CTC Investor Relations

Market News

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

Fake news hits investors

An alert was published by the SEC April 11 warning investors of a rash of fraudulent research reports and more than 250 articles containing false statements. The reports and articles purported to be unbiased, when in reality public companies had hired and paid promoters to generate the fake news. In connection with the alert, the SEC announced it filed fraud charges against three public companies and seven promotion firms, as well as two CEOs, six individuals at the firms and nine freelance writers. Of those charged, 17 have agreed to settlements ranging from approximately $2,200 to $3 million based on frequency and severity of their actions. Litigation continues against 10 others.

It's not only the numbers

Ernst & Young's Climate Change and Sustainability Services Study revealed investors are increasingly relying on nonfinancial performance information to make investment decisions. Sixty-eight percent of the 320 institutional investors polled said nonfinancial information frequently plays a pivotal role in their decisions; 92 percent said CEOs should provide an explicit strategy each year for long-term value creation and directly affirm that the board has reviewed it. Over 80 percent of respondents don't believe companies adequately disclose their environmental, social and governance risks, with 76 percent said they would reconsider an investment if there is a history of poor environmental performance. Twenty-seven percent of those polled believe there will be a dramatic improvement in nonfinancial reporting over the next several years.

Companies are slow to transition to new lease accounting rules

While the new lease accounting standard doesn't go into effect until the fiscal years beginning after December 15, 2018, experts warn the transition is a massive undertaking requiring new reporting processes throughout the business and updated training. Yet, a recent Robert Half study shows 80 percent of public companies affected have not begun the transition. While 18 percent of companies that have begun working toward compliance determined they will need to adapt entirely new processes. Another 55 percent are investigating lease or property management systems that will allow them to institute the new standards under their current processes. Study authors emphasized the complexity of adopting to the new rules, and urged all companies to transition immediately.

Pensions continue to be a drag

Defined-benefit pensions covering more than 250 employees paid an average $1.27 million in annual fees to the Pension Benefit Guaranty Corporation in 2016, almost four times the $340,000 paid in 2009 according to October Three Consulting. Congress increased fixed rates per person to $64 last year from $35 in 2012 and variable rate premiums rose from 0.9 percent to 3.0 percent. The fees total about 0.60 percent of corporate plan assets in 2016, double 2009's 0.30 percent. October Three estimates that premiums will rise to $80 per person and more than 4 percent of plan deficits by 2019.

Supreme Court hints it may diminish SEC's reach to recover ill-gotten profits

In a case involving a New Mexico investment adviser, the Supreme Court questioned whether the SEC should be allowed to order defendants to hand over illegal profits dating back more than five years. U.S. law applies a five-year statute of limitations to punitive remedies sought in civil enforcement matters. The Court unanimously upheld the five-year limitation in a 2013 decision, Gabelli vs. SEC. But the SEC argued that the statute of limitation did not apply to disgorgement, the penalty assessed over-and-above the gains made through the illegal act. Most of this gain is usually made outside the five-year statute of limitations. The Justice Department argues that disgorgement is equitable relief and should not be considered a punishment, but merely restores the defendant to the same position he was prior to when the misconduct occurred. A ruling is due by the end of June.

CEOs 2016 base pay rose slower than employees, but bonuses and incentives more than made up

Median annual salary increased 2.5 percent last year for CEOs of the 1,500 S&P companies, slightly lower than the increase for the average U.S. employee at 2.9 percent, according to Willis Towers Watson's annual proxy statement analysis. But not to worry; when adding in bonuses and incentives CEOs far outdid their employees with a 4.8 percent pay increase. At the same time, their companies experienced virtually flat performance in revenues, earnings per share and earnings before interest and taxes. The poor performance isn't too surprising in an election year; performance was also flat in 2000 and 2008. Besides, the financial performance that counts for investors – total shareholder value – grew a whopping 16 percent last year. Half of that growth came in the final two months of the year after elections results were in.

Reporting and forecasting seen as top concerns for financial executives

Sixty-three percent of financial managers polled by software provider Workiva believe reporting and forecasting must improve to give management and shareholders an accurate picture of their company's operating outlook. But the technology needed to achieve this goal is apparently not a priority, as 47 percent of the respondents said they have no budget for new accounting, finance or reporting software in 2017. As a matter of fact, 22 percent of participants said they have budgeted under $25,000 for needed software, while less than 5 percent had budgeted $75,000 to $200,000.

Analysts smell fish story, may haul in whistleblower cash

Two securities analysts who swapped notes on a Texas company they suspected of cooking the books shared their concerns with the SEC. Now they stand to collect $2.5 million under the SEC's whistleblower program after the company, Orthofix International, settled accounting fraud charges with the SEC for $8.25 million. One of the pair, who so far remain unidentified, noticed in 2012 that Orthofix hit ambitious earnings targets while taking longer to get paid by wholesalers. The company's explanations about problems at foreign offices didn't sound right, so he dove deep into Orthofix's numbers and compared them with peers. He e-mailed his spreadsheets to a fellow analyst and a friend, who agreed with his colleague's suspicions that the company appeared to be channel-stuffing.

Financial Choice Act: 'Deader than disco' in Senate this year

Even in its revised 2.0 form, securities-law blogger Broc Romanek calls the odds of the House-drafted GOP plan to rewrite Dodd-Frank regulations becoming law this year "deader than disco" due to strong opposition in the Senate, where filibuster rules would require Democratic votes to pass it. One obstacle is President Trump's own Treasury Department study on financial regulatory reform, due in June, which is likely to stress other financial industry regulatory issues. Another is that the Senate agenda is already so stacked this year that any action on the House's bill probably wouldn't happen until 2018.

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