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In defence of the quarterly reporting cycle

Market participants will tell you that the quarterly results and the accompanying investor calls, are a ritual. These are not just about numbers. These are about hard-eyeing the management and leadership teams, assessing how connected they are with the business and how passionate about its future.

As economic activity restarts after the lockdown, it is also be the time for companies to present their annual report card to shareholders. The Institute of Chartered Accountants has dealt with the challenges of putting together meaningful financial information and with finalizing accounts in its various guidance notes. Once auditors sign-off on financial results, companies will hold virtual shareholder meetings – now permitted by the Ministry of Corporate Affairs (MCA), and have investors approve these. There have also been various related deadline extensions granted by the Securities and Exchange Board of India and the MCA.

But financial reporting will not stop once the accounts are approved. There is the uninterrupted requirement to publish quarterly results. As many companies believe that with eight weeks of no or very limited activity, the forthcoming quarterly results are likely to deviate substantially from the trend line. There is a clamour by companies not to report for the quarter-ending June 2020.

This call to do away with quarterly reporting, builds on something we have been hearing for a while. Corporate leaders have been complaining bitterly, arguing that these distract companies from focussing on the long-term, forcing managements to spend disproportionate time smootheningearning. This short-termism is seen as being closely correlated to cutting down on investments, excessive share buy-backs and increased dividends. Though Indian corporates have remained frugal with dividends and buy-backs, they nonetheless see the pandemic as an opportunity to extend reporting from quarterly to half-yearly – if not do away with these entirely. If almost no car was sold in in April, what purpose will publishing quarterly results, with April numbers inside them, serve? That Warren Buffet and Jamie Dimon support the slower reporting cycle, lends heft to the arguments.

To argue that companies can focus on the long-term - say five years or more, because they have extended reporting by a quarter does not cut ice. Laurence Summers, President Obama's former treasury secretary and a professor at Harvard, dismissed this argument with a characteristically pithy boutade. He said, "Just as my students often

BS Business Standard

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suggest that the grading system forces them to study a particular syllabus rather than pursue their intellectual passions, managers prefer to avoid frequent accountability for results."

Further, the CEO and senior leadership expect to receive monthly if not more frequent reporting from there direct reports, as do private equity firms. This information is used to monitor performance, accelerate ideas, refocus attention, re-energise workers and often to firefight. If they can receive the information, clearly the processes permit this to be generated. Thereafter it cannot be a challenge to get information to shareholders.

And it is naïve to believe that investors don't have the ability to analyse companies which report disrupted (quarterly) numbers. After all companies get funding from venture capitalists and private equity and raise money through IPO's. These are all on the back of credible long-term plans and quality of management. This is not to say that you should invest on a wing and a prayer or that don't need to look at the financial numbers, but that investors have the ability to look beyond a disrupted quarter's numbers.

Finally, there is regulatory anxiety: the less frequently information is released, the more valuable inside information is. Add to this the information-edge that access to company managements gives well-connected investors and it is clear that markets need more frequent reporting.

The argument that the pandemic is a black swan event which necessitates this waiver, is difficult to embrace. Go back in time - the IL&FS episode, the taper tantrum, the global financial crisis, the Ketan Parekh 'scam,' the Asian financial crisis - this is not an exhaustive list. There are enough market disruptions and frequently enough, to make it difficult to draw a clear line on when to give such waivers.

Last week SEBI issued an 'advisory' making it clear that despite the Covid related disruptions, companies needs to continue to communicate with markets. This recognises that there is the need to present meaningful business commentary and financial numbers during periods of extreme financial disruption. In fact, in doing so, the regulator is messaging that the companies need to continue to communicate during periods of extreme turbulence: we interpret this as a signal that the regulator is not likely to do away with the need to disclose quarterly earnings.

Market participants will tell you that the quarterly results and the accompanying investor calls, are a ritual. These are not just about numbers. And listed companies know this all too well. They are about management sharing its perspective on economic developments, changes in technology, competitive pressures, and what impact these

may have on the company's growth trajectory. It is about their new launches and how they expect regulatory changes to impact operations. It is about hard-eyeing management and the leadership team, assessing how connected they are with the business and gauging how passionate they are about its future.

This season investors – particularly the retail investors, have lost the richness they gain by physically attending a shareholder meeting and hearing their company's management.It will be ashame if regulators heed this call by companies and do away with quarterly reporting.

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Note the Business Standard article is behind a paywall.

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The attached article is a commentary on general trends in the securities market.

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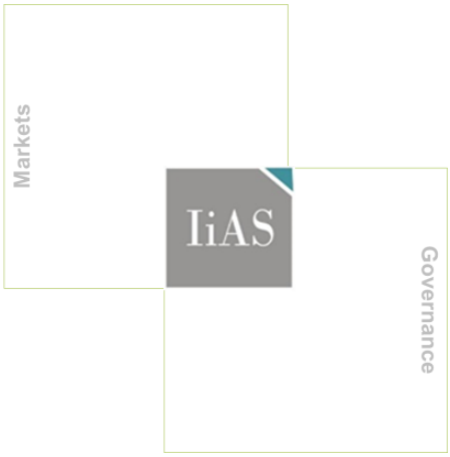

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