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# Former Sebi boss Damodaran echoes Buffett, questions practice of guidance

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Damodaran said quarterly accounts are meaningless for some companies like infrastructure – what really can happen in a quarter, when all your projects are going to take several years to complete.

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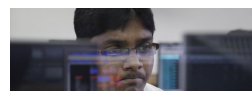
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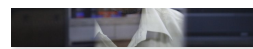
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**JOMY PULLOKARAN**

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As the debate over companies providing quarterly earnings guidance simmers in corporate US after Berkshire Hathaway CEO Warren Buffett and JP Morgan CEO Jamie Dimon bat to end the practice, in India M Damodaran said he had suggested long back to do away with practice of providing guidance for profit and revenue.

"This is not anything new, except the fact that it's coming from Warren Buffet, that is why everybody is sitting up and taking notice. If I recall right, eleven years ago, I said that guidance should be discontinued," said M Damodaran, former chairman, Securities and Exchange Board of India (Sebi).

**Read also:** [Warren Buffett, Jamie Dimon join hands to end quarterly profit forecasts](#)

Speaking exclusively to CNBC-TV18, Damodaran said if the guidance is discontinued at the earliest, its better,



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"because we have a very odd situation when the law says you cannot make forward looking statements and yet in the name of guidance you can say anything you like."

Dimon, in a joint interview with Buffett to CNBC earlier, claimed that executives are often under pressure to make quarterly predictions, but the practice "can often put a company in a position where management from the CEO down feels obligated to deliver earnings and therefore may do things that they wouldn't otherwise have done."

Damodaran said why nobody is addressing the question that from what time guidance become a forward looking statement, "more than 11 years, I said, we should not do away with quarterly forecast and annual forecast, we should in fact have the courage revisit quarterly accounts itself."

Globally, the practice of forecasting has come under severe criticism in recent times with investors pressurising companies to deliver to their promises.

Damodaran said quarterly accounts are meaningless for some companies like infrastructure – what really can happen in a quarter, when all your projects are going to take several years to complete.



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Damodaran said the guidance and quarterly numbers serves no purpose to institutional investors but it benefits only analysts and television.

"It's just the analyst who are benefiting the most because television especially being a hungry medium, needs a lot of material to keep it going and this is as good as any but it serves no purpose, the earlier it's discontinued the better," he added.

Accusing companies for playing with quarterly accounts and in some cases encouraging financial engineering, so that the forecasts comes right, Damodaran said that he don't think retail investors benefit at all from guidance and they want actual delivered profits.

Damodaran highlighted the duplicity of public sector bank chiefs guidance, when they say that 'worst is behind' during the announcement of quarterly results. He opined that guidance has become the master and actual results become the servant.

Speaking on instances where companies which spearheaded the practice of guidance, discontinuing it when results were poor, he said they are exploiting grey area between what law states and what they can get away with.

Damodaran recalled that when he was with Sebi, consensus on the subject

wasn't there and doing away with guidance has to be a collective well thought out effort.

Buffett slammed companies for making good numbers just for guidance, "I have never seen a company whose performance has been improved by having some forecast out there by the CEO that we are going to earn X because it's generally sending the wrong message and delivering wrong results to the company and to the country. It is also cheating the people that work under them."

Berkshire Hathaway is one of those firms that does not follow the practice as its leader Warren Buffett believes it sends a 'wrong message' and tempt executives to manipulate numbers, according to report.

"Companies get tempted by the predictions that have been made, their ego gets involved and when they find they cannot make the numbers, sometimes they make up the numbers and it is a very bad practice," Buffett added.

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