CTC Investor Relations

Market News

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A monthly review of IR developments for our clients and friends. . .

Easy-to-read financials translates into better valuations and less reliance on outside sources

The SEC has wanted companies to adopt clear writing in their filings since 1998 when it published the *Plain English Handbook.* Yet, financial documents continue to be filled with industry jargon and boilerplate language. The American Accounting Association published a study in *The Accounting Review* in July that should convince management to make their documents easy to understand. Individuals were asked to read a company's quarterly earnings release. Half contained plain-English style and formatting, while the other half didn't. Participants also received analyst reports about the stock. After reading the filings, they were asked to value the company and score their readability. Participants were more influenced by analyst comments when they said filings lacked readability. And as they felt the need to access the outside source for information, their valuation judgments of the company went down. The study's authors concluded that failing to make the extra effort to make filings readable is likely to prove costly.

Board composition significantly changed in 2016

Governance and institutional investors played a significant role in changing the makeup of Fortune 500 boards last year. The share of ethnically and racially diverse board members hit an eight-year high, with 22 percent of new board members being either Hispanic, Asian, or African American, according to executive search firm Heidrick & Struggles. Women were better represented, accounting for 37 percent of first-time board appointees. The search firm credits pressure placed on companies by institutional investors and governance policies for the move to better board diversity. The overall number of board seats fell to 4,609 last year from 4,698 in 2015.

SEC lets more companies off the hook on shareholder proposals

During the 2017 proxy season the SEC received 288 requests to omit shareholder proposals from corporate proxies, commonly known as "no action" requests. They granted a record 78 percent of the requests, compared to 68 percent of the 245 requests made in 2016. The increase in "no action" approvals comes as the SEC is under pressure from business groups and lawmakers to revise its shareholder proposal rules. They claim that compliance is expensive and immaterial. Yet, almost a third of the no-action approvals were granted because the proposal had been substantially implemented or the company was willing to respond to the issue.

Trump's SEC nominee is also Obama's never-confirmed choice

This may be a first – President Trump's nominee for the Republican vacancy on the SEC is Hester Maria Peirce. Peirce is a Senior Research Fellow and Director of the Financial Markets Working Group at the Mercatus Center at George Mason University and was a staff attorney at the SEC from 2000 to 2008. Most notable, however, is that she was also President Obama's nominee for a commission seat in 2015. The GOP-controlled Senate never acted on her nomination then.

CFOs are losing sleep over financial reporting
And maybe investors should be too, with 97 percent of 977 CFOs polled by technology firm Workiva and FSN admitting their company's reporting process is so poor they are losing sleep. Half of the respondents said a huge amount of manual checking is necessary every time a change is made, while admitting they don't remove redundant information from their reporting packs. Over half responding said they spend too much time cleaning and manipulating data and battling fragmented systems that require data from multiple sources, both raising questions about the integrity of the data.

Wells Fargo and Morgan Stanley hit by whistleblower decisions
After six years, Wells Fargo Bank was ordered to reinstate the former manager of its Pomona, California branch, who was fired after reporting suspicious conduct by at least three private banker subordinates. Her complaint led to the $185 million fine imposed last September after the bank allegedly opened as many as 2.1 million accounts nationwide using fictitious or unauthorized customer information. The bank agreed to pay without admitting or denying the allegation. However, it is appealing the regulator's order to reinstate the whistleblower and pay her $577,000 in back wages, damages and attorney fees. In another case, two Morgan Stanley employees are set to split a record $61 million whistleblower award for reporting that clients of the bank were steered into investments that would be most profitable for the bank. The award dwarfs the previous top award of $30 million, split by six whistleblowers.

XBLR becoming more widely used
Extensible Business Reporting Language (XBLR) is a data-tagging technology that makes it easier for investors and analysts to compare financial information across companies and industries. The largest public companies were required to use XBRL in their financial statements in 2009 and smaller issuers were phased in over the following two years. This was despite the fact that the technology and inconsistency of tags have limited XBRL's usefulness to many investors. The SEC recently extended XBLR to foreign issuers who prepare their financial statements in accordance with International Financial Reporting Standards. They must submit results in XBRL format starting with financial periods ending on or after December 15, 2017.

SEC's Clayton, Congress seeking "simpler" rules, but investors wary
In his first speech as SEC Chairman, Jay Clayton said the commission is drafting proposals to "simplify" public-company disclosure and governance rules. Clayton said he wants to encourage growing companies to go public instead of relying on less regulated private equity markets. The SEC is known to be considering proposals to cull some repetitive requirements from annual reports. Clayton asked those attending the Economic Club of New York meeting to submit examples of disclosure requirements they believe are burdensome and not material. Meanwhile, Congress is re-writing a number of post-financial-crisis regulations and governance reforms. Reaction from institutional investors is mixed, according to a just completed Rivel Research Group study. Forty-three percent opposed the cutbacks, while 18 percent supported them. Thirty-nine percent are unsure.

Sunny days sweep doubts away
Researchers in Australia, China and India compared U.S. quarterly earnings forecasts with weather forecasts and claim to have found a statistically significant increase in management's earnings forecasts when the weather was sunny at headquarters leading up to the forecast date. They also said the positive forecast effect was most pronounced when the company's overall position was somewhat cloudy. So when the CEO suggests moving the HQ down near his Florida home, don't object.

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