



“Corporate Financial Reporting Practices in India: With special reference to Banking Sector”

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ABSTRACT

The banking system in India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The accounting information is much needed to the stakeholders. Financial reporting is a crucial process for companies and investors, as it provides key information that shows financial performance over time. Government and private regulatory institutions also monitor financial reporting to ensure fair trade, compensation and financial activities. Financial reporting may be defined as communication of published financial statement and related information from a business enterprise to all users. It is the reporting of accounting information of an entity to a user or group of users. It contains both qualitative and quantitative information. In this study researcher make a comparative study between the public and private sector banks operating in India. For this purpose researcher has selected total ten (10) commercial banks. Five (05) banks are selected from public sector and other five (05) banks are selected from the private sector. These banks are listed in Bombay stock exchange and National Stock Exchange and having good credit rating giving by the rating agencies like as ICRA and CARE. Findings are showed that the public sector banks are disclosed more financial reporting information as compare to private sector banks.

Key words: *Public Sector, Private Sector, ICRA, CARE, Banks, India*

Financial Disclosure is the process of preparing and distributing financial information to users of such information in various forms. A financial report is a formal record of the financial activities of a business, person, or other entity. The most common format of formal financial reporting are financial statements. Financial statements are prepared in accordance with rigorously applied standards defined by professional accounting bodies developed according to the legal and professional framework of a specific locale. Different type of users are used the financial report like as Investors, Tax authorities, Creators, Public, Trade unions, Competitors etc

For large corporations, these statements are often complex and may include an extensive set of notes to the financial, statements and explanation of financial policies and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

In the recent past, a number of developments have taken place in the banking industry to improve the transparency in the banking sector. Recognizing considerable divergence amongst the financial institutions in the

nature and manner of disclosures made by them in their published annual reports, the disclosure norms were introduced by Reserve Bank of India for the banks with a view to bringing about uniformity in the disclosure practices adopted by them and improving the degree of transparency in their affairs. Different countries have developed their own accounting principles over time, making international comparisons of companies difficult. To ensure uniformity and comparability between financial statements prepared by different companies, a set of guidelines and rules are used. Commonly referred to as Generally Accepted Accounting Principles (GAAP), these set of guidelines provide the basis in the preparation of financial statements.

Review of Literature

Since the 1960s, there has been an increase in interest in financial disclosure studies. A number of studies have been conducted the world over to see the impact of company specific attributes on the extent of financial disclosure practices of the companies. Some of the related literatures of reviews are as follows:

Bayar Grdi, Mehmet Aga, Nabaz Nawzard Abdullah (June, 2023) “Corporate Governance and Financial Reporting Quality: The Mediation Role of IFRS”

The study highlights the practical benefits of implementing strong corporate governance practices and adopting IFRS, such as improved reporting quality, regulatory compliance, better decision-making, and enhanced reputation. Private banks in Iraq can utilize these findings to enhance their financial performance and reputation by shaping their accounting and governance policies. The research paper provides original insights into the positive impact of corporate governance on financial reporting quality while considering the mediating influence of IFRS adoption, making it a valuable contribution to the research community.

Ahmed Mahdi Sahi, Alaa Mahdi Sahi, alhmzah F. Abbas, Saleh F.A. Khatib (Oct. 2022) “Financial reporting quality of financial institutions: Literature review”

The study examined and found that monitoring attributes to be the key determinants of financial reporting quality. Yet, the existing literature concentrated on internal/external auditing and audit committee characteristics whilst giving limited attention to the functions of other monitoring mechanisms, i.e., board of directors. Furthermore, there is no clear evidence that efficient financial disclosure could boost the performance and evaluation of firms as well as whether these consequences are influenced by differences in the institutional and protection environment between markets. The contribution of this study resides in the application of systematic literature review to a burgeoning study topic, enabling an examination of the state-of-the-art financial reporting in financial institutions, an area that has received little attention in the literature. Based on the content investigation of the literature, future paths and implications are also presented.

