



## **A Synopsis of Standard Relating to the Due Diligence Review of Financial Statements Submitted for IPO 2082**

Effective: Baisakh 1, 2083 | April 14, 2026

Issuing Authority : Securities Board of Nepal ( SEBON )

## Key Reforms in IPO Review and Compliance

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- Introduction of a three-tier risk-trigger framework
- Active expert selection through appointment from a shortlisted panel
- Absolute IPO disqualification for companies with adverse opinion or disclaimer of opinion in latest audited financial statements
- Mandatory due diligence certification by the Issue Manager prior to submission
- Time-bound expert reporting requirement: 30 days with a maximum 10-day extension upon written justification

## Three-Tier Risk Triggers for Mandatory IPO Review

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### **Tier 1: Financial Quality Triggers**

- Revenue as receivables exceeds 75%, indicating non-cash earnings risk
- Contingent liability adjustments reduce net worth to  $\leq 50\%$  of paid-up capital

### **Tier 2: Structural & Accounting Triggers**

- Related-party transactions exceed 30% of fixed/business assets
- Accounting policy changes used to achieve IPO eligibility thresholds

### **Tier 3: Multi-Year & Compliance Triggers**

- Combined review of three years' audited, latest audited, and interim statements
- Legal non-compliance, financial crime indicators, or material adverse events

## Differentiated Thresholds by Sector

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- **Manufacturing**



- Related-party construction costs > 30% of total project cost
- IRR under IFRIC-12 varies across years; adjustment fails IPO thresholds
- Interest/financial cost materially inconsistent with 2-year average
- Investment in another project during construction  $\geq$  IPO raising amount

- **Hotel and Tourism**



- Trade receivables > 75% of sales revenue
- 3-year avg related-party sales or direct cost > 30%
- Gross Profit Margin deviates > 30% from prior 2-year average
- Interest/financial cost materially inconsistent with 2-year average

- **Hydropower and Energy**



- Related-party construction costs > 30% of total project cost
- IRR under IFRIC-12 varies across years; adjustment fails IPO thresholds
- Interest/financial cost materially inconsistent with 2-year average
- Investment in another project during construction  $\geq$  IPO raising amount

- **Investment Companies**



- 3-year avg related-party direct income or cost > 30%
- Direct income in last 2 years not aligned with core business or permitted sectors
- Paid-up capital > 50% deployed outside core mandate
- Investment policy or accounting changed repeatedly; adjustment fails IPO thresholds

## Who Bears the Compliance Requirements

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### DIRECT IMPACT

#### **IPO Bound Companies**

Higher pre-filing compliance cost; longer preparation cycles

#### **Statutory Auditors**

Audit qualifications carry direct regulatory consequence

#### **Hydropower Developers**

Highest exposure - related-party and tariff scrutiny

### INDIRECT IMPACT

#### **Security Issuance**

Must build forensic pre-diligence into IPO mandates

#### **Retail Investors**

Stronger signal quality; reduced speculative listing risk

#### **Institutional Investors**

Pipeline credibility may attract deeper participation

## STRATEGIC SIGNAL

# Nepal's Capital Market Is Becoming More Transparent

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Shift from rule-based to risk-based regulation

Sector-Specific Risk Recognition

IFRIC-12 Alignment - Hydropower

Substantive validation over procedural filing

For Further Consultation, Please contact:

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