The SEBI's Proposed Improvements To Interim Financial Reporting Brings Greater International Comparability For India

On Aug. 20, 2013, the Securities and Exchange Board of India (SEBI) issued a discussion paper (the proposal) which seeks to revise the quarterly and half-yearly interim financial reporting and disclosure requirements (interim financial results) for companies listed on Indian stock exchanges. We believe the proposal should improve the consistency and transparency of Indian companies' interim financial results reporting by bringing it closer to global standards and facilitating better intra year analysis of Indian companies. Having said that, India's impending adoption of IFRS still isolates it as one of the major Asian countries that is yet to adopt these high quality accounting standards that would make its accounting and financial reporting more globally consistent.

Highlights of the SEBI's proposal include:

1. Nonbanking finance companies to use financial statement formats prescribed for banks rather than those of manufacturing companies.

2. Companies will be required to report consolidated interim financial results on a half-yearly basis in the event their preceding annual consolidated revenue, total assets, total liabilities, and or profit (loss) separately varies by 20% or more from the corresponding standalone financial statements.

3. Auditors' will be required to review or audit more than 80% of the consolidated revenue, net profit (loss), and net worth.

4. Companies will be required to report a summary statement of cash flows on a half-yearly basis along with the interim financial results.

5. Companies will provide certain specific disclosures for business combinations; restructuring; discontinued operations; acquisition and disposal of subsidiaries and long term investments.

6. All exceptional items (such as a sale of a major asset, or natural disaster) will be separately disclosed as per the required format.

Potential analytical impact and considerations:

- **Consistent interim financial results format for finance companies to improve comparability.** Currently, the nonbanking finance companies use the manufacturing companies' interim financial results format to present their interim financial results. The change would put them at par with banks thereby improving peer comparability.

- **Consolidated financial results to improve transparency, provide a more complete picture and facilitate continuity in analyzing interim financial results.** Although the requirements would be applicable only to companies who have sizeable (more than 20% of standalone) operations in their subsidiaries and/or joint ventures and associates, we believe in order to be in line with their larger peers who will provide consolidated interim financial results going forward, most of the smaller-sized companies also would likely start reporting consolidated financial results. Further, the half-yearly consolidated financial results could influence companies to also provide similar financial results on a quarterly basis. This would facilitate continuity in analyzing companies, since financial statement users would no longer be required to switch their analysis between standalone and consolidated financial results intra-year. Additionally, an 80% review or audit threshold of consolidated financial results will likely enhance the quality of interim consolidated financial reporting practices prevalent in India.

- **A half-yearly summary cash flow statement is limited, but an improvement.** We believe the half-yearly cash flow analysis may not be the ideal interval, given that companies are already publishing quarterly financial results, but potentially will provide crucial information about the cash generation and liquidity position of the company. We believe cash flow information is extremely important for analyzing certain sectors such as real estate and infrastructure and the proposed disclosures would improve sector analysis.

- **Disclosures about nonrecurring events could aid in normalizing operations in analysis.** We believe specific disclosures about exceptional items, discontinued operations, and business combinations would allow financial statement users, to segregate and project financial information and use performance-trend metrics more effectively.