



# THE NEPAL CHARTERED ACCOUNTANT



June 2023  
Vol. 25 No. 4

Journal of The Institute of Chartered Accountants of Nepal



नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL**

Established Under the Nepal Chartered Accountants Act, 2053

# Fundamental Principles of Professional Accountants



# Strategic Direction of ICAN



## Contents

<b>Editorial</b>	2
<b>President's Message</b>	3
<b>Article</b>	
International Taxation in a Flux – What lies Ahead ? Mr. S. P. Singh	7
Entity and Distribution: Tax Perspective CA. Saugat Gautam	12
Industry 4.0 and the Context of Nepal CA. Raju Basnet Chhetri	17
Innovation in Nepal: Need, Challenges and Way Forward Ms. Mira Pokharel	23
Implementation of NFRS 17 in Insurance Industry: A Paradigm Shift in Financial Reporting CA. Smriti Ghimire	28
Anti-Money Laundering /Combating the Financing of Terrorism - Nepalese Scenario CA. Umesh Rijal	34
Judicial Update CA. Pramod Lingden	40
<b>News</b>	43
ICAN Notice	54
National Updates	55
International Updates	56
<b>Report</b>	
Highlights of Federal Budget of Nepal Fiscal Year 2080/81 (2023/24)	61-74
<b>General Notice</b>	
Congratulations to the Newly Elected President and Vice President	11
Know Your Member (KYM)	27
Handbook of Code of Ethics	39
Submission of Tax Clearance Certificate	42
Vigilance Required by Auditor	60
Effective date for implementation of NFRS, NFRS for SMEs, NAS for MEs, NAS for NPOs and NSAs	75-79
List of New Member	80

# THE NEPAL CHARTERED ACCOUNTANT

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

### Editorial Board

CA. Bhaskar Singh Lala	Coordinator
CA. Sujan Kumar Kafle	Member
CA. Shailendra Uprety	Member
CA. Sanjeev Dhakal	Member
RA. Dev Bahadur Bohara	Member
RA. Surendra Keshar Amatya	Member
CA. Amrita Thapa	Secretary
CA. Asmita Dhakal	Deputy Director
Mr. Binaya Paudel	Editorial Support

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: icanhgd@ican.org.np

### Printed By

Navinsoch Investment Pvt. Ltd. (Tel: 01-5555880)

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

*DISCLAIMER : The opinion expressed by the authors in their article and published in the Journal are the opinion of author only and do not necessarily reflect the views of the Editorial Board or the Institute. The Institute accepts the article, reviews and publish in Journal as per the Editorial Policy of the Institute in good faith and with the understanding that the content of the article does not contain anything that is libelous, illegal, or an infringement of anyone's copyright or other right. The articles are published at authors own risk and Institute accepts no liability for any kind of loss and damage. The image used in the Journal were taken from Internet as per free for noncommercial use policy.*

**COPYRIGHT © Member bodies of SAFA may reproduce whether in part or in a whole of the matters in this Journal with due acknowledgements. For other, solicitation is required from the Institute.**

## The Future of Reporting: Financial Reporting Embedding Environmental, Social and Governance (ESG) Reporting

From its inception on the world stage in ‘Who Cares Wins’ to creation of the International Sustainability Standards Board (ISSB) by IFRS Foundation, ESG has come a long way. The popularity of the term and the impact it has had can be seen by the fact ESG needs no spelling out the acronym. This is due to the heightened concern for climate change and sustainability both by the reporting entities and the users of such information. Investing in which sector or on which company has been a big query for the investors. Negligence towards the ecosystem and society will not carry the business in the long run. Therefore, apart from reporting performance of companies only on purely financial terms, investors and stakeholders in general are benefitted by the disclosure of information that environment and society has on the business and the converse influence of the business on society and environment.

However, as ESG reporting was done on a voluntary basis and various reporting frameworks were being used, issues of comparability and consistency of the disclosed information has always been a matter of concern. The setup of ISSB under the aegis of IFRS Foundation and bringing a solution in an accounting-based language which is deemed to be consistent, verifiable and therefore decision useful is a great leap forward.

In this pretext, the Institute organized a two-day, 2<sup>nd</sup> National Convention of Accounting Professionals on the theme “Financial Reporting for Sustainable Economy” on 17-18 May 2023 in Kathmandu to identify need for ESG reporting, the probable ESG framework for ESG reporting and reflecting the information on compliance to UN SDGs. Similarly, it was also aimed to discuss on major initiatives taken by Nepal and brainstorm on future roadmap for ESG reporting in Nepal aligning with the preparedness of Accounting Professionals to lead from the forefront.

Looking at the prevailing laws and regulation in Nepal, there are provisions requiring business and corporate entities to address environmental and societal needs like: carrying out Environment Impact Assessment, and setting aside 1% of net profits to CSR activities, non-discrimination of employees etc. Moreover, the central bank of Nepal has issued guideline on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions which aims to integrate Environmental & Social risk management into the overall credit risk management process in order to fully inform the credit authority of E&S risks prior to the financing decision regarding individual transactions. In case of SDGs, Nepal has mapped SDG in its five-year plan. The National Planning Commission (NPC) has prepared SDG status and roadmap 2016-2030.

SDGs and ESG are not a government responsibility alone. So, the issue of sustainability cannot be dealt with by unilateral efforts of the government and requires strategic partnership among government at national and sub-national level, non-government, private sector and community level. In the view of this, in the Convention, it was concluded to emphasize the need for collaboration of government bodies, regulating agencies, corporates, regulators, and social enterprises for strengthening the sustainable economy of the country. Such collaboration supports the transition towards a more sustainable and responsible business environment, where organizations strive to balance financial performance with social and environmental considerations.

We know that better information leads to better economic decisions. However, potentially new knowledge and skill sets are also needed to ensure that data and methodologies are appropriate, accurate and reliable, and to analyze potential risks that have not previously been considered or are difficult to measure. The Institute along with its Members are always keen to cooperate with government initiatives in this regard. The Institute is also actively looking forward to working on adoption of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures standards issued by International Sustainability Standards Board effective for annual reporting periods beginning on or after 01 January 2024.

# From The President



**CA. Bhaskar Singh Lala**  
President, ICAN

## Dear Professional Colleagues,

It is my pleasure to connect with you once again through this fourth quarterly and final issue of The Nepal Chartered Accountant Journal for F.Y. 2022/23. This is the concluding communication with you in the capacity of President of the Institute as my tenure is going to complete in mid-July 2023. Last year while taking charge of the Institute my main responsibility was to focus on implementing the activities covered in the strategic plan of the Institute. I think the F.Y. 2022/23 remains eventful one for us as the business returning to normalcy despite the challenges faced in last two years of lock down.

First of all, I would also like to take this opportunity to congratulate CA. Sujan Kumar Kafle and CA. Prabin Kumar Jha for being unanimously elected in the position of President and Vice-President of the Institute respectively for the F.Y. 2023/24 and I wish both of them all the best for their successful tenure.

It is my privilege to communicate with you the highlights of major activities achieved during my tenure (F.Y. 2079/80) including the key events over the last three months. Despite the honest efforts from my side and the Council some of the activities like review of Nepal Chartered Accountants Act, 1997 development of a Certification Course on Public Financial Management (PFM), determining scope for partnership between

CA and RA members, devising criteria for awarding Certificate of Practice to the members, review of membership fees, digitization framework etc. are in pipeline although groundwork has been performed easing the further course of actions in this regard. I do hope that new leadership will undertake such ongoing activities for implementation.

## Regulation and Supervision

The Institute with the aim to ensure adherence to higher ethical standards by Members, has issued a Handbook of Code of Ethics for Professional Accountants including International Independence Standards – 2023 for the Members and the same shall be applicable from 17 July, 2023. I am very delighted to share with you that the Institute has initiated to obtain biometric of Members and I believe that this initiative of Institute has added a step towards digitalization of ICAN and will benefit a member at large. As a mechanism to regulate the practice of Members, the Institute has also begun to mandate submission of Firms's tax clearance certificate for renewal of Firm from F.Y. 2080/81 onwards.

The Quality Assurance Board (QAB) of the Institute has been conducting the quality assurance of firms and during the fiscal year quality assurance of thirty-nine firms has been completed. The QAB also organized a workshop on quality assurance, to brainstorm the avenues of strengthening quality assurance review mechanism of ICAN and improving audit firm's system of quality management. The delegation from the Institute of Chartered Accountants in England and Wales (ICAEW) also facilitated the workshop as a paper presenter and panelist. The delegation also provided training to the staff of the Regulation and Supervision Division.

Moreover, the Institute in the capacity of Supervisory Body and as a Regulator of Accountants and Auditors, participated in pre-on-site visit of the Nepal's Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) Mutual Evaluation Process to make deliberations in matters relating to accounting sector. Similarly, the Institute has also been organizing training on AML/CFT compliance by the Members to support the government initiatives to deal with anti-money laundering activities.



## Professional Development

The Institute is committed towards the development of member's capabilities and competencies through regular training and development programs. During the year the Institute organized a multiple national level program including workshops on contemporary issues of accounting profession and role of professional accountants in shaping economic growth of the Nation. The Institute also organized an interaction program on Federal Budget 2080/81 and concept paper of Public Financial Management (PFM) qualification in Nepal.

As a continuity of the Institute's efforts to enhance recognition of profession in International and National level and expand the scope of Members, the Institute in technical collaboration with ICAI, conducted a post-qualification course on Forensic Accounting and Fraud Detection (FAFD), Certification course on Information System Audit (ISA 3.0) and virtual training on data analysis and visualization with Microsoft excel power tools and power Business Intelligence (BI).

Besides, the branch offices of the Institute in technical coordination with the Branch Coordination Committee has organized various program at the Branch level including the training on model financial statement based on NFRS for Small and Medium Sized Enterprises (SMEs) and pre-budget interaction program.

The Institute, with the objective of developing a pool of professional trainers, has organized in total three Training of Trainers (ToT) on various topics. A five-day ToT on IFRS (International Financial Reporting Standards) was organized in technical collaboration with the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and a three-day ToT on Computer Aided Audited Technique (CAAT) was organized in technical collaboration with the Institute of Chartered Accountants of India (ICAI) for the Chartered Accountants Members of Institute. Similarly, a three-day ToT on NFRS for SMEs was organized for the Members of the Institute.

Moreover, the Institute jointly in coordination with the US Chapter of the ICAN conducted an International Webinar on FDI in Nepal to discuss on various aspects related to Foreign Direct Investment in Nepal.

## Education

The Institute has prioritized to design international level CA Curriculum and training mechanism. Accordingly, the Institute is in the process of revision of Chartered Accountancy (CA) Curriculum, in technical support from ICAEW. In this process the consultants have visited the Institute to have consultation and meeting with the Council, Board of Studies, management of the Institute, Government Officials, regulators and stakeholders. Moreover, in course of roll out of new CA Syllabus, the Institute organized a five-day tutor training program for the tutors which was also facilitated by the consultant from ICAEW.

During FY 2022/23 the Institute provided scholarships to 274 students pursuing CA courses at different level. The Institute has regularly organized CA and CA Membership examination and has been publishing on timely result of the examination. Likewise, there has been continuity in organizing the CAP-I Student's Orientation Program, Articleship Orientation Program and General Management and Communication Skills (GMCS) Training. Likewise, the Institute has also organized a 5<sup>th</sup> Chartered Accountants' Convocation Ceremony whereby, 102 Members were convoked. I congratulate all the new Members and welcome them to the CA fraternity.

The Institute with an intent to promote the competitive learning and groom the students to develop their interpersonal qualities and boost their practice understanding on subject matters has hosted South Asian Federation of Accountants (SAFA) Quiz and Elocution Contest, 2022 whereby, students from five Professional Accounting Organization (PAOs) from SAFA region participated. Likewise, the Institute also facilitated participation of Students in various international programs organized by PAOs. The Institute also supported the Nepal Chartered Accountants Students Association (NCASA) in organizing 2<sup>nd</sup> International CA Students' Conference at Kathmandu which was attended by around 1,300 students along with delegation of students from PAOs including Bangladesh, India, Pakistan, and Sri Lanka.

## National Relation: Public and Government

The Institute holds the motto of "Upholding Public Interest" and believes that mutual understanding and coordination amongst the regulators is foundation for upholding public interest. In regards, the Institute has



been holding regular consultation and meeting with the Hon'ble Auditor General, Governor and Officers from other regulatory bodies.

With the intent to uniting the voice of all Accounting Professionals throughout the country in a platform and to have a focused discussion on various contemporary topics, the Institute organized a two-day, 2<sup>nd</sup> National Convention of Accounting Professionals on the theme "Financial Reporting for Sustainable Economy" at Kathmandu. The convention had a total of four technical sessions with 5 paper presentations, 4 Session Chairperson and 17 panelists along with two international delegations addressing as a keynote speaker and paper presenter. The Convention was attended by more than 1,100 Members and Stakeholders. I affirm this Convention as a milestone activity during FY 2022/23 and believe that the Institute will critically address the issue raised in the Convention.

The Institute has been coordinating with the Nepal Insurance Authority (NIA) in course of facilitating the NFRS implementation in Insurance companies. During the year, a three-day ToT on International Financial Reporting Standards (IFRS) was organized for staffs of the insurance companies along with the Members of Institute to enhance the technical knowledge of preparators, reviewers, and auditors of financial statement of the Insurance Companies in Nepal and the training was facilitated by the International trainers of CA Sri Lanka. Besides, a three-days training on NFRS relevant to insurance companies was organized in technical collaboration between the NIA and Institute.

Moreover, the Institute with an objective to promote transparent and accountable financial reporting by the public companies in Nepal has been organizing National Best Presented Award (BPA), the National BPA 2021 distribution ceremony was also organized.

The Institute in technical collaboration with the Public Expenditure and Financial Accountability (PEFA) Secretariat has organized a four-day training on Nepal Financial Reporting Standards (NFRS) to the officers of the State-Owned Enterprises (SOEs) and has also organized a one-day workshop on NFRS for the senior officers of SOEs and representatives of line Ministries of SoEs.

## International Relation: Global Positioning and Leadership

The delegation led by me had a visit to the Chartered Accountants Australia and New Zealand (CA ANZ). During the visit, the delegation had a meeting with the, Kate Boorer, FCA, President CAANZ and officials from CA ANZ with agenda to identify prospect of technical collaboration between CA ANZ and ICAN and ways to facilitate the Mutual Recognition Agreement (MRA) between the Institutes. Likewise, a delegation led by me including CA. Sujan Kumar Kafle, Vice-President, ICAN and fellow Council Members also attended the 21<sup>st</sup> World Congress of Accountants hosted by the Institute of Chartered Accountants of India (ICAI).

Likewise, the Institute has also signed Memorandum of Understanding (MoU) with the ICAI on 21<sup>st</sup> November 2022 and Membership Pathway Agreement (MPA) with the CPA Australia on 22<sup>nd</sup> June 2023 as a continuation of earlier agreement with the Institute.

It was honored to have physically hosted the 76<sup>th</sup> SAFA Board Meeting in Nepal in presence of Mr. H M Hennayake Bandara, FCMA, President, SAFA; CA. Nihar N. Jambusaria - Vice President, SAFA along with other SAFA board members. Similarly, CA. Sujan Kumar Kafle, Vice- President, ICAN along with me representing the Institute participated in SAFA meeting including other program organized by SAFA. Besides, the fellow Council Member also attended the meeting of various committees formed by SAFA.

During the year, the Institute hosted a SAFA Best Presented Annual Report (BPA) Award Distribution Ceremony, 2021 in Kathmandu whereby, 137 awards under 16 categories were distributed to participating entities of SAFA region. The ceremony was attended by around 250 participants including delegation from the participating entities. Moreover, the Institute also organized a SAFA Conference on International Taxation and Digital Currency 2022

## Institutional Development and Sustainability

The Institute has completed 26<sup>th</sup> Anniversary on 31<sup>st</sup> January 2023 and I am more than happy to have served as the 26<sup>th</sup> President of the Institute. I am also hopeful that the Institute will prioritize sustainability while planning its action in upcoming days as well.

To mark the contribution of professional accountants in the economic development of nation and to spread



the message about the significance of accountancy, the Institute celebrated International Accounting Day on 10<sup>th</sup> November 2022 by organizing various program at the main office Kathmandu and at the branch offices of the Institute.

The Institute with an objective to facilitate the staff's understanding of operational procedures of the PAOs in SAFA region and to induce the best practices at the Institute made arrangement of staffs' exposure visit to The Institute of Chartered Accountant of Bangladesh (ICAB) and CA Sri Lanka. Besides, the Institute has also been organizing various in-house and outsourced training programs. During the year the Institute facilitated participation of staffs in various training related with data analytics & power BI for managers, youth & women's empowerment course, Microsoft office suite and leadership and ethics. I believe that such activities will enhance the capacity of the staff to perform their responsibility efficiently.

On the occasion of the 26th Anniversary celebration program, the Institute awarded five staffs with "Best Staff of the Year Award" by recognizing their performance in the Institute.

The Institute has also been facilitating participation of staffs in various national conference including conference on Sustainable Economic Development

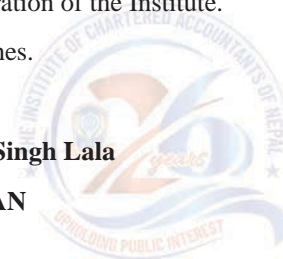
organized by ACAN and conference on IFRS organized by ASB, Nepal.

### Concluding Remarks

I would like to place on record my appreciation and sincere thanks to the Council Members, Board and Committee Members of the Institute, Office of the Auditor General, Ministry of Finance, Nepal Rastra Bank, Security Exchange Board of Nepal, Nepal Insurance Authority, other Regulators and Government Authorities for their invaluable guidance and co-operation in the proper functioning of the Institute. I would also like to express my sincere gratitude towards the Immediate Past President, CA. Yuddha Raj Oli, Newly Elected President, CA. Sujay Kumar Kafle and Fellow Council Members for their contribution and continuous effort in the activities of Institute during my Presidency. I would also convey special thanks to the Past Presidents for their guidance. Lastly, I appreciate the untiring efforts of the management team led by the Executive Director, CA. Sanjay Kumar Sinha for successful operation of the Institute.

With Best Wishes.

**CA. Bhaskar Singh Lala**  
**President, ICAN**







# International Taxation in a Flux – What lies Ahead



**Mr. S. P. Singh**

The author is an Ex-Indian Revenue Service Officer and Ex-Senior Director, Deloitte, India. Presently he is Senior advisor to the Direct Taxes Committee, ICAI.

## Introduction:

The emergence and growth of Multinational Enterprises (MNEs) can be attributed to the increasing global population and advancements in technology. As the world population grew rapidly, the demand for products and services skyrocketed, creating opportunities for MNEs to expand and meet these increasing needs. The growth of MNEs was further propelled by globalization and digitalization of the economy, as well as the rise of transactions within the MNE system.

One of the major challenges faced by MNEs is double taxation, where they are subjected to taxation by both the country of source and the country of residence. This is addressed unilaterally by incorporating provisions exempting foreign income or allowing credit of foreign income against the domestic tax liability, subject to specified conditions. A better resolution is through tax treaties, which have certain advantages which cannot be provided by unilateral measures. These treaties aimed to avoid

double taxation, establish common approaches for taxing different sources of income, exchange information to prevent tax evasion, and reduce tax controversies. To facilitate negotiation of tax treaties and to ensure common approach globally, the League of Nations took lead in developing Model of Tax Treaties. This effort was carried forward by the Organization for Economic Cooperation and Development (OECD), and then by the United Nations (UN) in a more comprehensive manner. These models are continuously being updated to keep up with developments in international taxation.

Development in technology and globalization of economy has been revolutionizing the way of carrying business. The recent emergence of digital technologies is making paradigm changes, not only in the way business is being carried out, but in almost all aspects of human life. Internet has brought places closer and has shortened time in all transactions. Emergence of Artificial Intelligence (AI) and Machine Learning (ML) are replacing human from many business activities. These have positive effect on human lives, but are throwing up challenges to policy makers in many areas, most important being taxation where old





concepts are inadequate to tax many transactions. As these lead to huge Base Erosion and Profit Shifting (BEPS), international organisations like G-20 and the OECD are struggling to find an effective and efficient mechanism to tax digital transactions. However, due to rapid advancement in technology tax policy will remain work-in-place.

This article briefly discusses history of international trade, emergence of multinational enterprises, possible reasons for double taxation, and its resolution. possible ways to reduce or eliminate it, and importance of tax treaties. It goes on to discuss the growing impact of digitalization of economy, efforts to tax such transactions and finally identifies the possible future course of developments in these areas.

### **International trade and emergence of Multinational Enterprises (MNEs)**

The historical perspective of international trade reveals that long-distance trade has existed even during ancient times, with civilizations participating in maritime trade networks. In the Middle Ages, European economies were connected to other parts of the world through trade routes. The discovery of sea routes to India and America opened up new markets for European countries. The establishment of European trading companies, such as the British East India Company and the Dutch East India Company, marked the beginning of multinational corporations.

The growth of MNEs can be attributed to various factors, including globalization, availability of global markets, access to resources and raw materials, cost arbitrage, and higher production efficiency. The number of MNEs has increased significantly over the years, with a vast number of foreign affiliates. From 1945 to 2010, the number of MNEs grew from a few hundred to 100,000, with 900,000 foreign affiliates. MNEs have played a major role in international trade, with an estimated 50% of international trade occurring within MNE groups.<sup>1</sup>

MNEs have capitalized on the increasing demand for products and services, expanding their operations globally. However, they have faced challenges such as double taxation and transfer pricing issues. The

development of tax treaties and the continuous evolution of international taxation frameworks have aimed to address these challenges.

### **Basis of Double Taxation and Ways to Reduce or Eliminate it**

Taxation plays a vital role in generating government revenue, and tax policies are guided by principles such as neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility. These principles ensure a fair, efficient, and adaptable tax system in the global economy. Sovereignty, rooted in the 19th and 20th centuries, has influenced the jurisdiction to legislate tax laws that lay claims based on personal or territorial attachment.

When it comes to taxing cross-border income, domestic tax rules typically address outbound investments of resident companies and inbound investments of non-resident companies. The definition of residence is crucial in determining tax obligations, with some countries considering formal criteria like place of incorporation, while others consider factual criteria such as the place of effective management.

There are two broad models for taxing outbound investments: the worldwide system and the territorial system. Under the worldwide system, a country taxes its residents on their worldwide income, while the territorial system taxes residents only on income derived from sources within its territory. Most countries apply a combination of both systems. The worldwide system ensures that domestic source income is taxed while providing limited credit for tax paid abroad. In contrast, the territorial system focuses on local income and determines the source of business income.

The adoption of different tax systems can lead to double taxation, either in full or partial form. Full double taxation occurs when a person is deemed a resident in two countries simultaneously, or when one country taxes global income while another taxes income based on the source rule. Partial double taxation can be juridical or economic, arising from conflicts between residence and source rules or adjustments made under transfer pricing rules, respectively. As the primary right of taxation lies with the resident state, it is also

1 <https://www.futurelearn.com> (02-08-2021); UNCTAD 2017; Transfer Pricing Setting in Multinational corporations by Wong, Hannah et al (International Journal of Business and Social Sciences, Vol. 2, No. 9 [Special Issue – May 2011])



obligated to provide relief from double taxation that may have resulted from taxation of the same income (that has been taxed on worldwide basis by the resident state) in the source state.

To avoid or reduce double taxation, countries employ unilateral methods such as exemption or credit methods. The credit method, where taxes paid in one country are credited against tax liabilities in another, is the most common approach. However, bilateral tax treaties provide additional advantages and have a long history, starting with the first treaty between Prussia and Saxony in 1869. These treaties not only address double taxation but also serve other important goals outlined in domestic law.

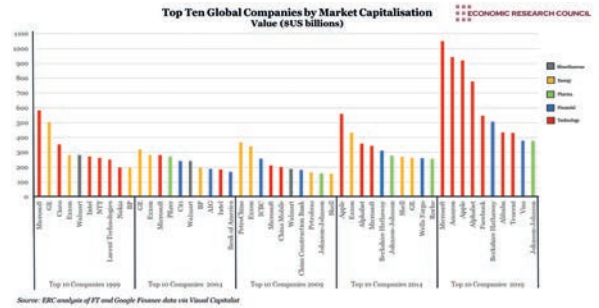
Tax treaties provide a general framework for determining taxpayer income, but each country has its own rules for computing income, which prevail unless inconsistent with the treaty. These treaties also address the computation of branch profits for permanent establishments and allow for appropriate deductions and arm's length pricing.

### Emergence of Digital Economy

The growth of the digital economy has transformed the global business landscape, with technology companies rising to the forefront. The digital economy encompasses a wide range of economic activities, processes, and interactions facilitated by Information and Communication Technology (ICT). It includes smartphones, tablets, computers, digital content, user data, cloud-based services, the Internet of Things, virtual currencies, advanced robotics, 3D printing, and peer-to-peer sharing of goods and services over the internet. Another definition of “digital economy” is that “it implies the global network of economic activities, processes, transactions and interactions among people, businesses, devices, etc. which is supported by Information and Communication Technology (ICT).”<sup>2</sup>

The digital economy's influence extends beyond just the digital realm, impacting various aspects of people's lives, the economic landscape, job requirements, and even political decision-making.

The graph below tells the story of emergence of digital companies in the last 20 years as dominant companies on the basis of market capitalization:



The COVID-19 pandemic further accelerated the growth of the digital economy as lockdowns and restrictions forced individuals and businesses to rely heavily on online services. Internet traffic soared, and remote work became the norm.

### International understanding on Taxation of Digital Economy

The evolution of the cross-border digital economy presents new challenges for economic thinking and policy analysis. The interconnectedness and advancements in technology have brought about numerous benefits but also pose challenges in areas such as taxation, cross-border trade, and regulation enforcement. Traditional methods of enforcing national laws and regulations struggle to address the blurring of sector boundaries and the complexities of cross-border trade in digital services and products. The traditional methods of allocating taxing rights based on physical presence are no longer sufficient in the digital age. Businesses can now engaged in markets without significant local infrastructure, making it necessary to re-evaluate tax allocation methods to accurately reflect sustained and significant market engagement. Tax policies also need to adapt to the changing landscape brought about by digitalization. The Organization for Economic Cooperation and Development (OECD) has been working on reaching a consensus on taxation solutions for the digital economy, aiming for a resolution in the early 2020s. The BEPS Action Plan, initiated in 2015, identified tax challenges arising from digitalization, such as nexus, data, and characterization. The insistence by developing countries to involve them in reaching a tax solution as they are significant contributors to the value and profits of global digital platforms led to formation of the Inclusive Framework with approximately 135

<sup>2</sup> businessjargons.com/ accessed in November 2021



participants. Collaboration and inclusive participation of all countries, particularly developing nations, are crucial for effectively addressing the complexities and ensuring fair taxation in the evolving digital economy.

Initially, the United States had been reluctant to participate in digital taxation resolutions but took steps to tax the digital economy and protect its tax base through measures like the Base Erosion Anti-Abuse Tax (BEAT) and Global Intangible Low-taxed Income (GILTI). The US President advocated for implementing a Global Minimum Tax of 15% to be paid by MNEs, recognizing that these companies were not paying their fair share of taxes even in their home countries.

On July 5, 2021, the OECD/G20 Inclusive Framework proposed a two-pillar approach to address the tax challenges arising from the digitalization of the economy. The main objective of this plan is to ensure that large MNEs pay taxes where they operate and earn profits. The discussions continued within the OECD/G20 to refine and shape the two-pillar approach for maximum acceptance.

Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest MNEs. The new scheme covers MNEs with global turnover exceeding €20 billion and profitability above 10%. The plan defines a new special-purpose Nexus rule to allocate revenue (Amount A) to a market jurisdiction where the MNE derives a minimum amount of revenue. The allocation of profits to market jurisdictions involves determining residual profits and allocating a percentage to the market jurisdiction using a revenue-based allocation key. Disputes related to Amount A will be resolved in a mandatory and binding manner. To avoid tax competition, countries are required to remove Digital Services Taxes and commit not to introduce such measures in the future.

Amount B of Pillar One focuses on simplifying the application of the arm's length principle to in-country baseline marketing and distribution activities. The details of Amount B are being finalised.

Pillar Two aims to protect countries' tax bases and minimize tax competition on corporate income tax. It introduces Global anti-Base Erosion (GloBE) Rules, which include an Income Inclusion Rule (IIR) and an Undertaxed Payment Rule (UTPR). The IIR imposes a top-up tax on low-taxed income, while the UTPR denies deductions for income not subject to tax under

the IIR. The Subject to Tax Rule (STTR) allows source jurisdictions to impose limited source taxation on related party payments subject to tax below a minimum rate. The implementation of Pillar Two is scheduled for 2023.

The GloBE Rules will apply to MNEs meeting the revenue threshold of €750 million in at least 2 of the 4 years immediately preceding the test year. The global minimum tax rate used for the IIR and UTPR will be 15%. It is estimated that the GloBE Rules will generate around USD 150 billion in additional global tax revenue annually. The rules are not mandatory, but jurisdictions adopting them will apply them consistently. The administrative and compliance costs are designed to be minimal.

### What Lies Ahead

The basic principles of international taxation which have been in existence for around a century are being challenged. These are based on the concepts of “certainty of physical presence” and “identification of paths of international transactions”. The first is germane to the concept of “permanent establishment” which talks about “fixed place” etc. The second forms basis of discriminating different types in income and, attribution of profits among different enterprises or entities of the same MNE system. All these concepts do not hold good in digital economy, where neither the situs of income nor recipient are easily identifiable. One can render services in any jurisdiction from any other jurisdiction. Further, things which were transacted in physical form, such as know-how, design, plan, books etc., are now being moved digitally seamlessly across jurisdictions through Internet. Software can be downloaded from sites hosted in an undefined location and payment for them can be made digitally. Online transactions are becoming ubiquitous and so is Work-from-Home. For all these there is no need to establish a physical presence for rendering services or transacting goods.

The line dividing services and intangibles is becoming blurred, and so is the differentiation between royalty and fees for technical services. Normally, courts in India have been observing that consultancy and managerial services need human intervention. This may not be needed in the digital world. With Artificial Intelligence (AI) and Machine Learning (ML) undertaking more and more functions, human interventions in many activities



are reducing. The challenge before policymakers is, on the one hand, to protect their revenue base and, at the other hand, ensure a tax system which would be efficient and effective to help international trade. The concepts underlying Pillar One and Pillar Two are guided by these goals. However, path for implementing the approach is not going to be easy. The biggest hurdle is the existing tax treaties, which, as discussed earlier are based on the concepts of certainty of situs and taxable entity which do not conform to digital economy. Hence, for the success of the new taxation approach it is essential to suitably amend the existing tax treaties. During the BEPS discussions it was appreciated that renegotiating a large number (approximately 3000) of tax treaties would take a very long time. Consequently, the concept of Multilateral Instruments was adopted, which would enable modification of tax treaties in a short time. Further, differing from the arm's length principle is going to be challenging as this concept has international acceptance and over the time people

have developed required expertise in implementing the concepts.

Apart from the above, the allocation of taxing rights may not necessarily reflect the true economic activities or value creation in a market jurisdiction. So far as implementation is concerned, the whole approach is quite complex even for experienced tax jurisdictions, leave aside less matured jurisdictions. The biggest challenge would be if a few countries decide not to adopt the approach. This may require reworking of the whole approach which may give rise to uncertainty in implementation.

In view of the foregoing discussion, taxation of MNEs in the digitalised and globalised world is going to be challenging for all stakeholders. What is needed for the international organisations to come up with a taxation system which has simple legal provisions and computation mechanism as simplicity of a tax system is a must for its mass acceptance.

## Congratulations to the Newly Elected President and Vice President



**CA. Sujan Kumar Kafle**  
**President**



**CA. Prabin Kumar Jha**  
**Vice-President**

# Entity and Distribution: Tax Perspective

**Abstract:** The article attempts to highlight the difference between commonly spoken 'dividend' and 'distribution', and its taxation impact from the entity's viewpoint through relevant provisions of Income Tax Act, Directive; and IMF Commentary on The Commonwealth of Symmetrical Income Tax Act. In this article there is a comparative analysis of provision related to dividend and distribution as per the Companies Act and Income Tax Act followed by an illustrative example for taxation on distribution. The article has also attempted to incorporate the tax effect of the issue of bonus shares out of securities premium, which has been a topic of discussion among taxpayers, tax regulators and tax professionals in recent times. Hence, this article might be helpful to the taxpayers to understand the taxation perspective of distribution, in general.

## Introduction

The Income Tax Act 2058 presents a distinct realm of concepts and principles that may deviate from the everyday understanding of certain terms. An example of such a term is 'distribution,' which, in common parlance, is widely recognized as 'dividend' within the corporate domain. 'Dividend' typically refers to the disbursement of cash or shares to shareholders as a portion of the company's profits. However, within the framework of the Income Tax Act, the term 'distribution' assumes a more expansive significance, transcending the conventional understanding associated with



## CA. Saugat Gautam

The author is the practicing member of ICAN.

