

# TRU newsletter – March 2019

## TRU updates

### Appointment of New Partner

PKF T R Upadhy & Co is pleased to announce the admission of Ms Sumitra Rijal as a new partner in the firm.



Sumitra has extensive experience in the assurance and advisory services of development sector and large corporate houses. Her client portfolio includes entities from various industries such as international not for profit organizations, donor agencies, national level not for profit organizations, large entities in leisure, construction and professional service firms.

As partner, Sumitra will be leading and development sector and the risk management practice in helping clients in Nepal, realize tangible value from their investments.

Sumitra will be the first female partner in the firm which is a demonstration of continued progress in its strategic priorities of developing the next generation leaders and a commitment to accelerating gender diversity and transformation at leadership level. This development strengthens even more the dynamic and leading position of PKF T R Upadhy & Co. in Nepal.

### Staff Promotion

PKF T R Upadhy & Co is pleased to announce that Anjan Shah has been promoted to Senior Manager of the firm. Similarly, Bipin Mangal Joshi and Nikita Agrawal have been promoted to Manager. Likewise, Sujan Babu Tiwari has been promoted to Assistant Manager of the firm. TRU extends best wishes to all for their elevation to the new position.

### In house trainings

TRU conducted an In-house high level training on Income Tax and VAT. The session was interactive and informative. Participants came up with questions relating to Income Tax and VAT which was put up to our resource person Mr Gopal Prasad Ghimire.

Mr Ghimire, an expert in direct and indirect taxes, is a former Director with the Inland Revenue Department, where he worked for more than 30 years in various capacities.

## Recent updates

### Mid-term review of monetary policy

Nepal Rastra Bank (NRB) has issued mid-term review of the monetary policy 2075/76 on 6 Falgun 2075. The review focused on bringing sustainable solution in managing interest rates, stability in financial sector and outreach of financial services in local level etc. The mid-term review discusses on the NRB's target versus the actual achievement so far, including the proposed reforms in future.

Some of the highlights of the mid-term review are:

- The general inflation rate was maintained at 4.2% for the 6 month review period which is within the expected rate of 6.5%.
- Reduction in the average base rate of commercial banks to 9.8% on 30 Poush 2075 compared to 10.47% in 32 Ashad 2075.
- 7,591 branches opened as on 30 Poush 2075 compared to 6,651 on 32 Ashad 2075 indicating increased access to finance at local levels.

Key changes proposed by the mid-term review for banks in future:

- At least 10% of the amount provided for CSR (Corporate Social Responsibility) should be spent in each province primarily focusing on financial literacy.
- Licensed "A", "B" and "C" class BFIs will be permitted to obtain FCY loans from outside up to 100% of primary capital. Currently, the threshold is up to 25% of core capital.
- Method for calculation of interest spread rate revised by considering the weighted average interest rate of total deposits and total loans. Spread for commercial banks to reduce to 4.5% by Ashad end 2076.
- Call deposits accepted by commercial banks shall not exceed 10% of its total deposit liability.
- NRB approval not required for establishment of branches except outside the Metropolitan and Sub-Metropolitan City.

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passion

teamwork

clarity

quality

integrity



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## Margin lending by broker firms

The SEBON has issued “Margin Lending Directive, 2075 on 2074.07.20. Similarly, “Facilitation of Margin Lending Guideline, 2075”, was issued by NEPSE on 2075.01.19. These guidelines allow stock broking firms to extend loans to investors to buy shares through margin lending of the shares held by them. SEBON expects that this arrangement will enable to investors to avail all facilities through the brokers under one roof. According to the directive, the broker firm to provide facility of margin lending needs to have minimum net assets of Rs 50 mio.

Major highlights of this arrangement are:

- Interest rates on margin lending will be fixed between investor and broker.
- Stock brokers need to provide prior information to SEBON and NEPSE on the interest rates to be levied on such loans.

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## Format of Interim Financial Statement

NRB has issued a circular on 2075.11.14 relating to publishing of interim financial statements by BFIs in the new formats. Two formats - summary financial information to be published in newspapers and detailed format for publishing in the website has been proposed.

[Please click here for circular](#)

[Click here for format of Interim Financial Statement](#)

## Detailed Interim Financial reporting

Apart from traditional reporting which constituted only Balance Sheet, Profit or Loss, Key ratios and some explanatory note, the banks are now required to furnish additional information such as:

- Statement of changes in equity
- Condensed cash flow statements
- Notes to interim financial statements (Basis of preparation, accounting policies, segment reporting, related party disclosure etc.)

## Impact on interim reporting

Stakeholders will benefit from this additional disclosure, however, at the same time disclosing notes to interim financial statements can be time consuming and costly for banks.

## Circular related to subsidy on export

NRB, through its circular dated 2075.10.28 on subsidy on export, requires “A” class licensed institutions to comply with the Guideline on Export Subsidy, 2075 approved by Council of Ministers, GoN. With the implementation of this new guideline, the previous guideline on Cash Incentive on Export, 2070 has been repealed. The guideline prescribes various procedural aspects of subsidy on export.

Key highlights of the circular:

- subsidy at the rate of 5% on export value is granted for products manufactured using domestic raw material (Example tea, coffee).
- subsidy at the rate of 3% shall be provided for export of products e.g. garment, carpet, leather products, medicine etc.

## Impact - Benefit to exporters

With the increase in subsidy to exporters from 3-5% compared to 1-2% previously, exporters are expected to benefit which should incentivize the growth of export oriented industries.

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## DTTA between Bangladesh and Nepal

The Governments of Nepal and the People's Republic of Bangladesh have signed an Agreement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTTA) with respect to taxes on income.

The agreement concluded in DTTA aims at providing settlement between the tax claims of the Government of Nepal and the Government of the People's Republic of Bangladesh. It would also eliminate double taxation, promotion of bilateral trade, persons, services and capital investment

Nepal has already signed DTTA with People Republic of China, India, Mauritius, Sri Lanka, Pakistan, Republic of Korea, Thailand, Austria, Norway, and Qatar. Bangladesh becomes the 11<sup>th</sup> nation to enter into such agreement with Nepal.

## Impact

DTAA between the two countries will reduce double taxation and provide more clarity on the taxability of income generated in each contracting state. This is going to foster foreign investment in Nepal from Bangladesh.

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## POOL System in Foreign Employment Insurance

Every person travelling overseas for employment purpose is required to procure insure coverage under Foreign Employment Term Life Policy. On 17 Magh 2075, the Insurance Board of Nepal has issued a circular outlining procedures for issuing Foreign Employment Term Life Insurance policy based on POOL system. Companies in the POOL are now required to issue the Foreign Employment Term Life Insurance policy collectively and share the premium earned on such policies based on the ratio as prescribed by the Insurance Board.

## Impact on Insurance Companies

The Insurance Board has prescribed a ratio for sharing revenue earned from pool for each insurance company. For this purpose, average of market share based on premium received in FY 2074-75 and 2075-76 (up to Mangsir) has been considered. Apparently, insurance companies whose market share was higher in previous year but lower this year seems to have benefited from pooling system. Also, the insurance companies who didn't have any share previously are also having 1% share in the pool.

[Please click here for further information](#)

PKF TR Upadhyaya & Co., 124 Lal Colony Marg, Lal Durbar, Kathmandu, (Near Jai Nepal Hall) Nepal +977 1 4410927 | 4420026  
[www.pkf.trunco.com.np](http://www.pkf.trunco.com.np)

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