Jonas Oliveira, Lúcia Lima Rodrigues and Russell Craig (2011) “Risk-related disclosure practices in the annual reports of Portuguese credit institutions: An exploratory study”

This study assesses the risk-related reporting practices of 190 Portuguese credit institutions based on a content analysis of their individual annual reports for 2006. Risk-related disclosures are found to lack comparability because of different maturity time bands that report exposures to credit, market and liquidity risks; different Value-at-Risk and sensitivity analysis assumptions; and different practices for reporting capital structure and adequacy. The misalignment of quantitatively based disclosures and related narratives led to problems of relevance, reliability and understandability. We assess the extent to which reforms of risk-related reporting practices in 2007 in International Financial Reporting Standards and the Basel II Accord address each of the deficiencies identified. We highlight areas needing further reform, and recommend that Portuguese supervisory authorities adopt more effective enforcement mechanisms to broker compliance with minimum mandatory risk disclosure requirements.

Dr. Amitabh Joshi (Feb 2006) Disclosure Practices in Corporate Reporting of Public Sector Financial Institutions (Psfs)

The aim of accounting is to communicate economic message on the result of business decision to the users from time to time. Thus corporate reporting is total communication system between a company and users. This is the most direct least expensive, most timely and faired methods of reaching all shareholders and other, present and potential users. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly to the information provided by the accounting system. Corporate annual reports (CAR) are the subject of research emanating from different disciplines. A growing body of literature addresses their purpose, design, content and interpretation, as well as reasons for their changing content. This literature examine how different characteristics of organization affects disclosure pattern.

Chipalkatti, N. (2002)., "Market Microstructure Effects of the Transparency of Indian Banks". [4]

He examined the association between the nature and quality of annual report disclosures made by 17 Indian banks and market microstructure variables. He constructed a Bank Transparency Score (BTS) consisting of 90 items of information considering the recommendations of the Basel committee and IAS 30. The study showed no significant association between the level of disclosure and percentage of shares held by the government, and the percentage of shares held by foreign shareholders respectively. The results also indicated that larger banks provide more transparent disclosure and there was no significant difference in the disclosure scores of banks across profitability levels, but banks with lower levels of leverage did have significantly higher disclosure scores.

Chander Subhash, (2005) "Regulation of corporate Disclosure practices in India".

This study made a comparative analysis of the disclosure practices followed by the big companies in public and private sector in India. 50 companies each from the both the public and private sectors, ranked according to their capital employed, on the basis of the survey conducted by the research bureau of the economic times, were selected for the period of 1980-81 to 1984-85. He conducted that item-wise disclosure as well as 'company-wise disclosure' is significantly better in case of the public sector giants as compared to private sector giants. A large number of items had vary low disclosure score in both the public and private sectors.

Baumann, U., and Nier, E (2003), "Market Discipline, Disclosure and Moral Hazard in Banking".

Their findings generally confirm the Extent of Disclosure in Annual Reports of Banking Companies: The Case of India 663 hypotheses that disclosure decreases stock volatility, increases market values, and increases the usefulness of company accounts in predicting valuations. Based on the results of prior empirical research, the special characteristics of banking companies, and data availability, nine hypotheses were developed for this study, a detailed analysis of which is now presented.

Objectives of the study

- To examine the financial disclosure practices adopted in banking sector in India
- To make a comparative analysis of financial disclosure practices in selected public and private sector banks in India.

Research methodology

Research methodology is very important for any research. In their effectiveness in terms of substance & quality reported in annual reports researcher had selected total 10 Indian banks out of 50 banks. 5 banks taken from public sector and 5 banks taken from private sector. The list of the banks is given below:

S.NO.	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
1.	State Bank of India	HDFC Bank
2.	Bank of India	ICICI Bank
3.	Bank of Baroda	Axis Bank
4.	Punjab National Bank	Kotak Mahindra Bank
5.	Union Bank of India	IndusInd Bank

Justifications of selection of samples

The selected banks are reputed and established banks. These banks are having branches all over in India covering the huge market share in this sector in the country.

The selection of banks has been made on the following ground:

- (1) These banks are listed in BSE & NSE
- (2) International rating given by the Agencies (ICRA, CARE)

Sampling approach- These banks were selected on the basis of judgment sampling method.

Sources of data- The study was based on the secondary information that was collected from the annual report of the banks.

Scope of the study- The study has covered 20 items of the financial disclosures both mandatory as well as voluntary.

Period of the study- The financial disclosure practices of the selected banks were examined for the one financial year i.e. 2022-23.

