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INVESTOR'S AWARENESS ON ICDR GUIDELINES WITH RESPECT TO FINANCIAL STATEMENTS: A STUDY

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ABSTRACT

Ever since its inception, SEBI has been seamlessly endeavouring to enhance the cognitive levels of investors with respect to the fundamentals of the companies raising funds through initial and further public offers, as part of which, the market and accounting regulators have been mandating the issuers to foster certain guidelines with respect to the disclosure of financial statements and the policies practiced in preparing such statements. SEBI has conglomerated all the earlier guidelines after making the necessary tweaks and brought out Issue of Capital and Disclosure Requirements (ICDR) in the years 2009 and 2015 and furthered amendments to these requirements to reconcile with the market dynamics, the result of which is unveiled in the form of ICDR Guidelines 2018. The proponents of ICDR 2018 along with SEBI have proffered that the new set of disclosure requirements are more robust and help the investors understanding the financial position of the issuers comparing to those of previous disclosure norms. Thus, there is a need to study whether new disclosure norms are lucid and improves the awareness levels of investors. Therefore a paper titled "Study on Investor's Awareness on ICDR Guidelines with Respect to Financial Statements" is proposed with the twin objectives of understanding the disclosure requirements and assessing the awareness levels of investors on the said requirements.

Keywords: *Financial Statements, Disclosure Requirements and ICDR 2018.*

Introduction

The practice of occasioning the companies to follow the well standardized set of policies in preparing the financial statements and disclosing the same in public domain is by no means a new practice in India. Indeed, the very first Accounting Standard reveals the impeccable need of disclosing accounting policies which can be reckoned not only by the share holders, rather by the stake holders altogether. The provisions of Securities Contract Regulation Act 1956 and further regulatory attempts have emphasized on disclosure norms of financial statements which are brought to culmination with the efforts of SEBI that has very meticulously chalked out the disclosure requirements through ICDR (Issue of Capital and Disclosure Requirements) 2018 to be met by the companies seeking funds from public. These disclosure norms are very explicit and not only confine the scope to the disclosure of financial statements. Rather, the ICDR guidelines have earned global imprimatur for the elaborative and inclusive nature, as they emphasize on the disclosure norms of the issuers willing to be listed on the main boards and that of the SME platform in equal priority.

ICDR 2018 is also approbated for adroitly aligning the provisions of Indian and international accounting standards and practices in determining the disclosure norms of issue related aspects in general and financial statements in particular. For instance, the guidelines endorsed by the Accounting Standard 11 and Ind Accounting Standard 21 with respect to the effects of FX volatility on stand alone and restated financial statements were duly considered by SEBI in determining the disclosure

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requirements of the issuers having foreign operations. Similar dexterity is exercised with respect to the related party transactions and the corresponding disclosure norms of the issuers, these merits apart, there are two questions elevating the flipside of the ICDR disclosure norms i.e. one, why the carefully drafted ICDR norms are amended many times within a span of three years from their incarnation and two, whether the elaborative disclosure of financial tenets are in the cognitive sphere of the common investors or they need to be further simplified, such that, majority of the investors can vividly understand the financial position of the issuers.. These questions can be answered only after reviewing the literature available on ICDR.

Review of Literature

Shah and Jain (2019)[1] have observed that ICDR regulations shall unleash a new paradigm in Indian capital markets owing to the inclusive nature of the guidelines that accommodate the best international practices of disclosure norms. They have also stated in their paper that the new ICDR guidelines are flexible enough to be adopted without any transition period by the corporate houses. This argument is also bolstered by Rahim and Raja shekar (2019)[2] in their paper, wherein, they have studied the rigidities of ICDR disclosure requirements. They have taken the data of twenty companies listed on main board and concluded that, though, ICDR disclosure norms are fraught with few rigidities, they are more accommodative in terms of including the guidelines of the statutory accounting bodies.

Manoharan (2020)[3] has conducted a comparative study of Indian and US regulations with respect to the disclosure requirements of the financial statements of issuers and drew a conclusion that the ICDR guidelines are on par with the SEC disclosure laws, but the ICDR provides enough space to bind SMEs also in the ambit of disclosure norms which enhances the fidelity of investors on SMEs and the financial information provided by them, whereas, the SME disclosure norms of SEC of US are feeble which enables them to shield much of the financial information. Therefore, It is evident from the observations of Manoharan that ICDR guidelines stresses on the doctrine of due diligence in SME segment either.

Amarchand and Srinivasan(2020)[4] have observed that SEBI stroke a balance between the ease of doing business and investor protection by redrafting the ICDR guidelines 2009 with altogether a new set of requirements in the year 2018. The authors have expressed that new ICDR guidelines are lucidly drafted, such that, the financial disclosures made by the issuers can be understood by the retail investors as well. But the paper drafted by Amarchand and Srinivasan does not represent any primary data to support whether the new ICDR disclosure norms are lucid.

Tandan (2020)[5] has conducted a theoretical study on ICDR disclosure norms and stated in his paper that most of the financial disclosure requirements rolled out in India are redundant and paving the way to surface much of the information in the issuer's prospectus which is not relevant to retail investors who merely buy the financial instruments to resell in short period of time. similar opinion is expressed by Divya Sheshadri (2021)[6] in her paper who argued that the disclosure requirements in prospectus must be simple and should not induce the investors to overshoot the contents of prospectus by means of excess information.