He can be reached at mail to: gautamsaugat21@gmail.com

'dividend'. Not only because of its meaning, but also because of its taxation on the hands of two levels (so called economic double taxation): one on corporate level and another on the beneficiary level, taxation on distribution is known for its complexity in entity-specific taxation.

**Entity<sup>1</sup>:** Entity is institution or organization like partnership, company, trust, municipalities, government, foreign government or foreign institution or foreign permanent establishment. Effectively, this term includes all persons other than natural person.



Section 53 of the Act defines distribution as the following:

- (a) Payment by an entity to its beneficiary in any capacity, or
- (b) Capitalization of Profit.

## Payment by an Entity to its Beneficiary in any Capacity

First, it is important to understand how the terms used in this provision have been defined in the Act.

**Beneficiary<sup>2</sup>:** Any person who has interest in an entity (which is the right including contingent right to receive income or capital of an entity).

**Payment<sup>3</sup>:** Payment includes the following:

- 1 Section 2(Bha) of Income Tax Act 2058
- 2 Section 2(KaLa) of Income Tax Act 2058
- 3 Section 2(Ha) of Income Tax Act 2058



- (a) the transfer by one person of an asset or money to another person or the transfer by another person of a liability to the one person;
- (b) the creation by one person of an asset that on creation is owned by another person or the decrease by one person of a liability owed by another person;
- (c) the provision by one person of services to another person; and
- (d) the making available of an asset or money owned by one person for use by another person or the granting of use of such an asset or money to another person.

Hence, distribution by an entity includes all forms of payment to its beneficiary ('shareholders' in layman's term) in any capacity (whether received as beneficiary, employee, purchaser, or debt holder). However, there are certain exceptions to this general rule. Following payments are excluded from the definition of distribution:

- (a) In case the payment made by the beneficiary is more than the payment made by the entity,
- (b) In case the payment made by the entity is included in the income of the beneficiary,
- (c) In case the payment is subject to final withholding tax other than due to the reason of 'distribution', or
- (d) In case the payment does not reduce the net worth of the entity.

A payment by an entity to a beneficiary is not a distribution to the extent that the beneficiary makes a return payment of an equal amount<sup>4</sup>. For example, to the extent that a beneficiary pays market value for goods sold by the entity, the transfer of the goods by the entity is not a distribution.

**Example:** Mr. A is a shareholder of B Ltd., which is a trader of shoes. Mr. A is also a proprietor of business that deals with supply of materials required for manufacture of shoes. Mr. A sold Rs. 100,000 worth of goods to B Ltd., for which B Ltd. paid cash Rs. 100,000 to Mr. A.

In this example, the payment made by entity (cash paid by B Ltd.) is a return payment of equal amount against the payment made by Mr. A (supply of goods). Hence, such a payment of Rs. 100,000 does not qualify as distribution.

4 Paragraph 266 of Commentary on The Commonwealth of Symmetrical Income Tax Act by IMF

However, if the entity pays to the beneficiary more than the market value of the payment received from the beneficiary, the differential figure is 'distribution'. For instance, in the above example, if B Ltd. paid Rs. 120,000 for the goods supplied by Mr. A then Rs. 20,000 (120,000 – 100,000) would be distribution.

Likewise, payments such as salary of a managing director, or fees for services obtained from shareholder are included in income from employment of the director and shareholder's business respectively. Hence, these do not qualify as distribution.

Similarly, payments like meeting allowances or interest payment against debenture are subject to final withholding tax other than due to the reason of distribution, hence these too do not qualify as distribution.

Moreover, for a payment to qualify as distribution, it must decrease the value of assets and liabilities (net worth) of the entity. It should effectively reduce the entity's resources. This means that these types of distributions will typically involve payments under the first limb of the definition of "payment" above but may involve a payment under the second limb of that definition. Also, if any asset has a negative value (e.g., toxic wastes), the distribution of such asset to the beneficiary does not qualify as distribution of Sec. 53 since this does not affect the net worth (assessed at market value) of the entity.

### Capitalization of Profits

Before understanding what constitutes capitalization of profits, it is sorely significant to understand the difference between "capital contribution" and "profit".

"Capital Contribution<sup>5</sup>" is potentially any payment under the first or second limb of the definition of "payment" above, made by a beneficiary or potential beneficiary to an entity. The exceptions are to the extent that the entity makes a return payment to the beneficiary, or the payment is an exempt amount, final withholding payment, or included in calculating the entity's income. Despite the broad definition, some informal value transfers to an entity will not be a capital contribution. An example is a gift to an entity that is made "in respect of" a business or investment of the entity, which must be included in calculating the entity's income under Section 7(2). These provisions

5 Paragraph 269 of Commentary on The Commonwealth of Symmetrical Income Tax Act by IMF



do not apply in the case of gifts by associates of an entity, the most likely type of beneficiary to make a gift to an entity. Such gifts by such a beneficiary will be treated as a capital contribution. Further, if the "in respect of" nexus is not met, a gift to an entity by a beneficiary will be a capital contribution in any case.

"Profit"<sup>6</sup> is represented by the concept of "taxable income". It is the tax base of "retained earnings", which is a corporate term for 'accumulated profits'.

Hence, if any of the "profits" is converted into "capital contribution", it is known as capitalization of profits and qualifies as distribution. In corporate world, one of the most popular measures of converting profit to capital is "issue of bonus shares" or commonly known as "stock dividend", where the retained earnings of an entity are utilized to increase the share capital instead of paying cash dividend. Such issuance of bonus shares is "distribution" for tax purpose. It is important to note that bonus shares can be issued not only through retained earnings/reserves but also through Securities Premium<sup>7</sup>.

Section 29 of Companies Act 2063 states that shares can be issued at an amount more than the face value of the shares. Such amount exceeding the face value is known as Securities Premium or Share Premium. Since it is a payment made by the beneficiary without any return payment from the entity and it is also not included in calculating entity's income, nor it is final withholding income, it falls under the definition of "Capital Contribution". Hence, issuance of bonus shares from securities premium does not qualify as distribution. It is merely a transfer within the same heading of capital contribution, from the tax perspective. However, Nepal Income Tax Directive 2066 does not contain this explanation; rather it has considered such issuance of bonus shares from premium as distribution of profit<sup>8</sup>, which needs a revision from tax authority as per Section 139 and 142 of Income Tax Act 2058. In addition, the paragraph 62 of the annual report of the Office of Auditor General 2078 has stated non-compliance of "Distribution without profit" for bonus shares issued out of Securities Premium and Section 26 of Finance Bill 2080 has stated to waive fees and interest on the tax applicable on such distribution if paid within 2080

Mangsir end. This has created ambiguity in the tax concept and interpretations by the tax authority, which has ultimately confused the taxpayers and investors. To pay taxes, in the absence of any corresponding income, can be disheartening from the perspective of an investor.

### Profit first or Capital?

While the payment to beneficiary as above falls under the definition of "distribution", does even repayment of capital (i.e., capital refund) meet this definition? The answer is "yes"; even capital-refund is distribution, however, it is of significance to segregate whether the distribution constitutes distribution of profit or repayment of capital because dividend tax under Section 54<sup>9</sup> of the Act is imposed only on the distribution of profit and not on capital-refund. Section 53(5) and 53(6) of Income Tax Act reads that the distribution not to the extent of distribution of profit is considered as capital-refund while the distribution not to the extent of capital-refund is considered as distribution of profit. This text seems ambiguous on a plain reading and needs a deeper understanding.

### Capital-first Rule

In case of payment made to beneficiary through formal capital instrument of changing the capital structure of the entity such as buyback of shares, forfeiture, surrender, internal reconstruction, redemption, etc. then such payment is considered as repayment of capital<sup>10</sup>. For instance, A Ltd. issued notice of buyback of shares under which it paid Rs. 8 lakhs to its shareholders for buyback of Rs. 7 lakhs capital contribution. In such case, Rs. 7 lakhs are capital refund (capital-first rule) while balance Rs. 1 lakh is distribution of profit.

However, in the event of liquidation, the payment may include part-profit and part-capital subject to Section 55. Example 13.7.1 of Income Tax Directive 2066 (Fourth Amendment 2078) states the situation of Lalitpur Company P. Ltd., which has a paid-up capital of Rs. 6 crores and is in the state of liquidation. The company obtained Rs. 7 crores from disposal of its net assets and paid to the shareholders. In such a situation,

6 Paragraph 17 of Commentary on The Commonwealth of Symmetrica Income Tax Act by IMF

7 Section 29 of Companies Act 2063

8 Section 13.9 of Income Tax Directive 2066 (Fourth Amendment 2078)

9 If a resident company or partnership firm distributes dividend to its shareholders or partners, tax shall be withheld at 5% and such tax shall be final on this income.

10 Section 13.7 of Income Tax Directive (Fourth Amendment 2078), 2066





Rs. 1 crore is distribution of profit (profit-first) while Rs. 6 crores are capital-refund. Dividend tax of 5% is imposed on Rs. 1 crore under section 54 of IT Act, 2058.

If the company pays only Rs. 3 crores, the portions of profit and capital refund should be segregated as follows:

Capital Refund =  $6\text{crore}/7\text{crore} \times 3\text{ crore} = \text{Rs. } 257.14\text{ lakh}$

Distribution of Profit = Rs. 42.86 lakhs (balancing figure)

Dividend tax of 5% is imposed to shareholders on Rs. 42.87 lakhs only under section 54.

### Profit-first Rule

In all the payments other than where the capital-first rule applies, the payment is considered as the distribution of profit to the extent of the tax base of retained earnings, realized or unrealized, calculated based on market value of the assets and liabilities<sup>11</sup>. Any payment exceeding the tax base of retained earnings is capital-refund. This can be understood through following example:

A Ltd. has assets having outgoings<sup>12</sup> Rs. 10 lakhs and market value of Rs. 12 lakhs; liabilities having incomings<sup>13</sup> of Rs. 2 lakhs and market value of Rs. 2 lakhs. The entity has paid-up capital of Rs. 3 lakhs; retained earnings of Rs. 5 lakhs (realized). If market values are considered, the entity has retained earnings of Rs. 7 lakhs (where Rs. 5 lakhs are realized and Rs. 2 lakhs are unrealized).

Particulars	Tax Base	Market Value
Assets	10 lakhs	12 lakhs
Liabilities	2 lakhs	2 lakhs
Capital	3 lakhs	3 lakhs
Retained Earnings (Profits)	5 lakhs (b/f)	7 lakhs (b/f)

When A Ltd. makes payment to shareholders as distribution, the impact of taxation can be understood through following cases:

Total Distribution	Distribution of Profit		Capital Refund
	Realized Portion	Unrealized Portion*	
3 lakhs	3 lakhs	-	-
5 lakhs	5 lakhs	-	-
6 lakhs	5 lakhs	1 lakh	-
7 lakhs	5 lakhs	2 lakhs	-
8 lakhs	5 lakhs	2 lakhs	1 lakh

\* This unrealized portion represents profits that have not yet fallen under tax bracket i.e., they have not yet been taxed (corporate tax). Distribution of this portion poses the risk of not imposing corporate tax to the entity on this portion. Hence, such distribution portion shall be included in the income of the entity (A Ltd.) as per Section 56(3), referred as "Distribution other than distribution of profit" or "Distribution without profit."

### Distribution other than Distribution of Profit

Section 56(1) and (2) requires the transfer or disposal of assets and liabilities between the beneficiary and the entity to be assessed at the market value of the assets and liabilities. For instance, if an entity sells an asset worth Rs. 20 lakhs to its shareholder at Rs. 12 lakhs only, the entity is deemed to have sold it in Rs. 20 lakhs (i.e., at its market value). Hence, Rs. 20 lakhs should be included in the income of the entity. The difference of Rs. 8 lakh is considered as distribution, as discussed above.

Section 56(3) mandates the distribution other than the distribution of profit to be included in calculating income of the entity. Such distribution has been referred to as "Distribution of Collateral Benefit" in The Commonwealth of Symmetrica Income Tax Act by IMF. Section 165(7) of this Act defines it as follows:

"A distribution by an entity is a distribution of a collateral benefit if it is not a distribution of profits or a repayment of capital."

Hence, the distribution, in whole, includes the following three kinds:

1. Distribution of Profit
2. Repayment of Capital
3. Distribution of Collateral Benefit

Collateral Benefit, in employment law context, refers to a gain or advantage that flows to a dismissed

<sup>11</sup> Section 53(4) (Ka) of Income Tax Act 2058

<sup>12</sup> Section 38 of Income Tax Act 2058

<sup>13</sup> Section 39 of Income Tax Act 2058



employee and is connected to the employer's breach of the employment contract<sup>14</sup>. Likewise, Sec. 56(3) has attempted to include such benefits provided to the beneficiary by an entity.

"These distributions will typically consist of payments under the third and fourth limbs of the definition of "payment". The effect of distributions of this type is to cause an entity not to derive income but, rather, provide a benefit directly to the beneficiary, i.e., the distribution to the beneficiary represents notional income of the entity. For example, a company may have a property available for rent but permits a shareholder to stay in it for free. There are two approaches to the taxation of this type of benefit. One is the same as is used in the context of employee fringe benefits<sup>15</sup>. The notional income of the company may be ignored, and the benefit fully included in calculating the income of the beneficiary."<sup>16</sup>

However, such collateral benefits should not be included in income u/s 56(3) subject to conditions mentioned in Rule 18 of Income Tax Regulations 2059 i.e., if such services (third and fourth limbs of the definition of "payment") are provided not in relation to the business. This rule is ambiguous since such relief of not including "distribution of collateral benefit" in the entity's income has been provided in IMF Model Tax Act only to closely held entities of five or fewer individual beneficiaries. As such, the provision of Rule 18 seems that all entities, whether closely held or widely held, are eligible for the relief of Sec. 56(3), which portrays that all forms of distribution of collateral benefits to the beneficiaries need not be included in income. This questions the essence of Section 56(3). Paragraph 274 of Commentary on The Commonwealth of Symmetrica Income Tax Act points out why such relief is justifiable in closely held entities:

"While this justification for taxation appears convincing in the case of widely held entities, it is less so in the case of closely held entities, particular those acting in a passive manner. In this case, as the beneficiary may have conducted the passive activity directly, to tax the entity's notional income but not to tax if the beneficiary conducts the activity is to prefer form over substance. To this end, section 167(2) adopts a limited exception to section 167(1). The exception only applies to

entities that are closely held by individuals and where the collateral benefit is provided outside the course of business of the entity. Similar to the case of individual in the same situation, deductions are denied for amounts to the extent that they relate to the provision of the collateral benefit. For example, this exception may apply where a deceased individual places the family home in trust and the surviving spouse is permitted to live in the home rent free. By reason of section 167(2), the notional rent will not be taxable to the trust, but the trust cannot claim deductions with respect to the home, e.g. rates and utilities."

## Conclusion

In a nutshell, it appears that the taxation on dividends is much more than just the 5% final withholding tax on the hands of the shareholder. Its tax implications require a deeper understanding of the term 'distribution' as portrayed in the Income Tax Act and IMF Commentary, which displays the intention of the taxation. The regulatory authority should work together with the tax professionals to wipe out the ambiguity of taxation on distribution.

## References

- Bhavanath Dahal, CA. (2018). *Taxation IPs*.  
Inland Revenue Department (IRD). (2002). *Income Tax Act, 2058*. <https://ird.gov.np/tax-laws/category/acts/incometaxact>.  
Inland Revenue Department (IRD). (2009). *Income Tax Directive, 2066 (Fourth Amendment 2078)*. <https://ird.gov.np/tax-laws/category/directives/incometax>.  
Inland Revenue Department. (2002). *Income Tax Regulations, 2059*. <https://ird.gov.np/taxlaws/category/rulesregulations/incometaxrules>.  
International Monetary Fund (IMF). (2000). *Commentary on The Commonwealth of Symmetrica Income Tax Act*. <https://www.imf.org/external/np/leg/tlaw/2000/eng/sym.htm>.  
International Monetary Fund (IMF). (2000). *The Commonwealth of Symmetrica Income Tax Act*. IMF <https://www.imf.org/external/np/leg/tlaw/2000/eng/sym.htm>.  
60<sup>th</sup> Annual Report of the Auditor General, 2079. <https://oag.gov.np/menu-category/926/en>  
Finance Bill, 2080. <https://www.mof.gov.np/site/publication-detail/3250>

<sup>14</sup> <https://ca.practicallaw.thomsonreuters.com/>

<sup>15</sup> Section 27(1) of Income Tax Act 2058

<sup>16</sup> Paragraph 271 of Commentary on The Commonwealth of Symmetrica, Income Tax Act by IMF

# Industry 4.0 and the Context of Nepal

The “Fourth Industrial Revolution”, also known as “Industry 4.0” or “4IR”, brings about significant technological advancements, industry reforms, and societal changes. Nepal must assess its preparedness to navigate the challenges and seize the opportunities presented by this revolution. The digital gap remains a pressing concern, hindering the widespread use of digital technologies, including in education. Bridging this gap is crucial for equipping the workforce for the digital era. Prioritizing investments in research and technology, modernizing the educational system, and promoting skilled migration are vital steps. Additionally, encouraging e-governance and investing in digital infrastructure will create an enabling environment for technical advancements.

**Keywords:** Artificial Intelligence, Automation, Cyber-Physical Systems, Industrial Industry of Things, Industrial Revolution, Industry of Things

## Introduction:

The work of understanding and influencing the unfolding technology revolution is possibly the most exciting and significant among the many fascinating and varied challenges facing us at the moment. The Fourth Industrial Revolution, which has tremendous effects on all facets of human life, turns out to be a turning point for humanity. We are currently in the early phases of a revolution that is radically altering our social relationships, careers, and way of life.



**CA. Raju Basnet Chhetri**

The author is the member of ICAN. He can be reached at mail to: [rajubasnetchhetri@gmail.com](mailto:rajubasnetchhetri@gmail.com)

The development of the steam engine in Britain in the middle of the 18th century served as the impetus for the first industrial revolution. In the late 19th century, the Second Industrial Revolution followed, which was marked by mass production and the introduction of electrical and chemical technologies. With the broad adoption of electronics and IT in production procedures, the third revolution took place in the latter half of the 20th century. Through the use of cutting-edge technologies, these revolutions sought to raise production while lowering prices.

The “Fourth Industrial Revolution”, often referred to as “4IR” or “Industry 4.0”, is a period of significant technical breakthroughs, industry reforms, and changes in societal patterns

and processes in the twenty-first century. The phrase was popularized in 2015 and has since been often used in economic, political, and scientific conversations to refer to the current period of technology advancements. It was coined by Klaus Schwab, the founder and executive chairman of the World Economic Forum. Schwab claims that the Fourth Industrial Revolution's advances go beyond merely enhancing efficiency. They represent a fundamental shift in industrial capitalism itself. The lines between the physical, digital, and biological worlds are becoming hazier as a result of the convergence of numerous technologies, including artificial intelligence, gene editing, and advanced robotics. The automation of conventional manufacturing and industrial methods lies at the heart





of this transformation, fundamentally changing global supply and production networks. As a result, there is a rise in automation, an improvement in self-monitoring and communication, and the ability of intelligent machines to assess and solve problems without human involvement.

In order to advance computer and knowledge exchange, Industry 4.0 focuses mostly on production technologies and processes made up of cyber-physical systems (CPS), the Internet of Things (IoT), and the Industrial Internet of Things (IIOT). The continuous technological transformation and its effects on businesses and society are encapsulated in the idea of "Industry 4.0." It emphasizes the ability of new technologies to revolutionize industries and the necessity for organizations to change in order to survive and prosper in the twenty-first century.

The Fourth Industrial Revolution also entails a social, political, and economic transition in addition to a change in technology. It signals a shift from the late 1990s and early 2000s' broad acceptance of digital technology to an era of embedded connectedness. Technology becomes pervasive across society, changing how people interact with and view the world.

Industry 4.0 is characterized by the integration of advanced technologies into various aspects of our lives. Here are some illustrations to help understand this concept:

- **Interconnectivity:** As a result of the Fourth Industrial Revolution, systems and technologies are becoming much more connected. Imagine a smart home where numerous appliances, lighting, and thermostats are connected and can all be operated remotely via a smartphone app or voice commands.
- **Smart Automation:** In Industry 4.0, where equipment and systems are outfitted with cutting-edge sensors, artificial intelligence, and machine learning capabilities, automation is key. Illustration: Picture a factory where humans and robots coexist, with the robots executing monotonous jobs with accuracy and efficiency while the humans concentrate on more intricate and imaginative parts of production.
- **Emerging Technologies:** The emergence and confluence of numerous technologies are the

driving forces behind the Fourth Industrial Revolution. Imagine a surgeon using virtual reality (VR) technology to do surgery from a distance, utilizing haptic feedback and real-time data analysis to assure precise and secure treatments.

- **Impact on Industries:** Industry 4.0 causes seismic shifts in a variety of industries. As an example, think of the transportation sector, where intelligent traffic control systems and AI-powered autonomous vehicles provide safe and effective navigation while easing traffic congestion.
- **Change in Societal Patterns:** How society functions and interacts is impacted by the Fourth Industrial Revolution. Consider how e-commerce platforms have altered consumer shopping behavior by making personalized suggestions, online marketplaces, and doorstep delivery the norm and drastically altering conventional retail patterns.
- **Technological Advancements:** The Fourth Industrial Revolution is marked by quickening technological development. Consider the development of 3D printing technology, which would make it simple to produce complicated objects, allow for product customization, minimize waste, and enable decentralized manufacturing.
- **Global Discussions:** Klaus Schwab coined the phrase "Fourth Industrial Revolution" in 2015, and it quickly gained popularity. In conversations about economics, politics, and science, it is now a widely used concept. Illustration: Imagine top political figures from around the world assembling at the World Economic Forum to talk about how developing technologies are affecting the economy, politics, and social progress.

### Different Concepts Under Industry 4.0:

There are several terms and concepts related to Industrial 4.0. Of these, some of the most heard and important concepts are explained as follows which will help to understand the concept of 4IR.

- **ERP (Enterprise Resource Planning):** An organization's essential business operations and data are integrated and managed by an ERP system. By automating processes, sharing data, and fostering better departmental communication, it enables businesses to streamline their



operations. Finance, human resources, supply chain management, inventory control, and customer relationship management modules are frequently included in ERP systems. Examples of ERP systems include SAP, Oracle ERP, Microsoft Dynamics, and Infor ERP.

- IoT (Internet of Things):** The Internet of Things (IoT) is a network of interconnected physical things or gadgets that are equipped with connection, software, and sensors to collect and exchange data online. IoT opens up possibilities for automation, remote monitoring, predictive maintenance, and better decision-making in the context of Industry 4.0 by allowing machines, equipment, and other industrial assets to interact with one another and with people. Smart appliances like smart refrigerators, wearable fitness trackers like Fitbit, connected home security systems like Ring, and smart thermostats like Nest are a few examples of IoT gadgets.
- IIoT (Industrial Internet of Things):** The industrial sector is the primary focus of IIoT, an extension of IoT. It entails integrating sensors, networking, and data analytics into the production processes. Industrial activities can be monitored, managed, and optimized in real-time via IIoT, which boosts output, improves efficiency, and lowers costs. Additionally, it makes data collecting and analysis for supply chain optimization, predictive maintenance, and quality control easier. Applications like predictive maintenance systems, remote equipment monitoring, and real-time asset tracking and optimization are examples of IIoT in manufacturing.
- Big Data:** Large amounts of organized and unstructured data that are too complex or vast for conventional data processing systems to process are referred to as "big data." Big Data analysis, storage, and gathering help businesses get insightful information and make informed decisions in the context of Industry 4.0. Patterns, correlations, and trends can be found using big data analytics techniques like data mining, machine learning, and predictive modeling, which can lead to operational improvements, customer insights, and innovation. Examples of big data applications include processing enormous amounts of financial transaction data for fraud detection, evaluating
- huge amounts of social media data for sentiment analysis, and gathering and analyzing sensor data in smart cities for urban planning.
- AI (Artificial Intelligence):** AI is the emulation of human intellect in computers, allowing them to carry out operations that ordinarily require human intelligence, such as speech recognition, visual perception, and problem-solving. In Industry 4.0, process automation, operational optimization, and autonomous decision-making are all made possible by AI techniques such as machine learning, natural language processing, and computer vision. Large-scale data analysis, pattern recognition, prediction, and ongoing learning and adaptation are all capabilities of AI-powered systems. Applications of AI include chatbots used for customer service, autonomous vehicles like self-driving cars, virtual assistants like Siri and Alexa, and recommendation engines used by online retailers like Netflix and Amazon.
- Digitization:** The process of turning analog data or information into a digital representation is called digitization. It entails gathering and conserving material in digital form so that it may be quickly accessed, searched for, and shared. Digitization is essential to Industry 4.0 because it makes it possible for information to flow seamlessly between various systems and processes. Various technologies, including AI, IoT, and big data analytics, may evaluate, integrate, and use digital data to enhance operational efficiency, quality improvement, and innovation. Digital archives of historical records, the conversion of paper-based procedures into digital workflows, and the conversion of physical documents into electronic files are a few examples of digitization.
- M2M (Machine-to-Machine):** Direct data sharing between two or more machines or devices without human involvement is referred to as M2M communication. M2M communication in Industry 4.0 enables machines, sensors, and other devices to communicate real-time data and work together to complete tasks. Process automation, remote monitoring, and collaboration are made possible by M2M communication, which improves productivity, decreases downtime, and maximizes resource usage. Automated inventory management systems in retail, remote monitoring of industrial



equipment, and synchronization of traffic signals in smart cities are a few examples of M2M communication.

- **Smart Factory:** An advanced manufacturing facility known as a "smart factory" makes use of digital technologies and Industry 4.0 principles. In order to build a highly networked and adaptable production environment, it combines intelligent machines, IoT devices, data analytics, and automation systems. Real-time monitoring, preventive maintenance, agile production, and seamless communication between various manufacturing process components are all made possible by smart factories. They seek to maximize production, efficiency, and quality while facilitating customization, quick market reaction, and environmentally friendly manufacturing techniques. Robotic assembly lines, RFID tracking systems for inventory management, real-time analytics for production optimization, and automated quality control systems are a few examples of smart factory technology.
- **Cloud Computing:** Using a network of remote servers housed on the internet to store, manage, and analyze data instead of depending on local servers or personal computers is known as "cloud computing." Cloud computing offers scalable and on-demand access to computer resources, storage, and services in the context of Industry 4.0. Without having to make significant infrastructure investments, it enables enterprises to use advanced analytics, AI algorithms, and collaboration tools. Cloud computing promotes agility, scalability, and cost-efficiency by enabling safe data storage, seamless data exchange, and real-time access to information from anywhere. Amazon Web Services (AWS), Microsoft Azure, Google Cloud Platform (GCP), and Salesforce are a few examples of cloud computing systems.
- **Real-time Data Processing:** The continuous gathering, analysis, and interpretation of data as it is generated constitutes real-time data processing. It allows for quick response and decision-making based on the most recent data. Real-time data processing is essential in the context of Industry 4.0 for monitoring and managing production processes, finding abnormalities, forecasting failures, and streamlining operations. Real-time data processing enables enterprises to get actionable insights, boost productivity, and increase overall efficiency by utilizing technologies like IoT, AI, and Big Data analytics. Real-time stock market data analysis, fraud detection systems that evaluate transactions quickly, and IoT device monitoring systems that need quick responses are a few examples of real-time data processing.
- **Ecosystem:** An ecosystem in manufacturing refers to how various parts and stakeholders who are involved in the creation and delivery of goods and services are interconnected. It includes all parties involved in a value chain, including manufacturers, distributors, retailers, logistics companies, and service providers. An ecosystem approach places an emphasis on the fusion and coordination of many tasks and procedures, including data exchange, inventory management, supply chain coordination, production planning, and customer relationship management, in the context of Industry 4.0. Across the whole manufacturing value chain, a well-developed ecosystem promotes seamless information flow, effective resource allocation, and improved decision-making. App stores (such as the Apple App Store and Google Play Store), where developers, consumers, and advertisers engage within a virtual marketplace, are examples of ecosystems.
- **Cyber-Physical System (CPS):** Cyber manufacturing, commonly referred to as a cyber-physical system, is a crucial element of Industry 4.0. It describes how physical equipment, sensors, actuators, and computing systems are integrated with the digital environment. CPS makes it possible to gather, analyze, and share real-time data from physical assets, giving businesses the ability to precisely and effectively monitor and manage their industrial processes. Automation, optimization, and adaptive decision-making in manufacturing operations are made possible by CPS technologies. CPS increases productivity, quality, and flexibility by fusing physical and digital components, which paves the way for the creation of smart factories and intelligent production systems. Autonomous



vehicles, smart grids that monitor and manage energy distribution, and telemedicine systems that enable remote healthcare monitoring and intervention are examples of cyber-physical systems.

### Industry 4.0 in the context of Nepal:

The impact of Industrial 4.0 on Nepal is a topic of increasing importance and concern. As Nepal is a part of the globalized world, it cannot remain unaffected by the technological advancements and changes brought about by the Fourth Industrial Revolution. This revolution, characterized by the integration of digital technology into industrial processes, demands a careful examination of Nepal's preparedness to navigate the challenges and opportunities it presents.

There are several instances in our everyday lives that indicate Nepal's gradual adoption of components associated with the Fourth Industrial Revolution. For illustration, there is a significant rise in digital payment systems and financial technology (fintech) solutions. Mobile banking, digital wallets, and online payment platforms have gained popularity, providing convenient and secure alternatives to traditional banking methods. This shift has improved financial inclusion, facilitated e-commerce growth, and transformed the way people conduct transactions in Nepal. Further, the Nepalese government is embracing digital technologies to improve governance and public service delivery. Initiatives such as e-governance portals, online citizen services, and digital identification systems aim to streamline administrative processes, enhance transparency, and make government services more accessible to the citizens. This digital transformation enables efficient service delivery, reduces bureaucratic hurdles, and promotes citizen engagement. Similarly, the utilization of data analytics and AI is growing in Nepal, offering opportunities for data-driven decision-making and automation. Organizations are leveraging these technologies to analyze vast amounts of data, derive valuable insights, and optimize various processes. For example, data analytics is being applied in sectors like healthcare and finance to improve service quality and operational efficiency. These examples demonstrate how the country is incorporating advanced technologies and digital innovations into various aspects of society.

### History of Industrial revolution in Nepal:

The initiative of industrialization in Nepal dates back to the middle of the 1930s, when the Rana administration developed an array of public enterprises (PEs), including those in the manufacturing, retail, trade, public infrastructure, and financial sectors, through state intervention. The struggling Biratnagar Jute Mill, one of the oldest industries, was founded in 1936, signifying Nepal's entry into modernization. In Balaju, Kathmandu, the first industrial estate was built in 1960 with support from the United States.

Following the restoration of multiparty democracy in 1990, there was new optimism for the impending arrival of the industrial revolution as Nepal worked to foster a business-friendly climate. Although there were early indications of improvement, neoliberal measures weren't successfully implemented after that. Many lucrative Public Enterprises that were sold to private businesses in the name of privatization but unfortunately most of them are out of operation. The Maoist insurgency's effects further hindered the development of the industrial sector by seriously damaging critical infrastructure like telecommunications, hydropower, bridges, and public buildings.

The new federal government is currently concentrating on attaining strong economic growth while taking advantage of a favorable political environment. Enabling regulations and incentives have been implemented to draw in international investment and boost different economic sectors. A useful organization in this effort is the Nepal Investment Board, which was established and is headed by the Prime Minister. The government has put out the idea of one Big Industrial Estate in each province to encourage economic growth in all of the provinces.

### Challenges for Nepal in embracing the 4IR:

With rapid advancements surging around the world, one of the key concerns is whether Nepal is ready for the significant shift that comes with Industrial 4.0. The new industrial landscape will require a skilled workforce trained in emerging technologies and digital competencies. Therefore, it becomes crucial to assess the country's capacity to provide the necessary human resources to meet the demands of this revolution.

Nepal now has a few issues that must be resolved before it can fully benefit from Industrial 4.0's



transformative potential. To ensure increased efficiency and effectiveness, technological education facilities need to be improved. The digital gap, which Nepal is still struggling with, prevents the seamless use of digital technologies in all areas of life, including education. It becomes crucial to bridge this gap in order to get the workforce ready for the digital era.

The government's capacity to create and invest in artificial intelligence systems presents another obstacle. Government organizations at all scales must devote resources to the creation and adoption of AI technologies if they are to fully realize the potential of Industrial 4.0. However, the Nepalese government has had trouble safeguarding its fundamental websites, underscoring the requirement for more robust cybersecurity safeguards and a more complete digital infrastructure.

In addition, the labor market in Nepal is already impacted by the Fourth Industrial Revolution. There is an increasing need for specialized skills due to the projected growth in the working-age population and the influx of new workers. It is anticipated that there will be a considerable demand for people with mechanical capabilities, electricians and electrical engineers, IT specialists, chemical technicians, and administrative and entrepreneurial abilities. For Nepal's educational system and labor market trends, adapting to these changing market demands is a considerable challenge.

### Potential measures to address the challenges:

The Nepalese government and other stakeholders must move quickly to address these issues. First of all, investments in research and technology need to be prioritized. A significant amount of the GDP budget devoted to this industry will promote technical advances and advancements, training the workforce for the digital era.

