



**September 13, 2013**

Mr. V. S. Sundaresan  
Chief General Manager  
Corporation Finance Department  
Securities and Exchange Board of India  
SEBI Bhavan  
Plot No. C4-A, "G" Block  
Bandra Kurla Complex  
Bandra (East), Mumbai - 400 051

Dear Mr. Sundaresan,

**Sub: Discussion Paper on "Revision of Clause – 41 of Equity Listing Agreement"**

**CFA Institute<sup>1</sup> and IAIP<sup>2</sup>** appreciate the opportunity to comment on the on Discussion paper on “Revision of Clause – 41 of Equity Listing Agreement “

**Executive Summary:**

At the outset, we, at Indian Association of Investment Professional (IAIP), a member society of CFA Institute express our sincerest compliments to SEBI for its pro-active approach on strengthening Clause 41 of Equity Listing Agreement. These amendments will lead to improvements in disclosure and transparency norms in Indian capital markets and we are very happy to have the opportunity to participate in the process of formation of such critical regulatory framework.

The IAIP unequivocally supports SEBI’s amendment to clause 41 which requires listed companies to file consolidated financial statements along with abridged balance sheet and cash flow statement. Since its introduction in 2000, SEBI has been very progressive in continuously evolving the Clause 41

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<sup>1</sup>**CFA Institute**, the global association of investment professionals that sets the standard for professional excellence and credentials, is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. CFA Institute has more than 115,000 members in 138 countries, with membership in India growing at a particularly strong pace. CFA Institute maintains relationships with a number of regulators in major financial markets. [www.cfainstitute.org](http://www.cfainstitute.org)

<sup>2</sup>**The Indian Association of Investment Professionals** is an association of over 1100 local investment professionals. The Association consists of portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry. [www.cfasociety.org/india](http://www.cfasociety.org/india)



requirements to make the disclosures more timely, more relevant, comprehensive and more accurate. We believe that the recent proposed changes further add to this objective and are a commendable exercise to make Clause 41 consistent with the updated requirements of other corporate legislations and also an overhaul of the entire document to make the policy intent clearer.

While we expect companies, auditors, other market participants and the investor community to be sharing their views on the operational and more specific aspects of the current discussion paper, we would like to draw your attention to a few new additions that we believe, would greatly help investors enable achievement of new disclosure benchmarks in the Indian public equity markets.

1. A great challenge facing Indian capital markets is small participation of retail investors at less than 1.5% of population<sup>3</sup>. SEBI has recognized the importance of increasing retail participation in Indian markets and continues to take significant measures to increase it. Achieving this, we believe, requires consistent initiatives from both regulators and market participants. One such initiative, we believe, would be to enhance the disclosure requirements under Clause 41 of listing agreements.

Clause 41 reporting has greatly improved over the past decade or so and now captures a significant amount of financial information relevant from investor's point of view. However, **large amount of data reported continues to be quantitative financial statistics and needs certain sophistication on part of the investors** to interpret and incorporate it in investment decision making.

**With intent to widen the base of investors that benefit from Clause 41 disclosures and better understand the periodic performance of companies, we believe that inclusion of a Management Discussion and Analysis ("MD&A") section of companies' quarterly performance and the Key Risk Factors ("KRF") would greatly help.**

The Annual Reports and Offering Documents do have requirements of an MD&A, however, with increasing pace of change in business dynamics, annual frequency, is inadequate in our view. Currently most large and progressive listed companies provide the discussion on performance through investor / analyst meets and conference calls and some of this is also reported in financial press. While this is helpful for the investor community, and we welcome SEBI's directives to make these public events from earlier almost closed door events for institutional investors and research analysts, but the need for quarterly MD&A persists from the perspective of uniformity and ease of access.

Keeping in mind the relevance of KRF, it is required to be discussed in detail in the Offering Documents for equity issuances. The need of the investors to understand the KRF, while making investment decisions in already listed companies in secondary public equity markets is equally high. This becomes even more critical when stated objective of increasing retail investor base would entail first time exposure of many retail investors to the already listed companies.

