG)
2. *IFRS 9 and expected loss provisioning* –Bank for International Settelments
3. *IFRS 9: Expected credit losses* – PWC (August 2014)
4. Website:www.ifrs.org, www.ican.org.np, www.accaglobal.com, www.nrb.org.np
5. NAS 09, Financial Instruments (NFRS) 2018
6. IFRS 09, Financial Instruments (IFRS)

Judicial Update

CA. Pramod Lingden
The author is Fellow Member of ICAN and PhD scholar. He can be reached at: ca.pramodlingden@gmail.com

Case-I: Value Added Tax Act, 2052

Supreme Court Decision Date: 2076.09.28

Parties: Bhatbhateni Super Market and Department Store Pvt Ltd, Kathmandu Vs. Large Taxpayer Office, Lalitpur; Inland Revenue Department, Kathmandu.

Supreme CourtCaseNumber: - 074-RB-0140

Link:https://supremecourt.gov.np/cp/assets/downloads/supreme_177705.pdf

Though section 20(3) of the Value Added Tax Act, 2052 has assigned the burden of proof to tax officers, they are not liable to prove the authenticity of those purchase bills, invoices on the basis of which the tax assessee has claimed the VAT credit. Instead, the tax assessee self has to prove the factual occurrence of such purchase transactions and payments of the VAT credit claimed invoices. So, the buyer of goods is liable to prove the genuineness of its procurement done from and payment made to suppliers. It cannot be waived from its liability by just passing over such liability to the suppliers.

Burden of proof does not lie with tax officers [Section 20(3)]:

Fact:

The Monitoring Team of the Inland Revenue Department(IRD) inspectedthe main transaction place of Bhatbhateni Super Market & Department Store Pvt Ltd at Bharbhateni, Naxal on 2067.10.19. Then, theMonitoring Team of the IRDseized its bills, invoices, purchase book, bank statements, hard disk of computersetc andmade an initial tax assessment order of NPR 22,79,08,198as per section 20(1) of the Value Added Tax Act, 2052 for the period covered from Shwaran, 2064 to Magh, 2067 on 2068.10.24. As per the Department, the assessee had improper VAT invoices of purchasepriceNPR 71,82,31,735 from 152 different suppliers during the reporting period and had claimed 13% of such purchase price as VAT credit i.e. NPR 9,33,70,125. So, along with the VAT amount NPR 9,33,70,125assessed under section 20(1) of the Act, the Department charged 100% of the VAT amount NPR 9,33,70,125.00 as penalty under section 29(2), NPR 1,64,47,497 as additional fee under section 19(2) and NPR 2,47,20,451 as an interest under section 26 of the Act which summation amounted to NPR 22,79,08,198.

Dispute:

The Assessee had purchased goods of NPR 71,82,31,735 from 152 different suppliers during the period of Shrawan, 2064 to Magh, 2067. It had collected VAT Invoices from those suppliers and claimed the VAT amount NPR 9,33,70,125of those purchase invoices as VAT credit in its monthly VAT Returns.

However, the Inland Revenue Department claimed that suppliers like Mangal Export Import, Jay Bageshwori Export Import and Raut Trade Concern from which the assessee had collected VAT Invoice were not registered for VAT under Value Added Tax Act, 2052. Similarly,another supplier Shraddha Enterprise was registered for VAT but its proprietor denied the transaction with the assessee during the period ofShrawan, 2064 to Magh, 2067. In addition, regarding other suppliers, they were non-filers of VAT Returns and the assessee failed to provide the information of their transaction place, name, address & contact number of their chiefs. Further, it failed to provide proper documents of payment and receipt transaction conducted with those suppliers. The assessee claimed that it had paid to those suppliers in cash for invoice amount upto NPR 50,000 and in bearer cheque for invoice amount more than it. However, no any receipt was collected from the concerned suppliers and no stamp of the recipient supplier was affixed in the *Ardhakatti* cheque issued by the assessee for proving the real payment of the invoices to the concerned suppliers. So, the Department accused that with the mala fide intention of tax evasion, the assessee had just collected fake invoices in the name of different suppliers and claimed VAT credit on the basis of those invoices.The Department clarifies, as per section 17(1) of the VAT Act 2052, a registered person may deduct the amount of tax which he/she has collected against the tax he/she had paid or due in importing or receiving goods or services related with his/her own taxable transactions. However, as per sub-section (6) of the same section 17, such credit claim facility under this Act shall be given only when a claim is substantiated by prescribed documents. So, on the ground of improper credit claims made by the assessee by collecting fake purchase invoices, the Departmentissued final tax assessment order of NPR 22,79,08,198 as per section 20(1) of the Value Added Tax Act, 2052 on 2068.11.28.

The assessee, being dissatisfied with reason of such tax assessment order made by the Department, had applied to the Director General of theIRD for Administrative Review under Section 31A of the Value Added Tax Act, 2052.However, the DG of IRD endorsed the tax assessment order of the Department on the ground such tax assessment is in consonance with the law on 2069.03.15.

Then the assessee, being dissatisfied with decision of the Administrative Review, appealed to the Revenue Tribunal, Kathmandu against such decision under section 32 of the Act. However, the Revenue Tribunal quashed the claim of the tax assesseeand upheld the decision of the IRD on 2074.03.29. So, the assessee, being dissatisfied with the decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

Supreme Court Judgement:

The Supreme Court quashed the claim of the assesseeand upheld the decision of Revenue Tribunal stating that though section 20(3) of the Value Added Tax Act, 2052 has assigned the burden of proof to tax officers, they are not liable to prove the authenticity of those purchase bills, invoices on the basis of which the tax assessee has claimed the VAT credit. Instead, the tax assesseeitself has to prove the factual occurrence of such purchase transactions and payments of the VAT credit claimed invoices. So, the buyer of goods is liable to prove the genuineness of its procurement done from and payment made to suppliers. It cannot be waived from its liability by just passing over such liability to the suppliers.

Case-II: Income Tax Act, 2058

Supreme Court Decision Date: 2077.09.27

Parties: The Oriental Insurance Company Ltd, Kathmandu Vs Large Taxpayer Office, Lalitpur Supreme Court Case Number: - 074-RB-0471

Link:https://supremecourt.gov.np/cp/assets/downloads/supreme_184552.pdf

Disallowing the employee bonus amount calculated under Bonus Act, 2030 on the ground of not being able to distribute it within the time limit prescribed by the Act is against the spirit of Bonus Act, 2030 and Income Tax Act, 2058. If any enterprise fails to distribute the allocated bonus within the time limit prescribed by the Bonus Act 2030, section 20 of the Act has provided for punishment and the Department of Labour& Occupational Safety is empowered for charging such punishment. The Tax Administration is not entitled to disallow the bonus expense computed as per law even if it could not be distributed on time.

Employee bonus not distributed on time cannot be added back to income [Section 7]:

Fact:

The assessee M/sThe Oriental Insurance Company Ltd had submitted its income tax return of F/Y 2062/63 pursuant to section 96 of the Income Tax Act, 2058 by assessing its tax liability as per section 99 of the Act on 2063/09/30.

Later on, the Large Taxpayer Office (LTO) issued an initial tax assessment notice against the assessee under section 101(6) of the Act causing to addback, along with other matters, the undistributedbonus amount NPR 1,00,378.60 of F/Y 2061/62 to its assessable income of F/Y 2062/63 on 2065/03/17 and a notice of final tax assessment decision dated 2065/03/26.

Dispute:

The assessee, being dissatisfied with such tax assessment order made by the LTO, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 115 of the Income Tax Act, 2058 on 2065/05/24. However, the IRD endorsed the tax assessment order of the LTO on the ground that such tax assessment is in consonance with the law and rejected the claim of the assesseeon 2069.11.30.

Then the assessee, being dissatisfied with decision of the Administrative Review, appealed to the Revenue Tribunal, Kathmandu against such decision under section 116 of the Act on 2072/04/12. The Revenue Tribunal quashed the claim of the assessee and upheld the tax assessment order of LTO along with the decision of the Administrative Review to endorse such order of LTO on 2073.10.21. So, the assessee, being dissatisfied with such decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

Supreme Court Judgement:

The Supreme Court quashed the tax assessment order of LTO along with the decision of Administrative Review and Revenue Arbitration Tribunal made to endorse such order and upheld the claim of the assesseestating that disallowing the employee bonus amount calculated under Bonus Act, 2030 on the ground of not being able to distribute it within the time limit prescribed by the Act is against the spirit of Bonus Act, 2030 and Income Tax Act, 2058. If any enterprise fails to distribute the allocated bonus within the time limit prescribed by the Bonus Act 2030, section 20 of the Act has provided for punishment and the Department of Labour& Occupational Safety is empowered for charging such punishment. So, the Tax Administration is not entitled to disallow such bonus expense computed as per law even if it could not be distributed on time.