Another critical stage is the modernization of the educational system. This entails bringing in professional instructors with knowledge of cutting-edge technology from around the world and updating the curriculum to reflect how the global market is evolving. To ensure that graduates have the required technological skills and knowledge, design concepts and creation-based engineering should be prioritized. Educators should also have access to training and development programs

to stay updated on technological developments and give instruction that is appropriate for the needs of the digital age.

To alleviate worries about automation anxiety, specialized industrialization tactics should also be encouraged. Nepal can improve the competitiveness of its labor force in the international labor market by concentrating on transitioning unskilled migration to semi-skilled and skilled migration work. For people looking for work abroad, skill levels can act as benchmarks, guaranteeing a more effective use of human resources.

Additionally, encouraging e-governance and investing in digital infrastructure would foster an environment that will promote technical improvements. This entails enhancing internet accessibility, providing secure online venues, and encouraging widespread digital literacy.

In the backdrop of the Fourth Industrial Revolution, adopting artificial intelligence (AI) in education is of the utmost importance for Nepal. AI has the ability to completely change the way education is provided by enhancing everyone's access to, personalization of, and effectiveness of learning resources and services. Nepal can make sure that its workforce has the abilities and knowledge required to succeed in the digital age by integrating AI technology into the educational system.

By putting these strategies into place, Nepal can get past the obstacles that come with adopting the Fourth Industrial Revolution and establish itself as a force to be reckoned with in the digital economy. For the successful adoption and use of sophisticated technology, a multi-stakeholder approach encompassing the government, educational institutions, enterprises, and the workforce is necessary.

### References

- Rajbhandari, S., Khanal, G., Parajuli, S., & Karki, D. (2020). A Review on Potentiality of Industry 4.0 in Nepal: Does the Pandemic Play Catalyst Role? *Quest Journal of Management and Social Sciences*, 2(2), 366–379. <https://doi.org/10.3126/qjmss.v2i2.33307>
- Schwab, K. (2017). *The fourth industrial revolution*. Portfolio Penguin.





# Innovation in Nepal: Need, Challenges and Way Forward

Given the economic situation of Nepal, it is very crucial that the focus should be shifted towards creating an industrial economy based on production of goods and services. This is only possible if research, development and innovation are highly stimulated and encouraged. For a landlocked country like Nepal surrounded by two gigantic nations that are economically thriving, there are a numerous challenges ranging from the increase in cost of production of goods and services to the problems of market and export. It surely is a daunting task to create an industrial economy for a country that is heavily dependent on imports. Nevertheless, the situation can be solved with an integrated approach and combined efforts from the government, public and all the stakeholders.

## Key words

GDP, economy, research and development, entrepreneurship

## 1. Introduction

Innovation means new way of doing something that creates value. Innovation plays a crucial role in long term growth and development of a nation as it adapts with advancement of technology in business processes which results in productive economic activities. With the right regulatory structure and support from the government, innovation fosters entrepreneurship, start-ups, industries and the economy of the nation as a whole. In Nepal, a huge gap can be seen in application innovation. As per the report of FAO, Agriculture sector engages around 66% of the total population in Nepal and contributes one third of the nation's GDP. However,



**Ms. Mira Pokharel**

The author is the Member of The Institute of Chartered Accountants of India (ICAI), and holds Masters in Commerce. She has served as a CEO of National Innovation Center. She can be reached at mail to: mirapokhrel01@gmail.com

the agriculture sector in the country is still dominated by subsistence farming resulting in low productivity. There is wide scope of innovation in the sector of agriculture like modern farming, efficient irrigation systems, effective supply chain management of produced agricultural commodities, etc. Similarly, there are huge rooms for innovation in the industry and service sector as well. The culture of innovation should be promoted at a micro level such that even common people get engrossed with the idea and importance of it. For example, China's new

innovation advantage is its people who are highly adaptive with the innovation. With appropriate policies and willpower from the government and an integrated approach from all the stakeholders, innovation can prosper in Nepal.

## 2. History and General Overview

The history of innovation in Nepal dates back to 1000 BC where economy was completely based on agricultural farming and animal husbandry. Bamboo hay, thatch and timber were used as construction materials at that time. The era starting from The Kirants





dynasty 700BC to The Mallas dynasty 1768AD mainly focused on civil construction and architecture, stone technology, metallurgical competence and Ayurvedic dispensary. The Rana regime after that which lasted for 104 years till 1950AD introduced European technology in Nepal. Even though educational institutions like Durbar High School were established it was only limited to the close knits of Rana family. As per the report published by The World Bank Report in 1964, less than 1% of the population were in schools in 1951. The economy was still based on agriculture where each family owned a piece of land and the manufacturing consisted of cotton and woolen clothes, bells, brass, iron pots, silver and gold ornaments. A commerce treaty was signed in 1950 between India and Nepal enabling the free trade between the countries. By the end of Rana regime, much of the territory was used for cultivation which led to surplus agricultural production thereby increasing the export.

With the abolition of Rana Regime and introduction of democracy in 1951, Nepal began to step forward on the path of modernization. The first development plan was implemented by the government in 1956. The awareness for education increased after the political movement of people resulting in establishment of universities, expansion of government schools, research institutions, laboratories, public sector enterprises, etc. However, significant social and economic reforms could not happen after the imposition of Panchayat form of government from 1962 to 1990 as the king had the absolute decision-making power and fundamental rights and liberty of private enterprises were compromised. After a civil disobedience movement to restore multiparty democracy in 1990, a constitutional monarchy run by a democratically elected parliamentary government was formed. The economy of Nepal soared high as a result of economic liberalization and the highest growth rate ever was recorded in Nepali history. The public enterprises had begun to prosper and private enterprises were also emerging. Innovation and technology had begun to emerge. This came to halt after the Nepali Civil War led by Maoists which lasted for 10 years from 1996 to 2006. The economy was stagnant, public enterprises could not perform well and entrepreneurship was hampered. After the insurgency ended in 2006, Nepal entered into a federal democratic era. Even though there was not a significant breakthrough in the economy, reparations and slight improvements in the indicators could be witnessed.

The annual GDP growth rate which was 3.36% in 2006 increased to 8.9% in 2017. The economic indicators were slightly progressing till 2020 which again halted in the years 2020 and 2021 with -2.37% decline in growth rate due to COVID pandemic. The economy has been stagnant and struggling since then.

### 3. Current Scenario

After Russia-Ukraine war, inflation has increased worldwide and post-pandemic recovery of the world economy has become difficult. Nepal relies massively on imports due to which the worldwide effect of inflation has affected Nepali economy as well. For instance, the price of diesel which was Rs. 98.50 in 2019 reached to Rs. 155 per litre now which is an increase of 57% in 2019 prices. Even though there were some improvements in the economic indicators in the year 2022, economic growth slowed in the first half of current year 2023 resulting from the tighter monetary policy, higher international prices, and continuation of import restriction measures. Construction activities have significantly decreased as compared to the previous years. New business registrations have lowered in numbers and the credit growth to the private sector has been slower. These all signal private investment has overall declined. Nepal has a huge dependence on imports for its tax revenue which accounts for 50% of the total tax revenues through VAT, excise and custom duties. Nepal's fiscal balance was negative in the first half of the financial year 2023 at -0.3% of GDP for the first time in the last five years. As per Faris Hadad-Zervos, World Bank director for Maldives, Nepal and Sri-Lanka, "Amid measures taken to address pressures on the external sector, the Nepali economy has faced the unintended consequences of slowdown in economic growth and lower fiscal revenue. This makes the Government's Green Resilient and Inclusive Development (GRID) agenda even more pressing." The agenda of innovation has not been the priority of the government as of now since the economy itself is in the verge of sharp decline. However, there are some signs of improvement as well. Government of Nepal has started including 1% of the total budget towards research and innovation from the fiscal year 2023/24 onwards. As per the data published by World Intellectual Property Organization (WIPO), Nepal ranks 111<sup>th</sup> among the 132 economies featured in the Global Innovation Index 2022. Hopefully, this situation gets better in the days to come.



## 4. Need for Innovation in Nepal

There is no second opinion to the fact that Nepal is a trading based economy. The imports are quite high and exports are meagre. A huge volume of foreign currency is flowing outside Nepal to fulfill our daily needs. Until and unless the economy becomes self-reliant, Nepal is not going to improve drastically. Nepal is a country with bountiful resources ranging from hydroelectricity to tourism. With the massive intent, proper policy, solid geo-political relations and an integrated approach from the people and government, these resources can be utilized to improve the economy of the nation. Utilization of resources would provide employment opportunities for the people, substitute imports, foster exports and overall enhance the economy of Nepal. A case study of a rising textile economy in Bangladesh can be taken as an example. The textile and clothing industries contribute as a single source of growth in Bangladesh's rapidly developing economy contributing to 77% of the total merchandise exports of Bangladesh. The economy of Bangladesh which could be compared with that of Nepal a decade ago, now took a long leap leaving Nepal far behind. Nepal right now is in dire need of such economic overhaul. With increasing imbalance in balance of payments, millions of youth moving abroad in search of better job opportunities and decreasing foreign exchange reserves, it is an alarming situation for Nepal to take immediate steps to correct the landslide.

## 5. Challenges of Innovation in Nepal

Nepal being a landlocked country that has geographical constraints with frequent change of government and lack of appropriate innovation policy pose significant challenges of innovation and entrepreneurship. Each of the major challenges have been explained below in details.

### Lack of clear innovation policy

For innovation to prosper in a country, there has to be a clear-cut innovation policy. Nepal doesn't have a proper innovation policy that can address the concerns and needs of innovators due to which innovators have to go through a lot of administrative and bureaucratic hurdles. This creates a sense of insecurity and lack of confidence and motivation in the innovators. In order to attract and motivate the innovators, there should be fast-track application process, quick grievances addressal system, single window administrative

procedures, adequate funding mechanisms for research and development, etc. Even though National Science Technology and Innovation Policy 2019(2076) has attempted to address the issues faced by innovators in Nepal to some extent, it is not comprehensive and specific enough to solve the major issues and challenges of innovation in Nepal.

### Administrative/Legal hurdles

Innovators need an amiable and stress-free environment so that they can focus on their work from research and development to the product development. In contrast, innovators have to go through a number of administrative hurdles in Nepal which occupies most of their time and energy. An example of this is the reality of company registration process in Nepal. Long queue in government offices, impolite behavior of the officers, lack of centralized information center, lack of proper support and guidance mechanism have all placed a huge burden in the shoulder of innovators which affects the core area of their work. Examples of Yatri Motorcycles can be taken in this reference. Yatri Motorcycles is the company that manufactures motorcycles in Nepal. This company faced a huge issue when there was no provision in law to register motorcycles made in Nepal. As per the existing Act, it is mandatory for a vehicle to have an import notification letter and proof of customs revenue in order to be registered. The case of Yatri motorcycles created a anomalies in administrative part as well. Since a new vehicle needs to have a unique identification number on its chasis, it was an ardent job in part of administration to allot such numbers as they had no idea about this before. Later, the case was solved with pressure from the public. However, the legal and administrative hurdles faced by Yatri Motorcycles is just an example and there are many issues faced by other innovators as well.

### Landlocked nation

Nepal is not linked to the sea due to which it has become isolated from the world markets. Surrounded by two gigantic nations that are prospering in manufacturing and production, it is really tough for Nepal to compete with these markets. Nepal has to spend a lot in transportation cost in absence of linkage to sea route thereby increasing time and cost of production with an equal difficulty in exports.

## Lack of intent from the government

Nepal has been dependent on imports for a long period of time. The exports are very low as compared to imports. Many economists suggest that there is an urgent need for economic overhaul otherwise the steep downfall of economy is inevitable. With frequent change of government, political scandals, corruption, it is clearly visible that the innovation has not been the priority of the government. How a country's economy can be improved if there is right intent from the government can be seen through an example of India in 1990s. After India adopted the liberalization policy in the early 1990s, it led to the significant improvement in the growth of Indian economy. However, domestic industries were paralyzed as they could not compete with the price of products worldwide especially from that of China. So, the government of India imposed Anti-Dumping Duty(ADD)in 1993 with an initiative to protect the domestic industries. The national authorities were allowed to impose extra duty on prices of imported goods so that they become equal to average prices of the domestic industries. The imposition of ADD in the right time not only saved domestic industries from collapse but also they later flourished and contributed hugely to the GDP and overall Indian economy. An intent of this level is also required from Nepal government as well.

## Rise of unproductive activities in the economy

The economy of Nepal is gradually shifting towards unproductive activities. Nepal has been known as an agricultural based economy since a long period of time. Now, the scenario looks quite different though. More than half of all Nepali households have a family member who has migrated for work. The thread that connects agriculture to the industry is missing and the return from agriculture is also very low making agriculture an unpopular occupation. A huge number of young population are moving abroad in search of better job opportunities. It often hits news headlines that the agricultural land has been left barren especially in the hilly areas as there are no young population available to cultivate the land. With the growing uncertainties in the economy and increasing risk factor involved, people tend to shift their investments from own business, startups and entrepreneurship to secured investment like fixed deposits and interest bearing accounts of Bank and Financial Institutions.



## 6. Way forward

Every problem has its own solution. Even though the challenges of innovation in Nepal are quite high, these can be solved with a combined effort from everyone ranging from the government to the public. For this to happen there should be a backup of a strong innovation policy, appropriate and adequate funding from the government, awareness about the importance of research and innovation at the grass root level and so on. Key areas that should be prioritized to enhance innovation in Nepal are explained below:

### Appropriate innovation policy

Innovation policy should be the guide to the innovators and entrepreneurs. This should be able to solve the issues/problems that might arise including the administrative and legal difficulties. The prime objective of the innovation policy should be to facilitate the innovators in their journey from generation of ideas to their implementation. A good innovation policy should have provisions for fast track administrative/legal process and a supportive legal framework along with quick grievances addressment mechanism. An appropriate innovation policy is a must for innovations to thrive in a country.

### Priority in government budgets

Government should invest in research and development adequately and the research based institutions should be strengthened. A good example could be The National Incubation of Pakistan. This center is a funded project of Ignite Ministry of IT & Telecom and the center is laying the foundation for a sustainable technology



ecosystem, and provides resources and expertise to help entrepreneurs fulfill their potential, and grow their communities. A number of successful startups have emerged from this center. There are research based institutions in Nepal as well like National Academy of Science and Technology (NAST). However, such institutions in Nepal are lagging behind due to the inefficient bureaucracy and management, lack of vision and inadequate funding from the government. Hence, the government should prioritize the innovation in the country, strengthen the research based institutions and increase the funding in research and development.

### An integrated approach

The issues and concerns of innovation and entrepreneurship in Nepal cannot be solved by a single entity unilaterally rather it requires support and solidarity from all the stakeholders. For example, if the government brings a policy to discourage imported cars that run on fossil fuel, the public should also support the decision of the government and go for electric vehicles. Another example would be if the government bans on import of luxurious items for some time, the public should also understand the approach of the government and curtail their spending on luxurious goods. On the other hand, the government should also be more accountable to the public in respect of public spending and create an environment that encourages the research, innovation and entrepreneurship in the country. There should be a sense of trust and understanding between the government and the public.

When there is such a cordial environment, innovation and entrepreneurship fosters in a country.

### Promoting the culture of innovation

The culture of research and innovation should start from the grass root level itself so as to see the long term effects in the economy. In order to promote the culture of research and innovation in any country, there should be enough spaces and opportunities for innovative ideas, provision of adequate funding and facilities, reward and recognition to the emerging innovation, revamp of education system by making it more practical and skills oriented, increase in awareness among the general public about the importance of innovation etc.

### References:

- <https://www.worldbank.org/en/country/nepal/overview>
- UNESCO Kathmandu series of Monographs and Working papers: No 10
- <https://nicpakistan.pk/>
- Motor Vehicles and Transport Management Act, 1993
- National Science Technology and Innovation Policy 2019
- <https://www.statista.com/statistics/425750/nepal-gdp-distribution-across-economic-sectors/>
- Image credit and courtesy: <https://economictimes.indiatimes.com/?from=mdr>

## Know Your Member-KYM सम्बन्धमा

नेपाल सरकारको सम्पत्ति शुद्धिकरण ऐन अनुसार यस संस्थालाई पनि सूचक संस्थाको रूपमा तोकेको छ, जसअनुसार यस संस्थाका आफ्ना सदस्यहरूको केही विवरण अद्यावधिक गर्ने कार्य यस संस्था र आन्तरिक राजस्व विभागसंग भएको तथ्यांक आदानप्रदान (Data Sharing) को सहमतिको आधारमा भइरहेकोले Know Your Member-KYM Online को माध्यमबाट आफ्नो व्यक्तिगत, पारिवारिक र व्यवसायिक विवरण अद्यावधिक गर्न सबै सदस्यलाई अनुरोध छ। Know Your Member- अद्यावधिक नभएका सदस्यहरूको सदस्यता नविकरण नहुने जानकारी गराउँदछौं।

थप जानकारीको लागि संस्थाको website: <https://en.ican.org.np/member>



# Implementation of NFRS 17 in Insurance Industry: A Paradigm Shift in Financial Reporting

*The implementation of Nepal Financial Reporting Standard (NFRS) 17, developed in accordance with International Financial Reporting Standard (IFRS) 17, is set to bring a significant paradigm shift in the financial reporting practices of the insurance industry in Nepal. NFRS 17, which replaces the interim standard NFRS 4, aims to enhance comparability and improve the quality of information in financial statements related to insurance contracts. This article discusses the need for a change from NFRS 4 to NFRS 17, highlighting the challenges and changes introduced by the new standard. It explores how NFRS 17 addresses the limitations of NFRS 4 by introducing a current value approach, contractual service margin (CSM), and guidelines for contract aggregation. The article also examines the international implementation scenario of IFRS 17. Furthermore, it discusses the changes in financial statement presentation and balance sheet under NFRS 17 and provides insights into the new measurement model and disclosure requirements. The challenges in implementing NFRS 17, such as data and system requirements, accounting and actuarial expertise, operational changes, and the financial impact on insurers, are discussed. The article concludes by emphasizing the importance of a transition to NFRS 17 and the opportunities it presents for improving financial reporting in the insurance industry.*



**CA. Smriti Ghimire**

The author is the member of ICAN and currently serving as Manager-Head of Reinsurance Division at Nepal Reinsurance Company Ltd.. She can be reached at mail to : [smritighimire@gmail.com](mailto:smritighimire@gmail.com)

companies all over the world has to apply IFRS 17 when this new standard becomes effective. This standard was issued in 2017 by International Accounting Standards Board (IASB) which replaces IFRS 4 on accounting for insurance contracts, and it is set to become effective on or after 1 January 2023. IFRS 17 has been developed for over 20 years, and it will be a significant change to the way insurance companies produce their financial statements.

In Nepal, NFRS 17 which is developed in relevant with IFRS 17 is expected to be implemented

from 16th July, 2023. It applies to any organization that issues insurance and/or reinsurance contracts – not just to licensed insurance and/or reinsurance companies. It is expected that NFRS 17 will significantly affect financial reporting in the insurance sector, especially since NFRS 4 allowed different accounting treatments. The new treatments to be applied by NFRS 17 will require preparations in different aspects such as rules and regulations, software, risk management, accounting, tax laws and expertise. It also will create challenges

## Introduction

Under the Nepal Chartered Accountant Act 1997, Nepal Accounting Standards (NASs) and Nepal Financial Reporting Standard (NFRS) are developed by the Accounting Standards Board (ASB), on the basis of relevant International Financial Reporting Standards (IFRSs). Insurance





that need to be faced, such as first-time application, conceptual challenges, and challenges associated with measurement approaches. The companies which are bounded by the upcoming standard are supposed to create certain requirements related to systems, employees, processes, and data, in order to be able to properly apply the standard.

### Need for a change

NFRSs are established in order to have a common accounting language, so business and accounts can be understood and compared from company to company and from country to country. Current accounting standard, NFRS 4 explains how to disclose insurance contracts, but as there are many issues with NFRS 4 to make a good comparison among insurance companies and to compare an insurance company to a non-insurance company, therefore NFRS 17 is needed. This provides basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The current standard, NFRS 4 "Insurance Contracts" introduced in 2004, is an interim standard which allows the insurers to maintain their existing local insurance accounting practices which varies accordingly from country to country. With use of current NFRS, insurance companies can measure similar insurance contracts with different accounting policies. Currently, there is a distinct difference between accounting models adopted in insurance sector and non-insurance sectors, due to country-specific understandings and requirements. This resulted in limited comparison possibilities between non insurance sectors and insurance sectors. The differences in accounting treatment made it difficult for investors and analysts to understand and compare insurers' results. There are various basis of

which NFRS 17 replaces and addresses the issues that arise from NFRS 4.

(Source: [https://www.munichre.com/content/dam/munichre/contentlounge/websitepieces/documents/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf/\\_jcr\\_content/renditions/original/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf](https://www.munichre.com/content/dam/munichre/contentlounge/websitepieces/documents/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf/_jcr_content/renditions/original/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf))

### How does NFRS 17 solve the issues of NFRS 4?

NFRS 17 requires companies to measure insurance contract on updated estimates and assumptions which reflects timing of cash flows (the discount rate) and the uncertainty of insurance contracts (the risk adjustment). A fundamental concept introduced by NFRS 17 is the contractual service margin (CSM). This represents the unearned profit that an entity expects to earn as it provides services. NFRS 17 allows the insurers to indicate the expected (yet not earned) profit with the CSM and only recognize the profit when it delivers the insurance service which is in line with other industries. To take an example, a factory recognizes the profit only after it delivers the goods. In general, it will make easier to evaluate the performance of insurers among industries and each other. However, insurance companies underwrite large numbers of similar contracts to pool risk. For this reason, NFRS 17 is introduced which provides guidelines for contract aggregation for purposes of the calculation and adjustment of the CSM.

### The main objectives of NFRS 17 are:

- Improve comparability
- Improve quality of information
- Requires insurance contracts to be measured using a current value approach that considers the time value of money and reflects the timing and pattern of expected cash flows which provided better reflection to economic reality

Measure	NFRS 4	NFRS 17
Comparability	Lack of comparability of insurance companies across countries	Insurance companies across countries become better comparable
	Lack of comparability of insurance vs non-insurance	Similar accounting methods for insurance and non insurance companies
Accounting policy	Different accounting policies per insurance contract	One accounting policy for all insurance contracts
Estimates	Estimates are not required to be updated	Estimates are updated each reporting period
Key drivers	Difficult to see key drivers of profit	Key drivers of profit (investment vs underwriting) are made transparent
Discount rate	Discount rate based on investment	Discount rate based on the cash flows of the contract

### Current Financial Reporting practice in Nepal

As per the current practice of financial reporting in Nepalese insurance industry, all the policies issued during the current period is recognized as premium earned during that period. There is practice of keeping unexpired risk reserve as per the regulatory provision requirement. Further, after implementation of NFRS in insurance industry, the calculation of unexpired risk reserve became more realistic where actuarial valuation was taken as reference.

When an insurance policy is sold, the insurer collects the full premium upfront from the policyholder. However, the insurer has not yet provided the full coverage for the entire policy period. Therefore, a portion of the collected premium is considered unearned and is recorded as a liability in the unexpired risk reserve.

Company is currently practicing keeping reserve as Unexpired Risk reserve and Outstanding claim reserve together named as “Gross Insurance Contract Liabilities” and represented in NFRS financial statements. The portion which is ceded in name of claim recovery to be obtained from reinsurers are presented as “Reinsurance Assets”. These liabilities are kept on the basis of actuarial valuation made after conduction of Liability adequacy test (LAT) of the company. The actuaries, on the basis of provided data and information from the insurance companies calculate the adequate liabilities that is to be kept in their financial statement. Further in case of Investment “fair value” concept is followed where the market value as on date of the preparation of financial statement is considered and the fair value is managed through Other comprehensive income.

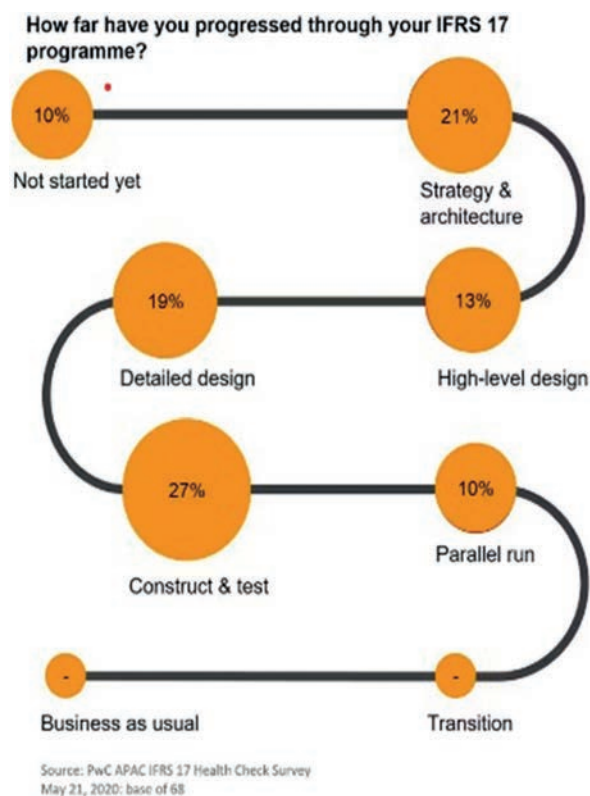
### IFRS 17 implementation scenario internationally

To determine the readiness of Jordanian insurance companies to apply IFRS 17, and to explain if there are any challenges facing Jordanian insurance companies in applying IFRS 17, Owais, W. O., & Dahiyat, A. A. (2021) found that Jordanian insurance companies are not ready to apply IFRS 17, and there are challenges in applying the standard. The study showed a moderate level of readiness for technical infrastructure, changes to the nature of work, funding including material resources, and human resource familiarization and rehabilitation to apply IFRS 17.

Al-Mashhadani, B. N. A. (2020) found that there are fundamental differences in the concepts and recognition

criteria as well as the measurement approaches of liabilities and assets as well as income from insurance contracts, which poses challenges for Iraqi insurance companies need to face in order to reach the proper application of the requirements of IFRS 17. The research recommended that the concerned departments in the Iraqi insurance companies should design an integrated information system that enables the units of accounting to apply the proper basis for the recognition of insurance contracts and then measured according to the requirements of IFRS 17 to serve the insurance companies and their stakeholders and the community.

Based on a PwC survey conducted across the Asia-Pacific region earlier in 2020, they saw that insurers were largely completing their design phases of their programmes and beginning to move into the implementation phases. The diagram below illustrates the progress made by Asian insurers. However, the progress made by insurers across Asia varies significantly, partly due to differing implementation dates in some countries. For example, the deadline has been extended sometime between 2023 to 2024 for Thailand, Taiwan and Philippines. Some 44% of insurers had not yet started on their detailed design activities, indicating a strong need to accelerate their programmes.







## Changes due to implementation of NFRS 17

### Presentation

The presentation is changed after implementation of NFRS 17 even though it is the minor part of change. For insurers, applying NFRS 17 shows major changes to their financial statements and key performance indicators, such as replacing the familiar major income position “Gross Written Premiums” with “Insurance Revenue”. “Insurance Claims Payments” now will be represented as “Insurance Service Expenses”. Claims payments is indeed the most important service an insurance company provides to its customers.

### NFRS 4 and NFRS 17 presentation

#### From written premium to service provided

#### Income statement under NFRS 4

#### Income statement under NFRS 17

S.N.	Particulars	Amount(in ‘000)	S.N.	Particulars	Amount(in ‘000)
1.	Net earned premium	6,487,952	1.	Gross insurance contract revenue	4,689,747
	-Gross earned premiums	7,532,219	2.	Gross insurance service expenses	(2,874,472)
	-Premium ceded	(1,044,267)		-Incurred claim and insurance expenses	(2,874,472)
2.	Other income including Interest income	1,446,191		-Insurance acquisition costs	
<b>3.</b>	<b>Total income (1+2)</b>	<b>7,934,143</b>	3.	Gain or (loss) from Reinsurance	(579,749)
4.	Gross claims paid	(2,874,472)	4.	<b>Insurance service result(1+2+3)</b>	<b>1,235,526</b>
5.	Claims ceded	464,518	5.	Insurance finance income	199,162
6.	Gross operating expenses	(2,842,472)	6.	Insurance finance expense	(999,666)
7.	Change in insurance contract liabilities	(999,666)	7.	<b>Insurance finance result</b>	<b>(800,504)</b>
<b>8.</b>	<b>Total expenses</b>	<b>(6,252,092)</b>	8.	Net investment income	1,247,029
<b>9.</b>	<b>Net profit before tax</b>	<b>1,682,051</b>	<b>9.</b>	<b>Net profit before tax(4+7+8)</b>	<b>1,682,051</b>

(Reference: Nepal Reinsurance company Ltd. published financial statement FY 2075-76)

### Balance sheet changes

#### NFRS 4 Balance sheet

#### NFRS 17 Balance sheet

RI contract assets	Equity	RI contract assets	Equity
Deferred acquisition costs	Other liabilities	Insurance contract assets	Other liabilities
Accounts receivable	Accounts payable		RI contract liabilities
Other assets	Unearned premium provision	Other assets	Insurance contract liabilities
	Insurance contract liabilities		

### New measurement

Under NFRS 17, insurance contracts are measured using a building block approach, which involves the calculation of the present value of future cash flows associated with the insurance contracts. This replaces the previous practice of using a variety of different measurement models.



## Level of Aggregation

Under NFRS 17, the level of aggregation refers to the level at which an insurance company groups its insurance contracts for the purpose of applying the requirements of the standard. NFRS 17 provides guidance on the level of aggregation for measuring and presenting insurance contracts, particularly in relation to the grouping of contracts with similar risk characteristics. The appropriate level of aggregation depends on factors such as the nature of the insurance contracts, the risk characteristics of the contracts, and the availability of reliable and relevant data. There are two main approaches to level of aggregation; Premium Allocation Approach (PAA) and General Model Approach which is specified in NFRS 17.

## Key Elements of NFRS 17:

### 1. Measurement Model:

NFRS 17 introduces a single measurement model known as the "current value approach" also named as building block approach. Under this model, insurers are required to recognize insurance contracts on their balance sheets at the present value of future cash flows, considering both the fulfillment cash flows and the contractual service margin (CSM). This approach aims to reflect the timing, uncertainty, and profitability of insurance contracts over their duration.

### 2. Contract Groups:

NFRS 17 mandates the grouping of insurance contracts with similar characteristics. This allows insurers to measure and present contracts with greater consistency and relevance. Contract groups are determined based on factors such as coverage, profitability, and risk profile.

### 3. Disclosure Requirements:

NFRS 17 emphasizes enhanced disclosures to provide users of financial statements with more comprehensive and relevant information. Insurers must disclose the judgments and assumptions applied in measuring insurance contracts, as well as the sensitivity of financial statements to changes in key variables.

## Challenges in NFRS 17 Implementation:

Implementing NFRS 17 presents several challenges for insurance companies. Some of the major challenges include:

## Data and Systems:

NFRS 17 necessitates the availability of extensive data on insurance contracts, cash flows, and risk adjustments which seems to be the biggest challenge in the current scenario. Insurers need to assess their data capabilities and invest in robust systems and infrastructure to capture, analyze, and report the required information accurately. Revamping existing systems and processes to comply with NFRS 17 is a significant task. Insurers need to integrate actuarial, finance, and IT systems to ensure seamless data flow and calculations. This may involve substantial investments in technology and organizational changes.

## Accounting and Actuarial Expertise:

The successful implementation of NFRS 17 requires a deep understanding of actuarial and accounting principles. Insurers must ensure they have qualified professionals who can navigate the complexities of the standard and make informed judgments in areas such as discount rates, risk adjustments, and determining fulfillment cash flows.

## Operational Changes:

NFRS 17 implementation requires changes to internal processes, systems, and controls. Insurers must establish efficient and effective systems to generate accurate and timely data, as well as ensure compliance with the new standard.

## Financial Impact:

The adoption of NFRS 17 may have a significant impact on insurers' financial statements. It may affect key performance indicators, such as profit recognition patterns and the measurement of liabilities, potentially leading to changes in reported profitability and financial position.

## Transition:

One of the biggest challenges is the transition to IFRS 17. This process determines the equity and the CSM at the start and therefore its impact on future results. The choice of transition approach can give you a different result. For example. If you use the fair value transition approach, then a portfolio, which is onerous under the retrospective approach, may reflect a positive CSM/profitability because the buyer of the portfolio expects to have a positive spread from the portfolio. Given the impact on future results, managing the



transition well should have very high priority for all companies. The transition has to be handled carefully as it determines IFRS equity and CSM at the start date, for mature life companies with a big impact on future results and an even bigger impact on future return on equity.

## Conclusion

As NFRS 17 represents a new era of accounting for insurers. The implementation of NFRS 17 in the insurance industry represents a significant shift in financial reporting practices. As the global accounting standard for insurance contracts, NFRS 17 aims to increase the usefulness, comparability, transparency and quality in financial reporting. NFRS 17 implementation resolves broad categories of mismatches which arise under NFRS 4. As there is challenge seen in the implementation of NFRS 17 affecting the company on updating their information system, data, human resources and financial impact. If there is implementation without proper homework and preparation in the companies, their financial reporting can be misrepresented.

