CTC Investor Relations

Market News

July 2018

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

They see you when you're reading…they know when you partake…

Securities firms are using new technology to monitor sell-side securities research-report views in real time, giving them more intelligence than before about who is reading what and when. HTML5 – a web coding language that collects more user activity data, is behind the stepped-up surveillance of research client activity. Some institutional customers, like LA's Capital Group, worry that their research-viewing habits will tip off their trading, and want the research houses to lock up the data for a time. Others want to buy the data stream and see what their competitors are up to. So far, the bankers indicate they aren't selling. But don't bet on them resisting for long.

SEC proposal would create more discretion for whistleblower awards

The SEC voted last month to propose rules that would give more discretion for administrators of its whistleblower program to offer smaller awards, and in different types of cases. In addition to awards arising from tips that lead to the SEC's own settlement agreements for securities law violations, the Commission could also issue awards for info that leads to deferred prosecution agreements or even non-prosecution agreements between companies and the U.S. Justice Department or a state attorney general. Large and very small award amounts would also become adjustable within statutory limits. Under the plan, the SEC could raise small payouts up to $2 million, and issue small awards for enforcement actions that don't meet the $1 million threshold. It could also reduce the award percentage for settlements of more than $100 million. The proposal was posted for public comment.

SEC coming down on rounding up earnings estimates

The SEC is investigating whether companies have improperly rounded up their earnings per share to the next highest cent. More than 10 companies have been requested to provide information about accounting adjustments after academic research found the number "4" appeared at an abnormally low rate in the tenths place of companies' earnings per share—the required number of places a company must apply in rounding earnings numbers. Of course, the number has to be "5" or higher in order to round up earnings per share another cent.

Law profs argue for market-based early disclosure access

Two law-school professors say that both investors and issuers would benefit from a SEC-sanctioned marketplace allowing investors to buy early-access to material corporate disclosures. Their article set for publication in the *Yale Journal of Regulation* calls for a suspension of Reg FD's requirement for simultaneous access to material disclosures, in favor of allowing issuers to sell subscriptions for access to market-moving disclosures several hours before official releases. Kevin Haeberle of William & Mary and M. Todd Henderson of the University of Chicago argue that a transparent market for early-access rights to corporate information will foster better disclosure for everyone, and is not prohibited under current antifraud or insider trading statutes.

IR executives shift policy on quarterly earnings estimates

Investor relations executives meeting at their annual conference in June approved a new policy that discourages short-term (i.e., quarterly) earnings guidance in favor of longer-term outlook information. The policy shift echoes that of the Business Roundtable and other corporate groups making similar recommendations, and backing them up with changes in guidance practices. Both groups say that undue focus on quarterly results discourages innovation via R&D and other investments with longer-term payback. They said it has contributed to the decline of public companies in the U.S. by discouraging companies with long-term views to go public.

Twenty percent of CFOs say data has been hacked, as optimism on data security at all-time high

In the Duke University/CFO Global Business Outlook, which includes input from one-fifth of all public companies, CFOs of 20 percent of the respondents said their computer systems have been hacked. The survey author noted there are probably many more who don't know their systems had been breached. Yet, the study revealed the highest level of confidence among the CFOs that their systems are secure. Even so, 71 percent installed anti-penetration features, two-factor authentication or more stringent password protection. Also, 54 percent upgraded employee training.

Study shows outlook bright for US profits, but warning signs loom

US equities have seen a 16 percentage point increase in investors, according to the Bank of America Merrill Lynch Fund Manager Survey in June. Sixty-four percent of survey participants said the US has a very favorable profit outlook: a 17-year high. On the other hand, a record 42 percent of investors said companies are over-leveraged. This compares to the previous high of 32 percent of respondents in 2008, the start of the financial crisis. In addition, a record 34 percent of participants felt corporate balance sheets are over-leveraged. When asked the highest risk to stocks, they listed: a trade war (31 percent), Federal Reserve/European Central Bank hawkish monetary policy (26 percent) and a Euro/emerging market debt crisis (23 percent). Only one percent of investors believe the global economy will strengthen over the next 12 months, the lowest level since February 2016.

There will be no standard comment letters on revenue recognition

Unlike most SEC comment letters, those concerning compliance of the newly enacted revenue recognition rule will not contain boilerplate language. "We're approaching revenue recognition compliance as 'Let's see what people are doing,' we understand it's a complex rule," said Bill Hinman, director of the SEC's Corporate Finance Division. "We don't have a particular agenda or standard comment. We don't expect to repeat the same comment for five different companies."

Survey shows new tax law is providing pension de-risking opportunity

Financial executives are using the new tax law's benefits to ramp up defined benefit plan funding, according to a new study conducted by CFO Research and Prudential Financial. They talked to top financial executives from companies with $250 million to $5 billion in annual revenues from a variety of industries. Under the tax rules, businesses have until mid-September 2018 to deduct pension-plan contributions at the 2017 corporate rate of 35 percent. After that, the new 21 percent rate kicks in. For this reason, 74 percent of the respondents said their organization was very likely to make a substantial defined benefit plan contribution in time to take advantage of the larger deduction. As a result, 62 percent surveyed expect their plans to become well-funded prior to the end of the year.

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