NFRS For SMEs, NAS for NPOs र NAS for MEs लागू हुने मिति परिर्वतन सम्बन्धमा

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थावाट Nepal Financial Reporting Standard For Small And Medium -Sized Entities (NFRS For SMEs) Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) तथा Nepal Accounting Standard for Micro Entities (NAS For MEs) २०७८ श्रावण १ गतेवाट अनिवार्य रुपमा लागू गर्ने भनिएकोमा हाल कोभिड-१९ को महामारीको कारणले सिर्जना भएको असहज परिस्थितीलाई मध्यनजर गरी परिषदको २५८ औं बैठकको निर्णय अनुसार उक्त NFRS For SMEs, NAS for NPOs र NAS for MEs लागू हुने मितिलाई परिर्वतन गरि २०७८ श्रावण १ देखि २०८० आषाढ मसान्तसम्म स्वेच्छिक रुपमा र मिति २०८० श्रावण १ गतेबाट अनिवार्य लागू गर्ने निर्णय गरिएको जानकारी गराँउदछौ ।

News

Regulation and Supervision

Issuance of Explanatory Note on Accounting for Business Combination

The Institute has issued an"Explanatory Note on Accounting for Business Combination". The Explanatory Note deals with accounting for Business Combination carried out as per NFRS 3: Business Combination. The Explanatory note can be viewed from the link below:

https://en.ican.org.np/_browsable/file/general/Explanatory_Note_on_Accounting_for_Business_Combination.pdf

Issuance of Carve Out of NFRS 9

The Institute has issued a carve out of some provision of NFRS 9 until Fiscal Year 2080/81. The carve out on NFRS 9 can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/81fc6183db49944de02fe0dec281300a.pdf

Issuance of Guidelines on Verification of Working Capital and School Audit Guidelines, 2079

The Institute has issued a guideline on verification of working capital and school audit guidelines, 2079. The Guidelines on verification of https://en.ican.org.np/_browsable/file/general/Guideline_on_Verification_of_Working_Capital_Statement.pdf

Likewise, the school audit guidelines can be viewed from the link below:

https://en.ican.org.np/_browsable/file/policies/School_audit.pdf

Both the hardcopies of the above guidelines can also be obtained from the head office of the Institute.

Interaction with the Association of Chartered Accountants of Nepal (ACAN) and Auditor Association of Nepal (AuDAN)

The Institute organized an interaction program with President of the Association of Chartered Accountants of Nepal (ACAN) CA. Dipak Panday and President of the Auditor Association of Nepal (AuDAN) RA. Kedar Nath Poudelto discuss the contemporary issues of accounting profession.

Professional Development

Workshop on Contemporary Issues of Accounting Profession

The Institute coinciding swearing-in Ceremony of the newly elected President, CA. Bhaskar Singh Lala and Vice-President, CA. Sujan Kumar Kafle for second tenure (FY 2022/23) of the ninth Council, organized a half day workshop on contemporary Issues of Accounting Profession on 22nd July 2022 at Kathmandu.

The main objective of the workshop was to impart knowledge about Laws and Regulations related to Cyber Crime, Cyber-Security, and its impact in the personal and official life of people including extending horizon of understanding about Judiciaries Role in Protecting Public Interest citing various examples of legal cases related with Public Interest.

The workshop was organized in two sessions. In the first session two paper were presented by an expert. The first paper was presented by an Attorney at Law at the Supreme Court of Nepal and an Asst. Prof. Tribhuvan University of Nepal. Mr. Saroj Krishna Ghimire, on Judiciaries' Role in Upholding Public Interest (Special Reference with Commercial Sectors). In his presentation he covered matters ofPublic Interest in Global Context, Rule of Law and Separation of Power, Public Interest Litigation and Case Laws on Public Interest. The presentation can be viewed from the link below:

https://en.ican.org.np/_browsable/file/general/SAROJ_GHIMIRE_FINALK_ICAN_PRESENTATION_2022.pdf

Similarly, Mr. Pasupathi Ray, SP, Nepal Police Cyber Bureau presented a paper on Digitalization: Boon or Bane (Special Reference to Accounting Profession). In his presentation he covered Cyber Laws, Introduction of Cybercrime, Types and Trends of Cybercrime, Payment Fraud, Personal Information and Privacy, Protect Your Accountancy Firm from Data Breaches, Safe Online Shopping, Online Coercion and Extortion and Practical Case Law Studies. The presentation can be viewed from the link below:

https://en.ican.org.np/_browsable/file/general/Digitalization_Boon_or_Boon.pdf

Paper Presenter in the Workshop; Top Mr. Saroj Krishna Ghimire and Bottom Mr. Pasupathi Ray

In the second session of the program a Question & Answer session was organized. The queries raised by the participants were addressed by the paper presenters. Around 180 persons participated in the workshop which includes Council Members, Committee Members, participants from different entities, members of the Institute, Staffs of the Institute etc.

Interaction Program on Contemporary Issues related with Accounting and Auditing in Insurance Companies

The Institute jointly in coordination with the Insurance Board of Nepal organized an "Interaction program on contemporary issues related with Accounting and Auditing in Insurance Companies" at Kathmandu on 7th July 2022. The objective of this interaction program was to provide a platform for interaction between Insurance Companies, Accountants and Auditors of Insurance Companies, Regulator of Accounting Professions, Insurance Regulatory Authority, and Insurer Association together and identify the gaps in existing accounting and audit of Insurance Companies, role of Regulator and find a solutionfor problems identified based on collective discussion.

Left: Mr. Chunky Chhetry (Chairman, Nepal Insurers' Association); CA. Sanjay Kumar Sinha (Executive Director, ICAN); Mr. Surya Prasad Silwal (Chairman, Insurance Board); CA. Yuddha Raj Oli (President, ICAN); CA. Bhaskar Singh Lala (Vice President, ICAN); Mr. Raju Raman Paudel (Executive Director, Insurance Board) and Mr. Nirmal Kajee Shrestha (Chairman, Life Insurers' Association Nepal)

The Program was organized in two sessions. The first session was confined to Paper Presentation and the second session was related with Panel Discussion. The Program was attended by 99 participants.

Session I: Paper Presentation

The first paper was presented by Executive Director of ICAN, CA. Sanjay Kumar Sinha on Regulatory Role of ICAN. During his presentation he focused on institutional governance, National and International Relation and recognition, activities conducted for capacity enhancement of members and NFRS implementation. The link of the presentation is as given:

https://en.ican.org.np/_browsable/file/general/Regulatory_Role_of_ICAN.pdf

The Second paper was delivered by Director of Beema Samiti, Mr. Sushil Dev Subedi on Regulatory Role of Insurance Board. During his presentation he focused on Role, Functions and Responsibility of Board, directives issued by the Board, Role of Auditor to assist the supervisory function of Insurance Board and Challenges and way out in Insurance Sector. The link of the presentation is given below:

https://en.ican.org.np/_browsable/file/general/Regulatory_Role_of_Beema_Samiti.pdf

Similarly, the third paper was presented by Council Member CA. Prabin Kumar Jha on Accounting Issues of Insurance Companies- Auditors' Perspective. During his presentation he focused on Auditors Role, Major issues in Insurance Sector in Nepal, Major issue in Life Insurance Companies, Major issue in Non-Life Insurance Companies, Expectations of Auditor from Insurance Companies. The link of the presentation is given below:

https://en.ican.org.np/_browsable/file/general/Contemporary_Issues_Auditors_Prespective.pdf

Session II: Panel Discussion

In the second session a panel discussion was conducted followed by an open forum discussion on "Accounting and Auditing in Insurance Companies" chaired by the President, CA. Yuddha Raj Oli. Following were the Panelist in the session:

Name of Panelist	Designation	Representative From
CA. Yuddha Raj Oli	President	The Institute of Chartered Accountants of Nepal (ICAN)
Mr. Sushil Dev Subedi	Director	Insurance Board
Mr. Chunky Chhetry	Chairman	Nepal Insurers' Association (CEO, Sagarmatha Insurance Company Ltd.)
Mr. Nirmal Kajee Shrestha	Chairman	Life Insurers' Association Nepal (Vice President and General Manager, Met Life)
CA. Prabin Kumar Jha	Council Member	The Institute of Chartered Accountants of Nepal (ICAN)

Interaction Program on Federal and Provincial Budget 2079/80

ICAN organized an Interaction program on Federal and Provincial Budgetin all the branches officesas below:

Branch Office	Date	Total No. of Participants
Birgunj Branch Office	2nd July 2022	50
Biratnagar Branch Office	8th July 2022	44
Butwal Branch Office	9th July 2022	83
Dhangadi Branch Office	10th July 2022	45
Pokhara Branch Office	13th July 2022	57

Training for Trainers (ToT) on Audit Documentation

The Institute organized a three-days ToT on Audit Documentation from 8th to 10th July 2022 for its practicing members to create competent pool of professional instructors who may be the part of trainer in the training programs of the Institute. Altogether 34 members of the Institute actively attended in the training.

Women Leadership Training

The Woman Leadership Committee of the Institute in the coordination with the Beyond Beijing Committee organized training for female members of the Institute on 8th and 9th July 2022 in Kathmandu. The purpose of the training was to enhance the capacity of female members. Altogether 18 female members participated in the Authentic Leadership Training.

Webinar on "Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Compliances by Accountants and Auditors"

The Institute with the objective to orient its Practicing Members and Firms on their roles and responsibilities as reporting entities in matters of AML/CFT compliance requirements, has organized a two-hour webinar on the topic "AML/CFT Compliances by Accountants and Auditors" on Thursday, 29 September 2022. The Institute has issued Guidelines on the Prevention of Money Laundering and Countering Terrorist Financing, 2078 with effective from 2078.09.04 B.S.