Despite the challenges, NFRS 17 implementation brings numerous benefits to the insurance industry. The implementation brings along the training of proper manpower, upgrade in the system and data requirement in the insurance industry. NFRS 17 enhances comparability between insurance companies by standardizing the measurement and presentation of insurance contracts. This allows investors and other stakeholders to evaluate and compare insurance companies' financial performance more accurately. The increased disclosure requirements of NFRS 17 provide stakeholders with greater transparency. By requiring insurers to assess and reflect the risks associated with insurance contracts, NFRS 17 facilitates better risk management and assessment. This ensures that insurers have a clearer understanding of their risks and can take appropriate actions to mitigate risks.

While the adoption of the new standard may pose challenges, it ultimately offers substantial benefits for insurers and stakeholders. By embracing the requirements of NFRS 17, insurers can establish a more robust and informative financial reporting framework, leading to greater confidence and

understanding in the insurance industry. While NFRS 17 implementation requires a lot of prescriptive decision making because the new framework significantly impacts the way the insurance companies will present their financial performance vis a vis its impact on the capital market and the way market experts would read, interpret, and compare the financial outcome of insurance entities.

## References

- OWAIS, W. O., & DAHIYAT, A. A. (2021). Readiness and challenges for applying IFRS 17 (Insurance Contracts): The case of Jordanian insurance companies. *The Journal of Asian Finance, Economics and Business*, 8(3), 277-286.
- Al-Mashhadani, B. N. A. (2020). Challenges of applying IFRS 17 "Insurance Contracts" In the Iraqi environment. *Tikrit Journal of Administration and Economics Sciences*, 16(49 part 1).
- IFRS 17- Effects Analysis, May 2017. <https://www.ifrs.org/content/dam/ifrs/project /insurance-contracts/ifrs-standard/ifrs-17-effects-analysis.pdf>.
- IFRS (2017), "IFRS 17 Insurance Contracts", May 2017 <https://www.idc.ac.il/he/specialprograms /accounting/fvf/Documents/IFRS17/WEBSITE155.pdf>
- Matti Rajala (2020). Expected effects of IFRS 17 on the transparency and comparability of insurance companies' financial statements (master's Thesis, Jyväskylä University, School of Business and Economics). Retrieved from <https://jyx.jyu.fi/bitstream/handle/123456789/71778/1/URN%3ANBN%3Af%3Ajyu-202009165873.pdf>
- Introduction to IFRS 17 (May 2021) [https://www.munichre.com /content/dam/munichre/contentlounge/website-pieces/documents/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf/\\_jcr\\_content/renditions/original./Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf](https://www.munichre.com /content/dam/munichre/contentlounge/website-pieces/documents/Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf/_jcr_content/renditions/original./Introduction-to-IFRS-17-May2021-LIMA-MoG.pdf)
- Neri, M. (2018, May 22) Level of Aggregation in IFRS 17. Moody's Analytics. <https://www.moodyanalytics.com/articles/2018/level-of-aggregation-in-ifrs17>
- IFRS 17: New year, new challenges. <https://www.pwc.com/sg/en/industries/insurance/ifrs-17-new-year-new-challenges.html>



# Anti-Money Laundering /Combating the Financing of Terrorism - Nepalese Scenario

*Apart from NRB, there are various other governmental agencies that are involved in AML/CFT related activities like law enforcement agencies, Securities Exchange Board of Nepal, Insurance Board, Ministry of Finance, Ministry of Home Affairs, Commission for the Investigation of Abuse of Authority, etc. which must act in unison to combat money laundering and promote healthy economic and financial ecosystem. The investment technological resources must be increased as well as the capacity of the human resources so as to make them capable to combat the creative ways devised by the money launderers. In the era of big data analysis, the vast pool of data available at different location and places must be pooled together and analyzed to derive specific behavior, pattern, and trends that the money launders are following which might not be possible for human and inferior technology to detect. At last, AML/CFT is a continuous task and agencies must be vigilant, and in no way there must be a sense of complacency among any stakeholders.*

## Introduction

Money laundering refers to the financial activities that attempt to conceal the true identity, source, and destination of the money obtained from illegitimate or illicit sources (Cornell Law School, 2023). The activity of money laundering would not come into the picture without illicit sources of money. Once the money comes from illicit sources, it cannot be used as a medium to trade/exchange goods or services, it has to be washed out to remove the taints of the sources. The act of removing those taints is called money laundering. It is like



**CA. Umesh Rijal**

The author is the member of ICAN.  
He can be reached at mail to: rijal255@gmail.com

removing stains from a nice piece of cloth using the washing machine. A fun fact is that notorious drug lord Pablo Escobar had asked his men to buy washing machines for laundering the money, because, he thought washing money is similar to washing the cloth (Padilha, 2015). Illicit money and terrorism are so firmly connected that whenever the term Anti-Money Laundering (AML) comes into the picture Combating the Financing of Terrorism (CFT) tags along with it. Terrorism is the act of terrorizing a mass of people or the general public, and most of the time such activities are funded with illegal or illicit money. Incidents like the bombing of 1993 in Mumbai, the

9/11 attack in the USA, the 26/11 attack in India, etc. are all funded by illegal money.

Money laundering is the processing of criminal proceeds to disguise their illegal origin (UNODC, 2023). Similarly, Article 3.1 of the United Nations Vienna Convention, 1988 describes money laundering as, “*the conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offense(s) to evade the legal consequences of his actions.*” Money Laundering Prevention Act, 2063 has defined the act of





money/asset laundering as "assets shall be supposed to have laundered in case anyone, directly or indirectly, earns from tax evasion or terrorist activities or invests in such activities or acquires, holds, possesses or utilizes assets by committing any illicit activities and in case assets acquired, held or accumulated from investment of such assets is possessed, held or used, utilized or consumed or committed any other act so as to present such assets as legally acquired or earned assets or conceals sources of origin of such assets or assists any one to transform, conceal or transfer such assets with an objective of avoiding legal actions to the person having such assets." The essence is that source of the money must be illegal, and the activities after obtaining the money are designed to conceal the true source of the money with an intention to bring such illicit money into the legal economy or financial system at the end of the process. The total estimated amount of the money laundered globally in a year is around \$800 billion to \$2 trillion i.e., almost 2% to 5% of the global GDP (UNODC, 2023). However, due to the shadow nature of criminal activities, experts estimate that the size of the money laundered could go up higher.

### AML/CFT and its Origin

AML/CFT is the measure devised and implemented around the world with an aim to prevent money laundering activities and discourage criminals and terrorists from abusing the financial system for their ulterior motives. It is believed that with stringent and effective implementation of the AML/CFT-related provisions, adverse effects of criminal and terrorist activities are mitigated and it will promote integrity and stability in the financial system (AML/CFT Malaysia, 2023). The following chart shows the linear timeline of the provisions of AML/CFT and its development around the world (Global AML CFT, 2023):

1970	<ul style="list-style-type: none"> <li>Introduction of The Bank Secrecy Act in USA to require financial institutions to keep record of certain financial transactions.</li> <li>Report any suspicious transactions to the government.</li> </ul>
1988	<ul style="list-style-type: none"> <li>Financial Action Task Force (FATF) was established by G7 countries to develop and promote polices to combat money laundering.</li> </ul>
1992	<ul style="list-style-type: none"> <li>The EU passed its first directive on money laundering requiring financial institutions to report suspicious transactions.</li> </ul>
2001	<ul style="list-style-type: none"> <li>The USA Patriot Act was passed expanding the Bank Secrecy Act.</li> </ul>

2003	<ul style="list-style-type: none"> <li>FATF issued 40 recommendations.</li> </ul>
2006	<ul style="list-style-type: none"> <li>The EU adopted third directive related to money laundering.</li> </ul>
2012	<ul style="list-style-type: none"> <li>FATF updated its 40 recommendations</li> </ul>
2016	<ul style="list-style-type: none"> <li>The EU adopted fourth directive related to money laundering.</li> </ul>

Table 1: Linear Timeline of the Development of AML/CFT Related Provisions

The Financial Action Task Force (FATF) was established in 1989 in Paris as a watchdog for global money laundering and terrorist financing activities. It's an apex body to research on the ways of money laundering and financing terrorism. Based on the research, it comes up with ideas and sets standards to mitigate the risks as well as to ensure that the countries are taking effective action to combat against money laundering and terrorist financing activities (FATF, 2023). The rise of the drug mafia played a significant role for the introduction of provisions related to AML/CFT in the world. The 1960s are relatively known for the hippie culture, drug trafficking, and abuse of drugs. The United States of America had to start the "War Against Drugs" officially in 1971 during the Nixon regime (The Editors of Encyclopedia Britannica, 2023).

### Regulations on AML/CFT Around the World

Globally, money laundering has become an infliction for governments, and they are fighting day to day for the same. Regulating bodies around the world are spending huge sums of taxpayer's money and other resources to fight against the money laundering and financing of terrorism, yet the ratio of the size of the shadow economy is in increasing trend. Being the shadow nature of the transactions, the exact volume of the money laundering activities cannot be determined, and the figures reported by various agencies around the world are the estimates calculated using the best possible assumptions. The United States of America is the first country to impose regulations against money laundering and terrorist financing. FATF is the apex body to issue regulations to prevent money laundering and terrorist financing. FATF was established by the consortium of G7 countries, and at present there are 39 member countries excluding 9 regional-level organizations which are associate members of FATF (FATF, 2023). The following table summarizes the regulating provisions and authorities for AML/CFT around the world (RIPJAR, 2023):



Jurisdiction	Regulation/Body	Remarks
Global	FATF	Develops AML/CFT recommendations, and members must adopt them via domestic legislation
Europe	European Money Laundering Regulations	5AMLD, 6AMLD
UK	Money Laundering, Terrorist Financing and Transfer of Funds Act, 2017, Proceeds of Crime Act, 2002, and Terrorism Act, 2000	UK is still committed to implement 6AMLD
Switzerland	Federal Act on Combating Money Laundering and Terrorist Financing in the Financial Sector, 1997	The Swiss Financial Market Supervisory Authority is the regulating body
The Middle East	Different countries have different regulations	FATF has recognized certain areas of the Middle East for increased monitoring jurisdiction
USA	Bank Secrecy Act, 1970 Patriot Act, 2001, AML Act, 2020	Financial Crimes Enforcement Network is one of the bodies ensuring strict compliance of AML/CFT regime
India	Prevention of Money Laundering Act, 2002	

Almost all of the countries in the world have committed to implementing the recommendations issued by the FATF by formulating their domestic legislation. Moreover, it's also in the interest of the respective countries to implement the recommendations to avoid sanctions from various bodies, trade embargoes, and attract foreign investments.

### AML/CFT Regulation and Regulating Bodies in Nepal

Nepal is not a member of the FATF; however, Nepal has become a member of the Asia Pacific Group (APG) in 2002. APG is a regional body (secretariat of FATF) funded and established in 1995 by the government of Australia. Since then, APG has grown significantly in terms of the jurisdiction and number of members and is performing tasks like mutual evaluation, technical assistance and training, research, global engagement, and private sector engagement. Nepal's first mutual evaluation was conducted in 2005 and it showed that Nepal was fully non-compliant with all the recommendations of FATF.

In response to the first mutual evaluation report, the Government of Nepal has enacted Money Laundering Prevention Act, 2008 and it is the premier law formed with the intention to prevent money laundering and financing of terrorism. Financial Intelligence Unit (FIU) has been established as a national agency responsible for collecting, analyzing, and disseminating financial information and intelligence on suspected money laundering and financing of terrorism activities in Nepal. FIU is also the secretariat of the National Coordination Committee, the standing committee under the secretary of the Office of the Prime Minister

and Council of Ministers. The FIU issued AML/CFT Directives in 2009 and 2010, and introduced Threshold Transaction Reporting and Suspicious Transaction Reporting mechanism to enhance the practice of AML/CFT in Nepal. Department of Money Laundering Investigation was also formed in 2011 to investigate and inquire into the reported money laundering activities (Thapa, 2015). Similarly, parliament has enacted the Mutual Legal Assistance Act, 2014, the Extradition Act, 2014, the Organizational Crimes Prevention Act, 2014, and the Proceeds of Crime Act, 2014. These fresh Acts were enacted in response to the report of the second mutual evaluation carried out in 2010. The third round of mutual evaluation is scheduled for 2022/23 (FIU, 2022). Nepal was on the grey list of FATF up until 2014. However, it was removed from list after a series of progress made on anti-money laundering regime that includes enactment of act and regulations, procedures, and establishment of a dedicated investigation unit.

### Status of AML/CFT in Nepal

Nepal went under mutual evaluation carried out by APG in 2005, and it's been reported that Nepal is non-compliant with the majority of the recommendations issued by the FATF. In response, various regulations were enacted and enforcement agencies were formed. The mutual evaluation was conducted again in 2010 for the second time. Slight progress was observed during the second evaluation, and APG provided remarkable support for establishing regulations and agencies in Nepal for the prevention of money laundering. The following table summarizes the results of the mutual evaluation:



First Mutual Evaluation 2005	Second Mutual Evaluation 2010	Remarks
Non-compliant (NC) on 34 recommendations Partially compliant (PC) on 8 recommendations	NC or PC on 43 recommendations	Though the number doesn't show much progress, Nepal has made progress in enacting regulations and forming the agencies, and it helped Nepal to come out of enhanced monitoring in 2014.
Largely compliant (LC) on 4 recommendations	LC on 3 recommendations and Compliant on 1 recommendation	
Not applicable (NA) 3 recommendations	NA 2 recommendations	
Out of 16 key recommendations, Nepal was NC or PC on 15 recommendations and LC on 1 recommendation	Out of 16 key recommendations, Nepal was NC or PC on 15 recommendations and LC on 1 recommendation	

## Role of Nepal Rastra Bank in AML/CFT

Without the direct or indirect involvement of banks and financial institutions money laundering activities are not completed. From the placement to layering and finally, to integration stage, BFIs are involved in one way or another. It doesn't mean that BFIs are involved voluntarily, though there are some instances worldwide where BFIs are found to be involved voluntarily in money laundering activities, however, they are generally involved unknowingly or they fail to detect that they're being used for money laundering. Hence, as the regulator of BFIs in Nepal, Nepal Rastra Bank (NRB) plays a significant role to prevent money laundering activities in Nepal. FIU, which acts as an independent agency, is within the NRB and it reflects the importance of NRB for the prevention of money laundering and financing of terrorism. NRB, as the regulator of the BFIs in Nepal, ensures that BFIs licensed by it are fully complying with the provisions laid down in the AML/CFT-related laws and regulations. Given the proactiveness of government agencies in Nepal, NRB may play a vital role in the strict enforcement of AML/CFT-related regulations, coordinating between various other agencies in the prevention and detection of money laundering-related activities, and acting as a vigilant of the banking and financial transactions.

Regulations are there and agencies have been formed to enforce the regulations; however, the result will not come until the regulations are strictly complied with and enforced by the enforcing agencies. In the last 10 years, NRB has taken only a handful of actions against the BFIs, which are presented herein:

Financial Year	Action Taken Against	Offence Time	Action Taken	Amount of Fine
2079/80	Prabhu Bank Limited	First	Imposed fine	5,000,000
	Kumari Bank Limited	First	Imposed fine	5,000,000
	Bank of Kathmandu Limited	First	Imposed fine	5,000,000
	Prime Commercial Bank Limited	First	Imposed fine	5,000,000
	Agriculture Development Bank Limited	First	Imposed fine	2,000,000
2077/78	Civil Bank Limited	First	Imposed fine	1,000,000
	Laxmi Bank Limited	First	Imposed fine	2,000,000
2076/77	Himalayan Bank Limited	First	Imposed fine	3,000,000
2075/76	Citizens Bank International Limited	First	Imposed fine	2,000,000

Table 2: NRB Enforcement Action for AML/CFT Related Issues (Source. [www.nrb.org](http://www.nrb.org))

It's surprising to see that, NRB has not taken any action before the year 2075/76 for the matters related to the AML/CFT regime. It shows that either BFIs were fully complying with all the provisions of AML/CFT in Nepal and recently started to violate the same, or NRB was not focusing much on AML/CFT-related issues. Further, it seems that NRB had imposed a large number of fines on the BFIs in FY 2079/80 as compared to the previous 10 years combinedly. Anyone can easily guess the reason for the same i.e., Nepal is due for the third round of evaluation in 2022/23 and NRB is under pressure to show improvement as compared to the last mutual evaluation conducted in 2010. If the report of the mutual evaluation is found to be adverse and shows no or trivial progress in the last decade, it will reduce the trust of international communities in Nepal and might stop providing various funds, might be reluctant to provide technical assistance, reduce the flow of FDI and deteriorate foreign relations. These are the prima facie impacts only, adverse remarks in the mutual evaluation report might have huge adverse effect damaging the reputation of the country, reducing the trusts, possible flight of capital from Nepal, and so on.



We can only imagine the level of pressure that NRB and other stakeholders might be facing in light of the third round of mutual evaluation of Nepal. These agencies have huge responsibilities on their shoulder to save the image of the nation in front of the whole world and enhance the trust of the foreign investors.

### **Collaboration Between Various Agencies in Fighting Against AML/CFT**

NRB can't alone eradicate the burning issue of AML/CFT; thus, a high-level National Coordination Committee (NCC) has been formulated to advise the Government of Nepal with regard to the prevention of money laundering. The FIU acts as the secretariat of the NCC and holds regular meetings. Further, FIU has entered into a Memorandum of Understanding (MoU) with various law enforcement agencies and other agencies for sharing information and collectively fight for against the money laundering. Apart from domestic cooperation, there are various ways for Nepalese authorities for international cooperation among international agencies and governments. The FIU has entered into a MoU with 16 international counterparts for mutual cooperation in the fight against the money laundering.

### **Challenges in the Fight Against AML/CFT**

Money laundering would not have been a problem at all if it was simple and straightforward. Nowadays, with the rise in technological advancement, people are devising different and creative ways to launder money. Bitcoins, tokens, online gambling, gift vouchers, hundi, wallets, etc. are few and known ways of laundering money and financing terrorism. In countries like Nepal, where the remittance has significant contribution in the GDP of the nation, hundi is a prevalent problem. In tackling the problems given rise by the advancement of technologies, development of adequate skillset and technological infrastructure, to encourage the participation of the reporting entities, to maintain healthy and transparent communication and information sharing between various agencies, etc. are important to combat against money laundering (FIU, 2023). Money launderers are getting creative and smarter day-by-day, and our regulators, law enforcement agencies, and other relevant bodies are yet to catch up the pace.

### **Conclusion and Recommendation**

It can be concluded that AML/CFT provisions have become of paramount importance to ignore, and central banks around the world have the responsibility to strictly enforce the recommendations of FATF within their banking and financial ecosystem. With the rise of cryptocurrency and the latest technologies, it will become challenging to prevent money laundering and financing of terrorism. A reactive approach isn't going to produce any favorable results, and central banks must be proactive, vigilant, and independent.

Parent can motivate their children using leading by example philosophy. NRB is like the parent for BFIs in Nepal, and BFIs play one of the major roles in preventing money laundering and terrorism financing. As a parent NRB must lead by example to showcase the proactiveness and far-sightedness towards the BFIs. If the actions of NRB seem to be the reaction rather than carried out with a proactive approach, BFIs might also follow the same attitude. Hence, as a regulating body, NRB must be proactive and act independently while implementing and causing to implement regulatory provisions. Whatever the result of the third mutual evaluation would be, it is up to the NRB to strictly enforce the recommendations of FATF in Nepal via BFIs and help Nepal reap the benefits that a higher rating would bring. Apart from NRB, there are various other governmental agencies that are involved in AML/CFT related activities like law enforcement agencies, Securities Exchange Board of Nepal, Insurance Board, Ministry of Finance, Ministry of Home Affairs, Commission for the Investigation of Abuse of Authority, etc. which must act in unison to combat money laundering and promote healthy economic and financial ecosystem. The investment technological resources must be increased as well as the capacity of the human resources so as to make them capable to combat the creative ways devised by the money launderers. In the era of big data analysis, the vast pool of data available at different location and places must be pooled together and analyzed to derive specific behavior, pattern, and trends that the money launders are following which might not be possible for human and inferior technology to detect. At last, AML/CFT is a continuous task and agencies must be vigilant, and in no way there must be a sense of complacency among any stakeholders.





## References

- AML/CFT Malaysia. (2023, February 16). *Money Laundering & Terrorism Financing*. Retrieved from AML/CFT: <https://amlcft.bnm.gov.my/web/amlcft/what-is-money-laundering>
- Cornell Law School. (2023, February 16). *Money Laundering*. Retrieved from Cornell Law School: [https://www.law.cornell.edu/wex/money\\_laundering](https://www.law.cornell.edu/wex/money_laundering)
- FATF. (2023, February 15). *who we are*. Retrieved from FATF: <https://www.fatf-gafi.org/en/the-fatf/who-we-are.html>
- FIU. (2022). *Annual Report 2021/22*. Kathmandu: Financial Intelligence Unit.
- Global AML CFT. (2023, February 8). *History of AML: Date wise events*. Retrieved from LinkedIn: <https://www.linkedin.com/pulse/history-anti-money-laundering-aml-measures-/?trk=pulse-article>
- Padilha, J. (Director). (2015). *Narcos Season 1* [Motion Picture].
- RIPJAR. (2023, April 17). *Anti-Money Laundering Regulations Around the World*. Retrieved from RIPJAR: <https://ripjar.com/blog/aml-anti-money-laundering-regulations/>
- Thapa, R. (2015). *Evolution of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Compliance Culture in Nepal*. *IPBA Legal Update*, 11-14.
- The Editors of Encyclopedia Britannica. (2023, March 1). *War on Drugs*. Retrieved from Britannica: <https://www.britannica.com/topic/war-on-drugs>
- UNODC. (2023, February 15). *Money Laundering*. Retrieved from UNODC: <https://www.unodc.org/romena/en/money-laundering.html>
- UNODC. (2023, February 16). *Money Laundering*. Retrieved from UNODC: <https://www.unodc.org/unodc/en/money-laundering/overview.html>

## सूचना

### Handbook of Code of Ethics for Professional Accountants- 2023 लागु गरिएको बारे ।

यस संस्थाको मिति २०७९/११/१३ मा बसेको परिषदको २९५औं बैठकको निर्णय अनुसार सदस्य तथा पेशागत प्रमाणपत्र प्राप्त सदस्यहरूको पालनाका लागि पेशागत आचारसंहिता तथा मार्गदर्शन “Handbook of Code of Ethics for Professional Accountants including International Independence Standards-2023” मिति २०८०/०४/०१ बाट लागु हुने व्यहोरा जानकारी गराइन्छ। उक्त आचारसंहिता तथा मार्गदर्शन संस्थाको वेबसाइटको Member खण्ड भित्र रहेको Code of Ethics उप-खण्ड मार्फत अथवा लिङ्क <https://en.ican.org.np/site/show/code-of-ethics> मार्फत सोभै हेर्न सकिने व्यहोरा समेत जानकारी गराइन्छ।



# JUDICIAL UPDATE



## CA. Pramod Lingden

The author is the Fellow Member of ICAN, Advocate and PhD Scholar.  
He can be reached at mail: [ca.pramodlingden@gmail.com](mailto:ca.pramodlingden@gmail.com)

### Case-I: Banking Offence & Punishment Act, 2064

Supreme Court Decision Date: 2079/08/16

Parties: *Government of Nepal at FIR of Dipak Khanal Vs Shir Kumari Gurung & Shashi Khadka*

Supreme Court Case No.:- 077-RB-0026

Link: [https://supremecourt.gov.np/cp/assets/downloads/supreme\\_220168.pdf](https://supremecourt.gov.np/cp/assets/downloads/supreme_220168.pdf)

*Defendants were not found engaged as employees of the finance company during the sanctioning and disbursement process of the loan. In addition, they were not observed in collecting and using the loan amount as alleged in the Charge Sheet. Hence, it is not justifiable to establish a person guilty just on the ground that the defendant acted as a surety while disbursing a loan amount to her husband of a single family or signed as a witness in loan deeds.*

## UNNATURAL OVER VALUATION OF COLLATERAL SECURITY

### Fact:

The acting CEO of Paschimanchal Finance Ltd had filed an FIR against the erstwhile Branch Manager of its Beni Branch Office alleging he caused a loss of NPR 3,60,17,122/- to the finance company by disbursing loan through unnatural over valuation of collateral in collusion with a large number of persons including Shashi Khadka & Shir Kumari Gurung. Amidst the alleged persons, Shashi Khadka and Shir Kumari Gurung were witness and surety respectively for a loan amount of NPR 500,000 borrowed by husband of the latter. In addition, the complainant had alleged that the loan amount obtained in such an illegal way had been

used personally by the Branch Manager, surety and witness of the loan along with the borrower.

The pledged land of the borrower was evaluated arbitrarily by the Branch Manager without conducting its site visit. Further, he had disbursed the loan amount NPR 500,000 without complying with the banking process & other formal requirements provisioned under Credit Investment & Recovery Policy of the finance company.

Hence, the Government of Nepal, on the ground that the defendants committed offences under clause (a), (b), (f), (g) & (h) of section 7 and section 8, 9 and 14 of the Banking Offence & Punishment Act 2064, filed a Charge Sheet against the Branch Manager, borrower, surety Shir Kumari Gurung and witness Shashi Khadka to the High Court Tulsipur. On the basis of claimed amount NPR 500,000, the prosecutor Government of Nepal had demanded for the recovery of claimed amount NPR 658,180 as sum total of the principal, interest & compensation amount against the loss incurred to the finance company and the punishment pursuant to section 15(2)(a) of the Act and fine equivalent to the claimed amount.

### Dispute:

Out of alleged persons, the defendant Shir Kumari Gurung insisted she had provided personal guarantee for the loan amount borrowed by her husband just in the status of his wife. However, she neither collected the loan amount from the finance company nor used it. Similarly, next defendant Shashi Khadka insisted she had introduced the borrower to the Branch Manager for demanding the loan amount from the finance company and signed as a witness in his loan deeds but not used the loan amount as accused in the Charge Sheet.



On the basis of available factual evidences and statements, the High Court Tulsipur awarded punishment to the Branch Manager with 1 year imprisonment & fine equal to the claimed amount and to the borrower with 6 month imprisonment & fine equal to the claimed amount. However, the High Court rejected the allegation made against witness Shashi Khadka & surety Shir Kumari Gurung on the ground that the indictment cannot reach the claim on 2076/01/08.

Hence, the prosecutor Government of Nepal being dissatisfied with such decision of the High Court Tulsipur relieving defendants Shir Kumari Gurung & Shashi Khadka appealed to the Supreme Court.

### Supreme Court Judgement:

The Supreme Court endorsed the decision of the High Court Tulsipur stating defendants Shir Kumari Gurung & Shashi Khaka were not found engaged as employees of the finance company during the sanctioning & disbursement process of the loan. In addition, they were not observed in collecting and using the loan amount as alleged in the Charge Sheet. Hence, it is not justifiable to establish a person guilty just on the ground that the defendant acted as a surety while disbursing a loan amount to her husband of a single family or signed as a witness in loan deeds.

### Case-II: Banking Offence & Punishment Act, 2064

Supreme Court Decision Date: 2079/09/06

Parties: *Bibek Tamang Vs Government of Nepal at FIR of Shanti Tamang*

Supreme Court Case No.:- 076-RB-0099

Link: [https://supremecourt.gov.np/cp/assets/downloads/supreme\\_208417.pdf](https://supremecourt.gov.np/cp/assets/downloads/supreme_208417.pdf)

***Drawing a cheque knowingly against a bank account that does not have sufficient fund balance and consequently not being able for its payment is a condition of an offence itself. In addition, referring to the precedent rendered at a banking offence case of Nirmala Sodari Vs. Government of Nepal- "Court cannot refuse to provide the legal remedy to the victim on the basis of prevailing law selected out of laws effective on the cheque dishonored date", the supreme court further stated that the option of Banking Offence & Punishment Act, 2064 selected by the complainant for obtaining legal remedy instead of other prevailing laws cannot be denied.***

## DISHONOR OF CHEQUE

### Fact:

The defendant Bibek Tamang had drawn a cheque with amount NPR 500,000 of Dev Bikash Bank Ltd in the name of complainant Shanti Tamang. Then, the complainant had presented the cheque for its payment to the bank but got dishonored due to insufficient balance at bank account of the defendant which in turn evidenced by Cheque Information Report issued by the bank dated 2075/09/26. Hence, the Government of Nepal, on the ground that the defendant committed an offence under section 3(c) of the Banking Office & Punishment Act 2064, filed a Charge Sheet against the defendant to the High Court Patan. On the basis of claimed amount NPR 500,000, the prosecutor Government of Nepal had demanded for the punishment against the defendant pursuant to section 15(1) of the Act and recovery of the claimed amount for the complainant.

### Dispute:

The defendant insisted: (1) the disputed cheque was drawn just for the security while borrowing a loan amount of NPR 500,000 from the complainant; and (2) as the cheque was drawn just for security of loan, such activity attracts civil liability instead of banking offence (criminal liability).

However, the High Court Patan, pursuant to section 15(1) of the Banking Offence & Punishment Act 2064, awarded punishment to the defendant with the imprisonment of 5 days period, fine of NPR 500,000 and recovery of NPR 500,000 for the complainant on 2076/02/20. In addition, the High Court ordered for paying compensation to the complainant at the rate of 4% of fine amount NPR 500,000 i.e. NPR 20,000 under section 41(3) of the Crime Victim Protection Act, 2075.

Hence, the defendant being dissatisfied with such punishment decision of the High Court Patan appealed to the Supreme Court against its decision.

### Supreme Court Judgement:

The Supreme Court endorsed the decision of the High Court Patan stating the claim of the defendant that the disputed cheque was drawn just for security purpose could not be proved by any factual evidence. Further, drawing a cheque knowingly to make payment from a



bank account that does not have sufficient balance is an offence under section 3(1) of the Banking Offence & Punishment Act 2064, and if anyone commits such offence shall be punished with a fine equivalent to the claimed amount and an imprisonment upto 3 months under section 15(1) of the Act. Hence, drawing a cheque knowingly against a bank account that does not have sufficient fund balance and consequently not being able for its payment is a condition of an offence itself. In addition, with reference to the precedent rendered

at a banking offence case of *Nirmala Sodari Vs. Government of Nepal*—“Court cannot refuse to provide the legal remedy to the victim on the basis of prevailing law selected out of laws effective on the cheque dishonored date”, the supreme court further stated that option of Banking Offence & Punishment Act, 2064 selected by the complainant for obtaining legal remedy instead of other prevailing laws (Negotiable Instruments Act, 2034 etc) cannot be denied.

## विषय: कर चुक्ता प्रमाण पत्र अनिवार्य पेश गर्ने सम्बन्धमा

मिति: २०८०/०२/०२

लेखा व्यवसाय संस्था (फर्म) सम्बन्धी कार्यविधि २०७९, दफा ५(क) बमोजिम फर्म नविकरण गर्दा संस्थाका सदस्यहरूले कर चुक्ता प्रमाणपत्र अनिवार्य रूपमा पेश गर्नुपर्ने व्यवस्था रहेको छ। सोही व्यवस्था बमोजिम आगामी आर्थिक वर्ष २०८०/८१ देखि लागू हुने गरि लेखा व्यवसाय पेशामा संलग्न व्यक्तिले पेशागत प्रमाणपत्र तथा फर्म नविकरण गर्दा कर चुक्ता प्रमाणपत्र अनिवार्य रूपमा पेश गर्नुपर्ने सूचित गराइन्छ।

साथै प्रचलित आयकर ऐन बमोजिम आय विवरण बुझाउनु पर्ने अन्तिम मिति भन्दा अगावै लेखा व्यवसायी फर्म नविकरण गर्न निवेदन दिएको अवस्थामा सो भन्दा अघिल्लो आर्थिक वर्षको कर चुक्ता प्रमाणपत्र पेश गर्न सकिने छ। त्यस्तै गरि नविकरणका लागि पेश गरिएको आर्थिक वर्षको अघिल्लो आर्थिक वर्षमा दर्ता भएका नयाँ लेखा व्यवसायी फर्मको हकमा स्थायी लेखा नम्बर प्रमाणपत्रको प्रतिलिपि पेश गरि नविकरण गर्न सकिने छ।

## STRATEGIC REVIEW

### Regulation and Supervision

#### Handbook of the Code of Ethics for Professional Accountants 2023 Issued

The Institute has issued Handbook of Code of Ethics for Professional Accountants including International Independence Standards – 2023 for the Members and the same shall be applicable from 2080/04/01. The Handbook of Code of Ethics can be accessed from below link:

<https://en.ican.org.np/site/show/code-of-ethics>

### Professional Development

#### Training of Trainers on International Financial Reporting Standards (ToT on IFRS)

The Institute in technical collaboration with the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Public Expenditure & Financial Accountability (PEFA) Secretariat, Nepal has organized five days “Training of Trainers (ToT) on International Financial Reporting Standards (IFRS)” Program for the Chartered Accountants Members of the Institute and Government Officials from 30<sup>th</sup> June 2023 at ICAN premises.



