ABSTRACT

Indian banking system plays an important role in intermediation in the economy. Banks allow mobilization of savings from millions and makes it available for trade, commerce, and industry. It is necessary for banks to make timely, full, and transparency in disclosure which helps in maximization of wealth of shareholders in order to build up investor's and depositor's confidence. This study is on investigation of mandatory disclosure practices by State Bank of India in financial years 2012-2013 to 2014-2015. A total of 326 mandatory items were selected for analysis. The result shows how Indian banks achieved high level of compliance by showing mandatory disclosure practices.

Keywords: Mandatory Disclosure, Annual Reports, Basel.

INTRODUCTION

The financial soundness and profitability of any organization can be examined and assessed mainly from its financial position as disclosed in annual accounts. Financial reporting may be defined as communication of published financial statements and related information from a business enterprise to third parties (external users) including shareholders, creditors, customers, governmental authorities, and the public. It is the reporting of accounting information of an entity (individual, firm, company, government enterprise) to a user or group of users. Information about the affairs of the company can be communicated through different media via, prospectus, financial press release, annual report, and personal contact with banks officers. Lee and Tweedier (Lee & Tweedier, 1975) found that Annual report is considered to be the most important source of information. It provides quantitative and qualitative information of financial and non-financial nature about corporate performance. For communicating information, annual report generally includes two types’ disclosures i.e. mandatory disclosure and voluntary disclosure. This study investigates the disclosed practices of State Bank of India to see to what extent they disclose mandatory information considering the banking regulation act rules, guidelines of professionals and/or regulatory institutions/bodies.

Legal Framework of Financial Reporting In India

The financial reporting and disclosure of banking companies in India are regulated by the Banking Regulation Act 1949, the Companies Act 2013, listing rules of the Securities and Exchange Board of India (SEBI), the guidelines of the Reserve Bank of India (RBI), accounting standard issued by the institute of Chartered Accountants of India (ICAI) and the recommendations of the Basel Committee on banking supervision.
The Banking Regulation Act 1949 provides a framework for regulation and supervision of commercial banking activity.

**Section 29(1)** of the Banking Regulation Act 1949 states that at the expiration of each calendar year, every banking company shall prepare a balance sheet and profit and loss account in the forms set out in the third Schedule Form A and Form B of the Act respectively.

**Section 30(1)** states that the balance sheet and profit and loss account should be prepared in accordance with section 29 and audited by a person duly qualified under law.

**Section 31(1)** states that the accounts and balance sheet, together with the auditor's report, shall be published in the prescribed manner and three copies thereof shall be furnished as return to the RBI within three months from the end of the period.

**Section 32** requires that three copies of the accounts and balance sheet, together with the auditor's report, should be sent to the Registrar of company affairs.

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

The mandatory items included in the profit and loss account as per Banking Regulation Act, 1949 are:

(i) Income
(ii) Expenditures
(iii) Profits
(iv) 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 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

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, and for a detailed compliance report on corporate governance. 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

The RBI also provides a detailed guidance to banks in the matters of 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
- Pillar2 -Risk Weighting System
- Pillar3 -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**

Pillar1 – Enhanced Minimum Capital and Liquidity Requirement
Pillar3- Enhanced Risk Disclosure & Market Discipline.
The institute of character accountants of India (ICAI) has issued:

- Mandatory Accounting standard (AS1-AS29)
- Accounting Standards not mandatory as on September 1, 2014 (AS30, AS31, and 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>
<thead>
<tr>
<th>Mandatory Items</th>
<th>Total (Main items)</th>
<th>Total (sub Items)</th>
<th>Name of Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet</td>
<td>13</td>
<td>106</td>
<td>Banking Regulation Act, 1949</td>
</tr>
<tr>
<td>Profit and Loss Account</td>
<td>4</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Director’s Report</td>
<td>16</td>
<td>16</td>
<td>Company Act, 2013</td>
</tr>
<tr>
<td>Management Discussion and Analysis</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>9</td>
<td>49</td>
<td>Securities exchange board of India, listing rules (clause 49)</td>
</tr>
<tr>
<td>Notes to Accounts</td>
<td>8</td>
<td>107</td>
<td>Reserve Bank of India guidelines</td>
</tr>
<tr>
<td>(including Basel norms)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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

In the present scenario corporate governance have grown at a very fast pace especially in the Indian banking which draws the attention of the research in this area. Impact of corporate governance helps in strengthening the banks and making them more accountable, open, transparent, democratic and participatory. The essential part of the banking system is its financial viability Bank's subsist on confidence and disclosure of prudent, banking practices is the only way to build confidence the present. Study win to analyze the impact of mandatory disclosure practices on banking system. For this analysis of annual report of State Bank of India has been chosen.

OBJECTIVE OF THE STUDY

The main objective of the study is:

- To study the legal framework of financial reporting in banking industry.
- To examine the mandatory disclosure practices by State Bank of India.

METHODOLOGY

PERIOD OF THE STUDY

The study examines the mandatory disclosure practices of State Bank of India on the basis of its annual report for the period of three financial years i.e. from 2012-2013 to 2014-2015.

DATA COLLECTION

The study is based on secondary data. The data has been collected from SBI official website (www.sbi.co.in) and published literature in this regard.

DATA ANALYSIS AND INTERPRETATION

Mandatory Disclosure of Balance Sheet Items

According to Banking Regulation Act 1949, balance sheet contains total 13 mandatory disclosures for banks which have been sub divided into 106 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 2: Disclosures of Balance Sheet Items by State Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed Items</th>
<th>Undisclosed Items</th>
<th>Percentage of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>106</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2013-2014</td>
<td>106</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2014-2015</td>
<td>106</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India

The above table shows sub items wise disclosure of balance sheet by the State Bank of India. It has been found that the bank has disclosed all the mandatory items of the balance sheet during the period of three years from the year 2012-2013 to 2014-2015 showing percentage of disclosure as 100%. Thus, it may be concluded that the State Bank of India has complied with the mandatory requirements of Banking Regulation Act, 1949.