The President of the Institute CA. Bhaskar Singh Lala delivered his opening speech which was followed by presentation on the topic by CA. Kiran Kumar Khatri, Joint Director at ICAN. The Vice President of the Institute CA. Sujan Kumar Kafle moderated the technical session where in Panelists Dr. Hari Kumar Nepal, Deputy Director of Nepal Rastra Bank and Mr. Dirgha Bahadur Rawal, Director/Chief of Financial Information Unit, highlighted andthrew light on the several aspects of the AML CFT regulation involving the Accounting Sector. The Panelists also addressed the concerns of the participants in the Program. The Investigation Officer from Department of Money Laundering Investigation, Mr. Himlal Adhikari, made a brief remark emphasizing the contribution expected of Accounting Sector to strengthen the AML CFT compliance status of the country. CA. Sanjay Kumar Sinha, Executive Director of the Institute, delivered his closing remarks emphasizing the need for Practicing Members of the Institute to provide necessary cooperation as required and gave vote of thanks to all Panelists for their valuable remarks and to the Participants for their active participation.

The Webinar Program was helpful to clarify the matters such as 'the condition when Practicing Members would be recognized as a Reporting Entity', the services rendered by Practicing Members that are subject to compliance requirements, the requirement for a firm to have a compliance system as specified, the Client Due Diligence Requirements, Suspicious Transactions and Activities Reporting Requirements to FIU, Role of ICAN and its regulative functions, and the information requirement for ICAN to perform its regulatoryfunctions and the matters related thereto.The webinar was attended by around 140 participants.

Continuing Professional Education (CPE) Training

The Institute has organized a three-day CPE training for its members from 3rd to 5th September 2022 at ICAN Premises situated at Satdobato, Lalitpur. The training was conducted in twelve sessions. The main objective of this training was to enhance theoretical and practical knowledge about understanding and application of NFRS for SMEs; comprehensive knowledge about School Audit and School Audit Guidelines, Appeal in Tax Cases: Practices and Principles, Major Changes in Income Tax, VAT, Custom and Excise Tax, IT Security as well as the process of Audit Documentation. Altogether,121 members participated in the training.

Interaction Program with Inland Revenue Office, Nepalgunj

Nepalgunj Branch Office of the Institute organized a half day Interaction program with Inland Revenue Office, Nepalgunj on "Economic Governance." The program started with the welcome remarks by member of Nepalgunj Branch Coordination Committee (BCC), RA. Mohammod Juber Rai. Likewise, Coordinator of Nepalgunj BCC, CA. Bishwo Ram Bhandari presented paper on Introduction and Role of ICAN for Economic Governance whereas, Mr. Sudesh Raj Aryal delivered presentation on Introduction and Role of IRO for Economic Governance. After the presentation, open forum discussion was held. The program was concluded with vote of thanks by Coordinator of Nepalgunj BCC, CA. Bishwo Ram Bhandari. The program was attended by representatives of Inland Revenue Office, Nepalgunj; members of BCC; representative of The Association of Chartered Accountants of Nepal (ACAN) and Auditor's Association of Nepal (AuDAN).

Education

Chartered Accountancy Examination Result Published

On 14th August 2022, the Institute has published the result of Chartered Accountancy Examination (CAP I, CAP II and CAP III level) conducted in June 2022. Details of students applied, appeared, passed in CAP-I, CAP-II and CAP-III level of CA Examination is presented below:

	CAP-I	CAP II			CAP III		
		Group I	**Group II**	**Both**	**Group I**	**Group II**	**Both**
Applicants	2,513	623	426	1,369	479	418	358
Appeared	2,371	491	345	1,282	424	347	351
Passed	1,645	152	91	43	73	99	22
Qualified	**1,646**	**164**			**88**		

General Management and Communication Skill (GMCS) Training

The Institute organized 21st batch of 15 days GMCS training for the students those who have qualified in June 2022 CA Examination. The GMCS training was organized from 25th August to 11th September 2022 at ICAN premises, Satdobato, Lalitpur. The purpose of this training was to impart knowledge among participants to make them capable of translating challenges into rewarding opportunities by applying emotional intelligence and soft skills in the workplace and to enhance the communication and interpersonal skills and to provide understanding of contemporary business environment and opportunities. This training is a prerequisite for newly qualified CAs obtaining membership of the Institute. Altogether, 86 CAs participated in the training. President CA. Bhaskar Singh Lala distributed the certificates to the participants after completion of training. The Certificate Distribution Ceremony was also attended by Immediate Past President CA. Yuddha Raj Oli, Council Members CA. Surendra Shrestha, CA. Sujan Shrestha and CA. Peeyush Anand.

Group photo of GMCS training participants during Closing Ceremony

Pre-Articleship Orientation Program

The Institute organized 4th Batch of 'Pre-Articleship Orientation Program' for the students those who have passed CAP II level examination of June 2022 on 24th and 25th August 2022 at ICAN premises, Satdobato, Lalitpur. The purpose of this orientation program was to enhance the skills and capabilities of students pursuing three years articleship training by providing proper orientation and training on personality development, communication skills, professional behavior and culture at audit firms and client's offices.

Group photo of students at Articleship Orientation participants with ICAN Official at ICAN

The Institute has made Pre- Articleship Orientation Training mandatory for submitting article deed to the Institute for approval. Altogether, 164 students participated in the orientation program by physical or virtual mode.

CAP-I Students' Orientation Program

The Institute organized an orientation program for its newly enrolled CAP I Level students eligible to appear in December 2022 examination physically as well as virtually on 12th July 2022. The Institute has been organizing Students' Orientation Program for CAP -I level Students since 2019. Physical program was organized in Kathmandu. The Main objective of the Students' Orientation Program was to impart knowledge tothe new Students about Chartered Accountancy Course, prospects of Chartered Accountants and welcome them in the fraternity of CA Students.

The program was Chaired by ICAN President, CA. Yuddha Raj Oli whereby, Hon'ble Auditor General Mr. Tanka Mani Sharma (Dangal) was the Chief Guest in the Program. Likewise, Governor of Nepal Rastra Bank, CA. Maha Prasad Adhikari was the Special Guest in the Program. The Program was inaugurated by Chief Guest Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal) by lightening the lamp.

Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal) addressing the students in the Program

After the inauguration ceremony, Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal) addressed the participating Students for pursuing CA education and and extended his best wishes to succeed in their career. Executive Director, CA. Sanjay Kumar Sinha also welcomed the Students in the Program and highlighted the dignity of CA Profession, and he advised the students to maintain sincerity in their studies and career.In the program, Special Guest Governor of Nepal Rastra Bank, CA. Maha Prasad Adhikari shared his experience and extended his best wishes to the students to qualify the Chartered Accountancy course.

Moreover, President, CA. Yuddha Raj Oli briefed about the Chartered Accountancy Course, International Recognition of the CA course and shared his experience while perusing CA Education and Experience after qualifying CA. He also stressed out on importance of having positive mind set amongst Students. Recite

Before closure of program the Students of CAP-I level performed dance, chanting/reciting poem, playing flute and singing song. Besides, Deputy Director, CA. Himal Dahal of the Institute presented the brief introduction about the Institute, Institute's activities, Institute's facilities available to the students, future career prospect and various aspects of CA Education.

Likewise, Council Member and CEO of Kumari Bank Limited, CA. Ram Chandra Khanal also gave a motivational speech in the Program. And recently qualified Chartered Accountants, CA. Rabin Dhakal and CA. Ritu Shakya also shared their experiences with the students.

Group photo of students with ICAN President, Vice-President and Officers

Coinciding with the orientation program a prize distribution program for "ICAN Students Contest-2022" was also organized. The winner,1st and 2nd Runner Up in the Contest were presented with Certificates and Cash Prize. Total 12 Students were awarded for ICAN Students Contest. Similarly, Certificate of Appreciation was awarded to Students performing in 1st National Convention of Accounting Profession, 4th Chartered Accountancy Convocation and CAP-I Students' Orientation Program. Altogether 1,106 students participated in the program. The program concluded with Vote of Thanks by Vice President CA. Bhaskar Singh Lala.

Stipend for Article Trainee Revised

The Institute has published notice regarding revision in the rate of stipend for the article trainee. The revised rate will be applicable from 17th July 2022. As per the revised stipend the article trainee shall receive minimum stipend as given below during their articleship period:

S.No.	Year of Articleship	Minimum stipend per month (NPR)
	First Year	5,000.00/-
	Second Year	7,000.00/-
	Third Year	10,000.00 /-

Election of Fifth Executive Committee of Nepal Chartered Accountants Students Association (NCASA) Conducted

The Institute conducted election of Fifth Executive Committee of NCASA on 13th August 2022 at ICAN premises, Satdobato, Lalitpur. The Voters of the election were the students of CAP II and CAP III level enrolled up to 2nd August 2022. 10 candidates of CAP III Level and 9 candidates of CAP II Level filled their candidacy for the member of the Executive Committee of NCASA. Out of which, total 4 candidates were elected from CAP III Level and 2 candidates were elected from CAP II Level as below:

S.No.	Name of Elected 5th NCASA Executive Committee Members	CAP III / CAP II Level
	Mr. Bibek Bhattarai	CAP III Level
	Mr. Mahendra Khadka	CAP III Level
	Mr. Aayush Rahaman	CAP III Level
	Ms. Shital Bhattrai	CAP III Level
	Mr. Sumit Kumar Pandeya	CAP II Level
	Mr. Nirajan Karki	CAP II Level

Group photo of elected Members of 5th Executive Committee of NCASA with the President of ICAN, CA. Bhaskar Singh Lala, Executive Director CA. Sanjay Kumar Sinha and Officer Mr. Bhakta Bahadur Karki during Certificate Distribution Ceremony at ICAN

Online Revision Classes

The Institute, with a view to support its students in preparation for December 2022 CA Examination and September 2022 CA Membership Examination has launched free online revision classes of all Levels of Chartered Accountancy Course and for CA Membership Examination from 28th August 2022.

