The Business Case for Automated Disclosure Management

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COMPLIANCE WITH CONFIDENCE

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Executive summary

Companies are working harder than ever to keep on the leading edge in an increasingly competitive marketplace. They're hiring strategically; they're investing in corporate social responsibility; they're going global; they're taking unprecedented risks and reaping monumental gains. Many are automating the first mile of finance, taking care to implement ERP systems, assign internal auditing structures and move previously outsourced reporting processes in-house.

Although this is true, there's a huge gap between generating positive results and communicating those results in the best way possible. Communicating your company's financials is critical and yet the Last Mile of Finance is undervalued and inefficient. This is a missed opportunity – the Last Mile is as much a regulatory responsibility as it is an occasion to gain market share. Report production should be viewed as an investment priority for every company. This whitepaper will discuss where disclosure management meets business strategy and how quality disclosures are the key to better business.

Introduction

The primary goal for any public company is growth. Gaining market share and improved valuations are firmly dependent on results. There is a difference, however, between generating results and communicating them successfully. If investments were based on a pass/fail grading system, then perhaps the financial data could speak for itself as the primary indicator of a company's success. But it doesn't. Effective financial reporting is intricate and complex.

Regulatory filings are more than a formality. They're the vehicle public companies use to communicate results and assert their place in the market, making these filings paramount to success. And yet, many companies neglect to invest in the reporting process and fail to effectively communicate results. When context isn't delivered clearly or reports are error-prone, the hard work that went into producing overall positive financial results is rendered null during the report's production.

Leading companies communicate results effectively to stakeholders by implementing best-in-class disclosure management processes. They recognize disclosure management as not just a workflow, but as an integral business strategy and a way to speak directly to investors. It's imperative for organizations to acknowledge the impact – and competitive advantage – of producing quality disclosures that are shaped by seamless reporting processes, supported by tangible research and qualified by real life examples of excellence in financial reporting.

The importance of disclosure management

Whether your reporting process is formalized with systems and software, or relies on hard copy work back schedules and manual processes, you're already practicing disclosure management. Annual and quarterly reports, MD&As, unscheduled material events – these reports are process driven and their effectiveness is not only determined through filing, but by the quality of the disclosures themselves. Disclosure management is important because it produces the reports that determine your company's success in the eyes of investors, thereby influencing the valuation of your business.

In addition to the strategic side, an emphasis on disclosure management has also surfaced as a direct result of the regulatory push to enhance the reliability and credibility of disclosures. High-profile fraud scandals have restructured the financial reporting landscape, bringing ethics (the Sarbanes-Oxley Act), uniformity (XBRL and IFRS) and accountability (the Dodd-Frank Act) to the forefront.

New and changing regulatory requirements mean that myriad reporting changes are underway; additional rules, altered formatting, changing disclosures, and entirely new reports – the list goes on. It's no wonder a KPMG survey discovered that 59% of respondents in financial services attributed regulatory pressures, in particular those associated with the Dodd-Frank Act and Basel II, as a top risk.[1] Similarly, Deloitte revealed that 50% of CFOs count evolving regulatory requirements as a top three stressor in 2013.[2] With report quality both a stressor and a risk in the majority of financial reporting professionals' minds, we must ask ourselves, where can we fill this gap, and how can we do so quickly and efficiently?

What is missing from disclosure management today?

Ideally, disclosure management is the perfect combination of process and quality. The two concepts work in concert to produce financial reports that are unparalleled because one is ineffective without the other. Manual processes still reign supreme for many companies struggling to meet their disclosure management obligations. While some have taken their financial reporting strategies one step further by implementing software and data integration, they still struggle to compose disclosures that meet investors' and regulators' expectations. What's missing is an integrated enterprise disclosure management solution that knits automated workflow processes together with analysis generated from disclosure research to produce the highest quality disclosures.

Disclosure research tools enable:

- Accessible peer filings
- Reporting benchmarks
- Competitive intelligence
- Regulatory guidance
- Accounting standards and rules
- Real life examples and sample filings

The business case

The deadline driven financial reporting process has often put companies in a get it done and get it out mindset. As a means to develop investor confidence, shape public opinion and please stakeholders, reports have consistently fallen short. The quality of the disclosures is lacking and the general attitude is one that only seeks to meet the baseline of acceptable regulatory expectations. Historically, the process was impaired by lack of available automation tools. Now that these are ubiquitously available, the expectation of disclosure quality has increased. Many companies are beginning to see improved disclosures as a key tool to grow their business.