Data Collection and Interpretation

Public Sector Banks

Financial Disclosure Items (20)	Public Sector Banks					
	S.B.I	B.O.I	B.O.B	PNB	U.B.I	Total
Notice of Annual General Meeting	√	√	√	√	√	5
Chairman's Report	√	√	√	√	×	4
Summary of Financial Result	√	√	√	√	√	5
The Financial highlights for number of	√	√	√	√	√	5

Years						
Director's Report	√	√	√	√	√	5
Management Discussion & Analysis	√	√	√	√	√	5
Corporate Governance Report	√	√	√	√	√	5
Auditors Report on Financial Statement	√	√	√	√	√	5
Balance Sheet	√	√	√	√	√	5
Significant Accounting Policies	√	√	√	√	√	5
Schedules and Notes Accounts	√	√	√	√	√	5
Supplementary statement u/s 212 of the Companies Act	√	√	√	√	√	5
C&AG's comments on Account (in case of Govt. Companies)	√	√	√	√	√	5
Audited Consolidated Financial Statement	√	√	√	√	√	5
Information of Human Resource	√	√	√	√	√	5
Value Added Statement	√	×	×	√	×	2
Corporate Social Report	×	×	×	√	√	2
Environment Report	×	×	×	√	×	1
Information Brand /Intangibles	×	×	×	√	×	1
EAV ® Report	×	×	×	√	×	1
Total disclosure	16	15	15	20	15	81
% of Disclosure	80	75	75	100	75	81%
Mean value	16.2					

Table-1: Financial Disclosure of Public Sector Bank.

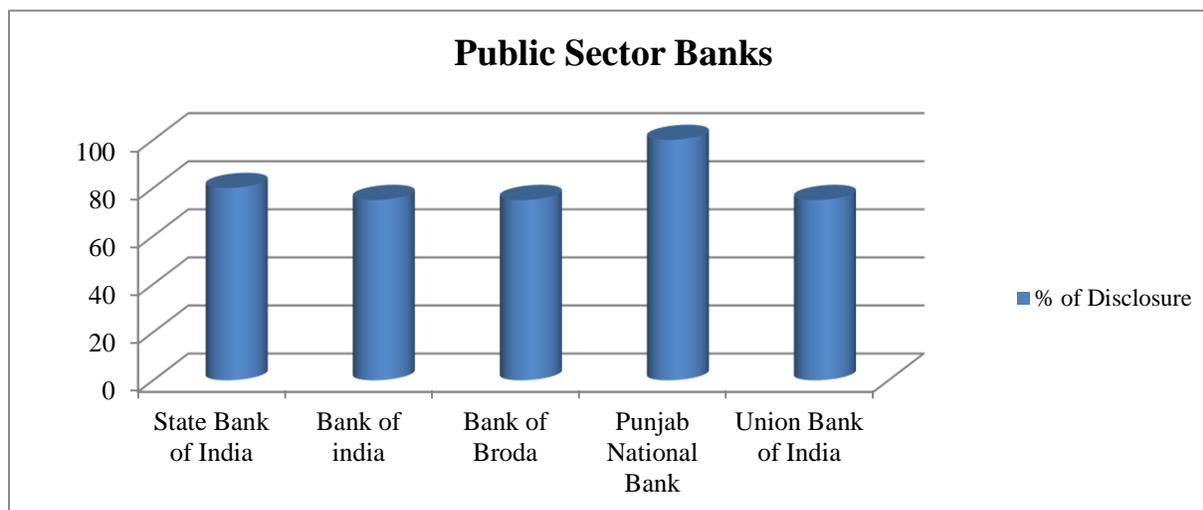


Figure-1

The table and chart are (1) shows that the most of the public sector banks were disclosed the financial reporting items. Some items like as value added statement, corporate social report, environmental report, information brand /intangibles and EAV report are not disclosed properly. State bank of India disclosed 80% of selected financial reporting items. Bank of India, Bank of Baroda and Union bank of India are disclosed 70% items. Only Punjab National bank was disclosed all the selected financial reporting items. Total 81% items are disclosed by all selected public sector banks. The mean value of the public sector banks are 16.2.