CA. Membership Examination

The Institute of Chartered Accountants of Nepal Conducted CA Membership Examination, September 2022 from 20th and 21st September 2022. Examination was conducted in Kathmandu, Biratnagar, Pokhara, Birgunj, Butwal and Chitwan. Total 382 applicants out of total 463 applied for Membership Examination appeared in the examination

Career Counselling

Birgunj Branch Office of the Institute has organized a career counselling program in schools at Parsa District of Madhesh Province on 28th September 2022. The objective of this career counselling program was to aware the students about Chartered Accountancy Education, Syllabus, Fees structure, Scholarship opportunity, pass marks criteria, career prospects and other relevant information that will help students to make informed decision about pursuing Chartered Accountancy courses.

National Relation: Public and Government

Cordial Meeting with Hon'ble Auditor General

President CA. Bhaskar Singh Lala and Vice President CA. Sujan Kumar Kafle made a courtesy call on with Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal) at the Office of the Auditor General on 17th August 2022. During the visit President CA. Bhaskar Singh Lala briefed about the ongoing activities of the Institute and had discussion about the contemporary issues of accounting profession.

Meeting with Representatives of Insurance Board and Association

Executive Director, CA. Sanjay Kumar Sinha and Joint Director, CA. Suman Kumar Bohara attended the first meeting of Committee formed for implementation of NFRS 17. The meeting was held with the Executive Director of the Insurance Board,Mr. Raju Raman Paudel; President of Nepal Insurer's Association,Mr. Chunky Chhetry and President of Nepal Life Insurer's Association Mr. Nirmal Kajee Shrestha on 1st August, 2022. The meeting was held to discuss about the implementation of NFRS 17: Insurance Contract which is applicable from 16th July 2023. Previously, an interaction program on contemporary issues related with Accounting and Auditing in Insurance Companies was also held to discuss about contemporary issues of Insurance Sector along with NFRS 17 implementation on 7th July 2022.

Participation in the Discussion Program organized by Nepal Bankers' Association

President CA. Yuddha Raj Oli participated in the discussion program organized by Nepal Bankers' Association on 8th July 2022. The program was focused on the implementation status of NFRS 9 and NFRS 3 in Bank and Financial Institutions.

Participation in Interaction Program organized by Nepal Rastra Bank

President CA. Yuddha Raj Oli, Executive Director CA. Sanjay Kumar Sinha and Joint Director CA. Kiran Kumar Khatri participate in the interaction program organized by Nepal Rastra Bank on 6th July 2022. The Interaction program was focused on the implementation of Nepal Financial Reporting Standards (NFRS) in Bank and Financial Institutions.

Participation in the Interaction Program organized by Securities Board of Nepal

Deputy Director CA. Nilesh KC attended the Interaction Program organized by Securities Board of Nepal (SEBON) on 3rd July 2022. The Interaction was focused on Securities and the Commodity Market Policy.

Participation in the Discussion Program organized by Inland Revenue Department

Assistant Director, CA. Santosh Bista participated in the discussion program organized by Internal Revenue Department on 3rd July 2022. The discussion program was mainly held on reform on the submission of Income tax return per the Income Act 2058.

National BPA Award 2021 Distribution

Coinciding with the Oath Taking Ceremony of the newly elected President, CA. Bhaskar Singh Lala and newly elected Vice-President, CA. Sujan Kumar Kafle for second tenure (FY 2022/23) of the 9th Council, the Institute organized National Best Presented Annual (BPA) Report Award 2021 Distribution Ceremony. The National BPA Award 2021 was organized with the objective to promote better presentation of financial and other pertinent information and disclosure in the annual report of the reporting entities. The Institute has been organizing National BPA since 2003.The National Best Presented Annual Report Award 2021 was held under four the category of Banking Sector, Financial Sector, Insurance Sector, and General Sector.

Winners and Runners of National BPA 2021 are presented in table below:

Category	Contestants	Remarks
Category I: Banking Sector	Siddhartha Bank Limited	Winner
	Mega Bank Nepal Limited	First Runner Up
	Sunrise Bank Limited	Second Runner Up
Category II: Financial Sector	Muktinath Bikash Bank Limited	Winner
	Jyoti Bikash Bank Limited	Runner Up
Category III: Insurance Sector	Sanima General Insurance Limited	Winner
Category IV: General Sector	Butwal Power Company Limited	Winner
	Karja Suchana Kendra Limited	First Runner Up
	Bottlers Nepal (Terai) Limited	Second Runner Up

Glimpse of National BPA Award 2021 Distribution Ceremony

The recipients of the National BPA Awards shall have the privilege for nomination in the South Asian Federation of Accountants (SAFA) Best Presented Accounts Award Competition.

International Relation: Global Positioning and Leadership

ICAN Delegates Visit to Australia

Delegation of Institute led by the President, CA. Bhaskar Singh Lala comprising of Immediate Past President, CA. Yuddha Raj Oli, Council Member, CA. Ram Chandra Khanal and RA. Posh Raj Nepal and Executive Director, CA. Sanjay Kumar Sinha visited the Chartered Accountants Australia and New Zealand (CA ANZ) office on 9th August 2022.

Left: Immediate Past President, CA. Yuddha Raj Oli; President CA. Bhaskar Singh Lala; President CA ANZ, Kate Boorer, FCA; Council Member RA. Posh Raj Nepal; Executive Director, CA. Sanjay Kumar Sinha; Official CA ANZ, Council Member, CA, Ram Chandra Khanal and Official CA ANZ, at the office of CA ANZ

The purpose of visit was to discuss about the basis of Mutual Recognition Agreement (MRA) and Technical Collaboration between CA ANZ and ICAN. Andalso,to discuss about the education, examination, and CPT system of CA ANZ. The Institute had signed first Memorandum of Understanding (MoU) with CA ANZ in March 2018 A.D. Moreover, during the visit delegates also had meeting with the representatives of ICAN Australia Chapter about the role of Chapter and its effectiveness.

Participation in Committee Meeting of South Asian Federation of Accountants (SAFA)

Council Member CA. Santosh Kafle represented the Institute and participated in the first meeting of Technical Committee for foundation of SAFA (FSAFA) and meeting of Committee on Information Technology (IT) SAFA on 2nd and 21st August 2022 respectively in New Delhi.

Participation in South Asian Federation of Accountants (SAFA) Conference; Board and Committee Meetings

Delegation of Institute led by the President, CA. Bhaskar Singh Lala comprising of Vice President, CA. Sujan Kumar Kafle, Council Member, CA. Chhetra Gopal Pradhan, RA. Bhola Nath Pathak and Executive Director, CA. Sanjay Kumar Sinha attended the meetings and conference organized by the South Asian Federation of Accountants (SAFA) at CMA Bhawan, New Delhi.

The objective of the visit was to attend the SAFA Foundation Day Conference 2022 on theme "ESG Sustainable Finance" along with the 73rd Board Meeting of SAFA. ICAN President and Board Member of SAFA, CA. Bhaskar Singh Lala, Vice President CA. Sujan Kumar Kafle and the Executive Director CA. Sanjay Kumar Sinha participated in the 73rd SAFA Board Meeting on 21st August 2022.

Left:ICAN Vice President CA. Sujan Kumar Kafle; SAFA Vice President CA. Nihar N. Jambusaria; President SAFA, Mr. H M Hennayake Bandara; Advisor SAFA, Mr. A K M Delwar Hussian; ICAN President CA. Bhaskar Singh Lala and ICAN Executive Director, CA. Sanjay Kumar Sinha during 73rd SAFA Meeting at New Delhi,

Moreover, the delegates also participate inSAFA Foundation Day Conference 2022 on theme "Environmental, Social and Governance (ESG) and Sustainable Finance" on 22nd August 2022. President, CA. Bhaskar Singh Lala also represented the Institute as a panelist during the panel discussion on “How Professional Accountancy Organization (PAOs) can lead ESG Initiatives”.

President, CA. Bhaskar Singh Lala during Panel Discussion on SAFA Foundation Day Conference 2022

Institutional Development and Sustainability

Oath Taking Ceremony 2022

The Oath Taking Ceremony of newly elected President, CA. Bhaskar Singh Lala and newly elected Vice-President, CA. Sujan Kumar Kafle for second tenure (FY 2022/23) of the ninth Council was held on 22nd July 2022 in Kathmandu, Nepal.

Hon’ble Auditor General, Mr. Tanka Mani Sharma (Dangal), administered the oath to the newly elected President, CA. Bhaskar Singh Lala at the Office of the Auditor General of Nepal. The Oath taking Ceremony was attended by the Council Members, Deputy Auditors General Ramu Prasad Dotel, Ms. Rammaya Kunwar, Mr., Executive Director, Administration Director, and other Officers of ICAN in the Office of the Auditor General.