*[CA Bhaskar Singh Lala, President ICAN delivering welcome remarks in the opening session of 5 days TOT on IFRS program.](#)*

The objective of this ToT on IFRS was to develop a pool of professional trainers on IFRS/NFRS by transferring knowledge, expertise, and international experience from Expert Trainers on IFRS to a set

of national trainers in Nepal which will benefit the industry as a whole in sustaining the capacities to promote transparent financial reporting as per Nepal Financial Reporting Standards (NFRS). The ToT has been facilitated by Nishan Fernando, FCA, ACMA (UK), Certified IFRS Trainer (ICAEW), Chairman, Asian Oceania Standard Setters Group (AOSSG); Malinda Boyagoda, FCA, ACMA (UK) and Kamidu Ravindra, ACA, CII. Altogether 40 CA members and officials from Government Offices participated the ToT program.

#### Training on International Financial Reporting Standards (IFRS) 4, 7, 9 & 17

The Institute in technical collaboration with the Institute of Chartered Accountants of Sri Lanka organized a two-day training on International Financial Reporting Standards (IFRS) 4,7,9 and 17 focusing on the financial reporting standards applicable in the insurance companies in Nepal on 5<sup>th</sup> and 6<sup>th</sup> July 2023 at Hotel Radisson, Kathmandu. The objective of this training was to enhance the technical knowledge of preparer, reviewers and auditors of financial statements of the insurance companies and to introduce international level financial reporting practices by insurance companies in Nepal. The training was facilitated by Nishan Fernando, FCA, ACMA (UK), Certified IFRS Trainer (ICAEW), Chairman, Asian Oceania Standard Setters Group (AOSSG) and Kamidu Ravindra, ACA, CII. Altogether 54 CA members and officials from Insurance Companies participated the Training program.

#### Training of Trainers on Computer Aided Audit Techniques (ToT on CAAT)

The Institute in technical collaboration with the Institute of Chartered Accountants of India (ICAI) has organized three days of “Training of Trainers (ToT) on Computer Aided Audit Techniques (CAAT)” for the Chartered Accountants Members of the Institute from 15<sup>th</sup> to 17<sup>th</sup> June 2023 at ICAN premises located at Satdobato, Lalitpur. The objective of this ToT was to create a competent pool of professional faculties who may require imparting similar training to the members/students of the Institute. Altogether 16 members of ICAN participated in the ToT program.



*Group photo of participants with the resource person of ICAN during the ToT on CAAT*

### **Training of Trainers (ToT) on Nepal Financial Reporting Standards for Small and Medium Size Enterprises (NFRS for SMEs)**

The Institute organized a three-day ToT on Model Financial Statements based on NFRS for SMEs from 5<sup>th</sup> to 7<sup>th</sup> June 2023 at ICAN Premises, Satdobato. CA. Nanda Kishor Sharma, CA. Arun Raut and CA. Sanjeev Dhakal were the resource persons of the ToT program. Altogether 35 Members of the Institute participated in the program.

### **Training on Model Financial Statements based on Nepal Financial Reporting Standards for Small and Medium Size Enterprises (NFRS for SMEs)**

The Institute in coordination with the Branch Coordination Committee (BCC) has organized training on Model Financial Statements based on NFRS for SMEs at six places as follows:

#### **Birtamod, Jhapa**

**From 30<sup>th</sup> June to 2<sup>nd</sup> July 2023**

The training started with the opening remarks of RA. Phanendra Prasad Parajuli, member of Biratnagar, BCC whereby, CA. Bhaskar Singh Lala, President ICAN and RA. Posh Raj Nepal, Chairman of the RA. Member Capacity Development Committee also addressed the training. The training was facilitated by

CA. Arun Raut and CA. Aswini Bansal. The training was attended by 34 participants.

#### **Birendranagar, Surkhet**

**From 23<sup>rd</sup> to 25<sup>th</sup> June 2023**

The training started with the opening remarks of CA. Chhabi Acharya, Coordinator Karnali Province-ACAN. The program was Chaired by Mr. Binod Prasad Neupane, Director, ICAN whereby, Mr Dev Bahadur Rawal, Dean of the Mid-Western University and the Member of the Institute was the Chief Guest of the program. CA. Bhaskar Singh Lala, President, ICAN also addressed the closing session of the program. The training was facilitated by CA. Sanjeev Dhakal, and CA. Bishwo Ram Bhandari. The training was attended by 27 participants.

#### **Pokhara, Kaski**

**From 23<sup>rd</sup> to 25<sup>th</sup> June 2023**

The training started with the opening remarks of CA. Lakshman Adhikari, Coordinator, Pokhara BCC. CA. Bhaskar Singh Lala, President, ICAN and RA. Kesh Bahadur KC, Council Member, ICAN also addressed the program. Similarly, CA. Sujana Kumar Kafle, Vice-President, ICAN and CA. Sanjay Kumar Sinha, Executive Director, ICAN were also present in the program. The training was facilitated by CA. Arun Raut and CA. Laxman Adhikari. The training was attended by 34 members and stakeholders.

#### **Jankapur, Dhanusa**

**From 23<sup>rd</sup> to 25<sup>th</sup> June 2023**

The training started with the opening remarks of CA. Suman Kumar Bohara, Joint Director, ICAN whereby, CA. Sujana Kumar Kafle, Vice-President, ICAN also addressed the program. The training was facilitated by CA. Suman Kumar Bohara, CA. Subhash Khandelwal and CA. Satyendra Sharma Satyam. The training was attended by 25 participants.

#### **Butwal, Rupandehi**

**From 18<sup>th</sup> to 20<sup>th</sup> June 2023**

The training started with the opening remarks of CA. Sheo Hari Sharma, Coordinator, Butwal BCC whereby, CA. Bhaskar Singh Lala, President, ICAN; CA. Sujana Kumar Kafle, Vice President, ICAN and RA. Posh Raj Nepal, Council Member and Chairman of RA. Member Capacity Development Committee also addressed the program. The training was facilitated by CA. Sanjeev

Dhakal, CA. Sheo Hari Sharma and CA. Deepak Adhikari. The training was attended by 26 participants.

### **Dhangadi, Kailali**

**From 13<sup>th</sup> to 15<sup>th</sup> June 2023**

The training started with opening remarks of CA. Chiranjibi Pathak, Coordinator, Dhangadi, BCC. The training was facilitated by CA. Sanjeev Dhakal and CA. Chiranjibi Pathak. The training was attended by 20 participants.

### **Certification Course on Information System Audit (ISA3.0)**

The Institute in technical collaboration with The Institute of Chartered Accountants of India (ICAI) conducted a post qualification course on “Certification Course on Information System Audit (ISA 3.0)” from 23<sup>rd</sup> March to 3<sup>rd</sup> April 2023 for members of the Institute. Altogether 20 individuals including members and other corporate participants were enrolled in this post qualification course. The Eligibility test of the course had been conducted on 13<sup>th</sup> May 2023. Upon passing the assessment, the Members of the Institute will be a certified as Information System Auditor.



*Group Photo of Participants along with ICAN Officials and Resource Person at the Certification Program*

### **Capacity Development Training on Audit Documentation**

The Nepalgunj Branch of the Institute organized a three-day Capacity Development Training on Audit Documentation from 30<sup>th</sup> April to 2<sup>nd</sup> May 2023 at Nepalgunj. The objective of this program was to impart practical knowledge to members on audit documentation.

The Program was Chaired by RA. Posh Raj Nepal, Council Member and Chairman of RA Members Capacity Development Committee whereby, CA. Bhaskar Singh Lala, ICAN President addressed the program as a Chief Guest. The program started with the welcome remarks of CA. Sagar Adhikari, Member Nepalgunj Branch Coordination Committee (BCC). Likewise, RA. Abdul Karim Khan, Past Council Member; CA. Kanahya Lal Tandon, Past Coordinator Nepalgunj BCC and RA. Bhuvan Prasad Gaire,



President, AuDAN, Banke also addressed the program. Altogether 26 members participated in the training.

### *Glimpse of Capacity Development Training on Audit Documentation at Nepalgunj*

### **Workshop on Working Capital Loan Guidelines and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)**

The Institute, in coordination with the Branch Coordination Committee (BCC) of respective branch offices, organized one day Workshops on Working Capital Loan Guidelines and Anti-Money

Laundering/Combating the Financing of Terrorism at three branch offices. The details of the program have been depicted below:

**At Butwal, on 11<sup>th</sup> April 2023**

The program was conducted in the Chairmanship of CA. Sheo Hari Sharma, Coordinator, Butwal BCC whereby, Mr. Jeevan Prakash Pandey, Director, Nepal Rastra Bank Bhairahawa was the Chief Guest in the Program. The technical session on AML/ CFT was facilitated by CA. Mahesh Ghimire and technical session on Working Capital Loan Guidelines was



facilitated by Mr. Gulab Dhawal, representative from NRB. Altogether, 109 participants attended this program.

*[Glimpse of Workshop on Working Capital Loan and AML/CFT conducted at Butwal Branch of the Institute](#)*

**At Dhangadi, on 7<sup>th</sup> April 2023**

The program was conducted in the Chairmanship of CA. Chiranjeevi Pathak, Coordinator, Dhangadi BCC whereby, CA Binod Raj Lekhak, Director, Nepal Rastra Bank, Dhangadhi was the Chief Guest in the

program. RA. Ambar Raj Joshi, Member, Dhangadi BCC started the program with his opening remarks. The technical session on AML/ CFT was facilitated by CA. Asmita Gorkhali, Deputy Director, Nepal Rastra Bank and technical session on Working Capital Loan Guidelines was facilitated by CA. Chiranjeevi Pathak. The program concluded with the closing remarks of CA. Janma Raj Timalsina, Member, Dhangadi BCC. Altogether, 40 participants attended the program.



*[Glimpse of Workshop on Working Capital Loan and AML/ CFT conducted at Dhangadi Branch of the Institute](#)*

**At Pokhara, on 1<sup>st</sup> April 2023**

The program was facilitated by CA. Kiran Kumar Khatri, Technical Director of the Institute. Altogether 50 members including the Members of BCC participated in the workshop.



*[Glimpse of Workshop on Working Capital Loan and AML/ CFT conducted at Pokhara Branch of the Institute](#)*



## Interaction Program on Audit Scope and Monitoring of Accounting Technician

The Accounting Technician (AT) Board organized an interaction program on audit scope and monitoring of AT on 2<sup>nd</sup> May 2023 at ICAN premises. The objective of this interaction program was to have a focused discussion on broadening the scope and absorption of AT in corporate sector and to make them aware of the requirement for compliance with code of conduct, code of ethics and monitoring procedures from the Institute. The program was addressed by CA. Bhaskar Singh Lala, President, ICAN, CA. Jagannath Upadhyay Niraula, Chairman, AT Board and Mr. Devendra Pathak, Member, AT Board. The program was attended by 27 ATs including senior level officials from the Institute.



*Glimpse of group photo of participants along with Chairperson and Member of AT Board, ICAN President and ICAN Officials*

## Meeting with the Nepal Freight Forwarders Association

CA. Jagannath Upadhyay Niraula, Chairman, Accounting Technician (AT) Board and CA. Bharat Nepal, Secretary, Accounting Technician Board had a cordial meeting with the Board Members of Nepal Freight Forwarders Association on 22<sup>nd</sup> May 2023. During the meeting the Chairman discussed on absorption of Accounting Technicians Professionals in the trade and export sector and emphasized on their delivery of value-added services by AT Professionals.

## Participation in the Interaction Program on Implementation of Financial Reporting NFRS/NAS

CA. Sanjay Kumar Sinha, Executive Director participated in the interaction program on

Implementation of Reporting Standards (NFRS/NAS) organized by the Accounting Standards Board of Nepal (ASB, Nepal) in coordination with ICAN, The Association of Chartered Accountants of Nepal (ACAN) and Auditor's Association of Nepal (AuDAN) on 26<sup>th</sup> May 2023 in Biratnagar.

## Continuing Professional Education (CPE) Training

The Institute with the objective to enhance the capacity of members of the Institute in various contemporary issues has organized two Continuing Professional Education (CPE) training program from 28<sup>th</sup> to 30<sup>th</sup> April 2023 and 23<sup>rd</sup> to 25<sup>th</sup> June 2023 at ICAN Premises, located at Satdobato, Lalitpur. The CPE training was focused on NAS For NPOs, AML/CFT compliance requirements, major changes in Income Tax, VAT Customs and Excise Duty announced in Finance Bill 2080, Nepal Financial Reporting Standard (NFRS), NFRS application in Banking and Manufacturing Sectors, Nepal Standard on Quality Control (NSQC-1) vis-à-vis International Standard on Quality Management (ISQM-1 & ISQM-2) and major provisions of the Insurance Act, 2079. Altogether, 255 Members of the Institute participated in the CPE training.

## Education

### Tutor Training to Tuition Provider

In due course of roll out of New Chartered Accountancy Curriculum, the Institute in presence of representatives cum consultants from The Institute of Chartered Accountants in England and Wales (ICAEW), Ms. Pippa Riley and Mr. Jonathan Mbewe has organized a 5-day tutor training program from 11<sup>th</sup> to 15<sup>th</sup> June 2023. The consultant delivered training sessions to the participants on 11 subject's curriculums under the new CA curriculum excluding national Laws and Taxation.

### Scholarship to CA Students

The Institute, in accordance with the provision of Scholarship Procedures, 2063 granted scholarships to the students enrolled in CAP-I, CAP-II and CAP-III level. The scholarship was granted for fiscal year 2079/80 to a total of 121, 128 and 25 students of CAP I, CAP II and CAP III level respectively. The scholarship was provided for meritorious students, poor students and economically, geographically, and other

disadvantages students based on merit. The notice of scholarship and list of students receiving scholarship can be accessed from link below:

<https://en.ican.org.np/uploads/downloads/files/3/6/dfedc573dc4ac1804c031400cc04657.pdf>

### Chartered Accountancy Examination

The Institute conducted Chartered Accountancy and CA Membership Examination for ACCA of June 2023 batch from 1<sup>st</sup> June to 12<sup>th</sup> June 2023 inside Kathmandu Valley and at Biratnagar, Butwal, Pokhara, Dhangadi, Birgunj and Chitwan. Altogether 6,731 students appeared in CA examination out of 7,531 students applied for CA examination of different levels. The detailed about applicants and appeared students are as depicted below:



*Glimpse of 2<sup>nd</sup> International CA Students Conference*

Level	CAP III		CAP II		CAPI	
	Applicants	Appeared	Applicants	Appeared	Applicants	Appeared
Both Group	362	351	3,127	2,944	1,604	1,481
Group I	526	467	915	694		
Group II	319	267	670	527		
<b>Total</b>	<b>1,207</b>	<b>1,085</b>	<b>4,712</b>	<b>4,165</b>	<b>1,604</b>	<b>1,481</b>

Likewise, only 3 applicants who applied for CA Membership Examination for ACCA appeared in the exam.

### Chartered Accountancy (CA) Membership Examination, March 2023

The Institute published the result of CA Membership Examination March 2023 conducted on 15<sup>th</sup> and 16<sup>th</sup> March 2023. Altogether 42 examinees passed the membership examination out of total 412 examinees appeared in the examination.

### 2<sup>nd</sup> International CA Students’ Conference

The Nepal Chartered Accountants Students Association (NCASA) with support from The Institute of Chartered Accountants of Nepal (ICAN) organized 2<sup>nd</sup> International CA Students’ Conference on 29<sup>th</sup> June 2023 at Nepal Academy, Kamaladi, Kathmandu, Nepal. The Conference was participated by around 1300 students of ICAN along with the students from Professional Accounting Bodies of Bangladesh, India, Nepal, Pakistan and Sri Lanka.

The Conference included paper presentation and panel discussion on two technical sessions on “Attributes of a Vibrant Accounting Professional” and “Future CA: Challenges and Opportunities”. Besides, the Conference also included motivation session, entertainment session, cultural session and musical session in which students and eminent national personalities of various fields performed and shared their views and insights.

### Career Counselling on Accounting Technician (AT) Education

Biratnagar Branch of the Institute organized a career counselling program on AT Education on 28<sup>th</sup> May 2023 at Biratnagar. The objective of this career counselling program was to make students aware of the AT course offered by the Institute. CA. Aswini Bansal, Coordinator, Biratnagar Branch Coordination Committee (BCC) and CA. Kinjal Pokharel, Member Biratnagar BCC facilitated the career counselling program. Whereby, 104 students enrolled in bachelor’s level participated in the program.

## National Relation: Public and Government

### 2<sup>nd</sup> National Convention of Accounting Professionals on the theme “Financial Reporting for Sustainable Economy.”

The Institute with the objective to enhance social recognition and faith towards the accounting profession and bridge the understanding gap with the stakeholders by uniting the voice of all Accounting Professionals throughout the country in a platform and to have a focused discussion on various contemporary topics has organized the 2<sup>nd</sup> National Convention of Accounting Professionals on the theme “Financial Reporting for Sustainable Economy” on 17<sup>th</sup> and 18<sup>th</sup> May 2023 in Kathmandu.

The convention was inaugurated by Hon’ble Auditor General Mr. Tanka Mani Sharma Dangal whereby, CA. Bhaskar Singh Lala, President ICAN was the Chairperson of the Convention. Mr. Babu Ram Subedi, Under Secretary, Ministry of Finance and Council Member, ICAN addressed as a Special Guest in the Convention. Likewise, CA. Deepak Pandey, President, ACAN and RA. Kedar Nath Poudel, President of AuDAN also addressed the Convention as a Guests. Furthermore, CA. Maha Prasad Adhikari, Governor, NRB addressed the opening session of second day of Convention as a Special Guest.



*Hon’ble Auditor General, Mr. Tanka Mani Sharma Dangal lightening the lamp in the opening session of convention.*



*CA. Bhaskar Singh Lala, President ICAN delivering welcome speech in the convention.*

In two days convention, it featured 4 technical sessions with 5 paper presentations in which 4 Session Chairperson and 17 panelists shared their views on related topics. A total number of 1177 of members and stakeholders attended the convention. In the Convention, CA. Prasanna Kumar D, Central Council Member, ICAI delivered a keynote speech on theme of convention “Financial Reporting for Sustainable Economy”. The technical session was organized on following topics:

### Technical Session 1: Environmental, Social and Governance Reporting: Exploring the Road Map

**Session Chairperson / Moderator:** Mr. Kewal Prasad Bhandari, Secretary, National Planning Commission

**Paper Presenter:** CA. Vishal Doshi, Central Council Member, The Institute of Chartered Accountants of India (ICAI)

**Panelist:**

Mr. Ramesh Hamal, Chairman, SEBON

Mr. Surya Prasad Silwal, Chairman, NIA

Mr. Khagendra Bahadur Basnet, Director, DOI

Mr. Kiran Pandit, Director, NRB

CA. Bidhyabaridhi Sigdel, Partner & Managing Director, Dolma Impact Fund

Mr. Arjun Dhakal, Climate Change Expert, Environmentalist & Economist



*Left: Mr. Kiran Pandit, CA. Bidhyabarishi Sigdel, Mr. Arjun Dhakal, Mr. Ramesh Hamal, CA. Prassana Kumar D., CA. Bhaskar Singh Lala, Mr. Kewal Prasad Bhandari, CA. Vishal Doshi, Mr. Surya Prasad Sihwal and Mr. Khagendra Bahadur Basnet during the closure of first technical session of convention*

## Technical Session 2: Responsibility and Legal Liability of Professional Accountants

**Session Chairperson:** Hon'ble Attorney General, Dr. Din Mani Pokharel

**Session Moderator:** CA. Yuddha Raj Oli, Immediate Past President, ICAN

**Paper Presenter:** CA. Madan Krishna Sharma, Past President, ICAN

**Panelist:**

Mr. Rameshwor Dangal, Secretary, CIAA

SP Nawaraj Adhikari, SP, CIB

Mr. Binod Lamichhane, Director, DRI

Mr. Gopal Krishna Ghimire, President NBA and Vice-Chairman, NBC



*Left: CA. Sujan Kumar Kafle, CA. Yuddha Raj Oli, CA. Bhaskar Singh Lala, Hon'ble Attorney General Dr. Din Mani Pokharel, CA. Madan Krishna Sharma, Mr. Gopal Krishna Ghimire, SP Nawaraj Adhikari and Mr. Binod Lamichhane during the closing of second technical session of convention*

### Technical Session 3: Exploring the Role of Chartered Accountants in Public Service

**Session Chairperson:** Mr. Madhav Prasad Regmi, Hon'ble Chairman, PCS

**Session Moderator:** CA Sujan Kumar Kafle, Vice-President, ICAN

**Paper Presenter:**

CA. Amrit Shrestha, Practicing Chartered Accountant

Mr. Ramu Dotel, Former Deputy Auditor General

**Panelist:**

CA Krishna Prasad Acharya, Past President, ICAN

Mr. Bamdev Sharma Adhikari, Deputy Auditor General, OAG

Mr. Shambhu Prasad Marasini, Deputy Comptroller General, FCGO

Mr. Ishwori Prasad Bhattarai, Director, NRB



*Left: CA. Sujan Kumar Kafle, CA. Krishna Prasad Acharya, Mr. Bamdev Sharma Adhikari, CA. Bhaskar Singh Lala, Hon'ble Chairman, Mr. Madhav Prasad Regmi, MR. Ramu Dottel, Mr. Ishwori Prasad Bhattarai, Mr. Shambhu Prasad Marasini and CA. Amrit Shrestha during the closing of third technical session of Convention.*

### Technical Session 4: Strategic Direction for Tax Legislation to Promote Sustainable Economic Growth

**Session Chairperson:** Dr Ram Prasad Ghimire, Secretary, Revenue

**Session Moderator:** CA Sunir Kumar Dhungel, Past President, ICAN

**Paper Presenter:**

Dr. Rup Bahadur Khadka, Senior Tax Advisor, International Development Group LLC

**Panelist:**

Mr. Dirgha Raj Mainali, Director General, IRD

Mr. Anjan Shrestha, Senior Vice President, FNCCI

Dr. Bishwas Gauchan, Economist and Executive Director at IIDS



Left: CA. Sumir Kumar Dhungel, Mr. Anjan Shrestha, CA. Bhaskar Singh Lala, Mr. Rup Bahadur Khadka, Dr. Ram Prasad Ghimire, Mr. Dirgha Raj Mainali, Dr. (CA.) Biswash GAuchan and CA. Sujan Kumar Kafle during the closing of fourth technical session of Convention.

Besides, the technical session, the Convention also had a special session on “Life Experience Sharing” by Dr. Sanduk Ruit, Ophthalmologist and session on “Live a Balanced Life : Live with Heart” Dr. Bhawgan Koirala, Cardiothoracic Surgeon.

the Past President with Medallion in recognition of contribution of Past President in the development of the Institute in their respective tenure.

During the Convention, the Institute also felicitated



Group photo of Past President being Felicitated along with the ICAN President and Vice President



Dr. Sanduk Ruit, Ophthalmologist delivering session on “Life Experience Sharing”.

The Convention was concluded with the closing remarks of CA. Sanjay Kumar Sinha, Executive Director ICAN followed by a cultural program.



Dr. Bhagawan Koirala, Cardiothoracic Surgeon delivering session on “Live a Balanced Life: Live with Heart”.



Glimpse of Participants in Convention

## Workshop on Nepal Financial Reporting Standards (NFRS)



*CA. Sujan Kumar Kafle, Vice-President, ICAN addressing the inaugural session of the workshop*

The Institute, in coordination with the Public Expenditure and Financial Accountability (PEFA) Secretariat organized one day workshop on NFRS on 12<sup>th</sup> May 2023 at Kathmandu. The workshop was organized with the objective to deliberate the significance of NFRS implementation in the Public Enterprises (PEs), to analyse impact of non-compliance of NFRS and identify the challenges in implementation of NFRS and brainstorm the ways for timely implementation of NFRS in PEs with the senior level officials of the PEs and the Line Ministries of PEs. CA. Sujan Kumar Kafle, Vice-President, ICAN addressed the opening session of the workshop. And, the workshop was organised in three technical session as follows:

S.No.	Technical Session On	Resource Person
1	Overview of Financial Reporting Standards (NFRS and IFRS)	CA. Surendra Shrestha, Council Member & Chairman of Standard Implementation Review Committee (SIRC), ICAN
2	NFRS implementation Status in Nepal (Challenges and Way Forward)	CA. Arun Raut, Member of Accounting Standard Board of Nepal (ASB, Nepal)
3	Reporting Requirement to be complied by Public Enterprises (PEs) and Line Ministries as per Fiscal Procedures and Financial Accountability Regulation, 2077	Mr. Bhim Prasad Kafle, Under-Secretary, Government of Nepal, Ministry of Finance

Altogether 41 officials from SoEs and Line Ministries participated in the workshop.



*Group Photo of Participants with Resource Person and Officials of ICAN during opening session of workshop*

## Participation in 68<sup>th</sup> Annual Day Celebration of Nepal Rastra Bank (NRB)

In the invitation of NRB, CA. Bhaskar Singh Lala, President, ICAN participated in 68<sup>th</sup> Annual Day Celebration Ceremony of the Nepal Rastra Bank. The Annual Day celebration program was organized at the premises of Nepal Rastra Bank at Kathmandu on 27<sup>th</sup> April 2023.

## Participation in Auditor General Support Activity

CA. Bhaskar Singh Lala, President, ICAN and CA. Sanjay Kumar Sinha, Executive Director, ICAN participated in USAID Auditor General Support Activity program jointly organized by United States Agency for International Development (USAID) Nepal and Office of the Auditor General Nepal on 18<sup>th</sup> June 2023 in Kathmandu.



## International Relation: Global Positioning and Leadership

### Participation in 79<sup>th</sup> SAFA Board Meeting

CA. Bhaskar Singh Lala, President, ICAN and CA. Sujan Kumar Kafle, Vice President, ICAN participated in 79<sup>th</sup> Board Meeting organized virtually by SAFA on 24<sup>th</sup> June 2023.

### Participation in SAFA Committee on Sustainability Reporting and Assurance

CA. Prabin Kumar Jha, Council Member and Chairman of Public Finance and NPSAS Committee participated in the virtual meeting organized by SAFA Committee on Sustainability Reporting and Assurance on 6<sup>th</sup> June 2023.

## Institutional Development and Sustainability

### Cordial Meeting with the Representatives of Pokhara University and Mid –Western University

CA. Bhaskar Singh Lala, President, ICAN; CA. Sujan Kumar Kafle, Vice President, ICAN; RA. Kesh Bahadur KC, Council Member; CA. Lakshman Adhikari, Coordinator, Pokhara Branch Coordination Committee and CA. Sanjay Kumar Sinha, Executive Director ICAN had cordial meetings with the Dean of Pokhara University Mr. Dev Raj Dhakal and Associate Professor Dr. Rabindra Ghimire at Pokhara on 23<sup>rd</sup> June 2023 and discussed on mutual coordination between Institute and the Pokhara University.

### Staff Training on “Microsoft Office Suite”

The Institute organized seven days training on Microsoft Office Suite to the Officer, Senior Officer, and Assistant Director Level Staffs of the Institute from 2<sup>nd</sup> April to 13<sup>th</sup> April 2023. The training was organized at the Computer Lab of the Institute located at its Head Office.

### Staff Training on “Leadership and Ethics”

The Institute organized a training session on the topic “Leadership and Ethics” to the staff of Head Office on 6<sup>th</sup> April 2023 at ICAN premises. The training session was facilitated by Mr. Bhuwan Dahal and all the staffs of officer level and above of Head Office participated in the training program.



*Group Photo of ICAN Staff with the Trainer During Staff Training on “Leadership and Ethics”*

## ICAN NOTICES

### Notice Regarding Vigilance Required by Auditor

The Institute with reference to the letter of the Office of the Company Registrar has published a notice to the Members of Institute, to consider the applicable legal requirement and relevant Nepal Standards on Auditing while performing audit of Companies. The notice can be viewed from the link below:

<https://en.ican.org.np/uploads/downloads/files/3/dd9b17d3ecbee2b17f4c669220134f51.pdf>

### Notice Regarding Submission of Tax Clearance Certificate

The Institute has published a notice regarding the requirement for submission of tax clearance certificate by practicing firms at the time of renewal of firm from fiscal year 2080/81. The notice can be viewed from the link below:

<https://en.ican.org.np/uploads/downloads/files/3/cb425545e9ab052f9c02608a6465b8af.pdf>

### Notice Regarding Change in Address of Dhangadi Branch

The Institute has published a notice regarding a change in the address of Dhangadi Branch Office. The new address of Dhangadi branch office is Dhangadi Sub Metropolitan-05, Taranagar, Nepal Rastra Bank Road Dhangadi, Kailali. The notice can be viewed from the link below:





<https://en.ican.org.np/uploads/downloads/files/3/160874eac96f98141bf90818aa531111.pdf>

## NATIONAL UPDATES

### Issuance of Unified Directives 2079 to D Class Micro-Finance Financial Institutions

Nepal Rastra Bank has issued Unified Directives 2079 for D Class Micro-Finance Financial Institutions. The Directives can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/04/Circular-7-D-Unified-Directives.pdf>

### Issuance of Unified Circular 2079

Nepal Rastra Bank has issued Unified Circular 2079 for A Class Bank and Financial Institutions, National level B Class Development Bank and Financial Institutions and other Entities licensed to conduct foreign exchange transaction. The Circular can be viewed from the link below:

[https://www.nrb.org.np/contents/uploads/2023/04/FXMD-Circular-18\\_2079-80\\_Unified-Circular-2079.pdf](https://www.nrb.org.np/contents/uploads/2023/04/FXMD-Circular-18_2079-80_Unified-Circular-2079.pdf)

### Amendment in Unified Circular 2079

Nepal Rastra Bank has issued amendment in the Unified Circular 2079 for A Class Bank and Financial Institutions, National level B Class Development Bank and Financial Institutions and other Entities licensed to conduct foreign exchange transaction. The Circular can be viewed from the link below:

[https://www.nrb.org.np/contents/uploads/2023/04/FXMD-Circular-19\\_2079-80.pdf](https://www.nrb.org.np/contents/uploads/2023/04/FXMD-Circular-19_2079-80.pdf)

### Amendment in Unified Directives 2079 issued to A, B and C Class Bank and Financial Institutions

Nepal Rastra Bank has issued circular regarding amendment in Unified Directives 2079 for A, B and C Class Bank and Financial Institutions. The Amendment can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/05/Circular.No-11-ABC.pdf>

<https://www.nrb.org.np/contents/uploads/2023/05/Tin-Mahale-ABC-2023.5.15-V4.1.pdf>

<https://www.nrb.org.np/contents/uploads/2023/06/Circular-No.-13-ABC.pdf>

### Amendment in Unified Directives 2079 issued to D Class Micro-Finance Financial Institutions

Nepal Rastra Bank has issued circular regarding amendment in Unified Directives 2079 for D Class Micro-Finance Financial Institutions. The Amendment can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/05/Circular-No-8-D.pdf>

### Issuance of Sixth Amendment in the Refinance Guidelines 2077

Nepal Rastra Bank has issued Refinance Guidelines 2077 (Sixth Amendment) to A, B and C class Bank and Financial Institutions and Infrastructure Development Banks. The Guidelines can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/05/>

### Federal Budget 2080/81 Unveiled

The Federal budget for Fiscal Year. 2080/81 was tabled by Hon'ble Finance Minister Dr. Prakash Sharan Mahat in the joint session of House of Representatives and National Assembly on 29<sup>th</sup> May 2023 (2080/02/15). The budget speech can be viewed from the link below:

<https://www.mof.gov.np/site/publication-detail/3249>

### Insurer Reinsurance Directives 2080

Nepal Insurance Authority has issued Insurer Reinsurance Directives 2080. The directives can be viewed from the link below:

<https://nia.gov.np/wp-content/uploads/2023/05/>

### Insurer Registration and Insurance Business Operation Related (Second Amendment) Directives, 2080

Nepal Insurance Authority has issued Insurer Registration and Insurance Business Operation Related (Second Amendment) Directives, 2080. The directives can be viewed from the link below:

<https://nia.gov.np/wp-content/uploads/2023/04/second-amendment-Capital.pdf>



## INTERNATIONAL UPDATES

### **Exposure Draft and comment letters: Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates**

The International Sustainability Standards Board (ISSB) is seeking feedback on the Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates. The enhancements proposed in the Exposure Draft will preserve the structure, completeness and intent of the SASB Standards. The enhancements are designed to ensure that entities can apply the SASB Standards regardless of the jurisdiction in which they operate or the type of generally accepted accounting principles (GAAP) they apply.

Link for Exposure Draft: <https://www.ifrs.org/content/dam/ifrs/project/international-applicability-sasb-standards/ed-issb-2023-1-international-applicability-sasb-standards.pdf>

Open for Comment until: 9 August 2023

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/international-applicability-of-the-sasb-standards/ed-comments-sasb-applicability/>

### **Request for Information and comment letters: Post-implementation Review of IFRS 9—Impairment**

The International Accounting Standards Board (IASB) has published a Request for Information as part of the post-implementation review of the impairment requirements of IFRS 9 Financial Instruments. A post-implementation review is an opportunity for the IASB to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.

