

BIMAL MEHTA

Impact of legislation and regulation on printers that produce annual reports

Bimal Mehta of Vakil & Sons tries to demystify the future challenges of annual report printing

It's annual report season, the time of the year when the office should be swamped with printing projects.

In the typical scenario, the sales person contacts a corporate for the annual report print job. The sales person is greeted with sullen silence. The company secretary is "busy" and an unknown person in the procurement department mumbles something to the effect that "we shall float a tender".

The sales person pitches for the job. He reminds the marketing communications co-ordinator about the "comfort level" both companies have enjoyed for ten years. But to no avail. Quotes are summoned. Presentations are made. The sales person explains how an annual report has evolved from a financial statement to a marketing and brand building tool.

The panel is impressed

A few days later, a succinct email arrives. It says: "Several countries have introduced new legislation allowing companies to make annual reports available only on their websites. No longer will they supply printed annual reports to shareholders, unless it is specifically requested for."

The tale in other countries

This is part of a global trend. The sales person, be it from Repro or Thomson Press or Orient or Dhote or Vakil's wants to know what is happening in other countries.

In the USA, the SEC approved the elimination of the requirement for companies to distribute printed copies of annual reports to shareholders. Companies can make the report available on a corporate website or through a link. The website must state that a printed copy of the annual report is available upon request and free of charge.

The same story is repeated in UK, with the Companies Bill 2006. Indeed now, companies simply assume that shareholders do not wish to receive a printed version unless they ask for one.

Originally planned for end 2008, the government had fast-tracked the provisions to come into effect in January 2007. As anticipated, companies took advantage of these provisions by the end of 2007.

For companies listed in Australia, the recently introduced new legislation now means that online annual reporting is the default option for delivering information to shareholders. There is no need to produce a printed annual report, unless specifically requested by a shareholder.

Why have the changes happened?

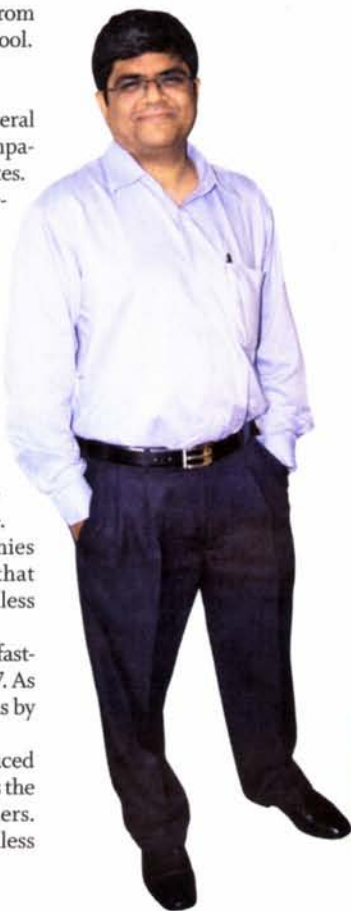
There are many reasons why governments are seeking to abolish compulsory production of printed annual reports.

For starts, there is the high cost to companies of printing and distributing; as well as accelerating acceptance of internet and related technologies. 70% of the total cost of annual reports is dominated by postage.

Story in India

As recently as April 2007, when shareholders were groping

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Annual reports are meant to educate and inform shareholders

for more information, SEBI allowed listed companies to send abridged annual reports to the concerned parties. Companies, particularly those that had millions of shareholders, had been pressurising the government to allow them to send only the salient features of the balance sheet, instead of the full report, to save on printing and postage charges.

Of course shareholders can ask companies for the full balance sheet (in which case the company has to compulsorily send it), but very few place an official request. Among the details left out in an abridged annual report are statements on internal audit, director's report and schedules of the balance sheet. "The abridged balance sheet is a useless document," says Jayanth R Varma, professor of finance at IIM-Ahmedabad. "Giving an annual report without schedules is meaningless."

The information gap is further widened by the ministry of corporate affairs' decision to exempt companies from adding balance sheets of subsidiaries to the parent's annual report.

A need for transparency

In wake of the Satyam scam, however India needs to re-examine the validity of these exemptions and also assess whether existing disclosures are transparent. One of these is quarterly results. In 1998, when the government mandated quarterly disclosure, it was a significant leap towards transparency.

However, the 30-odd items in the quarterly results are woefully inadequate. In times when over-leveraging is a huge concern, quarterly results don't disclose a company's debt, which is a handicap for shareholders. Today, people are more worried about their company's debt than its profits.

Which is why a printer who is capable of providing quality typesetting, dedicated printing presses, proof-reading department, value added designing, printing services and above all, a comfort factor could still be in business.

Why shareholders opt for printed reports?

Even today, printed annual reports are preferred because:

- shareholders are not aware of legislation
- they are averse to PDF and html annual reports
- they don't have a PC and internet connection
- they are used to reading printed material
- lack of email database ignores small investors.

Annual reports influence the perception that investors have of a company. The purpose of annual reports is to educate and inform shareholders (potential as well as current); report on performance; outline the strategy and future direction of the company and fulfill legal and regulatory responsibilities.

In view of the recent economic downturn, and the need for greater transparency, corporate India and the regulatory authorities must ensure that the annual report is freely available. *Perhaps printed annual reports are the only solution.*

(Bimal Mehta is executive director of Vakil & Sons)