Newly elected President CA. Bhaskar Singh Lala taking Oath of Office from the Hon’ble Auditor General, Mr. Tanka Mani Sharma (Dangal)

Group photo of newly elected President CA.Bhaskar Singh Lala along with newly elected Vice-President, Immediate Past President, ICAN Council Members with the Hon’ble Auditor General and Officers in the Office of the Auditor General of Nepal

After, the Oath taking ceremony of the newly elected President in the Office of the Auditor General, the program of Oath taking was held at the Everest Hotel. In the opening session of the program President, CA. Yuddha Raj Oli welcomed the Special Guest, newly elected President, Vice-President, Council Members, and other invitees in the program and gave welcome remarks and highlighted the major activities undertaken by the Institute during Fiscal Year 2021/22. Special Guest of the program, Financial Comptroller General, Mr. Suman Raj Aryal inaugurated the program.

President CA. Yuddha Raj Oli delivering welcome speech at the Oath Taking Ceremony

On Oath Taking Ceremony, the Financial Comptroller General, Mr. Suman Raj Aryal reveled “Guidelines on Verification of Working Capital” and “School Audit Guidelines, 2079” issued by the Institute.

Financial Comptroller General, Mr. Suman Raj Aryal reveled "Guidelines on Verification of Working Capital" and "School Audit Guidelines, 2079"

Besides following, felicitation and appreciation program was also organized coinciding with the Oath Taking Ceremony.

Felicitation Program

The Institute to honor the contribution made by the pioneers in establishment of the Institute felicitated the members of Interim Council of ICAN (2053/12/05 to 2054/04/16), the first Executive Director of ICAN, Mr. Purushottam Lal Shrestha and the delegate from The Institute of Chartered Accountants of India (ICAI) former Director, Mr. Vijay Kapoor. The Institute felicitated following personalities for their contribution:

S.No.	Person Felicitated	Remarks
1	Mr. Ram Babu Nepal	Member of Interim Council of ICAN; Assistant Auditor General
2	Mr. Bhola Raj Pandey	Member of Interim Council of ICAN; President, Akhil Nepal Lekha Parikshan Sangh
3	Mr. Mohan Prasad Banjade	Member Secretary of Interim Council of ICAN Joint -Secretary, Ministry of Parliamentary Affairs
4	Mr. Purushottam Lal Shrestha	First Secretary of ICAN
5	Mr. Vijay Kapoor	Former Director of ICAI, deputed as an expert in ICAN to act as facilitator and consultant expert in the process of development of the profession as well as regulatory frameworks of ICAN.

In the program, Mr. Vijay Kapoor shared his experience, congratulated ICAN for its accomplishment and wished more success in days to come.

Dirgha Sewa Padak

The Institute presented Dirgha Sewa Padak to the staffs serving for more than 20 years in ICAN in recognition of their continuous association with the Institute.List of Staffs receiving Dirgha Sewa Padak are as below:

S.No.	Name of Staff	Remarks
1	Mr. Binod Prasad Neupane	Director
2	Ms. Goma Raut	Joint Director
3	Mr. Mahesh Chitrakar	Deputy Director
4	Mr. Bhola Nath Ghimire	Assistant
5	Mr. Khornath Lamichhane	Junior Assistant

Certificate of Appreciation

The Institute in recognition of contribution made by Mr. Suraj Pyakurel, the editor of "casarokar.com" has provided with Certificate of Appreciation for his continuous support in media coverage of various activities of ICAN.

Group phot of the person felicitated and receiving Dirgha Sewa Padak along with the Outgoing President, Newly Elected President, Newly Elected Vice-President and other Council Members

After the felicitation program, the outgoing President, CA. Yuddha Raj Oli handed over the President Medallion to the newly elected President, CA. Bhaskar Singh Lala. CA. Bhaskar Singh Lala administered the oath to the newly elected Vice-President, CA. Sujan Kumar Kafle. Later the oath taking, CA. Bhaskar Singh Lala delivered his acceptance speech in the program.

Outgoing President CA. Yuddha Raj Oli handed over President Medallion to the Newly elected President CA, Bhaskar Singh Lala

Newly Elected Vice-President CA. Sujan Kumar Kafle Taking Oath of Office from Newly Elected President CA. Bhaskar Singh Lala

Immediate Past President, CA. Madan Krishna Sharma also addressed the program. Moreover, Joint Secretary, Ministry of Finance and Council Member of the Institute, Mr. Baburam Subedi congratulated newly elected President and Vice President of the Institute. He also thanked Past President, CA. Yuddha Raj Oli for his leadership in the first tenure of ninth Council. During his remarks, he highlighted the objective of Institute and need for upholding public interest by entire Chartered Accountant Fraternity.

Special Guest, Financial Comptroller General, Mr. Suman Raj Aryal delivered a speech in the program. During his speech, he emphasized the importance of Accountant and Professional Accountants in National development. He also highlighted the emerging challenges and opportunities in technology, complex business orientation, human resource management and management of work environment. Moreover, he stressed the significance of accounting research and triple bottom line approach for sustainable growth of accounting profession and urged all the professional accountants to maintain professional integrity and remain accountable in their responsibility.

Financial Comptroller General, Mr. Suman Raj Aryal delivered a speech in the program

The Chief Guest of the program, Hon'ble Minister, Mr. Dilendra Prasad Badu; Minister of Industry, Commerce and Supply could not attend the program. Hence, Mr. Binod Prasad Neupane, Director ICAN on behalf of Hon'ble Minister, delivered the speech provided by Hon'ble Minister.

Newly elected President, CA. Bhaskar Singh Lala presented a memento to the Special Guest of the program and Past President, CA. Madan Krishna Sharma; Election Officer, Mr. Vivekananda Ghimire; paper presenter in the Workshop on "Contemporary Issues of Accounting Profession", Mr. Saroj Krishna Ghimire and Mr. Pashupati Ray. Moreover, Executive Director, CA. Sanjay Kumar Sinha presented a memento to the outgoing President, CA. Yuddha Raj Oli as a mark for his untiring effort and contribution to the Institute. And Mr. Sanoj Bhattrai, Chairman of ICAN Employee Union also presented Token of Love to the outgoing President, CA. Yuddha Raj Oli.

Newly Elected Vice-President, CA. Sujan Kumar Kafle delivering vote of thanks in the Oath Taking Ceremony

The program was ended with the concluding remarks and vote of thanks by the newly elected Vice-President, CA. Sujan Kumar Kafle.

Participation in "The Managers Workshop Training"

Two staffs of the Institute participated in one day outdoor training "The Managers Workshop" organized by The Management Association of Nepal on 01st July 2022 at Park Village Resort, Budhanilakantha.

Workshop on Procurement Process

The Institute organized a workshop on Procurement Process to enhance the capacity of the staffs on 5th July 2022 at ICAN premises. The aim of the program was to deliver the general procurement process to the staff. Program was attended by the staffs those who are deputed in Procurement, Financial and Administration Sections. .CA. Devendra Gautam and CA. Bibek Ananda Rauniyar were the resource person. Altogether 18 staffs participated in the program.

Staffs Participation in Data Analytics & Power BI for Managers Training

Two staffs of the Institute participated in the "Data Analytics & Power BI for Managers" training organized by KFA in Kathmandu from 5th to 6th August 2022. The program was facilitated by Senior Business Intelligence (BI) Consultant of Australian National Bank.

Staffs Training

Employee Union of the Institute organized one day training for all the staffs on 19th August 2022 at Lalitpur. The training was conducted to enhance the knowledge of staffs on positive working environment; collective bargaining agreement process-practice and legal provisions; leadership; self-motivation and team buildingworkshop.

ICAN NOTICE

Notice Regarding Submission of Information Related to Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)

The Institute has published notice to all the Audit Firms registered with the Institute to submit the information of the client to whom they have provided professional service as per Clause 2(f) of the Guidelines on the Prevention of Money Laundering and Countering Terrorist Financing, 2078. Firm are required to submit the information in the specified format to the Institute by 2079/06/31. The notice along with the format can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/a0e5a8df0f5a6c7adfc73f27a2b58fc6.pdf

Notice Regarding Submission of Forensic Accounting and Fraud Detection (FAFD) Examination Form

The Institute has published notice for submission of examination form for FAFD Examination to be held on Saturday, 5th November 2022 for which classes were organized in technical cooperation with the Institute of Chartered Accountants of India (ICAI). The last date for submission of examination form is Friday, 14th October 2022. Eligible members can download examination registration form from the link below:

https://en.ican.org.np/_browsable/file/general/Form-_FAFD.pdf

The notice along with the format can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/db0cc5a77d442e25e9f58e3247c50951.pdf

Notice Regarding Applicability of Syllabus for CA Examination

The Institute has published a notice regarding the applicability of syllabus for CA Examination December 2022. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/3017fc23598436778d885ad2127c2e64.pdf

Notice Regarding the Uses of Library of the Institute

The Institute has published a notice regarding the uses of Library of the Institute situated at the head office of the Institute. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/f03510f24f7ec1b7fc7e2bc3e3bae9b1.pdf

NATIONAL UPDATES

Monetary Policy for Fiscal Year 2022/23

Nepal Rastra Bank has issued Monetary Policy for Fiscal Year 2022/23. The same can be viewed from link below:

Nepali Version: https://www.nrb.org.np/contents/uploads/2022/07/Monetory_policy_2079-080-1.pdf

English Version: https://www.nrb.org.np/contents/uploads/2022/08/Monetary-policy-in-English-2022_23-Full-text.pdf