Gaps in Literature

There is very nominal amount of literature available on ICDR 2018 as only three years of time is lapsed ever since the adoption of the said guidelines. Few attempts were made by the researchers to compare the disclosure norms of ICDR with those of other countries and few authors have attempted to study the chronology of disclosure norms imposed by SEBI. But there is hardly any evidence supporting or rejecting the efficacy of ICDR financial disclosure on the investor's decision or his cognitive levels on ICDR. After all, the financial disclosure requirements are meant to ensure better protection of investors. Therefore, to cement this research gap, the following objectives are proposed in this paper.

Objectives of the Study

- Understanding the major changes brought in by ICDR with respect to the disclosure of financial statements.
- Studying the awareness levels of retail investors on financial disclosure requirements of ICDR.
- Assessing the impact of awareness levels of ICDR disclosure requirements on the investment decisions of the retail investors.

Research Methodology

The first objective is accomplished with the help of secondary data, i.e. the financial disclosure requirements of ICDR 2018 are compared with the previous disclosure requirements to form an opinion on the major changes instituted by ICDR 2018. On the other hand, the second and third objectives are tested with the help of primary data using a structured questionnaire. the third objective requiring the assessment of awareness levels of ICDR on investment decisions is tested through the following hypothesis.

Null Hypothesis: H_0: There is no significant association between the awareness levels of investors on ICDR guidelines and decisions to make investments in IPOs.

The null hypothesis is tested with the help of Chi square test of independence of attributes.

Sample Size

This paper has been constructed with a sample size of one hundred respondents who are randomly selected from the city of Hyderabad subjected to the condition that, the respondents are not the professional intermediaries of financial markets or the employees therein and all the respondents are retail investors with active demat accounts.

Major Changes brought in by ICDR 2018 with Respect to the Financial Disclosure Requirements

The review of secondary data enables to understand that the issuers were earlier required to disclose both standalone and restated financial statements in the prospectus, but the new norms occasions the issuing company only to disclose the restated financial statements. Nevertheless, the audited standalone statements are required to be placed in the website of the company, and the link of the same must be disclosed in the prospectus. Therefore, the investors who examine only the prospectus or red herring prospectus in the news papers cannot understand the major material accounting errors committed by the issuing entity during the stub period, however, regulation 24(5) of ICDR 2018 compels the lead managers to ensure that the restated financial statements are less than six months old. Similarly, the disclosure period of financial statements has been brought down from five years to three years, which does not empower the investor to know the long term liabilities or other financial decisions made by the company in the past.

The earlier disclosure requirements occasioned the issuer to disclose Proforma Financial Statement if any acquisition of asset or the disposal of asset took place in the stub period, but such Proforma is required now only if the transaction takes place in the latest period. This may lead to uninformed decisions by the investors who place reliance in the prospectus or any other offer document. Similarly, there are few changes with respect to the advertisement of offer document and the financial material, as they need to be published as per schedule IX and X of ICDR 2018 which mirrors few changes comparing to the previous guidelines of SEBI.

Awareness Levels of Retail Investors on Financial Disclosure Requirements of ICDR

Table 1: Awareness Levels of Investors on ICDR

S.No	Statement/Question	Yes	No
1	Are you a frequent investor in IPO and FPO	67	33
2	Are you aware of ICDR guidelines	25	75
3	Are you aware of what is restated financial statement	28	72
4	Are you aware of what is standalone financial statement	28	72
5	Are you aware of what is stub period	22	78
6	Are you aware of what is what is later period	21	79
7	Are you aware of the duties of lead manager of IPO	35	65
8	Are you aware of post IPO disclosure requirements	23	77
9	Are you aware of what is Proforma financial statement	4	96
10	Do you read every content disclosed in the prospectus	26	74

Source: compiled from primary data.

Testing of Hypothesis

Table 2: Pivot Table of Association between the Awareness Levels of ICDR and Frequent Investments in IPOs and FPOs.

Atribute	Yes	No
Awareness of ICDR	25	75
Frequent investments in IPO	67	25

Source: Compiled from primary data

Table 3: Calculation of P Value with Python Library

```
1. from scipy.stats import chi2_contingency
2. data = [[24,51], [9,16]]
stat, p, dof, expected = chi2_contingency(data)
3. alpha = 0.05
print("p value is " + str(p))
if p <= alpha:
   print('Dependent (reject H0)')
else:
   print('Independent (H0 holds true)')
Conclusion : p value is 0.9022774227639881
Independent (H0 holds true)
No association
```

Interpretation

It is evident from table 3 that the P value testing the association between the selected attributes is 0.902277 which is far away from the established confidence intervals at 95 5. Therefore, the null hypothesis cannot be rejected. Ie the decision of investors to make investments in IPOs is independent of their awareness levels on ICDR disclosure requirements to be met by the issuers.

Conclusion

This paper concludes that the investors for whom, ICDR occasions the issuers to meet discloser requirements of financial statements and other fundamentals of the company are not aware of the same. Therefore, there is a dire need for SEBI and other stakeholders of the market to initiate investor education with the core emphasis on the discloser requirements to hold the notion of "constructive notice a valid doctrine.

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