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Five actions CFOs can take now to make financial disclosures more meaningful to investors

The SEC's disclosure effectiveness initiative was aimed at easing the compliance burden for SEC registrants while making disclosures more meaningful for investors. The focus was on two federal securities laws, Regulation S-K and Regulation S-X, that inform registrants about disclosures required in their filings, which resulted in a number of amendment.[1]

The rule changes are helpful and provide registrants more flexibility to tailor their disclosures, and many CFOs have taken the SEC's cue and tightened up their filings for clarity, focus, and insight. Here are five actions you can take to do the same with your own organization's disclosures.

[1] For more on the SEC disclosures initiative, please see US Securities and Exchange Commission, "Spotlight on Disclosure Effectiveness," https://www.sec.gov/spotlight/disclosure-effectiveness.shtml

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1

Evaluate your disclosure goals

Disclosure goals are typically informed by (1) how the company communicates with its stakeholders and (2) the information needs of those stakeholders. Some view periodic reports as a regulatory obligation and communicate with investors primarily through other means, such as press releases and earnings calls. To others, periodic filings are the primary vehicle for explaining financial performance while providing a cross-section of stakeholders with much-needed context.

The communication approach that resonates with institutional investors can be different from what retail investors prefer to see. The same goes for equity versus debt registrants: The former are typically more concerned about long-term growth opportunities, while the latter may care more about the company's ability to repay its obligations. Understanding the needs of your company's stakeholders and how your company communicates with them allows you to tailor your disclosure goals.

2

Analyze your disclosures against those from peer companies

Use analytics tools for a data-driven view of disclosure effectiveness. Analytics can reveal how specific sections of a filing, such as the footnotes to the financial statements or management's discussion and analysis (MD&A), and other investor communications, such as earnings releases, compare with peer companies. Results that are outliers may point to potential opportunities for improvement.

For instance, a word count that's inconsistent with peers may be an indication that the section could be more succinct. By the sametoken, a readability score that's near the bottom of the peer group's range implies there may be a simpler way to convey the information.

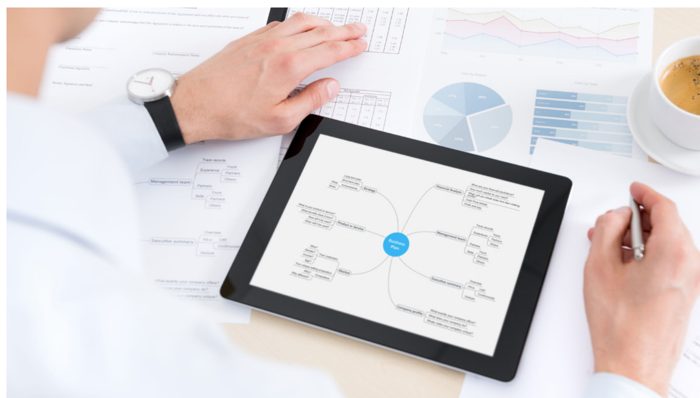
Of course, further examination may lead to a different conclusion. Maybe a section deviates from the norm because it describes a transaction that's much more complex than those in the peer filings, for example. Either way, analytics can bring an objective, fact-based element to an informed effectiveness review.

3

Stick to what matters

In the context of your disclosure goals, consider what your investors would want to know. For example, you might look at the kinds of questions that come up during investor outreach and what issues analysts zero in on as they develop their assessments.

With the background of these hot buttons, it's time to turn a critical eye to your disclosure documents. Do they give short shrift to key areas of interest? Then you may need to beef up that part of the discussion. On the flip side, do your disclosures stress issues that aren't a major focus of your audience? If the information is immaterial or out of date, it may not warrant discussion.



> "Analytics can bring an objective, fact-based element to an informed effectiveness review."

4

Reduce repetition

Even companies that take a minimalist approach to SEC filings, disclosing only what regulators require, can find opportunities to streamline their documents. Wordy disclosures not only add length, but can also confuse investors and distract them from what's important. Rambling narratives can have a similar effect.

Some techniques for paring down extraneous information are fairly straightforward. Reduce text that reiterates what's shown in a table or chart. Consider putting explanations in a footnote, to the extent they're relevant. And in certain circumstances, it may be appropriate to make use of hyperlinks, either as cross-references within the document or to previous filings.

5

Make use of visualization

Text isn't the only way to get a point across. For example, charts, tables, and other visuals can help investors home in on key information in the MD&A, whether financial or nonfinancial. What's more, visualization can rein in length—as the proverb goes a picture is worth a thousand words.

Structured text, such as text boxes and bulleted lists, can lend crispness to information that may not be well-suited to visualization. Structured text can even be combined with visualizations to provide further explanation and nuance.

Some companies may find inspiration from the material coming out of their own investor relations or public relations groups.

These communications are often visual and to the point. Borrowing from them can also help to keep messaging consistent across the organization.

Get a jump on disclosure effectiveness

The SEC's disclosure modernization effort was more than a set of specific rule changes. It's a challenge to rethink how corporate filings can become sleeker, more intuitive, and more attuned to what investors want while confirming that all material information is provided to investors. Where can public company CFOs take it from here?

- Consider engaging internal and external assistance. Between those resources and the management team, you'll want to nail down what's important to your company and your investors.
- Keep in mind that the SEC's updates have been concurrent with comparable updates that the Financial Accounting Standards Board (FASB) has been making to US GAAP. It may be appropriate to evaluate your filings—financial statements, as well as information outside them—for user-friendliness and compliance with the rules.
- Reevaluate the push for disclosure effectiveness in light of a principles-based approach. Prescriptive rules may not be popular—nor always effective—but they can provide a degree of certainty. As regulatory bodies ease away from them, however, organizations likely will have to step up with a culture of mindfulness that accentuates the spirit of each underlying rule.

Regulators and standard-setters are busy making changes at their end. CFOs and the organizations they represent can meet them halfway by telling a focused, insightful story of their vision and results, as well as their inextricable link to the business they're in.

Let's talk

Matthew Burley
Partner
Deloitte & Touche LLP
+1 720 264 4866
mburley@deloitte.com

Sean Torr
Managing Director
Deloitte & Touche LLP
+1 615 259 1888
storr@deloitte.com

Jonathan Tambourine
Senior Manager
Audit and Assurance
Deloitte & Touche LLP
+1 203 423 4663
jtambourine@deloitte.com

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