International Transaction Reporting System (ITRS) Guidelines, 2022

Nepal Rastra Bank has issued International Transaction Reporting System (ITRS) Guidelines, 2022 to be applicable for compliance by A, B, and C Class Banks and Financial Institutions and Infrastructure Development Banks. The Guidelines shall be fully effective from Shrawan 2080. The Notice and ITRS Guidelines 2022 can be viewed from link below:

https://www.nrb.org.np/contents/uploads/2022/08/ITRS-Guidelines-2022.pdf

Database on Nepalese Economy

The Nepal Rastra Bank with the objective to publish overall historical data of economic sector of Nepal has issued a database on National Economy in its website. The same can be viewed from the link below:

https://www.nrb.org.np/database-on-nepalese-economy/real-sector/

Survey Report on Foreign Direct Investment in Nepal (2020/21)

Nepal Rastra Bank has issued Survey Reporton Foreign Direct Investment in Nepal (2020/21). The survey report can be viewed from link below:

https://www.nrb.org.np/contents/uploads/2022/09/A-Survey-Report-on-Foreign-Direct-Investment-in-Nepal-2020-21.pdf

Circular for Amendment in Unified Directives to A, B and C Class Banks and Financial Institutions, 2078

Nepal Rastra Bank has issued circular to A, B and C Class Banks and Financial Institutions regarding amendments made in the Unified Directive, 2078. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/07/Circular1ABCFinancialStatementRelated.pdf

and,

https://www.nrb.org.np/contents/uploads/2022/08/ABC-Circular-no-2-1.pdf

Circular for Amendment in Unified Directives to D Class Micro Finance Financial Institutions, 2078

Nepal Rastra Bank has issued circular to D Class Micro Finance Financial Institutions regarding amendments made in the Unified Directive, 2078. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/08/D-Circular-no-1.pdf

Amendment in Money Changer License and Supervision By-laws, 2077

Nepal Rastra Bank has issued Circular regarding amendment made in Money Changer License and Supervision By-laws, 2077. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/07/FXMD-Circular-02-2079-80.pdf

Amendment in Unified Circular 2078 (Related to the Monetary Policy of Fiscal Year 2079/80) issued to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to Carry out Foreign Exchange Transaction

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 (Related to the Monetary Policy of Fiscal Year 2079/80) issued to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to carry out Foreign Exchange Transaction regarding amendment in Unified Circular 2078 related to provision of Monetary Policy of fiscal year 2079/80. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/08/FXMD_Circular-4_Monetary-Policy.pdf

Amendment in Unified Circular 2078 (Related to Dollar Prepaid Card) issued to A Class Commercial Banks, B Class National Level Development Banks Licensed to Carry out Foreign Exchange Transaction

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 (Related to Dollar Prepaid Card) issued to A Class Commercial Banks, B Class National Level Development Banks Licensed to Carry out Foreign Exchange Transaction regarding amendment in Unified Circular 2078 provision related to dollar prepaid card.The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/08/FXMD-05-2079-80-MCC.pdf

Amendment in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to Carry out Foreign Exchange Transaction

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to carry out Foreign Exchange Transaction.The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/09/FXMD-07-2079-80.pdf

Amendment in Unified Circular 2078 issued to Institutions working in Foreign Exchange

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 issued to Institutions working in Foreign Exchange regarding amendment in provision for foreign exchange to Nepalese Citizen based on passport. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/07/FXMD-Circular-03-2079-80.pdf

Amendment in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks and other Entities

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks and other Entities regarding amendment in provision for restriction in import of goods. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/07/FXMD-Circular-01-207980.pdf

Amendment in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks, and other Entities

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks and other Entities regarding amendment in provision for currency paid during import of goods. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2022/07/FXMD_Circular-29_7879.pdf

Micro Insurance Operation and Registration Directives, 2079

The Insurance Board of Nepal has issued Micro Insurance Operation and Registration Directives, 2079. The Directive can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2022/08.pdf

Agriculture, Animal and Birds and herbs Insurance Directives 2079

The Insurance Board of Nepal has issued Agriculture, Animal and Birds and herbs Insurance Directives 2079 which will repeal the Agriculture, Animal and Birds and herbs Insurance Directives 2077 and will be effective from 2079.04.01 B.S. The Directive can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2022/07/.pdf

Internal Audit Directive for Insurers, 2079

The Insurance Board of Nepal has issued Internal Audit Directive for Insurers, 2079 which will be effective from 2079.04.01 B.S. The Directive can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2022/07/Risk-based-internal-audit-directive-1.pdf

Third Amendment in Securities Purchase (Public Issue) Directives, 2073

Securities Board of Nepal has issued third amendment in the Securities Purchase (Public Issue) Directives, 2073. The Directives can be viewed from the link below:

http://www.sebon.gov.np/uploads/2022/08/23/x9QDaIUbSjzRcovbdYdkRzmrjj3u7wKA0Xc9wc6D.pdf

Approval of Board for Establishment of Entity for Operation of Securities Business Directives, 2079

Securities Board of Nepal has issued Approval of Board for Establishment of Entity for Operation of Securities Business Directives, 2079 which is applicable from 2079.05.26 B.S. The Directives can be viewed from the link below:

http://www.sebon.gov.np/uploads/2022/09/14/6BlT6oTGpuDSdKp93JHL3CNBT7GT4PRKZx9ZYvdx.pdf

Electronic Billing Notice

The Inland Revenue Department (IRD) has issued notice regarding electronic billing. The notice can be viewed from the link below:

https://ird.gov.np/public/pdf/1304128792.pdf

Procedure related to Digital Service Tax, 2079

The Inland Revenue Department (IRD) with the objective to make administration of digital service tax to be levied on transaction of digital serviceprovided by non-resident person to consumers of Nepal pursuant to section 20 of Finance Act, 2079, simple and effective, has issued procedure related to Digital Service Tax notice regarding electronic billing. The procedure shall be effective from 2079.04.01 B.S. The procedure can be viewed from the link below:

https://ird.gov.np/public/pdf/819220559.pdf

Procedure related to value added tax on digital serviceprovided by non-resident person, 2079

The Inland Revenue Department (IRD) has issued procedure related to Digital Service provided by non-resident person, 2079. The procedure can be viewed from the link below:

https://ird.gov.np/public/pdf/921463305.pdf

Issuance of Directives for Reporting Entities Dealing in Precious Metals and Precious Stones, 2077

Inland Revenue Department has issued Directives for Reporting Entities Dealing in Precious Metals and Precious Stones, 2077 relating to Anti-Money Laundering and Combating the Financing of Terrorism. The Directive can be viewed from link below:

https://ird.gov.np/public/pdf/273973529.pdf

Issuance of Directive for Approved Retirement Fund, 2076

Inland Revenue Department has issued Directives for Approved Retirement Fund, 2076 relating to Anti-Money Laundering and Combating the Financing of Terrorism. The Directive can be viewed from link below:

https://ird.gov.np/public/pdf/629168272.pdf

INTERNATIONAL UPDATES

Driving Sustainability and Creating Value during Unprecedented Uncertainty Key Priorities for Professional Accountants in Business and Public Sector

Professional accountants must think disruptively to help their organizations respond to unprecedented challenges and uncertainty. IFAC's Professional Accountants in Business (PAIB) Advisory Group explores how professional accountants add value to their organizations and to society. A new report, Global Priorities for Professional Accountants in Business and the Public Sector, compiles key insights and learnings from the advisory group's recent meeting. The report features the accountant's and the profession's role in:

- Inflation and the supply chain crunch
- The Circular Economy
- Enabling an integrated mindset in business
- Audit committees and addressing new responsibilities
- Enabling an effective public sector finance workforce

Report and additional insight can be viewed from link below:

https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/global-priorities-professional-accountants-business-and-public-sector

Leading Financial Market Participants Call for Stronger Alignment of Regulatory & Standard Setting Efforts around Sustainability Disclosure

The global accountancy profession is on a journey—along with investors, companies, regulators, and other stakeholderstoward a unified, coherent, global, and authoritative standard-setting process for reporting on sustainability information.

IFAC welcomes the establishment of the International Sustainability Standards Board (ISSB), as well as jurisdiction or regional initiatives that can contribute toward the creation of a global system for consistent, reliable and assurable sustainability disclosure.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-06/leading-financial-market-participants-call-stronger-alignment-regulatory-standard-setting-efforts

Sustainable debt key to financing economic transition: IFAC and CPA Canada study

Countries around the world are searching for ways to shift capital investments into activities that support the transition to a more sustainable, low-carbon economy. To finance that massive change, investors and regulators are looking to the sustainable debt market as an important vehicle in raising funds to finance projects that advance environmental, social and governance (ESG) objectives.

The detail can be viewed from the link below:

https://www.ifac.org/news-events/2022-06/sustainable-debt-key-financing-economic-transition-ifac-and-cpa-canada-study

USAID Joins IFAC, The Global Fund, and Gavi in Efforts to Strengthen Public Financial Management in the Public Health Sector

USAID (United States Agency for International Development) has joined the International Federation of Accountants (IFAC); The Global Fund to Fight AIDS, Tuberculosis and Malaria; and Gavi, the Vaccine Alliance, in signing a Memorandum of Understanding (MOU) to support in-country financial management. The agreement supports programming for local accountancy and finance professionals and efforts to improve financial transparency, accountability, and anti-corruption efforts in the public health sector.

The detail can be viewed from the link below:

https://www.ifac.org/news-events/2022-06/usaid-joins-ifac-global-fund-and-gavi-efforts-strengthen-public-financial-management-public-health

IFAC calls on global business leadership to drive trust and sustainable value creation by championing an “integrated mindset”

Functional and information silos within organizations are barriers to delivering high-quality sustainability-related information, which is necessary for decision making and trustworthy corporate reporting. Boards and CEOs are turning to CFOs and finance functions to break down these silos and to drive connectivity between sustainability and financial information and processes, thereby creating a critically important “integrated mindset.”

