CTC Investor Relations

Market News

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

Why *blockchain* has suddenly become so hot

Blockchain, a technology to conduct digital transactions without a third party intermediary, has just started to come into its own, according to the Association of Finance Professionals (AFP). Late last spring their study revealed that only one percent of respondents were using blockchain/distributed ledger technology. In January, 23 percent of survey respondents were using blockchain/distributed technology, and 77 percent were actively evaluating it. The authors explained that managers now understand the process that allows transactions to be transparent, instant, free of most fees, and with full exposure data. A big deal, considering that in the fourth quarter, North American and European companies lost $5.27 billion due to ineffective currency management and incomplete exposure data.

Shareholder activist movements on the rise

In January, a record 81 companies were targeted by activist investors, according to proxy solicitor Okapi Partners. The growth trend, Okapi says, shows that managements need to know who owns and trades their stock. The U.S. has the longest filing period for 13-F disclosures of stock positions by registered investment firms at 45 days after the end of each quarter. Companies that offer market intelligence admit they are limited in what they can reliably show prior to 13F filings, and they have little insight into which firms hold short positions. The good news is that proxy battles hit a five-year low with 79 last year, according to FactSet. More companies settled to avoid proxy fights.

Familiarity may breed contempt, but not in accounting, according to study

Prior to the start of the century's most notorious financial scandal, a third of the largest public companies had top executives who were alumni of their external auditor. Section 206 of Sarbanes-Oxley Act of 2002 made it unlawful for accounting firms to perform audits if a top financial or accounting executive of the client was employed by the auditor during the preceding year. Canada, the European Union and the United Kingdom imposed similar prohibitions; Canada for one year and the others for two years. But the restrictions are not effective answers to familiarity threats, according to a study in the March *Accounting Horizon*, published by the American Accounting Association. Drawing from 140 managers, the study found that a one- or two-year cooling-off period isn't enough time to change the alumni effect. In fact, the study suggests that five years might not be enough to break the bond that could compromise the independence of the audit.

Early signs show buybacks well ahead of pay hikes as S&P tax-benefit preference

A pair of economists have taken a preliminary look at S&P 500 companies' plans for divvying up their tax-law windfalls and found that major corporations are planning to spend more than 30 times what they are putting in the wallets of employees on buying back their own stock. The increased pay and bonus commitments of 44 S&P companies totals an estimated $5.2 billion, Rick Wartzman at Claremont Graduate University and William Lazonick at UMass Lowell, say. But 34 S&P companies have announced $157.6 billion in stock buybacks since the tax bill passed the Senate.

Companies are still acquiring for growth, but the strategy to achieve it is changing

It has been traditional for companies to grow by buying others that were similar to themselves, had complementary product lines, or did business in complementary areas. But according to *Accenture Strategy*, today's acquisition target is often based on technological prowess, with expectation that bringing new digital capabilities will foster growth. A survey of 1,100 top-level executives showed a preference for acquisitions that support a digital strategy. Among companies that acquired five or more businesses in the prior two years, 64 percent reported that at least half the deals were related to the addition of digital capabilities. More than half of the participants said artificial intelligence tools acquired through such deals are enabling them to identify targets faster and capture value deals.

SEC Bulletin provides relief for companies dealing with tax-law effects

The SEC has made available **Staff Accounting Bulletin 118**, which allows a company that hasn't completed its accounting for the effects of the new tax law by its financial reporting deadline to report provisional amounts based on reasonable estimates for the incomplete items. Those amounts are then subject to adjustment for up to a year.

Quantifying threats to public corporations

CFO Research, in collaboration with global insurance provider Hiscox, surveyed senior finance and risk investors to identify what threat concerns them most. Not surprisingly, data breach topped the list, selected by 42 percent responding. Regulatory examinations were cited by 39 percent of respondents. Participants warned that hackers are especially difficult to stop because they continuously change their strategies to find new vulnerabilities. For this reason, 68 percent of the companies in the study have a position solely dedicated to risk management. They point to the devastating aftermath of a data breach, which not only damages the company's reputation and financial well-being, but also poisons its bonds with customers and employees by compromising their identity, leaving them vulnerable.

CFO optimism runs high after passage of the tax law, but not without concerns

Not surprising, optimism about the overall economy spiked for CFOs in January after the passage of the Tax Cuts and Jobs Act to a record 68.6 on a scale of 100 from 65.9, according to the latest Duke University/CFO Global Business Outlook Survey. Confidence in their own companies also strengthened as the optimism index moved from 70.2 to 71.3. CFOs projected capital spending and employment would increase an average 3.2 percent in 2018 and earnings by 5.6 percent. But a growing economy boosted by high employment has a distinct downside. Nearly half of the CFOs surveyed said their top concern is that the projected increase in employment over the next 12 months would drive wages up about 3 percent and increase the cost of health-care benefits by 8 percent. Half of the CFOs surveyed indicated the cost of employee health benefits has already made it impossible for them to spend on long-term corporate investments.

SEC mulls new steps to encourage IPOs

The *Wall Street Journal* says the SEC is still worried about the slow pace of new IPO filings despite the more relaxed rules under the JOBS Act. So it may permit more would-be issuers to conduct so-called "testing the waters" conversations with potential investors to assess the market's likely response prior any filings. The article also says the SEC may reduce the burden of Sarbanes-Oxley rules on internal-control audits to exempt additional smaller companies as another enticement. Experts say the SEC moves may not have much effect, given the ready availability of private-market capital, more liquidity for investors and employees through secondary trading in the private markets, and fears of activist hedge funds and other demanding investors in the public markets.

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