Mandatory Disclosure Practices – A Case Study of State Bank of India.

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Abstract:

Indian banking sector plays a major role in the Indian economy. Banks allows the mobilization of deposits from public and make available for trade, Commerce and Industry. It's very important for every bank to be transparent in disclosure practices, which helps in maximization of wealth of shareholder in order to build investors confidence. The study is on mandatory disclosure practices by State Bank of India for the financial year 2017-18 to 2019-20. 326 items were considered for the disclosures which are further subdivided for analysis. The result shows Indian banks achieve high level of compliance by showing mandatory disclosure practices.

Keywords: Mandatory Disclosure practices, Banks.

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Introduction:

In the year 1982, the Indian company started the Disclosures in the annual reports. The research instrument used for disclosure practices was a disclosure index which included both voluntary and mandatory items. Increase in Disclosure practices over a period of time was found. This led to the disclosure of accounting standards requirements over the time period. The information disclosed on the official website has to standardize in format and content. In India, after independence banking sector has undergone the transformation from being a lending institution to being the fulcrum of our economy. They have the surplus resources from all the sectors and they channelize them into the deficit sectors. Thus, the need for disclosing their operational information is to satisfy the needs of the stakeholders.

The mandatory items included in the balance sheet as per Banking Regulation Act, 1949 are:

1. Capital
2. Reserve & Surplus
3. Deposits
4. Borrowings
5. Other Liabilities & Provisions
6. Cash and Bank balance with RBI
7. Balance with banks and money at call & short notice
8. Investments
9. Advances
10. Fixed assets
11. Other assets

12. Contingent liabilities
13. Bills for collection.
14. The mandatory items included in the profit and loss account as per Banking Regulation Act, 1949 are:

- Income
- Expenditures
- Profits
- Appropriations (ICSI, 2013).

The Companies Act 2013 provides under section 134(3) that a report by its Board of Directors shall be attached to financial statements laid before a company in General meeting. It includes:

1. Annual return provided under sub section (3) of section 92
2. Number of board meeting
3. Director's responsibility statement
4. Declaration given by independent director's
5. Company's policy on director's appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director& other matter provided in sub- section (3) of section 178
6. Explanations or comments by the board on every qualification, reservation or adverse remark by auditors in his report or by company secretary
7. Particular's of loans, guarantees or investments
8. Particulars of contractor or arrangements with related parties
9. The state of the company's affairs
10. Amount carry to any reserves
11. Amount should be paid by way of dividend
12. Material changes and commitments
13. Conservation of energy, technology, absorption, foreign exchange
14. Implementation of risk management policy
15. Policy on corporate social responsibility
16. Formal annual evaluation.

In case of listed companies, the Management Discussion and Analysis Report should either form a part of the Board's Report or to be given as an addition thereto in the annual report to the shareholders. It includes disclosure regarding:

1. Industry structure and development
2. Opportunities and threats
3. Segment wise or product wise performance
4. Outlooks
5. Risks and areas of concern
6. Internal control systems and their adequacy
7. Financial performance with respect to operational performance
8. Material developments (ICSI, 2013).

The SEBI monitors and regulates corporate governance of listed companies in India through clause 49. Under clause 49; there is a requirement for a separate section on corporate governance in the annual reports of companies. This report contains following section:

1. Company’s philosophy on code of governance
2. Board of directors
3. Audit committee
4. Remuneration committee
5. Stakeholder’s committee
6. General body meeting
7. Disclosures
8. Means of communications
9. General shareholders information (ICSI, 2013).

The Reserve Bank of India provides the guidance in detail to the banks with respect to the disclosures in the “Notes to Accounts” to the financial statements. It includes:

1. Capital Adequacy ratio as per Basel
2. Investments
3. Derivatives
4. Asset quality
5. Exposures
6. Miscellaneous
7. Disclosure requirement as per accounting standard
8. Additional disclosures (RBI).

The Recommendations of the Basel Committee provides Banking Supervision which includes (Basel I, Basel II and Basel III Norms)

BASEL I – The 1988 BASEL I accord primarily focused on credit risk of banks Basel- I can be divided into four pillar framework:
Pillar1 - Constituents of Capital
Pillar 2 -Risk Weighting System
Pillar 3 -Target Standard Ratio
Pillar4 – Transitional and Implementation arrangements.
BASEL I accord could establish a new discipline for banks in managing their credit risk. Shortcomings of BASEL I, Capital requirement under BASEL I, are considered to be moderately related to a bank’s risk taking.

