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Data Sheet D Notes

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Committee/Study Group: Canadian Performance Reporting Board

Agenda Item 6

Meeting Date(s): June 14, 2007

CORPORATE REPORTING ON THE WEB

Objective

To discuss and provide input on the content for a Discussion Paper that provides guidance about reporting on the web.

Background

This project was discussed and approved in January 2007 in recognition of the increased usage of the web for reporting and in view of the absence of guidance about reporting on the web. A timetable for the project is presented in the appendix to this data sheet.

Objectives of publication

This publication has two objectives.

- (1) To identify the key components of financial and business disclosure on the internet.
- (2) To recommend best practices in disclosing financial and business information on the Internet.

Evolution of Reporting on the Web

- Use of the Web for financial and business reporting started as a vehicle for supplementing formal and traditional reporting methods.
- Over the past several years, the internet has become a more important source of information.
- Now, the use of the Internet for business and financial reporting purposes has become widely acknowledged as the primary means of distribution of financial information.
- The center of financial and business reporting is the Investor Relations sections of websites.

- Investor relations institutes and the CICA have recognized this importance by implementing corporate reporting contests focusing on IR sites.
- Many investors and analysts are looking to those sites for the information they need before looking to the traditional means of reporting.
- This raises the profile of financial and business reporting on the internet, and increases the importance of having standards as to the most useful and appropriate content.

Previous Studies and Standards

There was a spate of studies around the turn of the century:

- International Accounting Standards Board (IASB) – Electronic Business Reporting, Lyman, Debreceeny, Gray and Rahman, July, 1999.
- US Financial Accounting Standards Board (FASB) - Electronic Distribution of Business Reporting Information, January, 2000
- Canadian Institute of Chartered Accountants – Research Study – The Impact of Technology on Financial and Business Reporting, Principal Author – Gerald Trites. FCA, August, 1999
- The International Auditing and Assurance Standards Board (IAASB), released a discussion paper on Financial Reporting on the Internet in late 2002. It outlines the responsibilities of the directors with regard to information reported on the internet, particularly the control responsibilities.
- There have been numerous academic and other studies on the subject since that time, including those noted in the bibliography.

Regulatory and Legislative Background

- Various securities exchanges and commissions, e.g., the TSX, NYSE and Canadian Securities Administrators, have accepted web filing as a substitute for paper reports.
- SEC Reg FD, which requires companies to disclose information to the general public rather than to selected market professionals and investors in order to level the playing field between professional and individual investors led to an increase in the use of the Web.
- For example, it led directly to conference calls with analysts being disclosed on the web, which once were not available to the public. This is now a routine and expected form of disclosure on the internet.
- Regulation FD has also had an important effect on online reporting because of its emphasis on timeliness of reporting.

- The SEC has issued other regulations specifically related to reporting on the Internet (e.g. Release re Proxy Filings), as have many other commissions and stock exchanges.

Sarbanes Oxley Act

- The Sarbanes Oxley Act of 2002 established a number of rules that have had an impact of Web Reporting.
- The Canadian counterpart is the “Investor Confidence Rules” established by the Canadian Securities Administrators.
- Sections 403 and 409 of the Sarbanes-Oxley Act both require what has come to be referred to as “Rapid Reporting,” with section 409 specifically referring to “disclosure on a rapid and current basis.”
- Compliance with section 409 requires electronic disclosures because the time frame for the disclosures is so short.
- Section 403 explicitly requires electronic disclosure and originally became effective August 29, 2002.
- It requires nearly all changes in ownership by insiders to be reported within two business days, including the following transactions:
 - open market purchases or sales of company stock;
 - stock options, restricted stock grants and stock option exercises; and
 - acquisitions of phantom stock through company deferred compensation programs.
- The section specifically requires certain of the statements to be filed “on a publicly accessible Internet site not later than the end of the business day following that filing.”
- It also provides that, if an issuer maintained a corporate website, it shall provide the disclosures on that corporate website no later than the end of the business day following the filing.
- Under Section 409 (Real-Time Issuer Disclosure), issuers are required to “disclose to the public on a rapid and current basis . . . additional information concerning material changes in the financial condition or operations of the issuer . . . which may include trend and graphical presentations.”
- Analogous requirements have been in place in Canada for insider trading reports, which are required to be disclosed quickly on the CSA site – SEDI.

Significant Components of Web Reporting

Reporting on the Internet has been almost universally used in recent years and therefore certain conventions are emerging as to what information is disclosed and how it is done. Some of the information is more important than others, so this paper includes an assessment of the importance of such information.

The information generally shown includes the following:

Corporate Overview

Corporate Governance

Financial Information

-Annual Reports

-Quarterly Reports

-MD&A

-Financial History

-Key Performance Indicators

News Releases

Presentations and Events

Annual General Meeting Information

Analyst Conference Calls

Shareholder Information

Major Issues Raised by Using the Web for Reporting

Use of the web raises issues from a user perspective:

- Some stakeholders may not have access to the internet and therefore cannot obtain the information. While this issue is declining with the spread of internet access, even high speed access, it is nevertheless an issue.
- Some stakeholders may not have the level of internet navigating skills required to find and read the internet.
- It can be very difficult for users to locate the boundaries of the financial information they read in electronic form.