Private Sector Banks

Financial Disclosure Items (20)	Private Sector Banks					
	HDFC	ICICI	A.B	K.M	Indus Ind	Total
Notice of Annual General Meeting	√	√	√	×	√	4
Chairman's Report	×	√	×	×	×	1
Summary of Financial Result	√	√	√	√	√	5
The Financial highlights for number of Years	√	√	√	√	√	5
Director's Report	√	√	√	√	√	5
Management Discussion & Analysis	√	√	√	√	√	5
Corporate Governance Report	√	√	√	√	√	
Auditors Report on Financial Statement	√	√	√	√	√	5
Balance Sheet	√	√	√	√	√	5
Significant Accounting Policies	√	√	√	√	√	5
Schedules and Notes Accounts	√	√	√	√	√	5
Supplementary statement u/s 212 of the	√	√	√	√	√	5

Companies Act						
C&AG's comments on Account (in case of Govt. Companies)	×	×	×	×	×	0
Audited Consolidated Financial Statement	√	√	√	√	√	5
Information of Human Resource	√	√	√	√	√	5
Value Added Statement	×	×	×	×	×	0
Corporate Social Report	×	×	√	×	√	2
Environment Report	×	×	×	×	×	0
Information Brand /Intangibles	×	×	×	×	×	0
EAV ® Report	×	×	×	×	×	0
Total disclosure	13	14	14	12	14	67
% of Disclosure	65	70	70	60	70	67%
Mean value	13.43					

Table-2: Financial Disclosure of Private Sector Banks

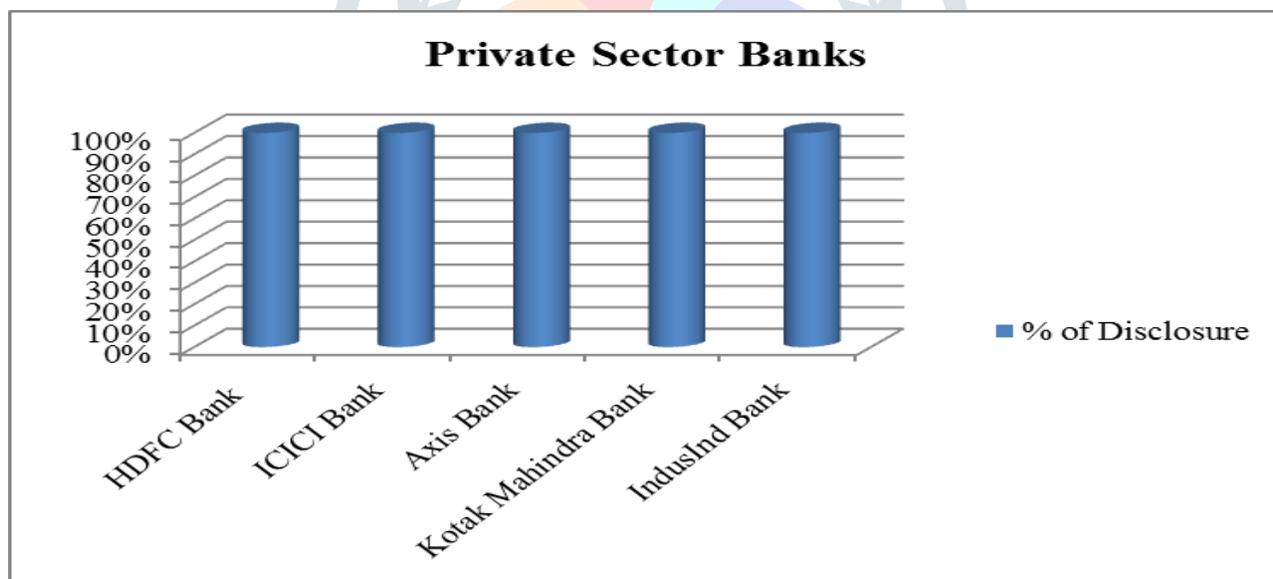


Figure-2

Table and chart (2) shows that the private sector banks are also disclosed the information related to financial reporting in their annual reports. Several banks like HDFC and Kotak Mahindra Bank were not disclosed the items i.e. chairman's statement. Items selected for study i.e. C&AG.s comments on accounts is not disclosed by the any selected private sector banks. Some of the items like as value added statement, corporate social report, environment report, Information brand/ intangibles; EAV REPORT does not disclosed by the all of the private sector banks. ICICI bank, Axis Bank and IndusInd bank disclosed total 70% items. HDFC Bank and Kotak Mhindra Bank disclosed 65% and 60% respectively. The mean value of the private sector banks are 13.43.

