Annual reports should be in simple language: Report

Former SEBI chief says institutional investors should increase attendance, ask tougher questions

OUR BUREAU
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Annual reports, including financial statements, should be drafted in simple language and be in a reader-friendly format to enable shareholders to understand them better, said a new report by Excellence Enablers, a consultancy firm led by former SEBI chief M Damodaran.

The report titled 'Making AGMs More Meaningful' said, "Management presentations should contain meaningful information. If possible, these can be sent in advance, so that shareholders can come to the meeting well informed."

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M DAMODARAN
Former SEBI chief

Easy to read

Notice should lay down rationale for each resolution in easy-to-read language, so that shareholders can comprehend the same, and take better decisions, said the report.

"AGMs are approached by both managements and shareholders as a confrontational and not a collaborative exercise because shareholders basically distrust the company management. Both the management and shareholders should appreciate the fact that they are on the same side and have to promote the best interests of the company," the report said. The shareholders' meeting has been reduced to a mandatory statutory meeting held once a year without the presence of many directors and most shareholders, including institutional and retail investors, it added.

Some of the shareholders use the opportunity to shower praise on the management with few retail shareholders seeking attention and eyeing freebie, said the report.

Delay in conducting AGMs

The report also highlighted that the delay in conducting the annual general meetings after finalisation of accounts reflects a lack of seriousness among corporates in holding this statutory shareholder meeting.

Of the top 250 companies surveyed by the firm, about 225 held their AGMs 45 days after finalisation of accounts in FY21, leading to investors losing interest in asking relevant questions. Though the Companies Act prescribes that companies should conduct AGMs within six months after finalisation of accounts, SEBI regulation prescribes that top 100 listed companies should do it in five months. Only 162 companies of the top 250 held AGMs with the presence of all its directors. Though virtual AGMs do not involve travel, several directors, especially nominees, fail to attend the annual meeting, said the study. In fact, the attendance of directors in AGMs should be consider before their reappointment. Interestingly, about 98 companies finished their AGMs within two hours while another 37 completed it within one hour and 32 held it between 2 to 3 hours, said the study.

Access for shareholders

AGMs of most top companies are held on similar dates in August and September in the city where the company has the registered office leading to cost of travel for shareholders. With e-voting, a number of shareholders feel that an AGM is a mere formality since the result of voting is apparent even before the meeting.

As the Companies Act, 2013, requires companies to offer virtual access facility for at least 1,000 shareholders to attend the AGM, several companies have a 1,000-member limit on attendance on a first-come-first-served basis, thus restricting access for other shareholders.

Many companies go through the motions of virtual AGMs with a number of directors and shareholders facing glitches. Excellence Enablers suggested that AGMs can be streamed using platforms such as YouTube or the company's website or at city offices of companies so that more shareholders can attend.

Institutional investors should increase their attendance and should ask tougher questions which would help retail shareholders take informed decisions, it said.