

A first information report

Markets move on information. But the small investor either isn't told or is the last to know

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Unlike most markets, the only raw material for the capital market is information. Every day, millions of trades are done on the basis of information flows. More than macroeconomic information, company-specific information is what investors seek. Ideally, all investors should have equal access to information about companies, which means all information should be available to all investors at the same time. However, in spite of a marked improvement in information flows over the years, asymmetry is still the order of the day.

Secondary market

Technology has played an important role in the capital market in the past decade. Several process-based changes have vastly improved transparency and fair practices. On at least two fronts, screen-based trading and dematerialisation, our market is benchmarked to the best in the world.

Where we still lag is in sourcing and disseminating corporate information. Most corporate disclosures are poor because of bad formats. For example, the manner in which promoter and non-promoter holdings are provided doesn't easily lead to identification of promoters. With a lot of their holding shown as public holding, they are able to use it freely for trading. Result: many Indian promoters have shifted their focus from running their businesses to running their stock, since they can easily make extraordinary profits in quick time there. Insider trading is believed to be rampant, and lack of proper information makes surveillance and investigation a difficult task.

Most stock exchanges, who are entrusted with the responsibility of disseminating corporate information, haven't fully lived up to the challenge. Only the NSE and the BSE have some information management systems in place. Even there, the focus is more on meeting regulatory requirements, not on what information the investor wants and in what form. The regulator's effort to organise corporate information in a single place, its EDIFAR website, has come a cropper. The website is not user-friendly, several types of information is either missing or is outdated.

Continuing disclosures are still in a pathetic state. Listed companies don't file all mandated information. And what they file is not archived properly. Information about several other key aspects, especially of concern to small investors, is difficult to obtain. The small investor wants to know if this company he's looking to invest in has ever changed its name, whether the broker and depository participant (DP) he's planning to deal with ever been hauled up. There is hardly any information in the public domain about registered intermediaries.

Primary market

It's no different in the primary market. The quantity of information has expanded -- compared to 16 pages, prospectuses now run into 250 pages. However, much of this is irrelevant to investors. Worse, the quality is still unsatisfactory. For example, one feels a sense of discomfort looking at financial statements that show a company fumbled all along but posted an outstanding performance in the year preceding its IPO. Then, the disclosure of risk factors has become almost meaningless. Numerous irrelevant risk factors crowd out the significant ones, while several amazingly get converted into issue highlights. Further, the delivery of information, especially to small investors, is dismal -- the abridged prospectus is not an investor-friendly document.

The capital market is a dynamic marketplace. We see every moment how share prices react to information (even rumours) on financial results, acquisitions, product launches, price hikes and cuts, policy changes -- just so many things. We also know how ingenious our companies and promoters can be. So, policy-making apparatus has to be dynamic too.

A new paradigm on disclosures is essential. Technology has to be used as much as it can -- the Internet has to become the mainstay of information dissemination. At the same time, the huge overlap, which forces companies to file the same information at many places, needs to end.

Box

Information minefield-Tread carefully

The face value of the share: a stock might look cheap priced at Rs. 30 till you realize its face value is Re 1 per share

The company's recent results: be wary of a dramatic improvement in performance in the years preceding the public offer

The promoter's credentials: have they or the companies promoted by them been hauled, or are they involved in litigation. A good place to check this is www.watchoutinvestors.com