Link for Request for Information: <https://www.ifrs.org/content/dam/ifrs/project/pir-9-impairment/rfi-iasb-2023-1-ifrs9-impairment.pdf>

Open for Comment until: 27 September 2023

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/post-implementation-review-of-ifrs-9-impairment/rfi-cl-pir9-impairment/>

### **Request for Information and comment letters: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers**

The International Accounting Standards Board (IASB) has published a Request for Information as part of the post-implementation review of IFRS 15 Revenue from Contracts with Customers. A post-implementation review is an opportunity for the IASB to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.

Link for Request for Information: <https://www.ifrs.org/content/dam/ifrs/project/pir-ifrs-15/rfi-iasb-2023-4-pir-ifrs-15.pdf>

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/post-implementation-review-of-ifrs-15-revenue-from-contracts-with-customers/pir-ifrs-15-rfi-cl/>

### **Exposure Draft and comment letters: Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates**

The International Sustainability Standards Board (ISSB) is seeking feedback on the Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates. Such enhancements will preserve the structure, completeness and intent of the SASB Standards. The enhancements are designed to ensure that entities can apply the SASB Standards regardless of the jurisdiction in which they operate or the type of generally accepted accounting principles (GAAP) they apply.

Link for Exposure Draft: <https://www.ifrs.org/content/dam/ifrs/project/international-applicability-sasb-standards/ed-issb-2023-1-international-applicability-sasb-standards.pdf>

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/international-applicability-of-the-sasb-standards/ed-comments-sasb-applicability/>



## IFAC Releases Second Installment in Implementation Support Series for Small Firms on the IAASB's Quality Management Standards

the International Federation of Accountants (IFAC) released the second installment in a three-part publication series to help small- and medium-sized practices implement the International Auditing and Assurance Standards Board's (IAASB) quality management standards. Installment Two: Developing a Detailed Implementation Plan provides a step approach to identifying your quality objectives; completing your quality risk assessment process; identifying existing, or creating new, responses to those quality risks; and implementing, documenting, and communicating your system of quality management. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-07/ifac-releases-second-installment-implementation-support-series-small-firms-iaasb-s-quality>

## IFAC Admitted as Affiliate Member of the International Organization of Securities Commissions

IFAC was accepted as an Affiliate Member of the International Organization of Securities Commissions (IOSCO). This marks a significant step in IFAC's ability to work with other international organizations for the public interest, and to elevate the voice of the global accountancy profession with key global stakeholders. IFAC is the sole representative of the accountancy profession within the IOSCO membership. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-06/ifac-admitted-affiliate-member-international-organization-securities-commissions>

## The Five Opportunities That Make Accountancy a Passport to Meaningful Careers in the Private and Public Sectors

With the myriad of opportunities available to professional accountants across positions, locales and sectors with the ability to progress in many different roles, accountancy is a passport to meaningful and rewarding careers in both the private and public sectors.

This was the theme of the latest meeting of IFAC's Professional Accountants in Business (PAIB) Advisory Group held in New York City, which convenes a global and diverse group of professional accountants working in a variety of leadership positions in business and the public sector. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-06/five-opportunities-make-accountancy-passport-meaningful-careers-private-and-public-sectors>

## IFAC Applauds Release of ISSB's First Two Sustainability Standards

As the global voice of the accountancy profession, IFAC has long supported [the establishment of the International Sustainability Standards Board \(ISSB\)](#) to develop a comprehensive global baseline of sustainability disclosures, endorsed by IOSCO, and used around the world. The goal is a global system for consistent, comparable, reliable, and assurable sustainability information that can be complemented by local standards or broader public policy needs. With release of its first two standards, the ISSB has answered stakeholders' calls to move with pace, to focus on the needs of investors and capital markets, and to build upon existing and respected frameworks and standards. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-06/ifac-applauds-release-issb-s-first-two-sustainability-standards>

## Proposed International Standard on Sustainability Assurance 5000 Approved for Public Consultation by Unanimous Vote

The IAASB has announce that it has approved by unanimous vote the draft International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, for public consultation. The consultation will be open by early August until early December 2023. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-06/proposed-international-standard-sustainability-assurance-5000-approved-public-consultation-unanimous>



## **With Mandatory Climate Disclosure on The Horizon, New Guide Shows Accountants How to Get Greenhouse Gas Reporting in Order**

New guidance to help professional accountants and finance professionals deliver robust greenhouse gas (GHG) reporting has been released the International Federation of Accountants (IFAC) and We Mean Business Coalition (WMBC), in partnership with Accounting for Sustainability (A4S), Global Accounting Alliance (GAA) and World Business Council for Sustainable Development (WBCSD). Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-05/mandatory-climate-disclosure-horizon-new-guide-shows-accountants-how-get-greenhouse-gas-reporting>

## **IFAC, TI-UK, and World Economic Forum's PACI Review of Anti-Corruption Reporting Sheds Light on Current Practice & Encourages Increased Transparency**

At a time when companies, investors, and financial markets are calling for increased transparency and accountability for anti-corruption efforts, the International Federation of Accountants (IFAC), Transparency International UK (TI-UK) and the World Economic Forum's Partnering Against Corruption Initiative (the Forum's PACI) have published a comprehensive review of anti-corruption corporate reporting by the largest publicly traded companies worldwide. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-05/ifac-ti-uk-and-world-economic-forum-s-paci-review-anti-corruption-reporting-sheds-light-current>

## **Key Questions for Audit Committees Overseeing Sustainability-Related Disclosure**

To implement the International Sustainability Standards Board's (ISSB's) standards and jurisdictional standards and regulatory requirements, organizations must ensure effective oversight arrangements to deliver high quality, cost effective and decision useful reporting. As reporting and assurance of sustainability-related disclosure evolves, audit committees have a critical role to play in expanding their existing oversight responsibilities for financial reporting and compliance to sustainability-related disclosures. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-05/key-questions-audit-committees-overseeing-sustainability-related-disclosure>

## **New IFAC Publication Equips Accountancy Organizations to Lead the Fight Against Corruption**

A new tool from the International Federation of Accountants (IFAC) is now available to help professional accountancy organizations take leading roles in the anti-corruption fight in their jurisdictions. Global Fight, Local Actions: Anti-Corruption Advocacy Workbook for PAOs equips PAOs and accountancy profession leaders with the background and framework to craft bespoke approaches and messages that best fit their jurisdiction and needs. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-05/new-ifac-publication-equips-accountancy-organizations-lead-fight-against-corruption>

## **IAASB Digital Technology Market Scan: Internet of Things Technologies**

The International Auditing and Assurance Standards Board has issued Market Scans covering exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-05/iaasb-digital-technology-market-scan-internet-things-technologies>

## **IAASB Opens Public Consultation for its Revised Going Concern Standard**

The International Auditing and Assurance Standards Board (IAASB) issued proposed revisions to its current standard on going concern, International Standard on Auditing 570 (Revised), *Going Concern*. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-04/iaasb-opens-public-consultation-its-revised-going-concern-standard>

## **IAASB Advances Timeline for Consultation for Proposal on Sustainability Assurance**

The International Auditing and Assurance Standards Board (IAASB) confirmed its intention



to advance the consultation on its proposed new standard for sustainability assurance, International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. Subject to the expected IAASB approval of the Exposure Draft in June, stakeholders can now expect the public consultation on the proposed standard to open in the latter part of July or early August 2023 and extend to December 2023. The consultation was originally scheduled to commence in October 2023.

<https://www.iaasb.org/news-events/2023-04/iaasb-advances-timeline-consultation-proposal-sustainability-assurance>

### **IAASB Digital Technology Market Scan: Digital Assets**

The International Auditing and Assurance Standards Board (IAASB) has issued the seventh Market Scan from the IAASB's Disruptive Technology team. Market Scans cover exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-03/iaasb-digital-technology-market-scan-digital-assets>

### **IPSASB Issues Package of Revenue and Transfer Expense-Related Pronouncements**

The International Public Sector Accounting Standards Board (IPSASB), developer of IPSAS, international accrual-based accounting standards for use by governments and other public sector entities around the world, has issued an integrated package of revenue and transfer expenses pronouncements. Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2023-05/ipsasb-issues-package-revenue-and-transfer-expense-related-pronouncements>

### **IPSASB Issues Package of Measurement-Related Pronouncements**

The International Public Sector Accounting Standards Board (IPSASB), developer of IPSAS, international accrual-based accounting standards for use by governments and other public sector entities

around the world has issued an integrated package of measurement-related pronouncements. Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2023-05/ipsasb-issues-package-measurement-related-pronouncements>

### **IPSASB Issues Public Sector Guidance to Report on Sustainability Program Information**

In light of the urgent need for sustainability reporting guidance for the public sector, the International Public Sector Accounting Standards Board (IPSASB), developer of IPSAS, international accrual-based accounting standards for use by governments and other public sector entities around the world, has issued Reporting Sustainability Program Information—Amendments to RPGs 1 and 3: Additional Non-Authoritative Guidance. Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2023-05/ipsasb-issues-public-sector-guidance-report-sustainability-program-information>

### **IESBA And IAASB Highlight Commitment to Deliver on Recommendations in New IOSCO Report on a Global Assurance Framework for Sustainability-Related Corporate Reporting**

The International Ethics Standards Board for Accountants (IESBA) and International Auditing and Assurance Standards Board (IAASB) has released the report by the International Organization of Securities Commissions (IOSCO) on developing a global assurance framework for sustainability-related corporate reporting. The IOSCO report reflects extensive research and feedback from key stakeholders. The report calls for timely development of ethics and assurance standards for sustainability reporting by the IESBA and the IAASB, respectively. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-03/iesba-and-iaasb-highlight-commitment-deliver-recommendations-new-iosco-report-global-assurance-0>



## IESBA Staff Releases Database of Public Interest Entity Definitions by Jurisdiction to Support Local Adoption and Implementation Efforts

The Staff of the International Ethics Standards Board for Accountants (IESBA) released a database of [Public Interest Entity \(PIE\) definitions by jurisdiction](https://www.ethicsboard.org/news-events/2023-04/iesba-staff-releases-database-public-interest-entity-definitions-jurisdiction-support-local-adoption) (jurisdictional PIE database) to further support the adoption and effective implementation of the [revisions to the definitions of listed entity and PIE](https://www.ethicsboard.org/news-events/2023-04/iesba-strengthens-global-ethics-standards-respond-transformative-effects-technological-innovation) (PIE revisions) in the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). The revised PIE provisions specify a broader list of categories of entities as PIEs whose audits should be subject to additional independence requirements to meet stakeholders' heightened expectations concerning auditor independence when an entity is a PIE. Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-04/iesba-staff-releases-database-public-interest-entity-definitions-jurisdiction-support-local-adoption>

## IESBA Strengthens Global Ethics Standards to Respond to Transformative Effects of Technological Innovation

The International Ethics Standards Board for Accountants (IESBA) has released final revisions to the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](https://www.ethicsboard.org/news-events/2023-04/iesba-strengthens-global-ethics-standards-respond-transformative-effects-technological-innovation) to further increase the Code's robustness and expand its relevance in a world being fundamentally reshaped by rapid technological advancements and accelerating digitalization. Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-04/iesba-strengthens-global-ethics-standards-respond-transformative-effects-technological-innovation>



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



च.नं. १९०६ (०३)।०८  
Ref. No.

मिति: २०७९/१२/२६

सूचना!!

कम्पनी ऐनमा भएको जर्िवानाको सम्बन्धमा लेखापरीक्षकले अपनाउनुपर्ने सजगता सम्बन्धी सूचना।

कम्पनी रजिष्ट्रारको कार्यालयद्वारा यस संस्थाबाट प्रेषित मिति २०७९/१२/१५ च.नं. १९१० को पत्रमा कम्पनी ऐनको दफा २१ (२) मा कम्पनीले कम्पनी रजिष्ट्रारको कार्यालयलाई तोकिएको समयमा विवरण, सूचना, जानकारी वा जवाफ उपलब्ध गराएको अवस्थामा आकर्षित भएको जर्िवाना कम्पनीको सञ्चालक वा पदाधिकारीले मुक्तानी गर्नुपर्ने व्यवस्था रहेको भएतापनि सो दायित्व कम्पनीको तर्फबाट व्यहोरिएको हुनसक्ने देखिएको व्यहोरा उल्लेख गरेको हुँदा लेखापरीक्षणको क्रममा कम्पनीबाट हुन सक्ने यस्ता कार्यहरूप्रति सजग भई प्रचलित कानूनमा रहेको व्यवस्थाको परिपालना भए नभएको सम्बन्धमा नेपाल लेखापरीक्षणमान बमोजिम यथोचित सम्बोधन गर्नुहुन यस संस्थाका सदस्यहरूलाई सूचित गरिन्छ।

संलग्न:

१. कम्पनी रजिष्ट्रारको कार्यालयको पत्र

*Sujan K. Shrestha*

वि.सं. संजय कुमार शिन्हा  
कार्यकारी निर्देशक

ICAN Marg, Satsdohata, Lalitpur, Nepal. Tel: 0977-1-5530832, 5530730. Fax: 0977-1-5550774  
Post Box No.: 5283, E-mail: [ican@icn.net.np](mailto:ican@icn.net.np), Website: [www.ican.org.np](http://www.ican.org.np)

Branch Offices:

Biratnagar: Tel: 977-021-474395. E-mail: [icanbri@ican.org.np](mailto:icanbri@ican.org.np) | Butwal: Tel: 977-071-533629. E-mail: [icanbti@ican.org.np](mailto:icanbti@ican.org.np)  
Biratnagar: Tel: 977-061-522660. E-mail: [icanbrj@ican.org.np](mailto:icanbrj@ican.org.np) | Pokhara: Tel: 977-061-587678. E-mail: [icanpkr@ican.org.np](mailto:icanpkr@ican.org.np)  
Nepalganj: Tel: 977-081-530050. E-mail: [icanngj@ican.org.np](mailto:icanngj@ican.org.np) | Dhangadhi: Tel: 977-091-527463. E-mail: [icandhg@ican.org.np](mailto:icandhg@ican.org.np)



नेपाल सरकार  
उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय  
कम्पनी रजिष्ट्रारको कार्यालय  
(.....शाखा)

विपुरेश्वर काठमाडौं, नेपाल।

मिति: २०७९/१२/१५

पत्र संख्या :- २०७८०  
पलानी नम्बर :- १५१०

विषय: कम्पनी ऐन बमोजिम जर्िवाना गणना गर्ने सम्बन्धमा लेखापरीक्षण गर्ने अनुमति प्राप्त सदस्यहरूलाई जानकारी गराइदिने सम्बन्धमा।

श्री नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था,  
सातदोबाटो, ललितपुर।

उपरोक्त विषयमा, कम्पनी ऐन, २०६३ ले सो ऐन बमोजिम स्थापित हुने कम्पनीहरूलाई कानुनी व्यक्ति (Legal Person) को मान्यता दिएको र कम्पनीलाई आफ्नो उद्देश्य प्राप्तिको लागि प्रचलित कानूनको रीत पुर्‍याई पैसा, व्यवसाय वा उद्यम गर्ने स्वतन्त्रता दिएको कुरा विद्योते छ। कम्पनिको उद्देश्य प्राप्तिको लागि कम्पनीको तर्फबाट संचालन गरिने कृयाकलापको कारणले सिर्जना हुने दायित्वको विषयमा प्रचलित कानूनमा कम्पनी उत्तरदायी हुने व्यवस्था रहेको भएतापनि कम्पनी स्वयंको संचालन तथा व्यवस्थापनको विषयमा कम्पनीका संचालक तथा पदाधिकारी नै उत्तरदायी रहने व्यवस्था उक्त ऐनले गरेको छ।

कम्पनी ऐनको दफा ८१(२) को व्यवस्था बमोजिम कम्पनीले कार्यालयलाई तोकिएको समयमा विवरण, सूचना, जानकारी वा जवाफ उपलब्ध गराएको अवस्थामा जर्िवाना आकर्षित हुने र उक्त जर्िवाना मुक्तानी गर्ने दायित्व कम्पनीका संचालक वा त्यसका पदाधिकारीमा रहने व्यवस्था गरेको छ। कार्य संचालनका क्रममा भने यस्तो जर्िवाना कम्पनीको संचालक वा पदाधिकारीले वहन नगरी कम्पनीको तर्फबाट व्यहोरिएको हुनसक्ने देखिएको छ। ऐनको उपरोक्त व्यवस्था विपरित कम्पनीले जर्िवाना रकम व्यहोरेको हुन सक्ने भएको हुँदा लेखापरीक्षकहरू समेत यस विषय प्रति चनाको हुन आवश्यक देखिएको छ। अतः लेखापरीक्षकहरूले लेखापरीक्षणको क्रममा यस्तो जर्िवाना रकम कम्पनीले व्यहोरेको पाएमा प्रचलित कानून तथा नेपाल लेखापरीक्षणमान बमोजिम यथोचित सम्बोधन गर्न आवश्यक भएको व्यहोरा प्रति त्यस संस्थाबाट अनुमति प्राप्त सम्पूर्ण लेखापरीक्षकहरूलाई सजग गराइदिनुहुन अनुरोध गरिएको छ।

*Wishu*  
०६१०३६११  
रजिष्ट्रार

बोधार्थ: श्री सूचना प्रविधि शाखा, कम्पनी रजिष्ट्रारको कार्यालय,

विपुरेश्वर: सम्बन्धित सरोकारवालाहरूको जानकारीको लागि यो पत्र कार्यालयको वेब पेजमा अपलोड गर्नु हुन।

फोन: ४२९९१४८ (रजिष्ट्रार), ४२६३०८९, ४२६८२९६, ४२१९०००, ४२६१८२१, ४२९९६११ (फ्याक्स)  
E-mail: [info@ocr.gov.np](mailto:info@ocr.gov.np). URL/Website : [www.ocr.gov.np](http://www.ocr.gov.np)



# HIGHLIGHTS OF FEDERAL BUDGET OF NEPAL FISCAL YEAR 2080/81 (2023/24)



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL**  
(Established under the Nepal Chartered Accountants Act 2053)



**A QUICK INSIGHT OF NEPAL'S FEDERAL BUDGET 2080/81 (2023/24)**





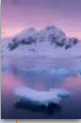




**1. BUDGET SUMMARY**

The annual budget functions as leverage for economic development by providing policy guidance and facilitating through investment to bring effectiveness in economic, social and governance system of the country. The Federal Budget for the Fiscal Year 2080/81 was framed with a strong focus on the nation's prosperity and the eradication of poverty, encompasses various crucial sectors while placing significant emphasis on sustainability and inclusivity. Federal Budget for the Fiscal Year 2080/81 as presented by Hon'ble Finance Minister, Dr. Prakash Sharan Mahat on 29<sup>th</sup> May 2023(2080/02/15) has been summarized below:

**1.1. OBJECTIVES OF BUDGET**

- 1 To attain wider, sustainable and inclusive economic growth by mobilizing the economy
- 2 To assure high qualitative social development, security and justice
- 3 To boost the morale of private sector by developing investment friendly environment and reducing poverty by creating opportunity of income and employment
- 4 To maintain overall financial stability
- 5 To strengthen federalism and maintain good governance
- 6 To enhance the effectiveness of public expenditure by improving budget system

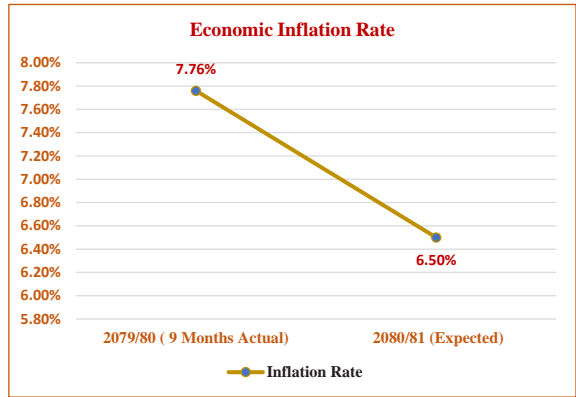
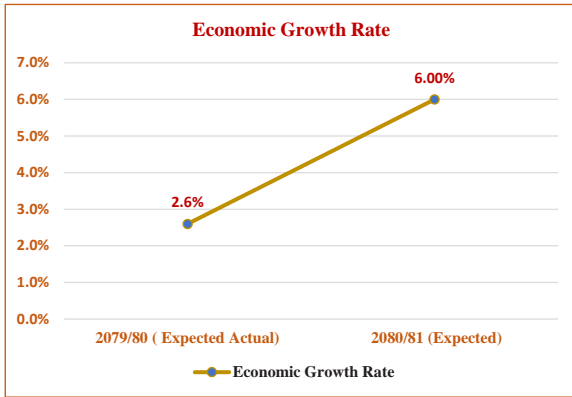
**1.2. PRIORITIES OF BUDGET**

 <b>Development of Agriculture, Energy and Tourism Sector</b>	 <b>Investment Promotion, Industrial Development and Balance of Trade</b>	 <b>Development of Social Sector and Social Security</b>
 <b>Development of Qualitative Physical Infrastructure</b>	 <b>Promotion of Digital and Green Economy</b>	 <b>Environmental Protection, Climate Change and Disaster Management</b>
 <b>Development of Human Resource and Employment Generation</b>	 <b>Improvement of Financial Sector</b>	 <b>Strengthening Financial Federalism and Improvement in Service Delivery</b>
 <b>Improvement of Public Financial System</b>		



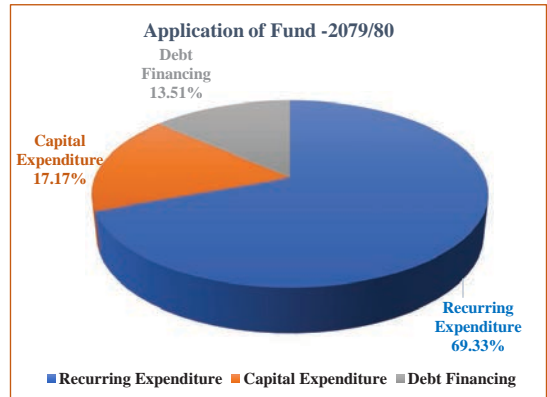
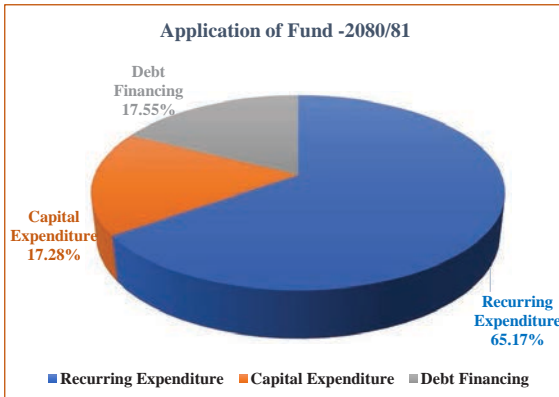
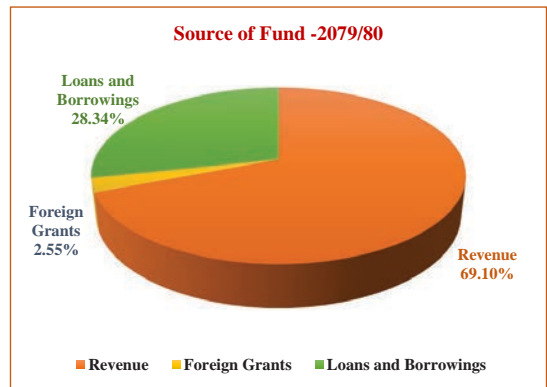
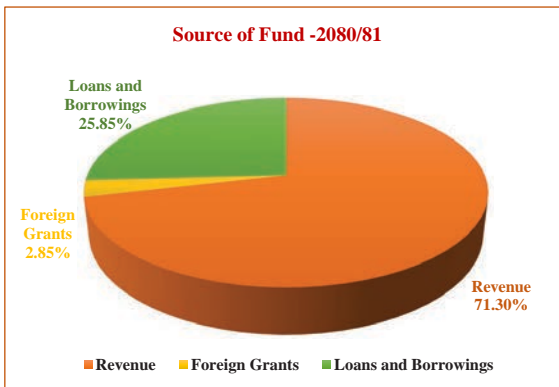


1.3. ECONOMIC GROWTH RATE AND INFLATION



1.4. COMPARISON OF BUDGET SIZE

SN	Source of Fund	NPR (Billion)-2080/81	Revised NPR (Billion)-2079/80	Application of Fund	NPR (Billion)-2080/81	Revised NPR (Billion)-2079/80
1	Revenue	1,248.62	1,040.00	Recurring expenditures	1,141.78	1,043.39
2	Foreign Grants	49.94	38.45	Capital expenditures	302.70	258.34
3	Loans and borrowing	452.75	426.54	Debt Financing	307.45	203.26
	<b>Total</b>	<b>1,751.31</b>	<b>1,504.99</b>	<b>Total</b>	<b>1,751.31</b>	<b>1,504.99</b>



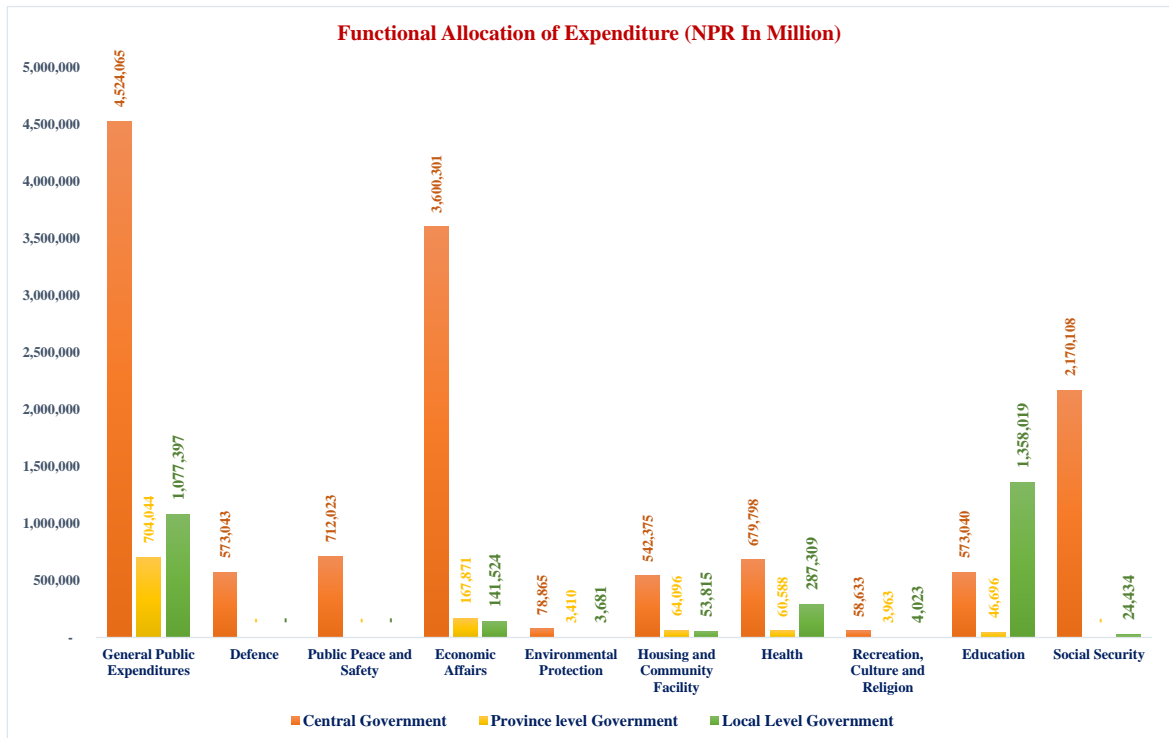


1.5. MINISTRY WISE BUDGET ALLOCATION

(NPR in Million)

S.N.	Ministry	Central	Province	Local Level	Total Budget	% of Total
1.	Office of the Prime Minister and Council of Ministers	5,602.00	-	-	5,602.00	0.32%
2.	Ministry of Finance	47,276.50	-	-	47,276.50	2.70%
3.	Ministry of Industry, Commerce and Supplies	8,433.00		1,026.60	9,459.60	0.54%
4.	Ministry of Energy, Water Resources and Irrigation	81,944.00	4,832.80	673.6	87,450.40	4.99%
5.	Ministry of Law, Justice and Parliamentary Affairs	886.70	-	-	775.60	0.04%
6.	Ministry of Agriculture and Livestock Development	54,091.10	1,032.20	3,858.80	58,982.10	3.37%
7.	Ministry of Water Supply	23,050.70	3,775.30	1,329.60	28,155.60	1.61%
8.	Ministry of Home Affairs	193,567.60	-	597.7	194,165.30	11.09%
9.	Ministry of Culture, Tourism and Civil Aviation	11,962.60	-	-	11,962.60	0.68%
10.	Ministry of Foreign Affairs	6,025.70	-	-	6,025.70	0.34%
11.	Ministry of Forests and Environment	12,231.30	2,736.80	590.6	15,558.70	0.89%
12.	Ministry of Land Management, Cooperatives and Poverty Alleviation	7,136.70		109.9	7,246.60	0.41%
13.	Ministry of Physical Infrastructure and Transport	131,796.80	2,602.80	-	134,399.60	7.67%
14.	Ministry of Women, Children and Senior Citizen	1,576.20	-	-	1,576.20	0.09%
15.	Ministry of Youth and Sports	2,077.30	396.3	402.3	2,875.90	0.16%
16.	Ministry of Defense	58,844.60	-	-	58,844.60	3.36%
17.	Ministry of Urban Development	47,702.00	8,465.90	10,007.60	66,175.50	3.78%
18.	Ministry of Education, Science and Technology	56,824.00	4,669.60	135,801.90	197,295.50	11.27%
19.	Ministry of Information and Communications	8,716.70	-	-	8,716.70	0.50%
20.	Ministry of Federal Affairs and General Administration	5,679.90	954.2	3,332.10	9,966.20	0.57%
21.	Ministry of Health and Population	49,805.40	6,058.80	28,127.60	83,991.80	4.80%
22.	Ministry of Labor, Employment and Social Security	2,039.40	23.5	6,019.80	8,082.70	0.46%
23.	Others than above-including committees, commission	534,066.00	69,518.60	103,142.10	706,726.70	40.35%
	<b>Total Budget</b>	<b>1,351,225.10</b>	<b>105,066.80</b>	<b>295,020.20</b>	<b>1,751,312.10</b>	<b>100.00%</b>
	<b>% of Total Budget Level Wise</b>	<b>77.16%</b>	<b>6.00%</b>	<b>16.85%</b>	<b>100%</b>	

1.6. FUNCTION WISE BUDGET ALLOCATION





### 1.7. MAJOR HIGHLIGHTS OF BUDGET 2080/81

20 entities having dual functions with permanent structure of government and whose existence is not required in current scenario to be abandoned and similar government bodies will be merged (No. 47)

All types of incentives and additional allowances for civil servants will be removed. No expenditure will be carried out on procurement of vehicles, furniture and fixture, and construction of building except necessary. (No. 48)

Promotion of digital economy through establishment of digital bank, development of infrastructure related to communication, increase use of mobile application, and e-Bidding in all government offices and ensuring transparency and efficiency in public procurement processes (No. 55)

Policy of spending minimum 1% of the capital budget in research, innovation and invention to be adopted. Promotion of entrepreneurship through development of startup eco system, establishment of incubation center in Kathmandu, and encouragement to private equity fund and venture capital for investment in startups (No. 68 & 69).

