

# Improving the usefulness and clarity of financial disclosures: the investor's perspective

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## What is useful

- Depth
  - Full financial statements each time, not condensed. Fear not page-count, we are all electronic now. What matters is content. What you don't read, someone else will, and the market will be informed
- Frequency
  - Quarterly statements, not semi-annual with long dark periods. Trend analysis is easier if you have 4 trailing quarters rather than 2 trailing halves
- Speed
  - Old information is worth less, or sometimes worthless. In HK, annual reports still take 4 months, results 3 months.
- Comparability
  - Two companies with identical sets of assets and liabilities should have identical balance sheets but often don't

## What is not useful

- Management valuing goodwill. The market does that every day
- Paying consultants to value goodwill
- Distorting comparability between organically-built businesses, and acquired businesses
- Hiding value (inside information) by failing to revalue premises (hotels, factories, offices, shops) to fair market value (including as a redevelopment site if greater)
- Anything which costs more to produce than it is worth to investors, who pay for it. Example: attempting to move operating leases onto the balance sheet
- Don't get obsessed about capitalizing things which extend beyond one solar orbit

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## Lacking clarity

- Investments @FVTPL versus available-for-sale; often an arbitrary distinction and can massage headline P&L. Why not just have marketable v non-marketable?
- FX: risk is disclosed relative to the "functional currency" of the subsidiaries, which is not necessarily that of the parent, but as subsidiary accounts are not available, this is meaningless to investors in the parent.

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## Materiality

- Some bright-line tests are needed
- The lack of definition allows companies to obfuscate – e.g. a heap of smoking stock-market punts will be disclosed simply as “listed equities”, even if they make up a large portion of the NAV
- Proposal: individual investments comprising more than 2% of net assets should be disclosed by name

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## Reliability

- Improving accounting disclosure is meaningless if the disclosures are unreliable
- Auditors should have working files subject to inspection in the listing jurisdiction, not kept offshore and subject to “state secrets” excuses
- Auditors should have a statutory duty of care to investors, not just to the company. In some places, they do. In HK, they don't.
- Directors and officers still remain primarily liable, and must be reachable across borders
- Fraud will only reduce if the incentives and deterrents are rebalanced

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## About Webb-site

- Founded in 1998. Not-for-profit, the site advocates better corporate and economic governance. Partly funded by speaker fees, but mostly funded by me
- I also research and invest in HK small-caps, currently holding >5% of 9 listed companies
- I find many corporate horror stories that end up on Webb-site (time permitting)...
- ... and a few under-valued well-governed companies to invest in (hopefully not the other way around)
- Over 20,000 subscribers to a free newsletter, opt-in/out
- Opinion polling on policy issues
- Hall of Shame for jailed directors, CCB watch, SFC watch, ICAC watch
- Economic governance advocating free and fair markets, transparency, accountability, civil liberties, tax reform, land revenue reform, minimal intervention and economically-rational policy-making
- "Webb-site Who's Who" database covers all HK-listed directors, auditors, bankers, lawyers, financial advisers, legislators, district councilors, statutory/advisory bodies, CE election committee, and the relationships between them
- Tracking all SFC-licensed people, and all HK-incorporated companies
- Webb-site CCASS Analysis System for stock movements since 2007
- Webb-site Total Returns covers all stocks since 1994

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## Thank you!



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