By providing solutions to the problems that inhibit disclosure management from reaching its full potential as a business tool, the following business case examines what disclosure management looks like when the integration of workflow and quality is complete.

How does it end? With better business and bigger ROI.

Disclosure Integrity

PROBLEM: MANUAL INPUT

It's no secret that financial reporting has historically been an arduous, manual process, riddled with mundane tasks like data re-entry and an endless cascade of report updates. What's little known is just how grand the potential for error is when data input is manual. One study on spreadsheets cited that, "Close to 90% of spreadsheet documents contain errors [...] Spreadsheets, even after careful development, contain errors in 1% or more of all formula cells [...] In large spreadsheets with thousands of formulas, there will be dozens of undetected errors."[3] For accountants who've been trained to value accuracy, this statistic is unsettling; for companies that depend on precision, these statistics are unacceptable.

What does manual labor cost you?

Use this calculation to determine the personnel cost savings for each report.

CostSavings=
(CurrentPersonHours
X LoadedLaborRate)
-
(FuturePersonHours
X LoadedLaborRate)

TotalPersonnelSaving
= ∑ CostSavingsForEachReport

What's the direct impact of these errors? One Deloitte study warned, "In addition to a loss of investor confidence evidenced by an associated share price decline, an organization may face a drop in credit ratings, and management changes may be effected. One study has suggested restatements can destroy up to 35% of an organization's worth."[4] The numbers speak for themselves.

SOLUTION: AUTOMATED DATA INPUT

Automation is the Holy Grail of financial reporting simply because implementing automated processes throughout the Disclosure Management Cycle drastically reduces the potential for human error and dramatically increases productivity. Specifically, Last Mile automation ensures data consistency. Coincidentally, it's the high-performing companies that are doing this. In a recent survey, 62% of best-in-class companies reported that they have implemented standardized procedures and integrated systems to ensure uniformity and data consistency.[5]

When automated reporting also includes a direct connection to corporate data sources, otherwise known as a "data source-to-report" functionality, figures are consistent throughout all internal and external reports, virtually eliminating the need to manually rekey numbers. Data integrity is central to effective disclosure management workflow and is nonnegotiable when it comes to disclosure quality and accuracy. Leading companies are privy to this; 42% of respondents in one survey cited that they have instituted a "corporate mandate to improve data quality," and an additional 30% also cited the need to improve visibility into future positions as one of the critical drivers for undertaking disclosure management solutions.[6]

With this burgeoning emphasis on data quality, it's no wonder there's a need to supplement disclosures with research and process. A means to communicate results optimally is rapidly becoming a priority in the minds of finance executives.

Qualified reports

PROBLEM: UNSUPPORTED DISCLOSURES

As one financial visionary remarked, "The books are getting thicker, the pile's getting higher, and the text is getting smaller."[7] Financial regulations keep on coming, changing and then changing again. To say the regulatory landscape is simply in flux is a gross understatement of the impact these changes are having on disclosure management. With the advent of the Dodd-Frank Act, implementation of the Sarbanes-Oxley Act and the XBRL mandate, not to mention the great IFRS debate, it would be more appropriate to say the regulatory landscape is undergoing a rebuild.

In direct correlation with changing standards, increased disclosure and the influx of information has created a dense fog of information, hindering the visibility into financials. It's reported that almost 40% of C- and VP-level respondents cited their effectiveness was impaired by limited visibility into financial-reporting data.[8] Attaining access to accounting standards and regulatory rules is only half the battle. Missing are the real life examples that financial executives can use in order to mold their disclosures and ensure they're communicating results in a quality and contextual manner.