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<sup>3</sup> <http://pibmumbai.gov.in/scripts/detail.asp?releaseId=E2013FR2> as accessed on August 30, 2013 12:46 pm



**We believe that a periodic and structured discussion of Key Risk Factors and addition of Management Discussion and Analysis to current largely quantitative financial reporting in using a consistent and comprehensive format would help in building greater transparency, corporate governance and more educated decision making by all classes of investors eventually resulting in potentially higher participation in our equity markets. Therefore, we would request you to favourably consider inclusion of these under Clause 41 reporting requirements.**

Clause 41 has over the years seen gradual and consistent expansion of disclosure requirements on an incremental basis and we believe that now the time is right for these step changes, even if in a phased manner. The formats for MD&A and KRF have been well laid out in the Issue of Capital and Disclosure Requirements 2013 and adoption of that for periodic reporting would further enhance ease emanating from uniformity of reporting for both investors and issuers alike. This reporting could then be made available on platforms like CFDS and Company web-sites for ease of access by the investor community.

2. Inclusion of summary balance sheet and cash-flow statements has greatly aided the quality of disclosures; however, more specific disclosures of below related items would be very helpful to the investors in understanding the periodic performance of the companies:

- (a) There is a need for companies to disclose total borrowing separately. In the current scheme of things it is difficult to determine total debt of the company from the half yearly balance sheet (post revised schedule-VI) since current portion of long term debt is included in other current liabilities for which no schedule is available. Hence, it is not possible to ascertain a critical item like total debt of the company from half yearly balance sheet.

- (b) Statement of shareholders' equity (net worth) reconciliation. This will highlight all the direct debits to the reserves and hence help stakeholders assess the true earning vis-a-vis reported earnings. This is now a standard practice in many developed markets and we believe the time is right for India to also adopt this. [Another related disclosure that we would like to highlight is regarding reporting of interest and mark to market forex losses that are capitalized during the period.]

- (c) [There is also scope for making cash-flow statement more detailed by including changes in working capital, capex, debt raised/paid etc.]

- (d) [Similarly, it would help increase transparency if reporting requirement regarding utilization of proceeds for companies yet to reach commercial operation (pre-COD) is made more granular by including appropriate sub-heads like advances to suppliers, purchase of equipment, purchase of land, license fee, pre-operative interest payment etc. (Paragraph IV) (d)]

3. Additional Notes (potentially in Annexure VIII)

- (a) Economic and market conditions sometime make certain specific disclosures critical to understand the financial health of the companies. SEBI has always been cognizant and responsive on these. One such data point was related to Promoter pledges. With the increased currency volatility the details regarding outstanding foreign currency loans, foreign currency receivables and payables along with hedges have become critical for investors and need to be considered for incorporation in Clause-41 disclosures.



(b) [A note explaining restatement of items that varied by more than 10% from previously reported numbers due to reclassification of data would also aid to the investors' understanding of performance]

(c) Details regarding loan defaults (if any) and inter-corporate borrowings

4. In our opinion, there is also a need to explore the possibility of reducing the time limit for publication of financial results from within 48 hours to of Board/committee meeting to within 24 hours (Paragraph VI) (a)). Over the past few years, Indian markets have developed considerably. Now the investor base and the access to the operation of key stock exchanges have taken a national form. In this context requirement of publishing financial results and intimation of Board meetings in one regional language daily can be done away with, making the process easier for the companies without any significant disservice to the investor community at large (Paragraph III) (b) and VI) (a)).

We thank you for the opportunity to provide feedback on this important regulatory framework and we shall be delighted to visit your offices to discuss the same in detail.

If you or your staff have questions or seek further clarification, please do not hesitate to contact Biharilal Deora CFA, Secretary - IAIP at +91 99784 10000 at [advocacy@india.cfasociety.org](mailto:advocacy@india.cfasociety.org)

Sincerely yours,

Biharilal Deora CFA  
Secretary  
Indian Association of Investment Professionals  
[www.cfasociety.org/india](http://www.cfasociety.org/india)