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FINANCIAL REPORTING PRACTICES IN COMMERCIAL BANKS

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ABSTRACT

Banking system plays a vital part in the development of an economy. It caters to the need of credit for all the sectors. Money lending and acceptance of deposits are two major functions of a bank. With the onset of Liberalization, Privatization and Globalization the banking sector of our country has also evolved to meet the thrust of International Banking Structure. Though, our banking system helps in socio- profitable development, yet it faces certain obstructions and hindrances in their performing nominated as "risks". A many major bone's are Interest threat, market threat, liquidity threat, credit threat, currency threat, counterparty threat and functional threat. Thus, to avoid similar risks disclosure practices have come ineluctable in recent times. In utmost countries, the enactment relating to banks makes it mandatory that banks should have a robust threat operation function. Still, lack of interest towards the degree of commercial disclosures and translucency followed by banking companies led the global economy to face fiscal extremity, fiscal dishonors and frauds each over the world. These fiscal heads and catastrophe have shaken the confidence of the stakeholders on the banking system. A wide range of exploration has been conducted on fiscal reporting practices fastening on particular aspects like general disclosures, commercial governance, commercial social disclosures and threat operation etc, worldwide but veritably many of them have been set up on disclosure practices by Indian banks. therefore, there's a need to give comprehensive view of different aspects of disclosure practices similar as item wise, bank-wise relative performance of the public and private sector banks, punctuality of fiscal reporting and impact of bank's attributes on punctuality of fiscal reporting on Indian banks etc. The study has been conducted to give overall view of fiscal reporting practices of public and private sector banks in India.

Keywords: *Disclosure, Banking, Basel, Management, System, Financial, Privatization, Economic, Risk.*

Introduction

The ideal of fiscal reporting is to give information to users about the fiscal statements, which are useful for making sound investment opinions. Still, need arises to identify qualitative features or attributes essential to take opinions. Qualitative characteristics are the attributes that make the information handed in the fiscal statement useful to users. The conception of fiscal reporting has gained significance during the recent times because of various compelling factors, similar as the expansion and growth of the company form of association; shift in the emphasis from the conception of „shareholders„ to „stakeholders" and increase in their instructional requirements, the enactments and emendations in disclosure laws in various countries, professionalism of operation; emergence of account as a honored profession; and the pronouncements on disclosure made by various professional account bodies in India and abroad. To make the confidence of the stakeholders and to overcome this disagreement, disclosure of information has come a necessity for all fiscal institutions. The effectiveness and credibility of commercial disclosures and translucency carried out by the commercial are considered vital for attracting foreign investment and also concentrate on the survival and growth of the business concern. In this environment, the study has been formulated to dissect fiscal reporting practices in named marketable banks. The present study is descriptive in nature. It examines the obligatory and voluntary disclosure

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practices in named marketable Banks as per Basel II and Basel III and nonsupervisory conditions. At the same time, a relative analysis of obligatory and voluntary disclosure practices has also been presented. It also examines punctuality of fiscal reporting practices as well as analyzes the impact of bank's attributes on punctuality of fiscal reporting of named marketable Banks.

Financial Reporting

Fiscal reporting refers to the communication of the published fiscal statements and affiliated information which can materially affect the opinions of the being and prospective stakeholders similar as shareholders, creditors, customers, government authorities and the public. The judges use these information to read the establishment's capability to produce futures earnings and as a means to assess the establishment's natural value. Other stakeholders similar as creditors, brokers, lenders, customers, public and government agencies will use fiscal statements as a way to determining the profitable and competitive strength of the commercial that will help in rational decision making. Information on company's affairs can be communicated through various media e.g., prospectus, fiscal presses release, interim and periodic report and particular contact with company officers. Annual report is considered as the most comprehensive means of communication to various stakeholders. The information that has been supplied by periodic reports to the stakeholders by the banking companies includes disclosure of obligatory as well as voluntary information. Investors would prefer to invest in a company that makes full disclosure. Further, inadequate disclosure can produce ignorance in the securities market and can affect in misallocation of resources in the economy. Hence, fair and full disclosures help the users in making rational opinions. The Indian economy has experienced lots of changes over the last decade and these changes have a significant impact on fiscal reporting practices. The nonsupervisory bodies have introduced several changes in the fiscal reporting practices like Companies Act, 2013, Clause 49 of Listing Agreement, perpetration of Basel I Pillar III disclosures and relinquishment of accounting norms to maintain the high quality of disclosure and translucency, as well as to increase the stakeholder's confidence.