BASEL II- BASEL II accord presented in 2004, in contrast to BASEL I.
BASEL II intended to provide a variety of benefits to the banking system via; enhanced risk efficient operations and management system, higher revenues to the banking community.
Basel II: The Three Pillars

1. Minimum Capital Requirement (includes credit risk, market risk, operating risk)
2. Supervisory Review Process
3. Market Discipline.

BASEL III-BASEL III aims to build robust capital base for banks and ensure sound liquidity and leverage ratios in order to weather away any banking crises in the future and thereby ensure financial stability.

BASEL III-THE THREE PILLARS
Pillar 1 – Enhanced Minimum Capital and Liquidity Requirement
Pillar 2- Enhanced Supervisory Review Process for firm- wide risk management and capital planning.
Pillar 3- Enhanced Risk Disclosure & Market Discipline.(iibf)

The Institute of Chartered Accountants of India (ICAI) has issued:

Mandatory Accounting standard (AS1-AS29)

Accounting Standards not mandatory as on September 1, 2014 (AS30, AS31And AS32) (ICAI).

Disclosure of Mandatory Items

The following are the mandatory disclosure items for banks as per Banking Regulation Act 1949, Company Act 2013, listing rules of the Securities and exchange board of India, Guidelines of Reserve Bank of India. Accounting standard issued by Institute of chartered accountants of India and recommendations of Basel committee were summarized in table form:

Table 1: Disclosure of Mandatory Items for Banks

Mandatory Items	Total (Main items)	Total (sub Items)	Name of Act
Balance Sheet Profit and Loss Account	13 4	106 40	Banking Regulation Act, 1949
Director's Report Management Discussion and Analysis	16 8	16 8	Company Act, 2013
Corporate Governance	9	49	Securities exchange board of India, listing rules (clause 49)
Notes to Accounts (including Basel norms)	8	107	Reserve Bank of India guidelines

LITERATURE REVIEW

1. Hossain, M. (2008) examined the extent of mandatory and voluntary disclosure by listed banking companies in India. An index of 184 items consisting of 101 mandatory and 83 voluntary items was constructed. Results showed that average score for mandatory items were 88 and for voluntary items were 25 only. The association between company specific characteristics and total disclosure of the sample companies was also analyzed. Result stated that size, profitability, board composition and market discipline variables were significant and other variables such as age, complexity of business and assets in place were insignificant in explaining the level of disclosure.
2. Aelopo(2010) examined Voluntary disclosure practices of 52 listed companies in Nigeria by using univariate and multivariate analysis, representing 41%of the population studies suggested an average voluntary disclosure of 44%based on modified meek et al.(1995) disclosure index comprising 24 disclosure items. The study suggest that significant positive relationship between voluntary disclosure and firm size, measured as the natural logarithm of total asset and also positive relationship was found between market based definition of firm performance and voluntary disclosure. Percentage of block share ownership and percentage of managerial share ownership were found to be negatively related to firm disclosures.
3. Abdullah,et .al.,(2013) analyzed mandatory disclosure practices in the

annual reports of Malaysian public listed companies. The study used a sample of 225 companies listed on Bursa Malaysia. A self constructed disclosure checklist contained 295 mandatory disclosure items which were derived from 12 accounting standard. Result show that the extent of mandatory disclosure in annual report varies among companies. The findings also observed that the inappropriate usage of boilerplate practice among Malaysian public listed companies and this practice might result in misleading information given to the readers or users of annual reports.

4. Mangla & Isha (2015)measures disclosure practices of Indian corporate sector in terms of items ,company and industry wise by using the appropriate disclosure indices using items from annual reports of Nifty 50 firms for a period of six years. The result of the study reveals that there was a significant variation in the disclosure score across various disclosure items, industries and companies. It was also found that corporate governance information has been highly disclosed by the firms, whereas, forward looking information has been least disclosed by the companies.

NEED FOR THE STUDY

Corporate governance plays a major role in the present scenario especially in the Indian banking system. It helps in strengthening the banks and makes them more accountable, transparent and participatory. The main focus of the banking system is on its financial viability and banking practices is the only way to build the confidence. The present study is to analyze the impact of mandatory disclosure practices on Indian Banking system.

