By Amanda Balbi, Stephen Barlas, Ryan Leist

GOVERNMENT

SEC Weighs in on Corporate Reporting Reform

By Stephen Barlas

The Securities & Exchange Commission (SEC) finally released a staff report on the needed changes to corporate registration standards. The report is a year later than was required by the 2012 Jumpstart Our Business Startups (JOBS) Act. The SEC's "Report on Review of Disclosure Requirements in Regulation S-K" was supposed to have been completed 180 days after the JOBS Act was passed in April 2012, but it didn't surface until December 20, 2013. Maybe the SEC felt that no one cared. After all, the report received only five comments. That's an anemic number. The Council of Institutional Investors (CII) and Ernst & Young were the only major players that sent suggestions and thoughts, and neither had anything to say about the recommendations section of report.

Perhaps the most interesting aspect of the report is that it recommends the development of a plan to systematically review Regulation S-K and Regulation S-X, but the latter isn't mentioned in the charge to the SEC in the JOBS Act. The two are related, of course. Regulation S-K talks about corporate disclosures related to registration documents, and Regulation S-X deals with financial reports. In the report, the SEC staff recommends a comprehensive review of rules pertaining to both regulations, highlighting four areas that are particularly ripe for modernization. For example, the report highlights the need to reexamine rules around risk disclosures. It doesn't specify any particular ones, but it says, "As part of this review, the staff could revisit the requirements for quantitative and qualitative market risk in Item 305 and could review whether alternative approaches to risk disclosures could be more appropriate."

SEC Chair Mary Jo White has been talking about reforming corporate disclosure rules for months, mostly in the context of simplification as a means of benefiting both the companies preparing the disclosures and the investors depending on them. The SEC has taken baby steps in the past. For example, in 2007 it established the Advisory Committee on Improvements to Financial Reporting (frequently called the CIFiR Committee) to examine the U.S. financial reporting system with the goal of reducing unnecessary complexity and making financial information more useful and understandable for investors. The Committee didn't recommend specific changes to Regulation S-K. The Dodd-Frank Act added new reporting complexities, such as the disclosure of a comparison between the median pay of a company worker and the pay of the CEO.

Changes Proposed for Regulation A

Two days before releasing the Regulation S-K study, the SEC published a proposed rule that made changes to the little used Regulation A, which is designed to give small companies some leeway with document and financial report submissions when making small stock offerings. The JOBS Act contained a provision requiring the SEC to make some fairly specific changes in Regulation A, and the SEC did so on December 18, 2013. The Commission is now seeking public comments, and a final rule probably will be published later this year.

Regulation A is an existing exemption from registration for small offerings of securities up to $5 million within a 12-month period. The updated exemption would enable companies to offer and sell up to $50 million of securities within a 12-month period. Any company that takes advantage of the new, higher $50 million cap would have to file annual audited financial statements with the SEC. The company would also be

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SF bulletin

required to file annual and semiannual ongoing reports and current event updates similar to the requirements for public company reporting.

Randal R. Jones, an attorney with Dorsey & Whitney LLP, says companies taking advantage of the higher cap—referred to as Tier II filers—would be required to file annual reports on a new Form 1-K, semiannual updates on a new Form 1-SA, and current reports on a new Form 1-U. These reports are simplified versions of Form 10-K, 10-Q, and 8-K. "Under the proposed rules, the duty to file these reports may be suspended with respect to any class of securities held of record by fewer than 300 persons at any time after the fiscal year in which the offering was qualified," Jones explained.

IMA NEWS

IMA's Mentoring Webinar

By Amanda Balbi

C.S. "Bud" Kulesza, dean emeritus of the IMA® Leadership Academy and former IMA President, will present a mentoring webinar on February 18 that explores the mentor-mentee relationship, including the criteria for establishing such a connection, roles and responsibilities of each party, and strategies for overcoming obstacles during the five phases of the relationship.

In an ever-changing global marketplace, the mentor-mentee relationship can have a significant influence on your professional development. A mentor has the opportunity to pass on his or her personal knowledge, while a mentee will be able to advance his or her career, gain confidence and receive encouragement beyond usual expectations, and further develop leadership skills.

Kulesza will discuss how initiation, development, cultivation, separation, and redefinition are all important steps to a lasting mentoring relationship. Without these steps, the relationship will fall apart. A successful mentor-mentee relationship is built on honesty, openness, and commitment, among other values. Also covered in the webinar will be how to pick a mentor and the attributes and qualities that mentors and mentees should possess.

