Money & Investing

Study Suggests Firms Need to Disclose More Information Despite Improvement

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Dow Jones NewsWIRES

NEW YORK -- From the point of view of Wall Street's research community, the quality of financial information disclosed by companies has gotten better in recent years, a new study shows.

Break out some of the elements that go into corporate financial statements and it's a different story, according to the study, undertaken by the Association for Investment Management and Research.

The study, released Monday, surveyed portfolio managers and analysts and reflected generally positive views about the current state of financial disclosure, said Pat Walters, vice president, advocacy at AIMR, an organization of 40,000 investment professionals.

"The majority of respondents think corporate disclosure is pretty good," she said, noting that 61% said the quality is "good" or "excellent," with 69% reporting that the quality has improved in recent years.

But when it comes to examples of financial data they put at a premium, investment professionals weren't as impressed. A significant number of those surveyed indicated that in areas they considered most important, corporate disclosures were lacking.

Information pertaining to extraordinary or unusual charges, segment reporting, forward-looking projections or business plans, and off-balance sheet assets or liabilities was either "very" or "extremely" important to a significant majority of AIMR members (ranging from 80% to 91%). By contrast, far fewer -- between 25% to 38% -- reported the quality of those particular disclosures to be "excellent" or "good."

"The quality level never came up to the importance level," said Ms. Walters. "Analysts really think these are important items, but a lot of work needs to be done by corporations to improve their disclosures."

Ms. Walters said that the study's findings also conflicted with the sentiment often heard from corporate executives, namely that the investment community already gets more than enough information and that some of the disclosure obligations lead to redundancy.

Pointing to the disclosure of derivatives and hedging activities as an example, Ms. Walters said companies sometimes complain that "no one reads" information when it is provided. But in the study, she noted, 51% of those surveyed ranked that information very or extremely important, while only 15% gave the quality of the disclosures high marks.
Most of the survey's 346 respondents work in the U.S., with 8% from Canada and 14% from 18 other countries. A majority of the participants work on the buy side, as do most of AIMR's members.

**Members Count on Top Executives**

Respondents indicated reliance on a range of information sources. A majority of those surveyed rated annual reports, news releases and earnings announcements, quarterly reports, in-house analysts, company conference calls, regulatory filings and broker or company-sponsored meetings as highly important.

But the largest percentage, nearly 75%, said that speaking to top company executives was either "extremely" or "very important" to the research process.

Several individual companies received kudos from the survey participants, though in limited quantities. About 6% picked out General Electric Co. as a company doing "the best job" of disclosing financial and corporate information and 3% gave that distinction to Intel Corp. Other companies that impressed a small percentage of respondents with their corporate disclosure methods included Johnson & Johnson Inc., Merck & Co. and Microsoft Corp. The companies were singled out for releasing information in a "frequent, timely and consistent way," as well as their handling of forward-looking information and segment reporting, two of the areas where participants indicated general dissatisfaction.

The study, carried out by Fleishman-Hillard Inc., didn't address the issue of selective disclosure, when companies release material information to analysts and others not otherwise available to investors. The Securities and Exchange Commission hopes to put the brakes on the practice, through a recently released rule proposal that would require companies to broadly disseminate material information as it is disclosed by company officers.

AIMR, whose buy-side members are also sometimes left out of conference calls, is forming a task force to look at the issue of selective disclosure, as well as analyst compensation and independence issues. The task force could be in place in a matter of weeks, Walters said.

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