CTC Investor Relations

Market News

October 2017

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

Governance headlined 2017 proxy season

The U.S. withdrawal from the Paris Climate Accord had an opposite effect on American public companies, increasing the appetite for climate-related disclosures, according to the latest ProxyPulse report published by Broadridge, a proxy consulting firm. The report, which analyzed 3,379 shareholder meetings held between January 1 and June 30, 2017, also showed institutional investors not only voiced their view, but took action. For example, State Street Global Advisors voted against the election of directors at 400 companies not having a female member. While there were only nine board diversity proposals, support for them was up at 27 percent. Shareholders asked for clarity on their board's self-assessment process and succession planning. Proxy access became the new normal during this period, as 60 percent of S&P 500 companies adopted bylaws for direct nominations of shareholders.

Two of the largest index providers exclude companies with multiple-class share structure

Starting August 1, the S&P and Dow Jones indices excluded companies with multi-class share structures from entering its S&P Composite 1500 and component indices. The new rule is meant to protect investors, but does not apply to existing index constituents and S&P Global BMI Indices or the S&P Total Market Index. A few days before, the FTSE Russell announced that beginning this fall it plans to exclude shares of companies with low, or no voting rights. Their decision is based on a months-long study by the index of its users and other stakeholders whether they should include a minimum hurdle rate for the percentage of a company's voting rights. The MSCI Index is reviewing its policy on companies with non-voting shares.

Passive investing has become a prevalent influence in the markets

Twenty years ago there were just a few market indexes, today there are more indexes than publicly traded stocks. According to Citi Research, passive investments that track these indexes account for about 45 percent of U.S. large-cap equity mutual funds and exchange-traded funds, and 39 percent of small-cap funds.

Trading suspended when a company purported to assist in hurricane relief efforts

The SEC suspended trading in Texas-based Grupo Resilient International (GRUI) (formerly Paradise Ridge Hydrocarbons, Inc.) after the company reported that it had added a FEMA-approved contractor to the board of a subsidiary and was deploying workers and preparing to deploy a network of mobile broadband trailers to assist relief efforts in Houston. The SEC order says there are questions regarding the adequacy and accuracy of the statement made by the environmental technology company. In early September it sent out an alert warning investors to be vigilant for investment scams related to Hurricanes Harvey and Irma. Under the federal securities laws, the SEC can suspend trading in a stock for 10 days and generally prohibit a broker-dealer from soliciting investors to buy or sell the stock until certain reporting requirements are met.

SEC chief warned investors on cyber-security as its own 2016 breach announced

SEC Chairman Jay Clayton was telling investors to be better educated about the dangers of cyber risk just before it was announced that the SEC's EDGAR database of corporate filings was hacked in 2016, which the agency was slow to announce. The cybercriminals went through a test Edgar system that lets startups unfamiliar with filling out SEC forms get comfortable with the process without publicly blasting out market-moving announcements. The SEC blamed software vulnerability in its test system. Securities-law experts now say that if the EDGAR hackers are captured, the feds may have a tough time pressing charges under existing case law. Cybercrime has created a new class of "outsider" trading by crooks who had no duty to protect the material information they stole. The SC now treats them as intruders who assume the identity of insiders to break in. But the track record of such cases is mixed.

Big four audit firm hacked after record revenues attributed to cyber-security business

No one is safe! On September 25 Deloitte LLP revealed that it has been successfully targeted by a cyberattack that let hackers access data from internal email stored on the Microsoft's Azure cloud platform. Deloitte says "very few" clients were affected and those clients have been informed of the incident. The firm reported record revenues of $38.8 billion for the fiscal year ended May 31. They primarily attributed their strong revenue growth to their Risk Advisory business. As they see increasing demand for cybersecurity advice, the company had launched a number of Cyber Intelligence Centers that offer clients constant threat analytics and management.

FASB introduces web page to assist companies implementing new accounting standards

The Financial Accounting Standards Board has rolled out a series of important new accounting standards, including rules for revenue recognition, leasing, credit losses and hedging. As companies prepare to implement them over the next few years, starting with the revenue recognition standard next year, the FASB introduced a new web page, Implementing New Standards, includes links to educational materials and implementation guidance for FASB's major standards about the new standards. The web page also deals with how FASB handles outreach and implementation assistance. Included are links to info about FASB's outreach to stakeholders, transition resource groups, and a technical inquiry service for implementation questions.

Lawyer-CEOs are best where the risks are highest

A *Harvard Business Review* report says that companies with lawyer CEOs face less legal trouble and manage things better when sued, settling less often and losing less often in court. But that's not the whole story. Lawyer/CEOs do better at delivering shareholder value in high-growth and litigation-heavy industries, but not as well as peers in other industries. The aversion to risk that comes from legal training is likely the major factor, the article says.

Appeals to institutions with sustainability concerns may block activists

As reported in an *AlphaSense* blog, increases in passive investing and sustainability focus may present a new impetus for investor relations officers to sharpen their sustainability messaging. Activist campaigns increasingly focus on corporate governance, the article notes, and tend to be most successful when the activist's appeal mirrors the proxy voting strategies of the growing passive institutions, most of which have sustainability components. That means that companies that expand their communications to include often non-financial information about sustainability goals and performance may be better prepared to counter that element of an activist's appeal to institutions.

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