OBJECTIVE OF THE STUDY

The main objective of the study is:

1. To study the conceptual framework of financial reporting in Indian Banking System.
2. To Study the mandatory disclosure practices of SBI.

METHODOLOGY

PERIOD OF THE STUDY

The present study examines the mandatory disclosure practices of State Bank of India for the period of three financial years i.e. from 2017-2018 to 2019-2020.

DATA COLLECTION

The present study is purely on secondary data which collected from the official website of SBI.

DATA ANALYSIS AND INTERPRETATION

Mandatory Disclosure of Balance Sheet Items

According to Banking Regulation Act 1949, Balance sheet contains total 13 mandatory disclosures items for banks, further subdivided into 106 items. The items disclosed for the study period of 3 year along with the percentage of disclosure is shown under the table.

Table: 2 Disclosures of Balance Sheet Items by State Bank of India.

Year	Disclosed Items	Undisclosed Items	% of Disclosure
2019-20	106	-	100
2018-19	106	-	100
2017-18	106	-	100

Source: Annual Reports, State Bank of India

From the above table, the balance sheet items of 106 are fully disclosed for all the study period of 3 years from 2017-18 to 2019-2020. The total of 106 items is fully disclosed by SBI and it represents the 100 percent disclosure of mandatory balance sheet items. Thus, it concludes that the SBI has complied with the mandatory requirements.

Mandatory Disclosure of Profit And Loss Account Items

As per Banking Regulation Act 1949, profit and loss account contains 4 mandatory disclosures items for banks which have been sub divided into 40 sub items. The 3 years disclosures along with percentages are shown in the following table.

Table3: Disclosure of Profit and Loss Account Items by State Bank of India.

Year	Disclosed items	Un-disclosed items	% of Disclosure
2019-20	40	-	100
2018-19	40	-	100
2017-18	40	-	100

Source: Annual Reports, State Bank of India

From the above table shows the sub item wise disclosure of profit and loss account by the State Bank of India. It has been found that the bank disclosed all mandatory items in the relevant 3 years at 100 percent.

Mandatory Disclosure of Corporate Governance Items

The Securities Exchange Board of India provides guidelines for Corporate Governance under clause 49. This contains total 9 mandatory disclosures for banks which have been sub divided into 49 sub items. The disclosure of items for the period of three years together with percentage of disclosure has been shown in the following table:

Table 4: Disclosure of Corporate Governance Items by State Bank of India.

Year	Disclosed Items	Undisclosed Items	% of Disclosure
2019-20	49	-	100
2018-19	45	4	91
2017-18	45	4	91

Source: Annual Reports, State Bank of India

It has been found that bank disclosed 45 mandatory items of the corporate governance during the years 2017-18 & 2018-19 showing percentage of disclosure 91 percent. Bank disclosed 49 mandatory items during the year 2019-20.

Mandatory Disclosure of RBI Guidelines Including Basel Norms

The Reserve Bank of India provides detailed guidelines in the matters of notes to accounts. It contains total 8 mandatory disclosure items which have been sub divided into 107 sub items. The disclosure of items for the period of three years together with percentage of disclosure has been shown in the following table:

Table 5: Disclosure of Notes to Accounts items by State Bank of India.

Year	Disclosed Items	Undisclosed Items	% of Disclosure
2019-20	107	-	100
2018-19	103	4	96
2017-18	103	4	96

Source: Annual Reports, State Bank of India

From the above table bank has disclosed as highest percentage of disclosure 100 percent in the year 2019-20 because it disclosed more additional disclosure i.e. unamortized pension and gratuity liabilities, Un-hedged foreign currency exposures, liquidity coverage ratios, disclosure format, Qualitative disclosure in around LCR and Deferred tax liability on special reserve in comparison to the previous years.

CONCLUSION & SUGGESTIONS

It is concluded that, SBI follows the guidelines issued by Banking Regulation Act, Company Act, SEBI, ICAI and BASEL norms for the mandatory disclosure practices. The present study examines the mandatory disclosure practices in annual reports of SBI. It is concluded that some mandatory information are published in the annual reports at acceptable level. Banks disclose more additional information in financial year's which is increasing from period to period. It enhances transparency and high quality disclosures. It is found that need of the stakeholder are satisfied with the mandatory disclosure practices.

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