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Editor's Notebook

By Hank Boerner

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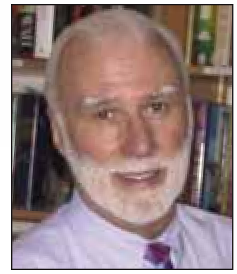
THE EDITOR'S NOTEBOOK

Timely highlights of news, commentary, research findings and other information for the IRO…



Hank Boerner

BY HANK BOERNER – EDITOR, NIRI PUBLICATIONS

The following are news items and background that IROs and IR consultants can use as they look to the future — events of summer and early fall 2007 that will have long-term effects on investor relations, financial reporting, regulation and management decision-making. We welcome your contributions at: ***hboerner@niri.org***.

New Disclosure Demands by Major Investors

A fairly broad-based coalition of investors claiming $1.5 trillion in assets under management has just petitioned the SEC to require issuers to "assess and fully disclose their financial risks from climate change…" The institutional investors include state officials overseeing the larger of the public employee pension funds and two environmental groups. In all, 22 petitioners united with Ceres and Environmental Defense in an aggressive campaign to get the SEC to "do more to protect investors from the risks companies face from climate change, whether that is from direct physical impacts or new regulations." The petitioners include the California state treasurer, New York's comptroller (sole trustee of the state pension plans), Florida's state CFO, and the New York attorney general, as well as their states' funds. Their position is that climate change falls squarely in the category of material information that companies should disclose — under existing law — to provide shareholders "with a full and fair picture of corporate performance and operations." What kind of disclosures? Start with (1) physical risks associated with climate change; (2) financial risks and opportunities associated with greenhouse gas regulations; (3) legal proceedings related to climate change. This campaign will go on into next year's proxy season with continuing coverage by the media. You can check out the campaign positions and important background at: ***http://www.ceres.org***.

COSO Discussion Document: Monitoring Internal Controls

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission announced the release of its "Guidance on Monitoring Internal Control Systems," an important document that's at the end of a long cycle of assembling intended guidance to help management evaluate the effectiveness of their internal control systems. The document is open to public comment until October 31st, and then final guidance will be issued over the coming months. The COSO guidance applies to internal control objectives over financial reporting, and objectives related to effective operations and compliance. Corporations of all sizes will be affected by — and can benefit from a reading of — the new COSO guidance, which was developed with Grant Thornton. Input from respondents will be used to develop a final exposure draft, tools, case studies, and implementation guidance (by year-end, with full release of all by 1Q 2008). Regulators and senior corporate managers and boards will be following these developments closely over the coming weeks. You can find more information at: ***http://www.coso.org/publications.htm***.

So — Are We Weak or Strong Now?

There's a growing debate about the potential negative impacts of Sarbanes-Oxley and the effects on America's capital markets. Are we stronger or weaker as a financial capital after five years of SOX rules? The Federal Reserve Bank of New York, which closely watches Wall Street and the U.S. capital markets, looked at the relative strength of the U.S. capital markets recently. Evidence on the competitive position of the U.S. is mixed, since the same trends that affect Wall Street are shaping other key capital markets. Equity competition among key capital markets is spirited, for sure, and the U.S. is holding its own, despite the scary headlines. (For example, U.S. IPO listings are recently down, but that is also true for other markets since IPOs fluctuate year-to-year; we seem to be holding our own.) But watch the U.S. corporate bond market … there, the U.S. faces serious growing challenges from the Eurobond market. Over the past decade, the accelerating pace of bank disintermediation and the rise of the Euro have strengthened the Eurobond market and the U.S. bond market is now demonstrably losing ground. The strong lead enjoyed by the U.S. bond market "has vanished," says the New York Fed, and the volume of corporate issuances is now greater in the Eurobond market. A large number of U.S. firms rely on the Eurobond for funding, giving U.S. borrowers a wider range of lenders and debt instruments, and a hedge for foreign currency exposures. This shift hasn't received much news coverage — yet. Watch for future stories about how a truly global equity and debt market is emerging. (Source: *Evaluating the Relative Strength of the U.S. Capital Market*, authored by Stavros Peristiani, an officer in the New York Fed Research and Statistics Group.)