Removal of foreign investment cap in Information and Technology industry. (No. 75)

For promoting foreign investment in areas with comparative benefit, Investment Conference to be conducted in 2080. (No. 78)

Carry out feasibility study for cultivation of cannabis for medical purposes. (No. 105)

An allotment of land has been released to promote the business of housing and land development. (Kitta-kaat is open) (No. 128)

Infrastructure improvement and upgradation of 10 Industrial Areas to be conducted. (No. 136)

Corridor from Pathlaiya, Simara and Gandak upto Birgunj to be developed as Bara Parsa Industrial Corridor. (No. 139)

With "Water from the Himalaya" branding, export of mineral water and processed water from Himalayan Region of Nepal to be facilitated. (No. 156)

Provision of necessary policy will be made to mitigate the challenge arising from upgrading of Nepal status to developing country from least developed country in 2026. (No. 159)

Storage capacity of petroleum products to be increased to cover the demand of petroleum products of at least 3 months. (No. 165)

To enhance the reach of laborers in justice, service of labor court to be enhanced. Further, effort will be made to increase the effectiveness of provision of labor audit in government and private entities (No. 172)

2023 to 2032 to be celebrated as Tourism decade with a focus on promoting Nepal as a prime tourist destination. Further, the number of tourists visiting Nepal will be increased to 10 lakhs in 2023 (No. 180)

Development of investment model for construction of Nijgad International Airport and conduct necessary preparation by Environmental Impact Assessment, relocation of the community and compensation distribution. (No. 195)

Students who have obtained higher education in technical field through scholarship shall compulsorily provide 2 years of service in community educational institute or local level administration. (No. 213)

Capacity of Shukraraj Tropical & Infectious Disease Hospital to be enhanced to 300 beds. (No. 227)

98 types of Medicine, Vaccine and Basic Medical Service to be distributed free of cost from 6,743 Basic Medical Service Center. (No. 229)

2080/81 to be celebrated as "Youth Entrepreneurship Promotion Year". (No. 269)

Upgradation of Tribhuvan University Cricket ground to International level and will be equipped with flood light. Completion of Mulpani Cricket ground and Budget to be disbursed to build and develop other cricket grounds. (No. 271)

Facilitation for airlift rescue via Helicopter in free of cost for Pregnant and Post natal women in critical conditions (No. 277)



Budget allocated for development of 165 person capacity oldage home in Gothatar and 45 Bed Senior Citizen Hospital (No. 280)

Unauthorized settlements along the banks of the Bagmati and Bishnumati rivers will be managed through identification and relocation of the residents. (No. 324)

For planned urbanization of Kathmandu Valley, Residential area with open spaces, park, and organized infrastructure to be established in Godawari, Sunakothi, Tarkeshwor, Inchangunarayan and Chandragiri. (No. 328)

Necessary infrastructure to be developed for waste management with technical assistance from Nepal Government and partnership of Federal and Local government. (No. 329)

To achieve access to electricity to 100% population, small hydropower, wind and solar energies shall be developed in areas where national grid line has not reached.(No. 356)

Rasuwagadhi Hydropower (111mw), Madhya Bhotekoshi Hydropower (102mw), Sanjen Hydropower (42.5 mw) and other private hydropower and solar energy to be added to national grid which totals to 900 MW approximately making the total production 3600 MW (No. 357)

Alternative energy uses and production to be promoted to achieve the target of zero carbon emission within 2045 A.D. for which budget of 1 Arab 74 Crore has been allocated. (No. 361)

Information Technology Knowledge Park to be developed in Khumaltar, Lalitpur (No. 371)

Post office to be restructured and established as one Local level one post office. Additional tax office shall be dismissed by providing retirement with benefits to staff. Accounts maintained in Post office saving bank shall be transferred to A level Government and such Post office saving bank to be dismissed. (No. 374)

Non-Residential Nepalis (NRNs) will be permitted to invest in selected sectors of Nepal's share market such as hydroelectricity and others, contributing to the country's economic growth. (No. 417)

Policy to disinvest certain percentage of shares of Nepal Telecom, Nepal Airline Corporation and other public entities to be adopted. (No. 430)

Services to be provided in two shifts for facilitation for National Identity Card, Passport and License. Along with the Personal Event registration, social security and immigration services shall be interlinked and will be made technology friendly. These will be incorporated in Nagarik app too. (No. 441)

Investor Medical Program operated from Provident Fund to be expanded to provide service to husband or wife of investor too. (No. 444)

Allocation of NPR 5 crore for each electoral constituency for infrastructure development such as road, irrigation, water supply, education, health and sports. However, each project to be constructed from the fund shall be of NPR 1 crore in budget (No. 445)

E assessment procedure shall be adopted to increase the voluntary participation of taxpayers and avoid the tax leakage. (No. 470)

National Identity Card to be linked with PAN and for account operation in Bank and cooperatives, PAN shall be made compulsory in gradual way (No. 473)

Person returning from foreign employment of at least 6 months continuously after obtaining labor permit to be allowed to bring one more mobile set under charges facility and those who are involved in foreign employment and affiliated with social security fund to be allowed to bring television set of any size. (No. 483)

Mobile sets in use until 2080 Jestha 15 but not registered in Mobile Device Management System due to any reason may register such phone for one time by paying prescribed applicable charges within 2080 Ashar end (No. 486)

Economic Growth Rate is expected at 6% and Inflation Rate is expected at within 6.5% for next fiscal year (No. 494)



### 1.8. MAJOR HIGHLIGHTS RELATING TO TAX AS PER BUDGET SPEECH

High Level Committee to be formed for improvement in existing tax system. (No. 449)

Excise Duty imposed in one third of goods under self-removal system has been dismissed and schedules under VAT Act has been amended on timely basis. (No. 451)

Person registered in VAT and having annual transaction upto 1 crore to submit return on trimester basis instead on monthly basis (No. 452)

Taxpayer having transaction above NRs. 25 Crore annually shall be connected in Centralized Billing Monitoring System (CBMS) (No. 453)

Industries which manufactures and exports goods which are exempted from Excise and Value added Tax to be provided refund for amount paid as Excise and Value added Tax on purchase of raw materials (No. 461)

Industries producing chewing tobacco in form of Gutkha and Surti to use bio-degradable packing material while packaging excisable goods from 2081 Baisakh 1 (No. 463)

Automatic Tax clearance with QR code to be provided to all taxpayers (No. 466)

PAN number of related Education Consultancy to be affixed while obtaining No Objection Certificate and sending funds to Foreign University if higher education is pursued through such consultancy (No. 471)

Mandatory submission of PAN certificate and tax clearance certificate to be implemented effectively in case of renewal of Professional certificate by People involved in professional business (No. 472)

Automatic system for automatic deduction and deposit of TDS at the time of governmental payment. (No. 474)

Online value determination base to be established and incorporated in valuation system for valuation in customs.(No. 476)

Goods imported after 2080 Shrawan 1 to have the label of both importer and market distributor (No. 481)

170 exemptions from VAT and 340 exemptions from Excise been dismissed. (No. 482)

Increment of tax rate from 36% to 39% for person earning more than 50 Lakhs annually. (No. 487)

Person earning foreign currency by exporting services like Business Process Outsourcing, Software Programming and Cloud Computing to be provided exemption of 50% on applicable tax on such foreign currency income. (No. 488)

To bring non- resident person providing electronic service within the ambit of tax, if VAT due up to 2080 Jestha end is paid up to 25th Ashad 2080, additional fine, interest and penalty is waived (No. 489)

On electric car, jeep and van between 50 to 100 kilowatts the rate of custom has been increased from 10% to 15% and rate of excise duty has been increased from 0% to 10%. On electric car, jeep and van between 100 to 200 kilowatts the rate of custom and excise duty has been decreased from 30% to 20%. On electric car, jeep and van between 200 to 300 kilowatts the rate of custom has been decreased from 45% to 40% and on electric car, jeep and van above 300 kilowatts, the rate of custom has been increased from 60% to 60% – 80%.

## 2. MAJOR AMENDMENTS IN TAX LAWS

### 2.1. SPECIAL AMENDMENTS MADE BY FINANCE BILL, 2080

SECTION	PROVISIONS
Section 08	Students going abroad for studies shall be charged with <b>3%</b> as education service fee of education fee paid at the time of exchange facilities made ( <i>which was 2% in previous income year</i> ).
Section 21	<b>Luxury tax of 2%</b> shall be levied on the purchase price of the goods and services used in Nepal in the following cases: <ol style="list-style-type: none"> <li>1. Service provided by 5-star or more than 5 stars hotel and luxury resort.</li> <li>2. Imported liquor items</li> <li>3. Purchase of diamond, pearl, stone engraved gold and other valuable metals ornaments of value more than ten lakhs rupees</li> </ol>
Section 22	<b>Foreign tourism fee of 5%</b> shall be levied to Nepali tourist visiting abroad on the payment amount. The payment amount is the amount of package in case of package dealer and on actual cost in case firm/company takes related person to abroad for business promotion at a time when such cost is recorded
Section 23	<b>Foreign Employment Service Fee of 1%</b> shall be levied on the collection made by licensed consultancy from the person going on foreign employment. Such amount will be used on the benefits of person going in foreign employment.
Section 24	Special provision of mobile registration: If the Cellular phone Owner/User of phones that are being used till 2080 Jestha 15 but cannot get registered in Mobile Device Management System wants to get registered in the System, they are required to submit the details of IMEI number within 2080 Ashad end along with deposit of the following lumpsum amount in the accounts declared by the Ministry of Finance, Government of Nepal: <ol style="list-style-type: none"> <li>1. iPhone and mobiles of value more than 1 lakhs: Rs 10,000 per set</li> <li>2. Smart Mobiles: Rs 3000 per set</li> <li>3. Simple mobile other than smart mobiles: Rs 200 per set</li> </ol> The telecom authority shall make management to register such mobile after collection of such evidence. But persons who has returned from foreign employment after more than 6 months after getting labor permit can get registered his 1 set mobile free of cost.
Section 25	Tax assessed upto FY 2063/64 during Ashadh end 2065 and which could not be recovered shall be waived upto amount Rs. 50,000 per return and interest on such amount shall also be waived.
Section 26	Interest and fines of any company which have issued Bonus shares from Premium on FPO shall be waived if such companies pay applicable tax on such amount within end of Mangsir 2080
Section 27	Tax on Bargain purchase gain if has not been included as Income whiling filing tax return then if applicable tax is paid on such within end of Mangsir 2080, Interest and fines applicable shall be waived
Section 28	Income earned by Media House through activities that are objective oriented shall be given a concession of 25% on applicable taxes.

SECTION	PROVISIONS
Section 29	Person involved in Share trading, and real estate as regular business if submit 50 % of applicable tax by declaring income of FY 2076/77 to 2078/79 within end of Chaitra 2080, then remaining tax, fines and penalties shall be waived. And the income tax, fines and interest of such natural person from previous year shall be waived.
Section 30	Person involved in foreign employment consultation or educational consultancy if has not declared true income or has not declared real income then if such person declares such income within end of Chaitra 2080 and pay applicable tax then fines and interest on such amount shall be waived.
Section 31(1)	Any eye hospital regardless of being registered in VAT or not if has provided any VAT attractive services but has not collected VAT or has not filed return, if pays 5% of the total turnover amount of the year 2076/2077 to 2080 Jestha 14 within Chaitra end then remaining tax, additional charges, interest and fine shall be waived. And the income tax, fines and interest of such eye hospital from previous year shall be waived.
Section 31 (2)	If transaction of such person are assessed and has not been paid or such assessment is under administrative review or under any other Judicial hearings then if such cases are withdrawn and 5% of the total turnover during the period of 2076/77 to 2080 Jestha 14 are paid within 2080 Ashoj end then additional taxes, charges, interest and penalties shall be waived and the income tax, fines and interest of such eye hospital from previous year shall be waived
Section 32 (1)	Any person involved in trading of granulated wheat or semolina has not collected VAT or has not filed return, if pays 5% of the total turnover amount of the year 2071/72 to 2076 Jestha 14 within Ashoj end then remaining tax, additional charges, interest and fine shall be waived.
Section 32 (2)	If transaction of such person are assessed and has not been paid or such assessment is under administrative review or under any other Judicial hearings then if such cases are withdrawn and 5% of the total turnover during period of 2071/72 to 2076 Jestha 14 are paid within 2080 Ashoj end then additional taxes, charges, interest and penalties shall be waived.
Section 33	Non-resident person involved in sales of digital service of more than Rs. 20 Lakh, if obtains PAN and files return upto end of Jestha 2080 within Ashar 25, 2080 then fines, interest and other charges in such amount shall be waived. This condition shall be applicable even to Non-resident person who has already obtained PAN.
Section 34 (1)	Any person involved in hire purchase trading if has not collected VAT or has not filed return pays 2% of the total turnover amount of the year 2074/75 to 2077/78 within Mangsir end, 2080, then remaining tax, additional charges, interest and fine shall be waived. And the income tax, fines and interest of such person from previous year shall be waived
Section 34 (2)	If transaction of such person of FY 2077/78 or before that fiscal year are assessed and has not been paid or such assessment is under administrative review or under any other Judicial hearings then if such cases are withdrawn and 2% of the total turnover during period of 2074/75 to 2077/78 are paid within 2080 Mangsir end then additional taxes, charges, interest and penalties shall be waived And the income tax, fines and interest of such person from previous year shall be waived



2.2. AMENDMENTS IN INCOME TAX ACT, 2058

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
2(KaNa1)	Definition: "Adjusted Taxable Income" means an amount of taxable income of a person for an income year as calculated by ignoring reductions referred to in Section 12, <b>12Ka, 12Kha, 12Ga</b> and deductions referred to in Section 14(2), Section 17, or 18.	Definition: "Adjusted Taxable Income" means an amount of taxable income of a person for an income year as calculated by ignoring reductions referred to in Section 12 and deductions referred to in Section 14(2), Section 17, or 18.
10(da)	The following amounts shall be exempt from tax:  Amount earned as per its objectives by Educational Institute established with the objective of not for earning and distributing profit on the basis of an agreement with the Government of Nepal <b>or concerned entity of Government of Nepal.</b>	The following amounts shall be exempt from tax:  Amount earned as per its objectives by Educational Institute established with the objective of not for earning and distributing profit on the basis of an agreement with the Government of Nepal <b>or concerned entity of Government of Nepal.</b>
11(1)	No tax shall be levied on an income earned by carrying on agricultural business other than income earned by carrying on an agricultural business by getting registered as a firm, company, partnership, and corporate body and other than on agricultural income earned from an agricultural business in the land as referred to in clauses (gha) and (nga) of Section 12 of the Act Relating to Land, 2021(1964).  Provided, if any income is earned by carrying on agricultural business, business of dehydrating vegetables, and cold storage business by any firm, company, partnership firm, and other corporate body, <b>50 percent tax on applicable income tax shall be exempted.</b>	No tax shall be levied on an income earned by carrying on agricultural business other than income earned by carrying on an agricultural business by getting registered as a firm, company, partnership, and corporate body and other than on agricultural income earned from an agricultural business in the land as referred to in clauses (gha) and (nga) of Section 12 of the Act Relating to Land, 2021(1964).  Provided, if any income is earned by carrying on agricultural business, business of dehydrating vegetables, and cold storage business by any firm, company, partnership firm, and other corporate body, <b>100 percent tax on applicable income tax shall be exempted.</b>
11(2Kha)(ga)	Exemption shall be provided as below on the tax to be imposed on income of special industry that operates fully throughout the year in any income year.  Ka) By one third of tax if tax had been imposed at the rate of 30% on income of resident natural person	Exemption shall be provided as below on the tax to be imposed on income of special industry that operates fully throughout the year in any income year.  Ka) By one third of tax if tax had been imposed at the rate of 30% on income of resident natural person

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
	Kha) By 20% on tax applicable on income of the entity  <b><del>Ga) If a person who has availed facility pursuant to clause (ka) or (kha) is also found to have any other tax exemption facility under this section, the person shall get such additional tax exemption facility as well.</del></b>	Kha) By 20% on tax applicable on income of the entity  <b>Ga) If a person who has availed facility pursuant to clause (ka) or (kha) is also found to have any other tax exemption facility under this section, the person shall get such additional tax exemption facility as well.</b>
11 (3Gha)	Tax exemption shall be provided as below to a person engaged in commercial transactions of electricity:  Ka) 100 % tax exemption for the first 10 years from the date of starting of commercial transaction and 50 % tax exemption for next 5 years shall be provided to the licensed person starting commercial production and distribution of hydroelectricity, electricity from solar, electricity from wind, and bioelectricity within <b>Chaitra 2084.</b>  Provided, 100 % tax exemption for the first 15 years and 50 % tax exemption for the next 6 years shall be provided to reservoir-based and semi reservoir-based hydropower projects with a capacity higher than 40 MW <b>,and hydropower projects operated in lower belts as tandem operation with such projects,</b> completing financial closure within Chaitra end, 2085.	Tax exemption shall be provided as below to a person engaged in commercial transactions of electricity:  Ka) 100 % tax exemption for the first 10 years from the date of starting of commercial transaction and 50 % tax exemption for next 5 years shall be provided to the licensed person starting commercial production and distribution of hydroelectricity, electricity from solar, electricity from wind, and bioelectricity within <b>Chaitra 2083.</b>  Provided, 100 % tax exemption for the first 15 years and 50 % tax exemption for the next 6 years shall be provided to reservoir-based and semi reservoir-based hydropower projects with a capacity higher than 40 MW completing financial closure within Chaitra end, 2085.
11(3Nga)(Ga)	Tax exemption on income earned from export in any income year from a source in Nepal shall be as follows:  (a) if tax is chargeable at the rate of twenty percent on an income of a resident natural person, twenty-five percent of that tax, and if thirty percent is taxable, fifty percent of that tax,  (b) twenty percent of tax leviable on the income of an entity,	Tax exemption on income earned from export in any income year from a source in Nepal shall be as follows:  (a) if tax is chargeable at the rate of twenty percent on an income of a resident natural person, twenty-five percent of that tax, and if thirty percent is taxable, fifty percent of that tax,



SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
	<b>(c) 50% of tax on income earned in foreign currency by exporting services based on information technology such as business process outsourcing, software programming, cloud computing up to FY 2084/85.</b>	(b) twenty percent of tax leviable on the income of an entity,  <b>(c) additional fifty percent of the tax on income earned from the export of goods produced in Nepal after deduction of the exemption under clause (ka) or (Kha).</b>
11(5)	In case a person is entitled to more than one concession on a single income under this section, such person shall get only one concession chosen by him <b>in addition to the concession available under sub section 2kha.</b>	In case a person is entitled to more than one concession on a single income under this section, such person shall get only one concession chosen by him.
22 (2)	While calculating the income from employment or investment of a natural person accounts shall be kept in cash basis for the purpose of tax. <b>However, accounts shall be maintained in accrual basis in concerned income year if the natural person receives a lump sum amount as income from employment related to previous years after the court's final decision of the case.</b>	While calculating the income from employment or investment of a natural person accounts shall be kept in cash basis for the purpose of tax.
88 (1) & 88(9ka)	While making payment of interest, natural resource, rent, royalty, service fee, commission, sales bonus, retirement payment, and any other consideration having source in Nepal and in making payment of any amount of retirement payment by a resident person, tax shall be withheld at the rate of 15 percent on gross amount of payment.  Provided that, tax shall be deducted at following rate on following payments:  (8) At the rate of 2.5% on payment for transport service and rent of transportation vehicle.	While making payment of interest, natural resource, rent, royalty, service fee, commission, sales bonus, retirement payment, and any other consideration having source in Nepal and in making payment of any amount of retirement payment by a resident person, tax shall be withheld at the rate of 15 percent on gross amount of payment.  Provided that, tax shall be deducted at following rate on following payments: (8) At the rate of 2.5% on payment for transport service and rent of transportation vehicle.

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
	<b>However, tax shall be deducted at the rate of 1.5 % on payment for transport service or rent of transportation vehicles provided by a person registered in VAT.</b>  <b>(9ka) Reservoir-based and semi-reservoir-based hydropower projects with a capacity higher than 200 MW completing financial closure within Chaitra end, 2082 (B.S) shall deduct tax at the rate of 5 % on payment of interest on loan taken on foreign currency from a foreign bank or other foreign financial institutions.</b>	
88(3)	Notwithstanding anything contained in sub-section (1), where a resident bank, financial institution, cooperative society or any other institutions issuing debentures or company listed under prevailing laws pay the flowing interest, or any amounts having the nature of an interest to a natural person with respect to deposit, security, debenture or government bond, the bank or the institution of the company shall withhold tax on the gross amount of the payment <b>at the rate of 6 %.</b> Ka) Payment which has a source in Nepal; and Kha) Payment that is not received by the individual in the course of conducting a business	Notwithstanding anything contained in sub-section (1), where a resident bank, financial institution, cooperative society or any other institutions issuing debentures or company listed under prevailing laws pay the flowing interest, or any amounts having the nature of an interest to a natural person with respect to deposit, security, debenture or government bond, the bank or the institution of the company shall withhold tax on the gross amount of the payment <b>at the rate of 5 %.</b> Ka) Payment which has a source in Nepal; and Kha) Payment that is not received by the individual in the course of conducting a business
88(4) (Kha2)	Removed	Notwithstanding anything contained in sub-sections (1), (2) and (3), this section shall not be applicable while making following payments:  Payment of interest on loan taken on foreign currency from a foreign bank or other foreign financial institutions by reservoir-based and semi-reservoir-based hydropower





SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
		projects with a capacity higher than 200 MW completing financial closure within Chaitra end, 2082 (B.S).
89(3)	<p>Notwithstanding anything contained in sub-section (1), tax shall be deducted as follows from any payment to be made to a non-resident person by a resident person under a contract or agreement.</p> <p>Ka) 5 % on agreement or contract.</p> <p>Kha) 1.5 % on payment of premium to non-resident insurance company or on commission given against reinsurance premium received from the non-resident insurance company.</p> <p>Ga) Except written in clause (ka) or (Kha), if the Department has issued a written notice to the resident person, at the rate specified in the notice.</p> <p><b>Provided that, this subsection shall not be applicable while making payment for the purchase of weapons, ammunition and communication equipment for their own purpose by Nepal Army, Nepal Police, and Nepal Armed Force.</b></p>	<p>Notwithstanding anything contained in sub-section (1), tax shall be deducted as follows from any payment to be made to a non-resident person by a resident person under a contract or agreement.</p> <p>Ka) 5 % on agreement or contract.</p> <p>Kha) 1.5 % on payment of premium to non-resident insurance company or on commission given against reinsurance premium received from the non-resident insurance company.</p> <p>Ga) Except written in clause (ka) or (Kha), if the Department has issued a written notice to the resident person, at the rate specified in the notice.</p> <p><b>Provided that, this subsection shall not be applicable while making payment for the purchase of weapons, ammunition, and communication equipment for their own purpose by Nepal Army, Nepal Police, and Nepal Armed Force.</b></p>
95Ka(6Kha)	In case a resident natural person not involved in business operations receives payment in foreign currency by providing software or similar electronic service outside Nepal, the concerned bank, financial institution or money transfer entity shall deduct advance tax at the rate of <b>5% on the amount received</b> while making such payment.	In case a resident natural person not involved in business operations receives payment in foreign currency by providing software or similar electronic service outside Nepal, the concerned bank, financial institution or money transfer entity shall deduct advance tax at the rate of <b>1% on the amount received</b> while making such payment.
95Ka(6Ga)	In case a resident natural person not involved in business operation receives payment in foreign currency by providing consultancy service outside Nepal on personal capacity, concerned bank financial institution of money transfer entity	In case a resident natural person not involved in business operation receives payment in foreign currency by providing consultancy service outside Nepal on personal capacity, concerned bank financial institution of money transfer entity

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
	shall deduct advance tax at the rate of <b>5 % on the amount received</b> while making such payment.	shall deduct advance tax at the rate of <b>1 % on the amount received</b> while making such payment.
95Ka(6Gha)	In case a resident natural person not involved in business operations receives payment in foreign currency by uploading audio-video content in social media network, concerned bank, financial institution or money transfer entity shall deduct advance tax at the rate of <b>5% on the amount received</b> while making such payment.	In case a resident natural person not involved in business operations receives payment in foreign currency by uploading audio-video content in social media network, concerned bank, financial institution or money transfer entity shall deduct advance tax at the rate of <b>1% on the amount received</b> while making such payment.
95Ka(6Nga)	<b>In case a person sells goods, services or goods and services through the E-commerce platform, the resident E-commerce operator shall deduct advance tax at the rate of 5% at the time of payment against sale of goods, services or good and services.</b>	No Provision
95Ka(7)	<p>Advance tax shall be collected and recovered at custom point at the rate of 5% on the value determined for custom purpose on import of he-buffalo, buffalo, he-goat, hogget, sheep, mountain goat (chyangra) falling in Part 1; live, fresh or frozen fish falling in Part 3; fresh flowers falling in Part 6; fresh vegetables, potato, onion falling in Part 7 and fresh fruits falling in Part 8 of HS system and at the rate of 2.5% on import of meat falling in Part 2, dairy products, eggs, honey falling in Part 4, kodo, fapar, junelo, rice, kanika falling in Part 10, flour, wheat flour falling under Part 11, herbs and sugarcane falling in Part 12 and forest-based products falling in Part 14, imported for business purpose.</p> <p><b>However, advance tax at the rate of 1.5% shall be collected on import of goods on which Value Added Tax (VAT) is applicable.</b></p>	<p>Advance tax shall be collected and recovered at custom point at the rate of 5% on the value determined for custom purpose on import of he-buffalo, buffalo, he-goat, hogget, sheep, mountain goat (chyangra) falling in Part 1; live, fresh or frozen fish falling in Part 3; fresh flowers falling in Part 6; fresh vegetables, potato, onion falling in Part 7 and fresh fruits falling in Part 8 of HS system and at the rate of 2.5% on import of meat falling in Part 2, dairy products, eggs, honey falling in Part 4, kodo, fapar, junelo, rice, kanika falling in Part 10, flour, wheat flour falling under Part 11, herbs and sugarcane falling in Part 12 and forest-based products falling in Part 14, imported for business purpose.</p>
Schedule 1 Sec (1)(2)		



SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)																																							
	<table border="1"> <thead> <tr> <th>Taxable Income of Resident Individual (NPR)</th> <th>Taxable Income of Couple U/S 50 (NPR)</th> <th>Tax rates</th> </tr> </thead> <tbody> <tr> <td>First 500,000</td> <td>First 600,000</td> <td>1%</td> </tr> <tr> <td>500,000 – 700,000</td> <td>600,000 – 800,000</td> <td>10%</td> </tr> <tr> <td>700,000 – 1,000,000</td> <td>800,000 – 1,100,000</td> <td>20%</td> </tr> <tr> <td>1,000,000 – 2,000,000</td> <td>1,100,000 – 2,000,000</td> <td>30%</td> </tr> <tr> <td>2,000,000 – 5,000,000</td> <td>2,000,000 – 5,000,000</td> <td>36%</td> </tr> <tr> <td><b>More than 5,000,000</b></td> <td><b>More than 5,000,000</b></td> <td><b>39%</b></td> </tr> </tbody> </table>	Taxable Income of Resident Individual (NPR)	Taxable Income of Couple U/S 50 (NPR)	Tax rates	First 500,000	First 600,000	1%	500,000 – 700,000	600,000 – 800,000	10%	700,000 – 1,000,000	800,000 – 1,100,000	20%	1,000,000 – 2,000,000	1,100,000 – 2,000,000	30%	2,000,000 – 5,000,000	2,000,000 – 5,000,000	36%	<b>More than 5,000,000</b>	<b>More than 5,000,000</b>	<b>39%</b>	<table border="1"> <thead> <tr> <th>Taxable Income of Resident Individual (NPR)</th> <th>Taxable Income of Couple U/S 50 (NPR)</th> <th>Tax rates</th> </tr> </thead> <tbody> <tr> <td>First 500,000</td> <td>First 600,000</td> <td>1%</td> </tr> <tr> <td>500,000 – 700,000</td> <td>600,000 – 800,000</td> <td>10%</td> </tr> <tr> <td>700,000 – 1,000,000</td> <td>800,000 – 1,100,000</td> <td>20%</td> </tr> <tr> <td>1,000,000 – 2,000,000</td> <td>1,100,000 – 2,000,000</td> <td>30%</td> </tr> <tr> <td>More than 2,000,000</td> <td>More than 2,000,000</td> <td>36%</td> </tr> </tbody> </table>	Taxable Income of Resident Individual (NPR)	Taxable Income of Couple U/S 50 (NPR)	Tax rates	First 500,000	First 600,000	1%	500,000 – 700,000	600,000 – 800,000	10%	700,000 – 1,000,000	800,000 – 1,100,000	20%	1,000,000 – 2,000,000	1,100,000 – 2,000,000	30%	More than 2,000,000	More than 2,000,000	36%
Taxable Income of Resident Individual (NPR)	Taxable Income of Couple U/S 50 (NPR)	Tax rates																																							
First 500,000	First 600,000	1%																																							
500,000 – 700,000	600,000 – 800,000	10%																																							
700,000 – 1,000,000	800,000 – 1,100,000	20%																																							
1,000,000 – 2,000,000	1,100,000 – 2,000,000	30%																																							
2,000,000 – 5,000,000	2,000,000 – 5,000,000	36%																																							
<b>More than 5,000,000</b>	<b>More than 5,000,000</b>	<b>39%</b>																																							
Taxable Income of Resident Individual (NPR)	Taxable Income of Couple U/S 50 (NPR)	Tax rates																																							
First 500,000	First 600,000	1%																																							
500,000 – 700,000	600,000 – 800,000	10%																																							
700,000 – 1,000,000	800,000 – 1,100,000	20%																																							
1,000,000 – 2,000,000	1,100,000 – 2,000,000	30%																																							
More than 2,000,000	More than 2,000,000	36%																																							
<b>Schedule 1 Sec (1)(4Ka)</b>	Notwithstanding anything contained elsewhere in this section, tax shall be levied at the rate of <b>5% on income</b> pursuant to sub-section (6Kha), (6Ga), (6Gha) of section 95Ka of a resident natural person not engaged in business.	Notwithstanding anything contained elsewhere in this section, tax shall be levied at the rate of <b>1% on income</b> pursuant to sub-section (6Kha), (6Ga), (6Gha) of section 95Ka of a resident natural person not engaged in business.																																							
<b>Schedule 1 Sec (1)(13)</b>	Notwithstanding anything contained in this section, an annual tax shall be collected as follows from the owners of vehicles on hire at the time of registration or renewal of vehicles through Office of Transport Management. <table border="1"> <thead> <tr> <th>Type of Vehicle</th> <th>Annual Tax Per Vehicle</th> </tr> </thead> <tbody> <tr> <td><b>(1)Car, Jeep, Van, Micro Bus</b></td> <td></td> </tr> <tr> <td><b>(Ka) Up to 1300 cc</b></td> <td><b>NPR.5,500</b></td> </tr> <tr> <td><b>(Kha) From 1301 cc to 2000 cc</b></td> <td><b>NPR.6,000</b></td> </tr> <tr> <td><b>(Ga) From 2001 cc to 2900 cc</b></td> <td><b>NPR.6,500</b></td> </tr> <tr> <td><b>(Gha) From 2901 cc to 4000 cc</b></td> <td><b>NPR.8,000</b></td> </tr> <tr> <td><b>(Nga) From 4001 cc above-all</b></td> <td><b>NPR.9,000</b></td> </tr> </tbody> </table>	Type of Vehicle	Annual Tax Per Vehicle	<b>(1)Car, Jeep, Van, Micro Bus</b>		<b>(Ka) Up to 1300 cc</b>	<b>NPR.5,500</b>	<b>(Kha) From 1301 cc to 2000 cc</b>	<b>NPR.6,000</b>	<b>(Ga) From 2001 cc to 2900 cc</b>	<b>NPR.6,500</b>	<b>(Gha) From 2901 cc to 4000 cc</b>	<b>NPR.8,000</b>	<b>(Nga) From 4001 cc above-all</b>	<b>NPR.9,000</b>	Notwithstanding anything contained in this section, an annual tax shall be collected as follows from the owners of vehicles on hire at the time of registration or renewal of vehicles through Office of Transport Management. <table border="1"> <thead> <tr> <th>Type of Vehicle</th> <th>Annual Tax Per Vehicle</th> </tr> </thead> <tbody> <tr> <td>(1)Car, Jeep, Van, Micro Bus</td> <td></td> </tr> <tr> <td>(Ka) Up to 1300 cc</td> <td>NPR.4,000</td> </tr> <tr> <td>(Kha) From 1301 cc to 2000 cc</td> <td>NPR.4,500</td> </tr> <tr> <td>(Ga) From 2001 cc to 2900 cc</td> <td>NPR.5,000</td> </tr> <tr> <td>(Gha) From 2901 cc to 4000 cc</td> <td>NPR.6,000</td> </tr> <tr> <td>(Nga) From 4001 cc above-all</td> <td>NPR.7,000</td> </tr> </tbody> </table>	Type of Vehicle	Annual Tax Per Vehicle	(1)Car, Jeep, Van, Micro Bus		(Ka) Up to 1300 cc	NPR.4,000	(Kha) From 1301 cc to 2000 cc	NPR.4,500	(Ga) From 2001 cc to 2900 cc	NPR.5,000	(Gha) From 2901 cc to 4000 cc	NPR.6,000	(Nga) From 4001 cc above-all	NPR.7,000											
Type of Vehicle	Annual Tax Per Vehicle																																								
<b>(1)Car, Jeep, Van, Micro Bus</b>																																									
<b>(Ka) Up to 1300 cc</b>	<b>NPR.5,500</b>																																								
<b>(Kha) From 1301 cc to 2000 cc</b>	<b>NPR.6,000</b>																																								
<b>(Ga) From 2001 cc to 2900 cc</b>	<b>NPR.6,500</b>																																								
<b>(Gha) From 2901 cc to 4000 cc</b>	<b>NPR.8,000</b>																																								
<b>(Nga) From 4001 cc above-all</b>	<b>NPR.9,000</b>																																								
Type of Vehicle	Annual Tax Per Vehicle																																								
(1)Car, Jeep, Van, Micro Bus																																									
(Ka) Up to 1300 cc	NPR.4,000																																								
(Kha) From 1301 cc to 2000 cc	NPR.4,500																																								
(Ga) From 2001 cc to 2900 cc	NPR.5,000																																								
(Gha) From 2901 cc to 4000 cc	NPR.6,000																																								
(Nga) From 4001 cc above-all	NPR.7,000																																								