Mandatory Disclosure of Profit and Loss Account Items

According to 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 disclosure of items for the period of three years together with percentage of disclosure has been shown in the following table:

Table 3: Disclosure of Profit and Loss Account Items by State Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed Items</th>
<th>Undisclosed Item</th>
<th>Percentage of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>39</td>
<td>1</td>
<td>98</td>
</tr>
<tr>
<td>2013-2014</td>
<td>40</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2014-2015</td>
<td>40</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India

The above table shows that 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 year 2012-2013 except dividend for the previous year paid during the year (including tax on dividend) hence percentage of disclosure is 98%. In the year 2013-2014 & 2014-2015 bank disclosed all mandatory items showing percentage of disclosure 100%.

Mandatory Disclosure of Directors Report Items

According to Companies Act 2013, under section 134(3) Directors Report contains total 16 mandatory disclosures for banks. 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 Directors Report Items by State Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed Item</th>
<th>Undisclosed Item</th>
<th>Percentage of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>16</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2013-2014</td>
<td>16</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2014-2015</td>
<td>16</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India

The above table shows that bank has disclosed all the mandatory items of the director report during the period of three years from 2012-2013 to 2014-2015 showing percentage of disclosure as 100%.

Mandatory Disclosure Of Management Discussion and Analysis Items

According to Companies Act 2013, Management Discussion and Analysis includes total 8 mandatory disclosures for banks. The disclosure of items for the period of three years together with percentage of disclosure has been shown in the following table:
The above table shows that bank has disclosed all the mandatory items of the management discussion and analysis during the period of three years from 2012-2013 to 2014-2015 showing percentage of disclosure as 100%.

**Mandatory Disclosure of Corporate Governance Items**

The Securities Exchange Board of India provides guidelines for Corporate Governance under clause 49. It 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:

**Table6:** Disclosure of corporate governance Items by State Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed Items</th>
<th>Undisclosed Items</th>
<th>Percentage of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>43</td>
<td>6</td>
<td>84</td>
</tr>
<tr>
<td>2013-2014</td>
<td>42</td>
<td>7</td>
<td>82</td>
</tr>
<tr>
<td>2014-2015</td>
<td>42</td>
<td>7</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India

The above table shows sub items wise disclosure of corporate governance by the State Bank of India. It has been found that bank disclosed 42 mandatory items of the corporate governance during the years 2013-2014 & 2014-2015 showing percentage of disclosure 82%. In the year 2012-2013 bank disclosed 43 mandatory items during the year 2012-2013 showing percentage of disclosure 84% as it disclose dematerialization shares and liquidity in comparison to financial years 2013-2014 & 2014-2015. There is one item, naming procedure for postal ballot which remained undisclosed by bank during the period of three years.

**Mandatory Disclosure Of RBI Guidelines Including Basel Norms**

The Reserve Bank of India provides details 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:

**Table7:** Disclosure of Notes to Accounts items by State Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed Items</th>
<th>Undisclosed Items</th>
<th>Percentage of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>94</td>
<td>13</td>
<td>88</td>
</tr>
<tr>
<td>2013-2014</td>
<td>98</td>
<td>9</td>
<td>92</td>
</tr>
<tr>
<td>2014-2015</td>
<td>103</td>
<td>4</td>
<td>96</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India

The above table shows sub item wise disclosure of Reserve Bank of India guidelines including Basel norms regarding notes to accounts by State Bank of India. In case of Basel Norms State Bank of India follows Basel II guidelines during the period of three years from the year 2012-2013 to 2014-2015.

In Reserve Bank of India guidelines bank has disclosed as highest percentage of disclosure 96% in the year 2014-2015 because it disclosed more additional disclosure i.e. unamortized pension and gratuity liabilities, Unhedged foreign currency exposures, liquidity coverage ratios, disclosure format, Qualitative disclosure in around LCR and Deferred tax liability on special reserve in comparison to year 2012-2013 & 2013-2014. Further there are two items naming AS 24- Discounting operations and AS-25 Interim financial reporting are not disclosed by State Bank of India during the period of three years from the year 2012-2013 to 2014-2015.

CONCLUSION & SUGGESTIONS

To maintain high quality disclosure and transparency, as well as to build up investors and depositor's confidence it is necessary to make cent percent mandatory disclosure practices by banking sector. In addition the guidelines/recommendations issued by Banking Regulation Act 1949, Company Act 2013, Securities Exchange Board of India (SEBI), Institute of Chartered Accountants of India (ICAI) and BASEL norms etc should be followed in mandatory disclosures practices. The study examines the mandatory disclosure practices in annual report of State Bank of India. From the above analysis and finding it can be concluded that some mandatory information such as balance sheet items and Director Report fully disclosed by State Bank of India and information related to corporate Governance and RBI guidelines has been disclosed in the annual report of state bank of India at acceptable level. With implementation of BASEL Norms III, SBI follow this norms in the same year in which it implement. In comparison to financial year 2012-2013-2013-2014, Banks disclose more additional disclosure in financial year 2014-2015. It enhances transparency and high quality disclosures.

The following are suggestions:

- To build up investor’s and depositor’s confidence bank should make cent percent mandatory disclosure in their annual report.
- With the changes in guidelines /recommendations from time to time, bank should follow these changes.

REFERENCES

5. "Banking Law and Practice": The Institute of Company Secretaries of India 2013, pp16-17.


11. RBI Guidelines from website (www.rbi.org.in)