SOLUTION: DISCLOSURES SUPPORTED BY RESEARCH

Why reinvent the wheel, double your creation time and second guess your disclosure's effectiveness when someone else has done it first? No one wants to be the first to disclose on a new standard or rare situation and, almost without exception, someone will have disclosed before you. Rebecca Northcott, a Manager of Learning, Research and Support, who also specializes in effective disclosure research, is on the front lines with accountants during reporting periods:

> "I sometimes get panicked calls from accountants in the middle of a reporting deadline who fear that they're going to be the first one to disclose on a new FASB standard. This would be incredibly rare. When research databases use intuitive search language and filters, you can almost always find a company who has disclosed before you in a successful and powerful way."[9]

Access to peer filings also supports disclosures by shaping both the business strategy and the specific material you disclose. In a CFO.com survey, 69% of respondents said that narrative analysis is just as useful as or more useful for the management team than it is for investors, shareholders and analysts.[10]

In the same breath, 85% of finance executives said that management teams benefit from the analysis and insights developed from the close and reporting process.[11] Peer comparisons and one-click access from accounting standard guidelines to real-life examples is pivotal to disclosure quality because it makes for quicker and more compliant formatting, but also buffers and contextualizes forecasts and projections.

Compliance and risk management

PROBLEM: NONCOMPLIANCE

Noncompliance generally signals poor disclosure quality – in both process and content. Problems typically derive from data errors or a failure to adhere to accounting standards. The workflow efficiency of a document is integral to managing the risk of noncompliance and maintaining the overall quality of your company's disclosures. CFO.com's Linking Numbers and Narratives report found that 46% of financial executives agree with the statement that checking, correcting and updating data takes more time than it should.[12] Much of this inefficiency is due to disorganized approval processes where multiple versions of a report circulate and no singular means of effective collaboration is available. Organization is at the very core of financial reporting; without an efficient, organized workflow, versioning problems and overlap will result in data errors during the report creation process.

What does noncompliance cost you?

Every incident may be handled individually, but for each report subject to regulation, the following calculation can be applied.

CompanyPenaltyByReport=
LateFilingPenalty+
StockPriceDecrease+
DebtMarketImpact

When it comes to compliance, adhering to accounting standards, rules and regulations is also becoming an issue due to the lack of direct access to accounting standards and the influx of changes. Eighty-seven percent of financial services companies in the Americas perceive increasing regulation as the biggest risk.[13] Why? With all these changes impacting the Disclosure Management Cycle, disclosures have been left especially vulnerable to error– companies can't keep up with regulatory changes.

SOLUTION: A SINGLE VERSION OF THE TRUTH

How do we solve the versioning problem? The answer is to establish a single version of the truth from the very moment reporting begins and that means establishing a workflow that is conducive to reporting and collaboration. Many companies are already addressing this:

- In a recent PwC study, 73% of companies said they plan to enhance cross-departmental communication to reduce financial reporting risk.[14]
- Coincidentally, another study reports that almost 50% of midsize and large organizations are automating key controls.[15]

Controls equal less risk, period. A single master working document that is contained with sign-in / sign-out functions allow multiple contributors to work on a document simultaneously. Many of these solutions automatically generate approval emails to decision makers once tasks are complete, keeping a streamlined and secure report production workflow.

Monitoring ongoing changes to accounting standards, rules and regulations also helps mitigate noncompliance risk. Immediate access and intuitive search capabilities are required by reporting managers in order to navigate exhaustive accounting standards, like U.S. GAAP's 17,000+ pages. By automating controls and enhancing awareness around accounting standards updates, exposure drafts and newly released standards through devices like real-time email notifications, executives spend less time looking for the formatting and more time constructing quality disclosures.

Summary

Regulatory measures aren't going to ease up, technology is not going to move backwards and competitors aren't getting less competitive. Disclosure management isn't what it used to be – a series of informal manual processes that involved rekeying data, unqualified disclosures and multiple report versions. Processes susceptible to error are no longer accepted by finance professionals. Report production and disclosure research work together to ensure that disclosures are first managed in an efficient, accurate means and also composed based on qualified and compliance-proven benchmarks.

Financial reporting has evolved into a major part of business strategy, thus disclosure quality is no longer a nice to have – it's a must have.

Key takeaways

1. Successful disclosure management produces quality disclosures, which determine favorability in the eyes of investors and influence business growth.

2. Last Mile automation, and specifically data source-to-report functionality, ensures nonnegotiable data integrity.

3. Access to accounting standards, peer comparisons and real-life disclosure examples are pivotal to disclosure quality because they make for quicker and more compliant formatting, while buffering and contextualizing forecasts and projections.

4. Compliance is tied to more than following accounting rules – disclosures reach their maximum impact when they're composed in a streamlined workflow that favors a single version of the truth.

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