The detail can be viewed from the link below:

https://www.ifac.org/news-events/2022-06/ifac-calls-global-business-leadership-drive-trust-and-sustainable-value-creation-championing

IFAC Seeks Feedback on Digital Platform, e-International Standards (eIS)

The International Federation of Accountants (IFAC) is seeking user feedback via a brief survey that will help shape phase two of its digital platform, e-International Standards (eIS). The anonymous survey allows users to rank which features they would like to see in future updates to the platform, and even includes a space to suggest ideas.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-07/ifac-seeks-feedback-digital-platform-e-international-standards-eis

IFAC Launches New Resource Center to Elevate Professional Accountants' Contributions as Business Leaders and Value Partners

IFAC's new collection of resources, Professional Accountants as Business Leaders and Value Partners, explores how professional accountants can be future ready, data-savvy leaders who drive sustainability. These materials aim to help in understanding and navigating challenges and opportunities across various roles as finance and business leaders, risk managers and analysts, and in broader commercial roles including in procurement and supply chain management.

ExploreProfessional Accountants as Business Leaders and Value Partners.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-08/ifac-launches-new-resource-center-elevate-professional-accountants-contributions-business-leaders

More Companies Obtaining Independent Assurance on Sustainability Data, According to Global Study by IFAC, AICPA & CIMA

The number of global companies obtaining independent assurance on their environmental, social and governance (ESG) information increased from 51% to 58% in 2020, compared to the previous year, according to new data from the International Federation of Accountants (IFAC), American Institute of CPAs (AICPA) and Chartered Institute of Management Accountants (CIMA), the latter two of which represent the unified voice of the Association of International Certified Professional Accountants.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-08/more-companies-obtaining-independent-assurance-sustainability-data-according-global-study-ifac-aicpa

IFAC Elevates Accountancy Profession's Commitment to Fighting Corruption and Economic Crime

the International Federation of Accountants (IFAC) issued its action plan to enhance the accountancy profession's contribution to, and support of, a robust anti-corruption ecosystem encompassing a diverse array of participants and policies. The Action Plan for Fighting Corruption and Economic Crime sets out more than 30 specific actions for IFAC and the accountancy profession related to education, evidence-based policy, global standards, partnership, and thought leadership.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-09/ifac-elevates-accountancy-profession-s-commitment-fighting-corruption-and-economic-crime

Views on corruption drive attitude to tax systems across the globe

Taxpayers' attitudes about paying taxes correlate closely with perceived levels of corruption, according to a major new study, Public Trust in Tax, by accountancy bodies ACCA and the International Federation of Accountants (IFAC). A survey of 5,900 people across 14 countries – many in developing economies – found that trust in tax systems is lower when taxpayers perceive higher levels of corruption and diversion of public funds.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2022-09/views-corruption-drive-attitude-tax-systems-across-globe

Exposure Draft and comment letters: Third edition of the IFRS for SMEs Accounting Standard

The International Accounting Standards Board (IASB) has published proposals to update the IFRS for SMEs Accounting Standard—to reflect improvements that have been made in full IFRS Accounting Standards, while keeping the Standard simple for small and medium-sized entities.

The comment letter period is open until 7 March 2023.

Exposure Draft Can be viewed from link below:

https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-2022/ed-2022-1-iasb-ifrs-smes.pdf

Further details can be viewed from the link below:

https://www.ifrs.org/projects/work-plan/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-and-comment-letters/

IAASB, IESBA Welcome IOSCO Statement of Support for Developing Standards Relating to Assurance of Sustainability-Related Information

The International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) welcome today's announcement from the International Organization of Securities Commissions (IOSCO) of its support and encouragement for the IAASB's and IESBA's work on developing standards relating to assurance of sustainability-related information. The IAASB and IESBA acknowledge that stakeholders areincreasingly seeking assurance of sustainability-related information and that it is important to respond to market demands with robust standards applicable to all sustainability assurance providers.

Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2022-09/iaasb-iesba-welcome-iosco-statement-support-developing-standards-relating-assurance-sustainability

New Implementation Guide Available for Identifying and Assessing the Risks of Material Misstatement in an Audit of Financial Statements

The International Auditing and Assurance Standards Board (IAASB) has released its First-Time Implementation Guide for ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. The guide focuses on the more substantial changes that were made to International Standard on Auditing (ISA) 315 (Revised 2019) and will help stakeholders understand and apply the revised standard as intended.

ISA 315 (Revised 2019) is effective for audits of financial statements for periods beginning on or after December 15, 2021. This publication does not amend or override ISA 315 (Revised 2019), the text of which alone is authoritative. Reading this publication is not a substitute for reading the standard.

Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2022-07/new-implementation-guide-available-identifying-and-assessing-risks-material-misstatement-audit

IAASB Issues new Frequently Asked Questions for Reporting Going Concern Matters in the Auditor's Report

The International Auditing and Assurance Standards Board (IAASB) has issued a non-authoritative publication to address some of the common questions related to reporting going concern matters in the auditor's report. Specifically, the publication focuses on the use of and interrelationship of the Material Uncertainty Related to Going Concern and Key Audit Matters sections, and the Emphasis of Matter paragraphs, in an auditor's report prepared in accordance with the International Standards on Auditing (ISAs).

Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2022-08/iaasb-issues-new-frequently-asked-questions-reporting-going-concern-matters-auditor-s-report

IESBA Staff Releases Q&As to Spotlight Key Changes to The Non-Assurance Services Provisions of the IESBA Code

The Staff of the International Ethics Standards Board for Accountants (IESBA) has released a questions and answers (Q&As) publication to explain key revisions to the non-assurance services (NAS) provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). Together with the recently issued fee-related revisions to the Code, the NAS revisions significantly strengthen the International Independence Standards by addressing public interest concerns about independence when firms provide NAS to their audit clients. The development of the Q&As has been informed by the IESBA's deliberations in the project to revise the NAS provisions and extensive consultations with a wide range of stakeholders, including regulators and audit oversight bodies, the investor and corporate governance communities, national standard setters, firms and professional accountancy organizations.

Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2022-07/iesba-staff-releases-qas-spotlight-key-changes-non-assurance-services-provisions-iesba-code

Now Available: IESBA Handbook 2022 Edition

The International Ethics Standards Board for Accountants (IESBA) has released the 2022 edition of the Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards). This handbook replaces the 2021 edition and incorporates the following revisions that will become effective in December 2022:

- The revisions to the non-assurance services (NAS) and fee-related provisions of the Code.
- The revisions to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers.
- The quality management-related conforming amendments to the Code that were issued as a result of the finalization of the International Auditing and Assurance Standards Board's (IAASB) suite of quality management standards.

Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2022-09/now-available-iesba-handbook-2022-edition

IESBA Staff and JICPA Issue Joint Guidance Illustrating Application of IESBA Code to Technology-Related Scenarios

To assist professional accountants in business and in public practice in ethically navigating the challenges and opportunities brought by technological transformations, earlier today the Japanese Institute of Certified Public Accountants (JICPA) and the staff of the International Ethics Standards Board for Accountants (IESBA) jointly released Ethical Leadership In a Digital Era: Applying the IESBA Code to Selected Technology-Related Scenarios. This non-authoritative publication provides seven hypothetical scenarios to illustrate how accountants can navigate practical issues in ethical leadership when using or implementing technology.

Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2022-09/iesba-staff-and-jicpa-issue-joint-guidance-illustrating-application-iesba-code-technology-related

---

Multipurpose Empanelment Form (MPEF) सम्बन्धमा

यस संस्थाले लेखा व्यवसाय तथा अन्य विविध विषयमा विज्ञता हासिल गरेका विज्ञको सूचीकरण गर्ने उद्धेश्यले Multipurpose Empanelment Form (MPEF) को विकास गरि सस्थाको website मा राखेको छ। यदि तपाँईले लेखा व्यवसाय अर्न्तगतको कुनै निश्चित वा यस संग सम्बन्धित कुनै विषयमा विज्ञता हासिल गर्नुभएको छ र यस संस्थामा सूचीकृत हुन चाहानुहुन्छ भने Multipurpose Empanelment Form (MPEF) मा आफ्नो विवरण अद्यावधिक गर्न आग्रह गर्दछौ ।

थप विवरणको लागी सस्थाको website:https://mpef.ican.org.np/

The Council

Council is the Governing Body of the Institute and provides leadership and direction to achieve strategic objectives and goals.

Council of the Institute is constituted as per provisions of Nepal Chartered Accountants Act, 1997. Of the total seventeen Members, ten are elected from Chartered Accountant Members, four from Registered Auditor Members and three are nominated by the Government of Nepal. The Council is elected every three years. The President and Vice President are elected from the Fellow Chartered Accountant Members of the Council for the period of one year. The Council is led by the President and the Council collectively provides leadership and direction to the Institute. The Council is conferred by the Statute to exercise all the powers and perform all the duties laid in the incorporating Act for attainment of the objectives of the Institute. The Council is responsible for monitoring and managing all the acts and actions of the Institute.