The present business script has taken a shape from public to transnational which requires further translucency in disclosure of business operations for the benefit of wide users and taking meaningful opinions. Hence, the increased complexity of business, structures, and deals is driving the need for lesser and further robust disclosure conditions in today's globalized environment. Disclosure is the process through which a reality communicates with the outside world. Information pertaining to company's affairs can be communicated through different media similar as prospectus, fiscal press release, interim and periodic report and particular contact with company officers. Annual report is considered as the most comprehensive means of communication to various stakeholders.

Financial Reporting in Banks

Obligatory disclosures consists of information that's needed to be bared according to the Banking Regulation Act, 1949, the Companies Act, 1956 & 2013, the rules of the Securities and Exchange Board of India, the guidelines of Reserve Bank of India, the Institute of Chartered Accountants of India and the recommendations of the Basel Committee on Banking Supervision. The voluntary disclosures information refers to fresh information delivered by corporates along with the obligatory information with a view to reduce the information asymmetry between interposers and outlanders. Investors would prefer to invest in a company that makes full disclosure. Further, inadequate disclosure can produce ignorance in the securities market and can affect in misallocation of resources in the economy. Hence, fair and full disclosures help the users in making rational opinions. The substance of any bank is that it's a threat taking enterprise and thus, as a part of good commercial governance, it's anticipated that applicable threat- related information will be released to the business. The Basel Committee on Banking Supervision released a document entitled 'Enhancing Bank translucency (BASEL, 1988), which considers translucency to be a crucial element of an effectively supervised, safe and sound banking system and recommends that banks, in regular fiscal reporting and other public disclosures give timely information which facilitates market actors in the assessment of banks.

- **Basel I Accord:** In 1988, Basel Committee on Banking Supervision (BCBS) introduced capital dimension system called Basel Capital Accord also nominated as Basel I. It substantially focuses on banks credit threat, banks capital threat and threat weights structure for banks. 8 RWA is the minimal capital conditions as per Basel I Accord. In the time 1999 for the first time Basel I guidelines were accepted by the Indian Banks. Basel I Accords divided into four pillars The first pillar known as „The ingredients of Capital", defines what types of on- hand capital are counted as a bank's reserves and how important of each type of reserve capital a bank can

hold. The accord divides capital reserves into two categories. Tier I capital includes bared reserves and other capital paid for by the trade of bank equity. Tier II capital includes reserves created to cover implicit loan losses, effects of inferior debt, subordinated debt/ equity instrument effects and implicit earnings from the trade of means bought through the trade of bank stock. The alternate pillar is, „threat weighting". In order to cipher the CRAR, the bank's means should be weighted by five types of bank credit threat and 100 percent. The Third Pillar is, „ A Standard rate ". It sets a universal standard whereby 8 of a bank's threat weighted sets must be covered by tier I and tier II capital reserves. Also, tier 1 capital must cover 4 of a bank's threat- weighted means. The fourth pillar is „ Transitional and enforcing Agreements ", sets the stage for the perpetration of the Basel Accords. Each country's central bank is marketed to produce strong surveillance and enforcement medium to insure the Basel Accords are followed, and "transition weights" are given so that Basel Committee banks can acclimatize over a four-time period to the norms of the accord.

- **Basel III Accord**: In the time 2010, Basel III guidelines were released. These guidelines were introduced in response to the fiscal extremity of 2008. Owing to the problems like undercapitalization or overcapitalization and lesser reliance on short term capital faced by the banking section a need was felt to strengthen the banking system. In addition, the volume and quality of capital under Basel II were supposed inadequate to contain any farther threat. Basel III morals aim at making banking conditioning, similar as their trading book conditioning more capital ferocious. The guiding principle behind Basel III is to help more effective banking system by concentrating on four parameters through banks capital, banks influence, banks funding and banks liquidity.