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)																																										
	<table border="1"> <tbody> <tr> <td><b>(2) Mini-Truck, Mini-bus, Water Tanker</b></td> <td><b>NPR.8,000</b></td> </tr> <tr> <td><b>(3) Mini Tipper</b></td> <td><b>NPR.9,000</b></td> </tr> <tr> <td><b>(4) Truck, Bus</b></td> <td><b>NPR.10,500</b></td> </tr> <tr> <td><b>(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane</b></td> <td><b>NPR.15,500</b></td> </tr> <tr> <td><b>(6) Oil Tanker, Gas Bullet, Tripper</b></td> <td><b>NPR.12,000</b></td> </tr> <tr> <td><b>(7) Tractor</b></td> <td><b>NPR.2,500</b></td> </tr> <tr> <td><b>(8) Power Tiller</b></td> <td><b>NPR.2,000</b></td> </tr> <tr> <td><b>(9) Auto rickshaw, Three-wheeler, Temp</b></td> <td><b>NPR.2,500</b></td> </tr> <tr> <td><b>(10) Electronic Vehicle</b></td> <td></td> </tr> <tr> <td><b>(ka) Up to 50 kw</b></td> <td><b>NPR. 3,000</b></td> </tr> <tr> <td><b>(Kha) 50 kw to 125 kw</b></td> <td><b>NPR. 4,000</b></td> </tr> <tr> <td><b>(Ga) 125 kw to 200 kw</b></td> <td><b>NPR. 6,000</b></td> </tr> <tr> <td><b>(Gha) Above 200 kw</b></td> <td><b>NPR. 7,500</b></td> </tr> </tbody> </table>	<b>(2) Mini-Truck, Mini-bus, Water Tanker</b>	<b>NPR.8,000</b>	<b>(3) Mini Tipper</b>	<b>NPR.9,000</b>	<b>(4) Truck, Bus</b>	<b>NPR.10,500</b>	<b>(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane</b>	<b>NPR.15,500</b>	<b>(6) Oil Tanker, Gas Bullet, Tripper</b>	<b>NPR.12,000</b>	<b>(7) Tractor</b>	<b>NPR.2,500</b>	<b>(8) Power Tiller</b>	<b>NPR.2,000</b>	<b>(9) Auto rickshaw, Three-wheeler, Temp</b>	<b>NPR.2,500</b>	<b>(10) Electronic Vehicle</b>		<b>(ka) Up to 50 kw</b>	<b>NPR. 3,000</b>	<b>(Kha) 50 kw to 125 kw</b>	<b>NPR. 4,000</b>	<b>(Ga) 125 kw to 200 kw</b>	<b>NPR. 6,000</b>	<b>(Gha) Above 200 kw</b>	<b>NPR. 7,500</b>	<table border="1"> <tbody> <tr> <td>(2) Mini-Truck, Mini-bus, Water Tanker</td> <td>NPR.6,000</td> </tr> <tr> <td>(3) Mini Tipper</td> <td>NPR.7,000</td> </tr> <tr> <td>(4) Truck, Bus</td> <td>NPR.8,000</td> </tr> <tr> <td>(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane</td> <td>NPR.12,000</td> </tr> <tr> <td>(6) Oil Tanker, Gas Bullet, Tripper</td> <td>NPR.12,000</td> </tr> <tr> <td>(7) Tractor</td> <td>NPR.2,000</td> </tr> <tr> <td>(8) Power Tiller</td> <td>NPR.1,500</td> </tr> <tr> <td>(9) Auto rickshaw, Three-wheeler, Temp</td> <td>NPR.2,000</td> </tr> </tbody> </table>	(2) Mini-Truck, Mini-bus, Water Tanker	NPR.6,000	(3) Mini Tipper	NPR.7,000	(4) Truck, Bus	NPR.8,000	(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane	NPR.12,000	(6) Oil Tanker, Gas Bullet, Tripper	NPR.12,000	(7) Tractor	NPR.2,000	(8) Power Tiller	NPR.1,500	(9) Auto rickshaw, Three-wheeler, Temp	NPR.2,000
<b>(2) Mini-Truck, Mini-bus, Water Tanker</b>	<b>NPR.8,000</b>																																											
<b>(3) Mini Tipper</b>	<b>NPR.9,000</b>																																											
<b>(4) Truck, Bus</b>	<b>NPR.10,500</b>																																											
<b>(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane</b>	<b>NPR.15,500</b>																																											
<b>(6) Oil Tanker, Gas Bullet, Tripper</b>	<b>NPR.12,000</b>																																											
<b>(7) Tractor</b>	<b>NPR.2,500</b>																																											
<b>(8) Power Tiller</b>	<b>NPR.2,000</b>																																											
<b>(9) Auto rickshaw, Three-wheeler, Temp</b>	<b>NPR.2,500</b>																																											
<b>(10) Electronic Vehicle</b>																																												
<b>(ka) Up to 50 kw</b>	<b>NPR. 3,000</b>																																											
<b>(Kha) 50 kw to 125 kw</b>	<b>NPR. 4,000</b>																																											
<b>(Ga) 125 kw to 200 kw</b>	<b>NPR. 6,000</b>																																											
<b>(Gha) Above 200 kw</b>	<b>NPR. 7,500</b>																																											
(2) Mini-Truck, Mini-bus, Water Tanker	NPR.6,000																																											
(3) Mini Tipper	NPR.7,000																																											
(4) Truck, Bus	NPR.8,000																																											
(5) Dozer, Excavator, Loader, Roller, Machinery Equipment like Crane	NPR.12,000																																											
(6) Oil Tanker, Gas Bullet, Tripper	NPR.12,000																																											
(7) Tractor	NPR.2,000																																											
(8) Power Tiller	NPR.1,500																																											
(9) Auto rickshaw, Three-wheeler, Temp	NPR.2,000																																											
<b>Schedule 1 Sec (2)(2)</b>	Tax shall be imposed at the rate of 30 percent on the taxable income of a bank, financial institution, an entity engaged in the general insurance business, <b>entity engaged in financial transaction</b> or telecommunication and internet service, money transfer, capital market business, securities business, merchant banking, commodity future market, stock and commodity broker business, or in the business of cigaratee, bididi, cigar, chewing tobacco khaini, gutkha, panmasala, liquor, beer or an entity engaged in petroleum operations under Nepal Petroleum Act, 2040.	Tax shall be imposed at the rate of 30 percent on the taxable income of a bank, financial institution, an entity engaged in the general insurance business or telecommunication and internet service, money transfer, capital market business, securities business, merchant banking, commodity future market, stock and commodity broker business, or in the business of cigaratee, bididi, cigar, chewing tobacco khaini, gutkha, panmasala, liquor, beer or an entity engaged in petroleum operations under Nepal Petroleum Act, 2040.																																										
<b>Schedule 1 Sec (3)</b>	Co-operative societies registered pursuant to Co-operatives Act, 2074 to carry out transactions except tax exempt transaction shall be taxed as follows:	Co-operative societies registered pursuant to Co-operatives Act, 2074 to carry out transactions except tax exempt transaction shall be taxed as follows:																																										



SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)																								
	<table border="1"> <thead> <tr> <th>Operating Area</th> <th>Tax Rate</th> </tr> </thead> <tbody> <tr> <td>Municipality</td> <td>5%</td> </tr> <tr> <td>Sub-metropolitan City</td> <td>7%</td> </tr> <tr> <td>Metropolitan City</td> <td>10%</td> </tr> </tbody> </table> <p><b>However, tax shall be levied as below to co-operatives engaged in savings and credit related transactions:</b></p> <table border="1"> <thead> <tr> <th>Operating Area</th> <th>Tax Rate</th> </tr> </thead> <tbody> <tr> <td><b>Municipality</b></td> <td><b>10%</b></td> </tr> <tr> <td><b>Sub-metropolitan City</b></td> <td><b>15%</b></td> </tr> <tr> <td><b>Metropolitan City</b></td> <td><b>20%</b></td> </tr> </tbody> </table>	Operating Area	Tax Rate	Municipality	5%	Sub-metropolitan City	7%	Metropolitan City	10%	Operating Area	Tax Rate	<b>Municipality</b>	<b>10%</b>	<b>Sub-metropolitan City</b>	<b>15%</b>	<b>Metropolitan City</b>	<b>20%</b>	<table border="1"> <thead> <tr> <th>Operating Area</th> <th>Tax Rate</th> </tr> </thead> <tbody> <tr> <td>Municipality</td> <td>5%</td> </tr> <tr> <td>Sub-metropolitan City</td> <td>7%</td> </tr> <tr> <td>Metropolitan City</td> <td>10%</td> </tr> </tbody> </table>	Operating Area	Tax Rate	Municipality	5%	Sub-metropolitan City	7%	Metropolitan City	10%
Operating Area	Tax Rate																									
Municipality	5%																									
Sub-metropolitan City	7%																									
Metropolitan City	10%																									
Operating Area	Tax Rate																									
<b>Municipality</b>	<b>10%</b>																									
<b>Sub-metropolitan City</b>	<b>15%</b>																									
<b>Metropolitan City</b>	<b>20%</b>																									
Operating Area	Tax Rate																									
Municipality	5%																									
Sub-metropolitan City	7%																									
Metropolitan City	10%																									

### 2.3. AMENDMENTS IN VALUE ADDED TAX ACT, 2052

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
8 (2Ka)	<b>Any registered or un-registered person obtaining vehicle on rent or transport service from an un-registered person shall assess and deduct tax on the taxable amount in accordance with this act or rules framed under this act at the time of payment or acquisition of service, whichever occurs earlier.</b>	Not provisioned for
17 (5Kha)	The concerned taxpayer shall be allowed to deduct the tax paid pursuant to Subsection (2) and <b>2ka</b> of Sec. 8, Sec. 12Ka and sub-section 3 of Sec. 15	The concerned taxpayer shall be allowed to deduct tax paid pursuant to Subsection (2) of Section 8, Section 12Ka. and Sub-section (3) of Section 15
25 (1Kha)	If a consumer makes payment of the goods or services <b>assessed by department by publishing the notice</b> purchased via electronic medium in accordance to the prevailing laws, then the ten percent of the tax amount paid shall be refunded as cash incentive and deposited in their bank account as per the procedure prescribed by the Department	If a consumer makes payment of the goods or services purchased via electronic medium in accordance to the prevailing laws, then the ten percent of the tax amount paid shall be refunded as cash incentive and deposited in their bank account as per the procedure prescribed by the Department
29 (1Nga)	<b>Tax officer may impose a fine of 25% of claimed tax amount pursuant to clause ka, ka1 and ka2 of sub-section 1 of Sec. 25 in case tax refund is obtained through automated electronic medium for the amount that is ineligible for claiming the refund amount</b>	Not provisioned for

### 2.4. AMENDMENTS IN EXCISE DUTY ACT, 2058

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/CHANGES (2079/80)
2 (Dha)	“Department” means <b>the Inland Revenue Department.</b>	“Department” means <b>the department designated by Government of Nepal for the purpose of this Act.</b>
3Kha (1) (Kha) (2)	No excise duty shall be levied on the excisable goods or services pursuant to Section 3, under the following circumstances: Ka) If any goods or services are exported outside Nepal or any goods other than liquors or cigarettes are sold to a licensed duty-free shop (bonded warehouse and duty-free shops), Kha) If a licensed bonded warehouse sells cigarettes or alcohol to a person or entity having diplomatic and tariff privilege as per the recommendation of Ministry of Foreign Affairs, Government of Nepal. Provided that, 1) Bonded Warehouse shall not be restricted from selling or distributing goods, other than cigarette or alcohol, without levying excise duty on it. 2) While importing <b>or purchasing excisable goods produced within Nepal</b> to be sold from a bonded warehouse, cash deposit or bank guarantee equivalent to excise duty applicable on such goods shall be furnished.	No excise duty shall be levied on the excisable goods or services pursuant to Section 3, under the following circumstances: Ka) If any goods or services are exported outside Nepal or any goods other than liquors or cigarettes are sold to a licensed duty-free shop (bonded warehouse and duty-free shops), Kha) If a licensed bonded warehouse sells cigarettes or alcohol to a person or entity having diplomatic and tariff privilege as per the recommendation of Ministry of Foreign Affairs, Government of Nepal. Provided that, 1) Bonded Warehouse shall not be restricted from selling or distributing goods, other than cigarette or alcohol, without levying excise duty on it. While importing excisable goods to be sold from a bonded warehouse, cash deposit or bank guarantee equivalent to excise duty applicable on such goods shall be furnished.
8(1)	No one shall manufacture, <b>export</b> , import, sell or store an excisable goods or provide excisable services to any other person, without obtaining a license pursuant to this Act.	No one shall manufacture, import, sell or store an excisable goods or provide excisable services to any other person, without obtaining a license pursuant to this Act.
9(1)	No one shall manufacture, <b>export</b> , import, sell or store an excisable goods or provide excisable services to any other person, without obtaining a license pursuant to this Act or the Rules framed under this Act.	No one shall manufacture, import, sell or store an excisable goods or provide excisable services to any other person, without obtaining a license pursuant to this Act or the Rules framed under this Act.



2.5. AMENDMENTS IN CUSTOM ACT, 2064

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
13 (15)(Ka)	<p>If the value declared by an importer pursuant to sub-section (3) is less than the customs value determined by the Customs Officer pursuant to this Section, the Customs Officer may do the following in relation to such goods:</p> <p>(Ka) Clearing such goods by collecting fifty percent additional customs duty on such difference value <b>in case of custom duty attractable goods. However, in case of good attracting agriculture development duty or excise duty instead of customs duty, it shall be cleared by collecting fifty percent of additional agriculture development duty or excise duty on such difference value.</b></p> <p>or</p> <p>(Kha) With the prior approval of the Director General, purchasing, or causing to be purchased, such goods in a manner to pay the amount to be set by adding five percent amount to the value so declared to the importer.</p>	<p>If the value declared by an importer pursuant to sub-section (3) is less than the customs value determined by the Customs Officer pursuant to this Section, the Customs Officer may do the following in relation to such goods:</p> <p>(Ka) Clearing such goods by collecting fifty percent additional customs duty on such difference value,</p> <p>or</p> <p>(Kha) With the prior approval of the Director General, purchasing, or causing to be purchased, such goods in a manner to pay the amount to be set by adding five percent amount to the value so declared to the importer.</p>
18 (1)	<p>Any person who exports or imports any goods shall fill up the declaration form, accompanied by the documents as prescribed, and submit it to the Customs Officer of the concerned area.</p> <p>Provided that, it shall not be necessary to fill up the declaration form in the case of those goods which have been exempted from customs duty by the Government of Nepal by notification in the Nepal Gazette, out of the goods <b>brought and carried by the passenger for personal use</b> while going out from Nepal and coming into from foreign countries.</p>	<p>Section 18 (1), Any person who exports or imports any goods shall fill up the declaration form, accompanied by the documents as prescribed, and submit it to the Customs Officer of the concerned area.</p> <p>Provided that, it shall not be necessary to fill up the declaration form in the case of those goods which have been exempted from customs duty by the Government of Nepal by notification in the Nepal Gazette, out of the goods <b>contained in the luggage and baggage of passengers</b> going out from Nepal and coming into from foreign countries.</p>
51 (1)	<p>A person who wishes to act as the customs agent <b>or representative</b> of any importer or exporter to clear goods to be imported or exported from the Customs Office or to do any act</p>	<p>A person who wishes to act as the customs agent of any importer or exporter to clear goods to be imported or exported from the Customs Office or to do any act related</p>

SECTION	AMENDED PROVISION (2080/81)	EXISTING PROVISION/ (2079/80)
	<p>related with the Customs Office shall obtain the license of customs agent from the Department or Customs Office.</p>	<p>with the Customs Office shall obtain the license of customs agent from the Department or Customs Office.</p>
60Kha(4)	<p>The investigating officer shall complete the investigation within 25 days <b>from the date when the person related to the case has been arrested</b>. Further, in case of punishment under Sec 57 (1Ga) and (1Gha), necessary opinion of governmental lawyer shall be received, and the case must be filed to the concerned authority.</p>	<p>The investigating officer shall complete the investigation within 25 days <b>from the date of proceeding the investigation</b>, and in case where punishment under Sec 57 (1Ga) and (1Gha) is required, necessary opinion of governmental lawyer shall be received, and the case must be filed to the concerned authority.</p>

**DISCLAIMER**

*The Institute of Chartered Accountants of Nepal (ICAN) has created and maintains this publication as a service to its members, students, and the stakeholders. The compilation is extracted from Budget Speech 2080/81 and Finance Bill 2080. This publication is intended to provide general information and is not intended to provide or substitute legal or professional advice. This publication has been prepared so that it is current as at the date of writing.*



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL**

(Established under the Nepal Chartered Accountants Act, 1997)

ICAN Marga, Satdobato, Lalitpur, Nepal;

Phone: 00977-1-5530832, 5530730

Fax: +977-1-5550774

Email: [ican@ntc.net.np](mailto:ican@ntc.net.np)

Website: <http://www.ican.org.np>



## EFFECTIVE DATE FOR IMPLEMENTATION OF NFRS, NFRS FOR SMEs, NAS FOR MEs, NAS FOR NPOs AND NSAs

### Background

ICAN has been continuously working on improving quality of accounting and developing credibility of accounting profession in the society. In line with achieving the objective and developing consistency in the accounting profession, ICAN has pronounced various standards to be implemented for accounting and auditing. The date of effectiveness of such standards are listed below under 3 sections:

### SECTION 1

#### NEPAL FINANCIAL REPORTING STANDARDS (NFRS 2018)

S.No.	NFRS	Name	Effective Date	Effective FY
1.	NFRS 1	First-Time Adoption of Nepal Financial Reporting Standards	July 16, 2020	2077/78
2.	NFRS 2	Share based Payment		
3.	NFRS 3	Business Combination		
4.	NFRS 4	Insurance Contracts		
5.	NFRS 5	Non-Current Assets Held for Sale & Discontinued Operation		
6.	NFRS 6	Exploration for and Evaluation of Mineral Resources		
7.	NFRS 7	Financial Instruments: Disclosure		
8.	NFRS 8	Operating Segments		
9.	NFRS 9	Financial Instruments	July 16, 2021	2078/79
10.	NFRS 10	Consolidated Financial Statements	July 16, 2020	2077/78
11.	NFRS 11	Joint Arrangements		
12.	NFRS 12	Disclosure of Interests in other Entities		
13.	NFRS 13	Fair Value Measurements		
14.	NFRS 14	Regulatory Deferral Accounts	July 16, 2021	2078/79
15.	NFRS 15	Revenue from Contracts with Customers		
16.	NFRS 16	Leases		
17.	NFRS 17	Insurance Contracts	July 17, 2023	2080/81
18.	NAS 1	Presentation of Financial Statements	July 16, 2020	2077/78
19.	NAS 2	Inventories		
20.	NAS 7	Statements of Cash Flow		
21.	NAS 8	Accounting Policies, Changes in Accounting Estimates and Errors		
22.	NAS 10	Events after Reporting Period		
23.	NAS 12	Income Tax		
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 Cost		
29.	NAS 24	Related Party Disclosures		
30.	NAS 26	Accounting and Reporting by Retirement Benefits Plan		
31.	NAS 27	Separate Financial Statements		
32.	NAS 28	Investment in Associates and Joint Ventures		



S.No.	NFRS	Name	Effective Date	Effective FY
33.	NAS 29	Financial Reporting in Hyperinflationary Economics	July 16, 2021	2078/79
34.	NAS 32	Financial Instruments: Presentation	July 16, 2020	2077/78
35.	NAS 33	Earnings Per share		
36.	NAS 34	Interim Financial Reporting		
37.	NAS 36	Impairment of Assets		
38.	NAS 37	Provision, 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		

## SECTION 2

### **NFRS FOR SMES, NAS FOR MES AND NAS FOR NPOS**

S.No.	Applicable Standards	Original Effective Date	Revised Effective Date	Revised Effective F.Y.
1	NFRS for SMEs	July 16, 2021	July 17, 2023	2080/81
2	NAS for MEs			
3	NAS for NPOs			

### **Applicability of the above standards**

#### **For financial reporting purpose the entities can be classified as**

1. Those having public accountability: NFRS shall be applicable
2. Those NOT having public accountability: NFRS for SME shall be applicable
3. Those NOT having public accountability other than SMES:

**Micro Entities-** NAS for MEs

**NPOs-** NAS for NPOs

#### **1. Entities having Public Accountability**

- a. Whose debt or equity instruments are traded in public market or is in process of issuing such instruments (except listed Micro Finance not having economic significance)
- b. It holds assets in a fiduciary capacity for broad group of outsiders as one of its primary businesses:
  - i. banks, credit unions, insurance companies, security dealers and mutual funds, investment banks (except Micro Finance and Cooperatives not having economic significance)

- ii. Pension and retirement funds
- c. Government Business Enterprises (GBEs), Public entities established under special acts not preparing financial statements under NPSAS.
- d. Entities having economic significance.
  - i. Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRs 500 million or more;
  - ii. Statement of Financial Position (Balance Sheet) total (without off-setting current liabilities with current assets) of NRS 1000 million or more;
  - iii. Employing more than 300 employees including workers in an average or
  - iv. Annual Turnover (Revenue of Entity) of NRS 1000 million or more;
  - v. Holding assets in fiduciary capacity in excess of NRs 500 million (includes security brokers handling demat account, micro finance and cooperatives),

An entity which attains at least 1 of these limits in 2 consecutive years shall be deemed to be an entity having economic significance to qualify as an entity



with Public Accountability and once qualified, must fall below all of these limits for 2 consecutive years to cease to qualify.

### 2. Small and Medium Sized Entities

Small and Medium Sized Entities are those entities that:

- a. Do not have public accountability; and
- b. Publish general purpose financial statements for external users

### 3. Micro Entities:

Micro entities are those entities with the following thresholds (all):

- a. Annual Turnover (Revenue of Entity) of NRs 100 million or less;
- b. Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRS 50 million or less;
- c. Statement of Financial Position (Balance Sheet) total of NRs 100 million (without off- setting current liabilities in current assets) or less; and
- d. Holding assets in fiduciary capacity of NRS 50 million or less (includes security brokers handling demat account, micro finance and cooperatives.

An entity must meet all of these limits in 2 consecutive years to qualify as a micro- entity and once qualified, must exceed at least 1 of these limits for 2 consecutive years to cease to qualify.

## SECTION 3

### NEPAL STANDARDS ON AUDITING (NSA)

S.No.	NSA No.	Name of Standards	Effective Date
<b>NEPAL STANDARDS ON QUALITY CONTROL (NSQCs)</b>			
1	NSQC 1	Nepal Standard on Quality Control (NSQC) 1 : Quality Control For Firms that Perform Audits and Reviews Of Financial Statements, and Other Assurance and Related Services Engagements	July 17, 2019
<b>AUDITS OF HISTORICAL FINANCIAL INFORMATION</b>			
<b>200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES</b>			
2	NSA 200	Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing	July 17, 2019
3	NSA 210	Agreeing the Terms of Audit Engagement	
4	NSA 220	Quality Control for an Audits of Financial Statements	
5	NSA 230	Audit Documentation	
6	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
7	NSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	
8	NSA 260 (Revised)	Communication with Those Charged with Governance	
9	NSA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	



S.No.	NSA No.	Name of Standards	Effective Date
<b>300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS</b>			
10	NSA 300	Planning an Audit of financial statements	July 17, 2019
11	NSA 315 (Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	
12	NSA 320	Materiality in Planning and Performing an Audit	
13	NSA 330	The Auditor's Responses to Assessed Risks	
14	NSA 402	Audit Considerations Relating to an Entity Using a Service Organization	
15	NSA 450	Evaluation of Misstatements Identified during the Audit	
<b>500-599 AUDIT EVIDENCE</b>			
16	NSA 500	Audit Evidence	July 17, 2019
17	NSA 501	Audit Evidence-Specific Considerations for Selected Items	
18	NSA 505	External Confirmations	
19	NSA 510	Initial Audit Engagements—Opening Balances	
20	NSA 520	Analytical Procedures	
21	NSA 530	Audit Sampling	
22	NSA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	
23	NSA 550	Related Parties	
24	NSA 560	Subsequent Events	
25	NSA 570 (Revised)	Going Concern	
26	NSA 580	Written Representations	
<b>600-699 USING THE WORK OF OTHERS</b>			
27	NSA 600	Special considerations-Audit of Group Financial statements (including the work of component Auditors)	July 17, 2019
28	NSA 610 (Revised)	Using the work of Internal Auditors	
29	NSA 620	Using the work of an Auditors Expert	
<b>700-799 AUDIT CONCLUSIONS &amp; REPORTING</b>			
30	NSA 700 (Revised)	Forming an opinion and Reporting on financial statements	July 17, 2019
31	NSA 701	Communicating Key Audit Matters in the Independent Auditors Report	July 16, 2020 for MNCs, Listed and Government entities, and July 16, 2021 for Other Institutions
32	NSA 705 (Revised)	Modifications to the opinion in the Independent Auditors report	July 17, 2019
33	NSA 706 (Revised)	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report	
34	NSA 710	comparative information-corresponding Figures and comparative Financial Statements	
35	NSA 720 (Revised)	The auditor's responsibilities relating to other information in Documents Containing Audited Financial statements.	





S.No.	NSA No.	Name of Standards	Effective Date
<b>800-899 SPECIALIZED AREAS</b>			
36	NSA 800 (Revised)	special Considerations-Audit of financial statements Prepared in accordance with special Purpose Frame works	July 17, 2019
37	NSA 805 (Revised)	special Considerations-Audits of Single Financial statements and Specific Elements, Accounts or Items of a Financial statements	
38	NSA 810 (Revised)	Engagements to Report on Summary of Financial Statements	
<b>NEPAL AUDITING PRACTICE NOTES</b>			
39	NAPN 1000	Special considerations in Auditing Financial Instruments	July 17, 2019
<b>AUDITS AND REVIEW OF HISTORICAL FINANCIAL INFORMATION</b>			
<b>2000-2699 NEPAL STANDARDS ON REVIEW ENGAGEMENTS(NSREs)</b>			
40	NSRE 2400	Engagement to Review Financial Statement	July 17, 2019
41	NSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	
<b>ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION</b>			
<b>3000-3699 NEPAL STANDARDS ON ASSURANCE ENGAGEMENTS (NSAEs)</b>			
<b>3000-3399 APPLICABLE TO ALL ASSURANCE ENGAGEMENTS</b>			
42	NSAE 3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	July 17, 2019
<b>3400-3699 SUBJECT SPECIFIC STANDARDS</b>			
43	NSAE 3400	The Examination of Prospective Financial Information	July 17, 2019
44	NSAE 3402	Assurance Reports on Controls at a Service Organization	
45	NSAE 3410	Assurance Engagements on Greenhouse Gas Statements	
46	NSAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus	
<b>RELATED SERVICES</b>			
<b>4000-4699 NEPAL STANDARDS ON RELATED SERVICES (NSRSs)</b>			
46	NSRS 4400	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information	July 17, 2019
47	NSRSs 4410 (Revised)	Compilation engagements	
<b>AUDIT QUALITY</b>			
48. A FRAMEWORK FOR AUDIT QUALITY: KEY ELEMENTS THAT CREATE AN ENVIRONMENT FOR AUDIT QUALITY			
<b>ASSURANCE FRAMEWORK</b>			
49. AMENDED NEPAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS			



## Name and Membership Number of New Chartered Accountants Members

*The Institute registered Chartered Accountants pursuant to section 16(2) of the Nepal Chartered Accountants Act, 1997*

*During the period of April 2023 to June 2023, the newly enrolled Chartered Accountants are as follows:*

S.No	Membership Number	Name of Members	S.No	Membership Number	Name of Members
1	CA-2004	PRAVIN DEVKOTA	33	CA-2036	DEEPA MAHARJAN
2	CA-2005	RISHAB AGRAWAL	34	CA-2037	SAROJ THAPA
3	CA-2006	ANISH ADHIKARI	35	CA-2038	DEEPAK UPRETY
4	CA-2007	SUMAN UPRETY	36	CA-2039	PUJAN RIJAL
5	CA-2008	AASHISH LAMICHHANE	37	CA-2040	BIBEK DHITAL
6	CA-2009	BIKASH ACHARYA	38	CA-2041	HEMAN BAJGAIN
7	CA-2010	SANCHITA NEUPANE	39	CA-2042	MUKHTIYAR AHMAD
8	CA-2011	BIJAYA TIWARI	40	CA-2043	AMIT AGRAWAL
9	CA-2012	SANJEEV BHAKTA ACHARYA	41	CA-2044	BADRI KURMI
10	CA-2013	YUBARAJ UPRETI	42	CA-2045	SHALU AGRAWAL
11	CA-2014	PRAJWOL SAYAMI	43	CA-2046	ANURAG KUMAR AGRAWAL
12	CA-2015	SITAL CHAND	44	CA-2047	SAGAR KHADKA
13	CA-2016	BISHAL KANDEL	45	CA-2048	BISHAL GUPTA
14	CA-2017	UMESH PRASAD BHATT	46	CA-2049	SUDANSHU MALLICK
15	CA-2018	UMESH BHATTARAI	47	CA-2050	RAJAN SAH
16	CA-2019	ACHYUT HUMAGAIN	48	CA-2051	PRAJWAL KHANAL
17	CA-2020	ROJAN SHRESTHA	49	CA-2052	PRATEEK BHANDARI
18	CA-2021	SAUGAT GAUTAM	50	CA-2053	PRABHAV KRISHNA KHAND
19	CA-2022	SUBINA BHATTA	51	CA-2054	SUMIT SHRESTHA
20	CA-2023	SUJAN BHATTARAI	52	CA-2055	ROMAN NEUPANE
21	CA-2024	SAUGAT KARKI	53	CA-2056	ASMITA SITOULA
22	CA-2025	KABITA WAGLEY	54	CA-2057	BASANTA LAMA
23	CA-2026	SURAJ JOSHI	55	CA-2058	PRAKASH K.C.
24	CA-2027	AAKASH GUPTA	56	CA-2059	RAKESH SHARMA DHAKAL
25	CA-2028	BIJAYA SHAH	57	CA-2060	SHUVASHIS BABU SHRESTHA
26	CA-2029	SAMMAN DEVKOTA	58	CA-2061	SAMBHAV KHANAL
27	CA-2030	SWOPNIL PANDEY	59	CA-2062	NARESH KUMAR PATEL
28	CA-2031	SUMAN KHADKA	60	CA-2063	SUMAN NEPAL
29	CA-2032	MILAN RUMBA	61	CA-2064	ANISH PANERU
30	CA-2033	RAJAN SAPKOTA	62	CA-2065	PURNIMA KHANAL
31	CA-2034	SUJAN TIMALSINA	63	CA-2066	CHANARJIT SAH
32	CA-2035	LUJALA MAHARJAN			

## **“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.

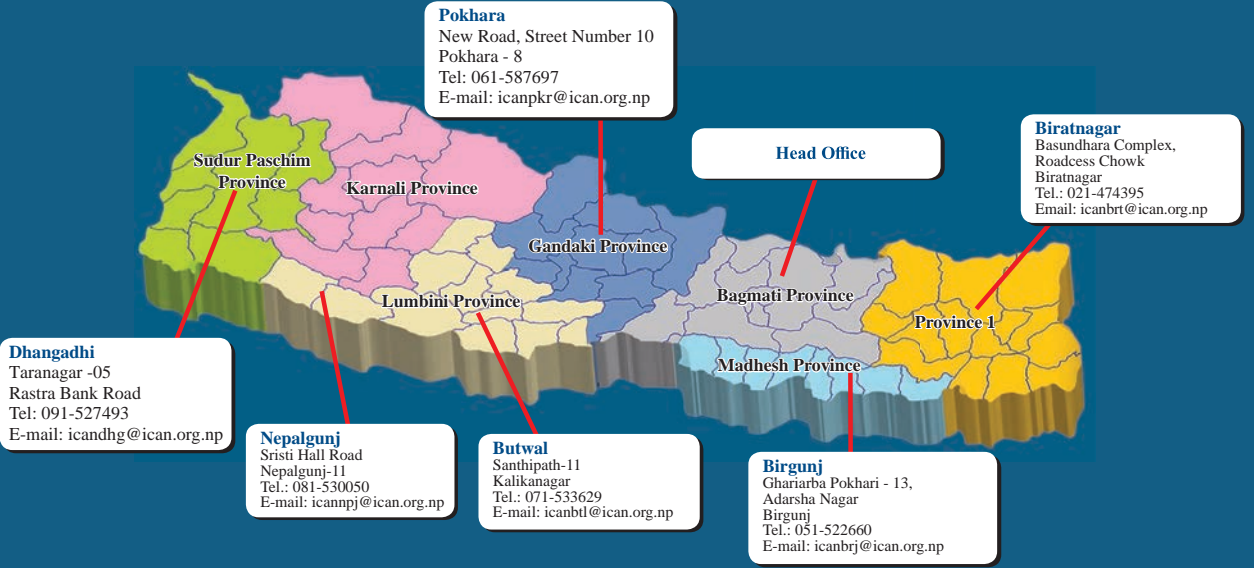
Therefore, Members of the Institute and other writer may contribute innovative articles, research material, insights on professional matters in English Language with 2,500 - 3,500 words by sending an email at [editorialboard@ican.org.np](mailto:editorialboard@ican.org.np) for publishing it in the Journal 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

[www.ican.org.np](http://www.ican.org.np)