The composition of Second Tenure (FY 2022/23) of the Ninth Council has been presented as belows:

Council Members


CA. Bhaskar Singh Lala
President


CA. Sujan Kumar Kafle
Vice President


CA. Yuddha Raj Oli
Immediate Past President


CA. Santosh Kafle


CA. Chhetra Gopal Pradhan


CA. Surendra Shrestha


CA. Ram Chandra Khanal


CA. Sujan Shrestha


CA. Peeyush Anand


CA. Prabin Kumar Jha


RA. Posh Raj Nepal


RA. Bhola Nath Pathak


RA. Shankar Gyawali


RA. Kesh Bahadur K.C.


Mr. Baikuntha Bahadur Adhikari


Mr. Baburam Subedi


Mr. Umakanta Acharya

List of Nepal Financial Reporting Standards (NFRS) 2018

Nepal Financial Reporting Standards (NFRSs)		
S. No.	**Name of Nepal Financial Reporting Standards (NFRSs)**	**Effective Date**
	The Conceptual Framework for Financial Reporting	16th July, 2020
1.	NFRS 1 First-time Adoption of Nepal Financial Reporting Standards	
2.	NFRS 2 Share-based Payment	
3.	NFRS 3 Business Combinations	
4.	NFRS 4 Insurance Contracts Superseded by NFRS 17	
5.	NFRS 5 Non-current Assets Held for Sale and Discontinued Operations	
6.	NFRS 6 Exploration for and Evaluation of Mineral Resources	
7.	NFRS 7 Financial Instruments: Disclosures	
8.	NFRS 8 Operating Segments	
9.	NFRS 9 Financial Instruments	16th July, 2021
10.	NFRS 10 Consolidated Financial Statements	16th July, 2020
11.	NFRS 11 Joint Arrangements	
12.	NFRS 12 Disclosure of Interests in Other Entities	
13.	NFRS 13 Fair Value Measurement	
14.	NFRS 14 Regulatory Deferral Accounts	16th July, 2021
15.	NFRS 15 Revenue from Contracts with Customers	
16.	NFRS 16 Leases	
17	NFRS 17 Insurance Contracts	16th July, 2023

Nepal Accounting Standards (NAS)		Effective Date
S. No.	**Name of Nepal Accounting Standards (NASs)**	
18.	NAS 1 Presentation of Financial Statements	16th July, 2020
19.	NAS 2 Inventories	
20.	NAS 7 Statement of Cash Flows	
21.	NAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	
22.	NAS 10 Events after the Reporting Period	
23.	NAS 12 Income Taxes	
24	NAS 16 Property, Plant and Equipment	
25.	NAS 19 Employee Benefits	
26.	NAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
27.	NAS 21 The Effects of Changes in Foreign Exchange Rates	
28.	NAS 23 Borrowing Costs	
29	NAS 24 Related Party Disclosures	
30.	NAS 26 Accounting and Reporting by Retirement Benefit Plans	
31.	NAS 27 Separate Financial Statements	
31.	NAS 28 Investments in Associates and Joint Ventures	
33.	NAS 29 Financial Reporting in Hyperinflationary Economies	16th July, 2021

Nepal Accounting Standards (NAS)		Effective Date
34.	NAS 32 Financial Instruments: Presentation	16th July, 2020
35.	NAS 33 Earnings per Share	
36.	NAS 34 Interim Financial Reporting	
37.	NAS 36 Impairment of Assets	
38.	NAS 37 Provisions, Contingent Liabilities and Contingent Assets	
39.	NAS 38 Intangible Assets	
40.	NAS 39 Financial Instruments: Recognition and Measurement	
41.	NAS 40 Investment Property	
42.	NAS 41 Agriculture	

Standard Interpretation		
IFRIC		**Remarks**
1.	IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	As per IFRS 2018
2.	IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	
3.	IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	
4.	IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	
5.	IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	
6.	IFRIC 10 Interim Financial Reporting and Impairment	
7.	IFRIC 12 Service Concession Arrangements	
8.	IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	
9.	IFRIC 16 Hedges of a Net Investment in a Foreign Operation	
10.	IFRIC 17 Distributions of Non-cash Assets to Owners	
11.	IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	
12.	IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	
13.	IFRIC 21 Levies	
14.	IFRIC 22 Foreign Currency Transactions and Advance Consideration	
15.	IFRIC 23 Uncertainty over Income Tax Treatments	
SIC		
1.	SIC-7 Introduction of the Euro	
2.	SIC-10 Government Assistance—No Specific Relation to Operating Activities	
3.	SIC-25 Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	
4.	SIC-29 Service Concession Arrangements: Disclosures	
5.	SIC-32 Intangible Assets—Web Site Costs	

Note: NFRS 2013 version of NAS 11: Construction Contracts, NAS 17: Lease and NAS 18: Revenue Contracts, will continue to be effective until superseding standards will come into force on 16th July, 2021.

"REQUESTING ARTICLE TO BE PUBLISHED IN ICAN JOURNAL "

"The Nepal Chartered Accountant" is the official publication of The Institute of Chartered Accountants of Nepal and has been published since 1998. The purpose of this Journal is to disseminate accounting, auditing, financial market, innovations information for enriching the knowledge of members and stakeholders in readable and understandable manner. So, we try to feature the articles in the Journal covering various issues related to information and technology, economy, accounting and auditing, taxation, banking, insurance, management, public financial management, governance, public policies such as monetary and economic policies, transparency and accountability, ethical and professional matters, management issues etc. and make our members, students, readers aware of the contemporary changes or innovations in business and professional landscape in accounting sector and get them updated.

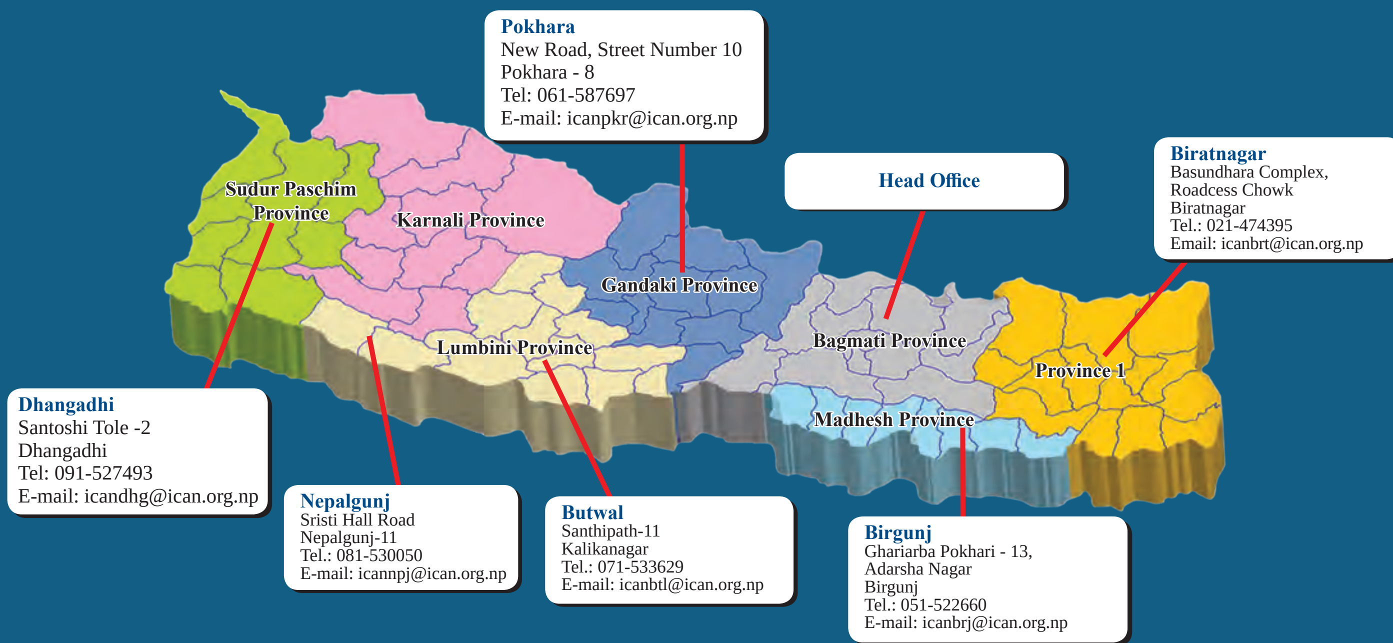
Therefore, Members of the Institute and other writer may contribute innovative articles, research material, insights on professional matters in English Language with 2,500 - 3,500 words by sending an email at editorialboard@ican.org.np for publishing it in the Journal of the Institute. Moreover, 4 CPE credit hours (to the Members of the Institute) and NPR 7,000.00/- is awarded to the writer whose article is published in the Journal. For any queries related to this, please send an email at above email ID.

The structure of Article for Journal shall be as outlined below:

1. Title- The title should be self-explanatory and capture the essence of the text and should be few words as much as possible.
2. Keywords used - Key words can be provided as per need.
3. Introduction
4. Main body
    - Heading - It must be in concise form and related to topic
    - Sub-heading – supports to heading
5. Conclusion- Article should be concluded with conclusion
    a) References- Must be adequate and provided in case of need.

Moreover, articles should be original in nature, and it shall not have been published or submitted for publication elsewhere either in print or electronic media. Author should avoid Plagiarism of all kinds in their article. Author shall maintain at least 85% originality in their article

Offices



नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

(Established under the Nepal Chartered Accountants Act, 1997)

ICAN Marg, Satdobato, Lalitpur
P O Box 5289, Ph.: 5530832, 5530730
Web: http://www.ican.org.np
E-mail: ican@ntc.net.np