- This difficulty might be overcome by using hyperlinks, which take the user to the relevant web pages or servers. This raises issues of quality and level of reliability.
- The hyperlinked information may not be in accordance with GAAP. Standards should be set to provide guidance as to the use of hyperlinks.
- Through the Web, a great deal of irrelevant, as well as relevant, information is provided, potentially overloading and confusing users. Therefore organization and navigability of a site is very important.
- Good search capability is also useful.
- Providers of information need to make an effort to understand and respond to the specific needs of their users, and direct their attention to relevant information that will meet those needs.
- Measures should be undertaken to ensure that a company's web site meets the prescribed criteria for good business practices.
- Consideration should be given to developing assurance standards regarding the quality of information included on a web site.
- Users do not know if the information on the website is complete, since there is a lot of discretion available to management as to what is disclosed and how. They have the opportunity to present good press reports and not bad ones, for example.
- Information on the web is sometimes presented in unstructured formats, rather than in the traditional structured formats, leaving it to the user to develop customized reports and interpret the data and its reliability.
- Analysts and others import the data into models they build for their own purposes, meaning that the providers should do what they can to see that the information gets through to the end user in a form that is as they intended
- This means that more attention should be given, by preparers, users and standard-setters, to the formulation of such user models as distinct from generalized forms of financial statements, and to the proper use of such models.
- More timely, but non-standard, information creates a problem of comparability of information. This raises the question of the extent to which there is a need for standardization, in order for financial disclosure to be useful.
- The Web has considerable capability to present information in multimedia format, using sound, voice and video. Multimedia extends the same concerns that apply to graphics and ratios. Standards should be developed dealing with the use of multimedia in financial and business reporting.

Issues that must be dealt with by the providers of information include the following:

- The internet raises the possibility of dialogue between the stakeholders and the companies, although there has been little real dialogue to date.
- Companies should set policies on how they will participate in the corporate dialogue, how they will control the information disclosed, and how they will respond to requests for information.
- Users need to have some assurance that the information on the website is current and not outdated. Companies should ensure that their web sites are regularly maintained and that the information included on the site is up-to-date and relevant.
- Procedures relating to the maintenance and security of its web site should be incorporated in a company's governance procedures.
- The Board of Directors should consider setting up a special Web Site sub-committee to report back to it on web site activities and security.
- In addition, the internal auditor should include the web site in the scope of the internal audit.
- Providers need to make sure that the web site is well designed with good navigation tools
- Providers also need to ensure that the web site is "user friendly" in the sense of being easily usable

Impact of on-line reporting on current accounting models

Web reporting has a potential impact on accounting models, including:

- There is a move away from the old concept of periodicity to a more flexible concept of continuous reporting on a basis closer to real time reporting; this has implications for timeliness and, less directly, relevance.
- There is a move towards using more complex technology on a real time basis that has an effect on reliability.
- There is an increasing realization that users are becoming more involved in the design of reports, by drawing down data and creating their own reports.
- Reporting is moving beyond financial measures to include non-financial measures.
- The traditional model is static and unilateral; the new model is dynamic and interactive.

Best Practices in Web Reporting

In an examination of the web sites which lead the annual CICA Corporate Reporting Awards, several characteristics become apparent:

- The sites have an investor relations section that is easy to find.
- Many of them offer the financial statements in alternative forms, such as pdf, html and excel. There are also some examples of the use of xbrl. These alternatives are a good way of responding to the issue of user created models.
- Many of the sites include imaginative use of graphics.
- The most essential information is readily apparent, such as earnings reports, investor conference call information and regulatory filings.
- Information of particular current importance, such as corporate governance, is disclosed in sufficient detail to offer real insight.
- Links are used effectively, such as links to regulatory filings on SEDAR and/or EDGAR.
- Navigation techniques are used so as to make the site easy to use.
- Some of them use drill down techniques and linking so users who are interested in a particular area can easily obtain more information. This might include links from the financial statements to the notes and to the MD&A.
- Key information is disclosed in summary form on or near the top page.

The proposed document will cover the characteristics such as these. In other words, in addressing best practices, it will venture outside the types of information to include the technology being used and the techniques used in navigation.

Conclusions and Recommendations for content of discussion paper

Establishing a Good Web Reporting Environment

Content to be Conveyed on Websites

Principles of Good Navigation

Making the IR site User Friendly

Accounting Model Implications

Bibliography

**CORPORATE REPORTING ON THE WEB
PROJECT TIMETABLE**

The timetable, as included in the project proposal is as follows:

1. Launch of project	Feb 28/07
2. First outline of publication	Apr 8/07
3. Consulting	May 31/07 (to continue)
4. Detailed outline of publication	June 6/07
5. Draft of first group of chapters	Sept 30/07
6. Complete draft of publication	Jan 31/08
7. Publication approved and released	Apr 30/08