

# **NFRS Migration Guidelines to Banks and Financial Institutions**

(Issued by NRB)

## **1. Introduction**

- 1.1. On recommendation from the Accounting Standards Board (ASB), the Institute of Chartered Accountants of Nepal (ICAN) in its Council meeting held on 13 September 2013 decided to announce the roadmap for implementation of Nepal Financial Reporting Standards (NFRS) including its interpretations. As per the said announcement, Commercial Banks, including State Owned Commercial Banks (Class 'A') are required to fully implement NFRS from 2015-16. All the other financial institutions (Class 'B', 'C' and 'D') are mandated to implement NFRS from 2016-17 onwards. The NFRS implementation roadmap decided by ICAN can be downloaded from ICAN's website (<http://www.ican.org.np/nfrs.php>).
- 1.2. The Monetary policy of 2014-15 mandated full compliance with NFRS in financial sector by 2017. While the key impacts of NFRS convergence on respective directives / regulations will be issued separately along with the related amendments, the approach/roadmap for NFRS implementation has been stated in this document.

## **2. Milestones to be achieved**

- 2.1. NRB hereby states that all Class 'A' Banks and Class 'B', 'C' and 'D' financial institutions (jointly referred as 'BFIs') to comply with NFRS as issued by ICAN subject to NRB regulation. As announced by ICAN, fully NFRS compliant financial statements is to be prepared from 2015-16 for Class 'A' Banks and from 2016-17 for Class 'B', 'C' and 'D' financial institutions. Therefore, transition date i.e. opening balance sheet, fully compliant with NFRS, will be as at 16 July 2014 and as at 16 July 2015 for respective institutions.
- 2.2. Based on the approach discussed in 2.1 above, considering the amount of work involved in the convergence process, it is expected that BFIs concurrently initiate appropriate measures to upgrade their skills, Management Information System (MIS) and Information Technology (IT) capabilities to manage the complexities and challenges of NFRSs.
- 2.3. In order to facilitate smooth migration to NFRSs, BFIs shall undertake the following activities and they are required to submit Implementation plan alongwith the timeline for the key activities as indicated below. Such timeline should be submitted to Bank & Financial Institutions Regulation Department of NRB before Poush end, 2071 by Class 'A' Banks and before Chaitra end, 2071 by Class 'B', 'C' and 'D' financial institutions. :



Sr. No.		Activites	Timeline																				
Phase 1	A	<p><b>Impact assessment</b>            Conduct a preliminary impact assessment of NFRS on financial reporting, supporting business processes, systems and controls and submission to NRB of key impacts areas identified by BFI</p>	XX																				
Phase 2	B	<p><b>Preparation of financial statements</b>            As per the requirement of NFRS, BFIs are required to prepare NFRS compliant financial statements alongwith its comparative period. Following are the indicative periods for NFRS based financial statement reporting as required by NFRS.</p> <table border="1"> <thead> <tr> <th>Class 'A' – Comparative Period</th> <th>First NFRS compliant Period</th> </tr> </thead> <tbody> <tr> <td>Opening balance sheet as at 17 July 2014</td> <td>Starting Period on 17 July 2015</td> </tr> <tr> <td>Half year ending on 15 January 2015</td> <td>Half year ending on 14 January 2016</td> </tr> <tr> <td>Quarter ending on 14 April 2015</td> <td>Quarter ending on 17 October 2015</td> </tr> <tr> <td>Year ending on 16 July 2015</td> <td>Year ending on 15 July 2016</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Class 'B', 'C' and 'D' – Comparative Period</th> <th>First NFRS compliant Period</th> </tr> </thead> <tbody> <tr> <td>Opening balance sheet as at 17 July 2015</td> <td>Starting Period on 16 July 2016</td> </tr> <tr> <td>Half year ending on 14 January 2016</td> <td>Half year ending on 13 January 2017</td> </tr> <tr> <td>Quarter ending on 15 April 2016</td> <td>Quarter ending on 16 October 2016</td> </tr> <tr> <td>Year ending on 15 July 2016</td> <td>Year ending on 15 July 2017</td> </tr> </tbody> </table> <p>Further, BFIs are required to maintain documentation along with journal entries for quantification of all accounting differences identified in A above. Also, BFIs are required to notify NRB on key impacts on equity and profit after tax.</p>	Class 'A' – Comparative Period	First NFRS compliant Period	Opening balance sheet as at 17 July 2014	Starting Period on 17 July 2015	Half year ending on 15 January 2015	Half year ending on 14 January 2016	Quarter ending on 14 April 2015	Quarter ending on 17 October 2015	Year ending on 16 July 2015	Year ending on 15 July 2016	Class 'B', 'C' and 'D' – Comparative Period	First NFRS compliant Period	Opening balance sheet as at 17 July 2015	Starting Period on 16 July 2016	Half year ending on 14 January 2016	Half year ending on 13 January 2017	Quarter ending on 15 April 2016	Quarter ending on 16 October 2016	Year ending on 15 July 2016	Year ending on 15 July 2017	XX
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	<b>C</b>	<b>Submission of clarification / queries</b> Based on the initial impacts identified and further research as may be required, the BFIs shall present the list of relevant queries for the purposes of clarifications.	XX
	<b>D</b>	<b>IT system upgradation</b> The necessary system changes can be instrumental to making NFRS part of the company's daily operations rather than just a "bolt-on" addition to existing processes.  BFIs to upgrade IT systems and process to be robust enough to comply with stringent accounting and disclosure requirement under NFRS and report to NRB on such IT system implementation.	XX
	<b>E</b>	<b>Knowledge transfer</b> To facilitate the convergence process, initiation for internal training and involvement in discussion in critical impact areas by BFIs is required: <b>Internal trainings:</b> Individuals both inside and outside the financial reporting function, across multiple levels of the organisation, will require some degree of training on NFRS. The level of detail and the timing of the training will impact the quality and volume of the NFRS learning retained. So, BFIs should plan for the adequate level of training to their staffs. <b>Discussion meetings:</b> NRB would organize a series of lecture meetings for discussion of the critical impact areas under NFRS. The date, timings, list of topics and other details shall be communicated separately.	XX
	<b>F</b>	<b>Constituting internal committees as may be mandated</b>	XX
<b>Phase 3</b>	<b>G</b>	<b>Integrate change – Go live</b> Prepare and submit the NFRS compliant financial statements as per timelines enumerated in ICAN's roadmap. It must be noted that based on the timelines, the date of transition shall be the start date of the immediately preceding year for which comparatives shall be presented.	XX



### **3. Capital adequacy**

- 3.1. Based on impact of NFRS on capital of the BFIs, the approach or re-capitalisation of respective BFIs would be prescribed separately. This is linked to Phase 2 of the activities.

### **4. Regulatory reporting**

- 4.1. The application of NFRS involves use of assumptions, significant judgmental decisions and estimates. Hence, in order to ensure financial system stability, NRB is of the view that NFRS compliant financial statements shall be considered for the purposes of regulatory reporting to NRB as well subject to regulations. Under exceptional circumstances and based on requisite approvals as may be prescribed, the existing prudential regulations would remain in force until further notice. BFIs shall submit all periodical information to NRB in accordance with the existing regulations and directives.
- 4.2. All BFIs are required to maintain adequate data/records to reconcile significant deviations between the account balances published under NFRS and the balances reported to NRB under the existing regulatory framework.

### **5. Penal provision**

- 5.1. BFIs may be prohibited from distributing dividends unless all requirements of this guidelines are complied with in preparation of the financial statements.