The session will be moderated by Dave DiMare, IMA Leadership Academy associate dean of mentoring. The goal of the presentation is to prepare participants to be ready to take on the challenge of becoming a mentor or mentee.

The webinar is presented as part of the IMA Leadership Academy, which is designed to assess your leadership status, enhance your skills, and recognize your leadership achievements. The benefits of taking part in the Leadership Academy, which is available to all IMA members, include access to its webinar series, a leadership profile where you can achieve Bronze- to Platinum-Level Leader Status based on experience, and the mentor program. Its webinars are eligible for NASBA-approved CPE credits.

You can sign up for the February mentoring webinar at www.imanet.org/programs_events/leadership_academy_webinars.aspx or the IMA Mentoring Program at http://linkup.imanet.org/Mentoring.

Sharing Your IMA Life

Most IMA® members share a strong spirit of camaraderie. What have your experiences as a member of IMA been like? Do you have a story about them you'd like to share? If so, please consider writing an IMA Life column that will be published in *Strategic Finance*. You can be a student member, a young professional, in the midst of your career, or retired.

If you would like to write an IMA Life article, please e-mail Kathy Williams at kwilliams@imanet.org.

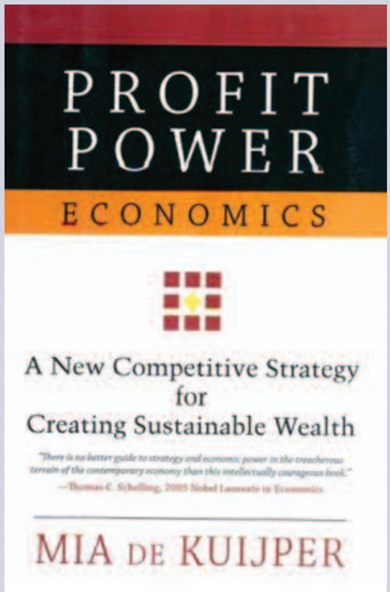
BOOKS

Power Nodes

Studies of buying trends have found that "67% of all purchases are influenced by word of mouth." In leisure products, such as movies, music, and television, this figure rises to nearly 90%. In *Profit Power Economics: A New Competitive Strategy for Creating Sustainable Wealth*, Mia de Kuijper describes how this interdependence of decision making will challenge normal distributions in markets. She explains that more "power law" distributions will occur—an 80:20 distribution, or one in which 20% of the events, products, players, or ideas account for 80% of the action. To combat this, de Kuijper provides an updated guide to corporate strategy for the 21st Century in what she describes as the "transparent economy."

The major characteristics of the transparent economy are the availability of cheap information and interdependent decision making. Transparency is a state in which the cost of information (computing, processing, communicating, searching, coordinating, and monitoring) is approaching zero or, equivalently, in which cheap connectivity is so abundant and easy, it's nearly infinite. With information equally and instantly accessible to all, knowledge will become more concentrated. Consumers will notice the trend, and markets will behave with a herd mentality.

To explain the sources of "profit power" in companies, de Kuijper describes "power nodes" found in a position, competence, dynamic, or process that a company can use to influence the financial results for itself as well as for other companies. The 12 power nodes include special ingredients, proprietary processes, regulatory protection, privileged access to financial resources, and power-node-brands. But it also includes new power nodes like aikido assets and hubs. She explains in detail how to identify power nodes in businesses and investments and how to use them.



De Kuijper explains in detail how to identify "power nodes" in businesses and investments and how to use them.

For example, the power nodes for PepsiCo, Inc. and Coca-Cola Co. are their brands and propriety ingredients. Each seeks to maximize its return on invested capital (ROIC), which has led to reducing vertical integration. De Kuijper points out threats to corporate returns in a transparent economy include partners in a vertical value chain. To increase their returns, both companies decided to focus on the portion of the industry with the highest returns and to spin off bottling, the portion of their business with the lowest returns. This produced an ROIC of 25% for Pepsi while their bottlers have only a 6% ROIC. De Kuijper explains that with the right kind of power node deployed in the right kind of business arrangement, any company can take a great deal of profit from other companies that are essential to making its business run without having to own them.

Profit Power Economics is a great book that will help you understand corporate strategy, and it has many relatable examples. It's filled with detailed analyses and provides action plan templates to assist business leaders and individuals in recognizing maximum profits. It provides a fresh perspective on strategy and how to best position businesses to profit from the next generation economy.

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