Significance of Disclosures for Banking Companies

In today's globalized world, disclosure of fiscal and non- fiscal information about banks "present position and futures prospectus will grease market discipline of threat taking behaviour. Market Discipline is affected by the quantum and quality of information bared by banks. The periodic report of banking companies is considered as an important means of communicating fiscal and non- fiscal information to external parties. The consecutive fiscal heads in different regions of the world over the once two decades have led to important emphasis on strengthen fiscal system. A Special G- 22 working group on translucency and Responsibility was formed in 1998 to concentrate on fiscal heads. translucency contributes to the effective allocation of resources by icing that market actors have sufficient information to identify risks and helps to inform market anticipation, thereby helping to stabilize markets during the period of query and also contributing to the effectiveness of blazoned policies. Through fiscal statements and other disclosures, bank should give information that's material to investor's decision. It includes

- **Timeliness**: Material information of material significance should be based on a period and timely base.
- **Completeness**: Financial statement should cover all applicable information, both on and off balance distance.
- **Consistency:** Account policies and methodologies should be applied constantly overtime, any change should be linked and related effect should be bared.
- **Risk Management:** The strategies used to manage risks should be bared regularly.
- **Audit and Control Processes:** enterprises should have effective system of internal control, and fiscal statements should be reviewed annually by independent adjudicators.

A agreement has surfaced that inadequate translucency by transnational associations, public governmental units, and private sector realities contributes the serious fiscal disturbances that have agonized the global economy. It concludes that markets cannot serve efficiently and will continue to be largely vulnerable to insecurity in the absence of acceptable, dependable and timely information.

Conclusion

For communicating information periodic report generally includes two types of disclosures i.e. Obligatory disclosure and voluntary disclosure. obligatory disclosures correspond of information that's needed to be bared according to the securities law, counting principles and nonsupervisory agencies regulations whereas voluntary disclosures relate to fresh information delivered by the bank along with the obligatory information. In Item-wise obligatory disclosure practices (BASEL II & BASEL III), obligatory information related to Profit and Loss Account, Director's Report and operation Discussion and Analysis

Report completely bared by all public and private sector banks under the study in India while information regarding Balance distance, Commercial Governance Report, Notes to Accounts and Basel II Pillar III Disclosure have been bared by all public and private sector banks under the study at moderate position. In Bank-wise Mandatory Disclosure Practices (BASEL II & BASEL III), State Bank of India has the loftiest obligatory disclosure score among public sector banks whereas ICICI Bank has loftiest disclosure score among private sector banks during the period under the study. Still, the obligatory disclosure practices of public and private sector banks during the study period have bettered. Public sector banks have shown more enhancement as compare to private sector banks In Voluntary disclosure practices (BASEL II & BASEL III), the particulars which have least disclosure are Human resource and general threat operation. Further, general information of banks and commercial governance report particulars are largely bared by both public and private sector banks. The particulars related to non- fiscal information, commercial social disclosures, fiscal performance and eclectic information have moderate disclosure during the period under the study. Further, this information has been more bared by public sector banks as compare to private sector banks. In Bank-wise voluntary disclosures (BASEL II & BASEL III) indicate that the both public and private sector banks bared voluntary information at satisfactory position but in case of Basel III Pillar III Disclosure private sector banks have bared further information as compare to public sector banks.

Suggestions

- In case of obligatory disclosure practices, it has been set up that public and private sector banks have been followed moderate disclosure of information regarding Balance distance particulars, Commercial governance report particulars, Notes to accounts particulars and Basel II Pillar III disclosure particulars. Thus, it has been suggested that these banks should insure cent percent disclosure of information since it's obligatory for the banks.
- The relative performance of public and private sector banks reveals that public sector banks have shown bettered obligatory disclosure practices in comparison to private sector banks. Therefore, it may be suggested that private sector banks should pay further attention in following the nonsupervisory morals specified by nonsupervisory authority in obligatory disclosure practices.
- It has been set up that Non-financial information, which comes under the order of voluntary disclosure, hasn’t been completely bared by the both public and private sector banks. The information regarding fiscal addition, New Banking schemes, Development channels are important from bank’s point of view to communicate the stakeholders to pierce the growth and developments of banks. Therefore, it may be suggested that the disclosure of Non-financial information may be included in the order of obligatory disclosure in the interest of banks and customers both.
- General threat operation particulars give information relating to policies and procedures espoused by banks to cover and manage risks, threat operation structure, new enterprise in threat operation and means liability operation. These particulars have low disclosure score. Banks should make serious sweats in telling of general threat operation information which are essential and salutary to internal and external parties both to dissect how risks are managed by banks and disclosure of these information will also give knowledge to customers of bank about safety of their finances. thus, it's suggested that general threat operation information may be included in the order of obligatory disclosure from voluntary disclosure order. Operation information may be included in the category of mandatory disclosure from voluntary disclosure category.

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