

# Market News

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

## **FASB eyes broader fair-value disclosures**

After being pushed to do so by investors and the SEC, the Financial Accounting Standards Board proposed last week that companies revise their disclosure of assets and liabilities to include a range of possible fair values. Fair-value disclosures have three levels, with values based on:

- quoted prices in active markets,
- observable information (such as quoted prices in similar markets), and
- estimate of values for the most difficult assets and liabilities on the company's books, sometimes from illiquid or nonexistent markets.

FASB wants companies to use alternative information as well as their own in reporting these hard-to-gauge mark-to-market estimates, and additional disclosure of changes in level one and two values, along with a line-item breakdown of their estimates, instead of merely reporting net valuations. If passed, the new FASB fair-value requirements would become effective for reporting periods ending after December 15, 2009.

## **Senior executives can't afford to take internal communications lightly**

CFOs and other top executives see their e-mail as an indispensable business tool, but also a potential liability that could be entered into a lawsuit or as part of an SEC investigation. A few points to consider to reduce your liability when using e-mail:

- Treat e-mail, incoming and outgoing, as formal correspondence and implement documentation and review policies around e-mails and other internal and external communications. Make sure offhand remarks and "company speak" are not misunderstood or characterized as improprieties.
- Beware of losing critical e-mail to spam filters. Top executives receive a great deal of e-mail every day, and sometimes important messages get trapped by a spam filter. If a whistleblower's e-mail to the CFO is tagged as spam, when it eventually surfaces it could send up a red flag to the auditors or worse. Scan your spam e-mail and consider an e-mail tracking system that records what goes into your spam file.
- Executives could also come under board scrutiny and investigation if they rely on evidence that is a matter of recollection and reconstruction. Consider a situation in which a CFO receives an e-mail from an employee who points out a flawed and questionable accounting strategy the CFO thinks is ridiculous. He replies to the email with "call me," figuring it is better to talk it out face-to-face. A few months pass and the CFO is now tangled up in a board investigation into questionable accounting practices. It is recommended to always respond to an e-mail with an e-mail, so you have the documentation.

### **Report shows serious flaws in the rating of rating agencies**

In what may be the understatement of the year, the SEC's inspector general has conceded in a report that "historically (the SEC) has been slow to act" in regulating the nation's crediting rating agencies, and recommended a broad range of improvements. The report called for review of controversial policies, including the ability of issuers to shop for the highest possible rating, elimination of conflicts of interest that may lead to signing off on questionable products in order to maintain a relationship with an issuer, and disclosure of credit agencies' methodologies and procedures. Almost as an afterthought, the SEC admitted it may have had oversights in its own reviews of rating agencies' compliance with existing regulations.

### **Bonds develop between IROs, Treasury execs for communications to debt investors**

*IR Magazine's* recent case study of BMW's adoption of a formal debt IR program emphasizes the importance of strong linkages between those communicating to equity and debt investors. BMW's effort was triggered by the debt issuances it anticipated from expanding its leasing business. But the financial crisis, which led to more in-depth analysis of corporate balance sheets everywhere, has proven to be an even bigger reason for closer ties between treasury executives, who normally manage creditor relationships, and IR departments that deal with equity investors. At BMW, Treasury considers the reaction of equity investors when figuring out funding strategies, and IR executives find the bankers' perspectives on BMW's risk profile to be just as useful. BMW's IR debt spokesman, Nathan Kohlhoff, says all equity IR execs should understand credit-market issues and concerns. Indeed, more IROs are now involved in ratings-agency presentations and banker meetings than ever before, according to Thomson Reuters.

### **Fraud is worrisome, but few will spend more to fight it**

KPMG has again polled more than 200 executives on fraud and misconduct risks in their organizations, and how they're clamping down on them. More of the execs are worried about misappropriation of assets (35 percent), and fewest fret about fraudulent financial reporting (14 percent). Consumer-market companies were quicker to mention asset misappropriation, and health care and pharmaceuticals people listed first a category that included other illegal and/or unethical acts, such as bribery, corruption, market rigging, or conflicts of interest. Most expect fraud and misconduct risks will either stay the same or increase over the next twelve months, while only 16 percent expect to spend more to combat it.

### **New Zealand exchange finds "fudge" not so sweet**

It appears that the New Zealand stock exchange (NZX) has a poor sense of humor. That's why it asked a company called NZ Farming Systems Uruguay, traded on the NZX, to explain the following line in its recently filed financial statements:

**"Depreciation - fudge this to equal depn in FA note 11\$ 2391 ...."**

In a letter to the company, the exchange wondered whether the comment might mean "that the financial statements may not be accurate." We're betting that someone at the company probably said "Oh, fudge!", or perhaps similar words to that effect, when it received the letter from the exchange. In its formal response, however, the company described the line as a personal note inadvertently left in the text, and merely a prompt to reconfirm a minor rounding discrepancy. It said depreciation figures in the report were "true and accurate in all material respects."



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