

by Phil Livingston



## WEB-BASED FINANCIAL REPORTING – UNLOCKING OUR BRAINS

FEI's recently released recommendations for post-Enron reform included strong suggestions about financial reporting and standard setting. Recommendation 8 suggests that we "modernize" corporate reporting. The SEC is actively discussing it, and Dave Nord, Controller of United Technologies, is leading a group of members to lay out a vision and examples of where we should head.

As I've discussed in this space before, 10-Ks and annual reports are little more than an archeological dig for the plaintiff's bar. Given this de facto purpose, it's no wonder that the reports are overrun with legalese and cleansed of anything relevant to forecasting future cash flows.

The pile of annual reports on my desk reflects a wide range of approaches and stabs at the problem. Some have abandoned glossy annual reports altogether (SBC Communications). Some do a glossy with only summary financials and no notes or management discussion and analysis (MD&A), relegating that detail to the proxy statement (Caterpillar Inc.). The Washington Post Co.'s annual report includes a letter from the CEO telling readers to ignore a \$321 million gain as "bookkeeping fiction." The Post's CFO, Jay Morse, an active FEI member, is hailed in the CEO letter as being somewhere between "conservative and very conservative."

Accounting standards and disclosure overload abounds. Extensible Business Reporting Language (XBRL) seeks to give us a data interchange methodology over the Internet. Plain English is being harped on as the standard for clear communication to shareholders. Competing accounting standards may actually come to be, if the International Accounting Standards Board (IASB) delivers on its promises.

So, where are we headed? Technology clearly holds the answer. Paper documents have to cease, at least for the mundane and detailed minutiae required by today's reporting maze. Technology can give us financial reporting with the options to: include the Post's gain or exclude it, as the management team would prefer; list derivatives at fair value or report them at cost. Customer-oriented, user-friendly reports would be the result.

But we are stuck. Progress is too slow. There are too

many lawyers and accountants who are really good at telling us why we CAN'T do new things. It's obvious to me, at least, that financial reporting would be much more useful if we had a new communication paradigm whereby tables of supporting data and arcane disclosures were published on the company's Web site and nowhere else. If we use paper documents, let's make them business-oriented documents that summarize key financial information and discuss key operating issues and the status of major strategic initiatives.

On the Web, we should think big and broadly. The full financials and support should be there, but structured in a hierarchical manner so that users can start with a summarized scorecard and go into deeper detail if they want. There should be pop-ups from the CEO and CFO, with video segments highlighting key points. There should be a frequently

asked question area that is maintained on a real-time basis by the investor relations department.

Moreover, there should be a ratings system that allows investors to rate the overall information and its components. Try Amazon's book rating system and think about it in context of your financials on the Web. All the data could be tagged using XBRL, allowing all investors and researchers to do analysis more quickly and cheaper than ever. That tagging may, in fact, be linked to data in the general ledger so that all reporting flows without redundant processing. Companies already have many of these components in place in their internal systems.

You need to think big. You can comply with existing rules while you experiment on the Web. Use your best and brightest, and give them a clean slate. Get the investor relations department involved, too. Shake off the past and avoid the handcuffs created by those who would tell you "no." Financial reporting needs to catch up with the times and better serve users. If you have something to share with your peers, let us know.

FEI legend Chuck Allen passed away recently. Chuck was the national chairman of FEI in 1982-83. He had an outstanding career and was revered by his coworkers. I will miss Chuck's personal notes of encouragement. They meant a lot to me.

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