Comparative study between the Public and Private Sector Banks.

SECTOR	%age of Items Disclosed	Mean Value
Public Sector Banks	81	16.2
Private Sector Banks	67	13.43
Difference	2.77	

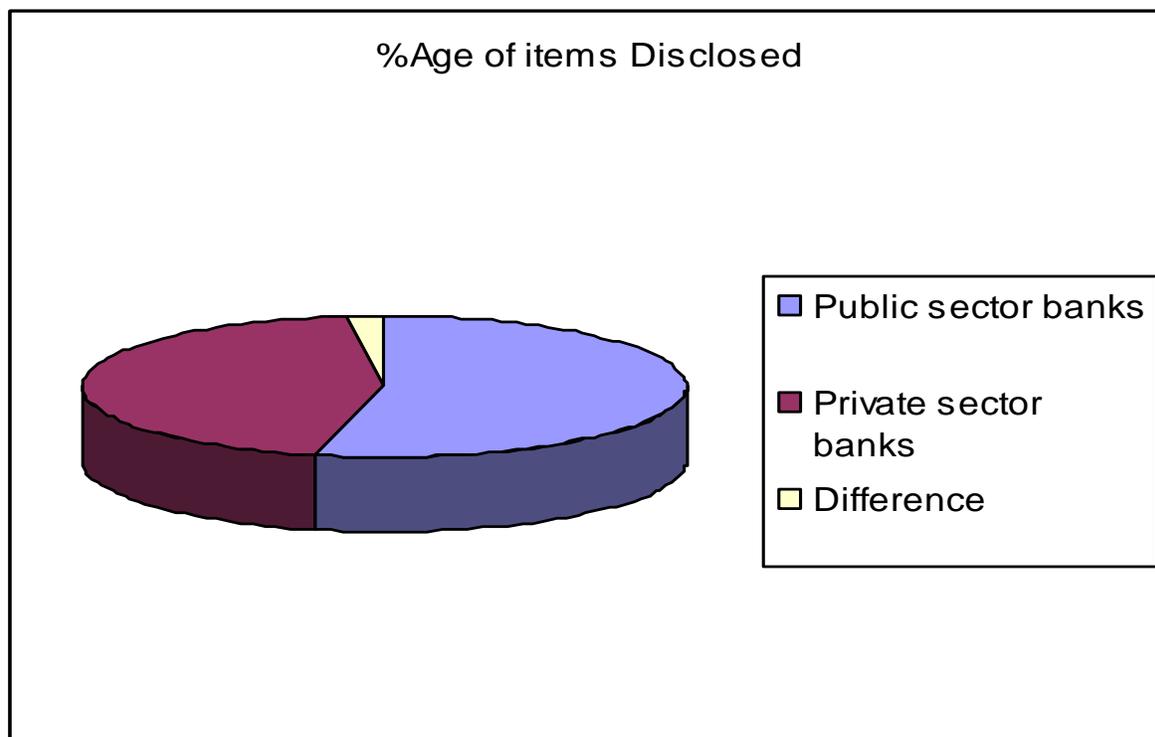
Table-3: Comparison of Public and Private Sector Banks**Figure-3**

Table and chart (3) shows that public sector banks are disclosed total 81% of selected items and private sector banks are disclosed total 67% items. The mean value of public and private sector banks are 16.2 and 13.43 respectively. Difference between both sectors was 2.77%.

CONCLUSION

Financial disclosure is very beneficial to the stakeholders of any company, banks and financial institutions. Keeping in mind this view, a comparative study was made to examine the level of financial disclosure practices covering banks from public and private sectors. The findings show that the level of disclosure financial information is low in private sector banks then the public sector banks. The variability in the level of reporting among the banks is wide. However, the both sectors show a great deal of similarity in respect of disclosure financial information among them. The study has unveiled the qualitative and quantitative aspect of disclosure financial information items. In this study the level of financial reporting practices in public sector is high then private sector. Public sector disclosed the 16.2 items from total 20 items. Then the private sector banks are disclosed the 13.43 items from total 20 items. So the study shows that public sector banks are more aware in financial disclosure then private sector banks. The management of a bank may be motivated to disclose more information about the financial reporting for a variety of considerations.

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