Fed Watching: Just May Pay Off for IR Officers

It's a natural pastime for some — "FedWatching," monitoring what the Federal Reserve is doing in setting key interest rates and trying to manage inflation. Fun for journalists and economists, for sure. But it may turn out to be more than a passing, casual interest for investor relations officers. The authors of a recent study for The CFA Institute said that a review of many "widely-acclaimed" articles on Fed policy shows that the Fed's rate changes are definitely associated with strong patterns in equity returns. In "Sector Rotation and Monetary Conditions," a panel of well-known academics says that a "rotation strategy" can be adopted by investors — a more aggressive posture would follow decreases in the Fed discount rate and a more defensive posture after rate increases. (Note: The Fed just cut the discount rate – get ready for equity increases.) Short-term market increases are expected after a rate cut (just follow the news headlines the day of and days after the Fed meets and cuts rates). But, the study demonstrates that there are persistent long-term results that match the short-term. Cyclical stocks are favored during those times when the Fed is easing rates (right now, for example). You can download the study at: ***http://www.cfainstitute.org/aboutus/press/pdf/sector_rotation_study.pdf***. Happy Fed watching!

Gatekeepers can Better Protect Investors — Brookings Study Targeting Corporate Governance Enhancements

Former U.S. Attorney General Richard Thornburgh (who served under Presidents Reagan and Bush #41) was an Examiner in the WorldCom bankruptcy proceedings. That experience focused him on corporate governance. Now with the law firm of Kirkpatrick & Lockhart Preston Gates Ellis LLP, he recently issued some advice through the Brookings Institution (Washington think tank). His paper — "Improve Corporate Governance — Protecting Investors by Strengthening Gatekeeper Roles" — addresses the need (as he sees it) for promoting greater accountability, transparency, compliance, and corporate governance systems through key gatekeepers. These include corporate directors, in-house and outside legal counsel and internal and external auditors. While the roles of each were enhanced by SOX, more work needs to be done, in Thornburgh's view. Such as: SEC developing an inspection program to review corporate financial statements and accounting practices; board audit committees controlling the internal audit function as well as outside auditors; board approval of all top executives' compensation … and more.

Author Thornburgh urges the presidential candidates to zero in on gatekeepers and his proposals labeled, "Opportunity08 — Independent Ideas for Our Next President." You can find out more for yourself at: ***http://www.opportunity08.org***.

Risks – Directors – Long-term Planning Needs

There's an important new "R" word for boards of directors in 21st Century board rooms — no, not "recession" (a perennial issue, always on the minds of corporate leaders) — but "risk," as in risk management. The current issue of "DirectLine," the monthly members newsletter from the National Association of Corporate Directors, has several articles on risk issues compiled from various sources. Here's a sampling of what your board members may be focusing on these days: (1) SOX compliance may spur more interest in and commitment to Enterprise Risk Management (ERM); as reported in *Business Insurance*, a recent study of risk managers revealed that Section 404 continues to foster the emergence of corporate-wide ERM, and elevated the position of risk manager within the enterprise. (2) Supply chain risk provides boards with lessons to be learned, said *The Wall Street Journal*; a serious supply chain crisis (such as experienced recently by toy marketers) moves the issue quickly from back office to board room. Closely monitoring the supply chain can help companies avoid problems. (3) Enough with risk management, said 20 percent of those directors and general counsel surveyed by FTI Consulting (according to Financial Week) on how much time is / should be spent on ERM; slightly more (25 percent) of directors and counsel would like to spend more time on ERM. Just under half of respondents said their firms were spending more time on ERM, and most of this was on compliance and crisis management, rather than on long-term risk management planning. The pendulum is swinging toward long-term planning — where IROs can play a role that has important outcomes, especially on strategic issues. IRU