The Web: Where financial information belongs

How to report in the Internet age

Companies are realising the potential of the Internet as a way of communicating with shareholders and investors. DAVID HURBURGH describes the benefits and, in an accompanying article, outlines the advice his company gave to ASIC on using company websites to improve compulsory disclosure.

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The rapid adoption of the Internet by Australian companies can be seen in the spectacular growth in the number of companies with websites. In mid-1997 only 15% of ASX-listed companies had websites. By mid-1999 about 55% of ASX companies had a Web presence.

From another perspective, however, companies may be seen as slow to take full advantage of the potential of the Web as a customer communication tool. A survey by Myriad Research Associates in 1999 showed that only half of the 650 websites established by ASX-listed companies had a significant investor communications focus.

The survey applied a checklist of "must have" features which allows a website to be rated for both its effectiveness as a communications tool for the company and its usefulness from an investor's perspective.

THE RISE OF THE ON-LINE INVESTOR

In tandem with the growth of corporate websites there has been a dramatic rise in the proportion of share trades that are transacted through Internet-based broking services. Recent research by Merrill Lynch in the US has indicated that nearly 25% of all share trades are now Net-based. Australian Internet trends are typically 18 to 24 months behind North America. It can be expected that within two years a significant proportion of share trades will be done online.

Already in the US million-dollar trades are routinely being done through discount online brokers. The high-net-worth individual investor is becoming an increasingly significant presence on the share registers of small to mid-cap companies. Coupled with changes in the disclosure obligations of listed companies, this means that there is now no effective distinction between the retail (private) and the institutional (professional) investor. All investors must be entitled to equal access to information.

Company news dissemination through corporate websites is now becoming a prime source of information for investors. This has resulted in investors becoming sophisticated and demanding consumers of Web-based information.

CORPORATE WEBSITES

The mass migration by investors to Internet trading, coupled with the fact that more than half of ASX corporates now have an Internet presence, underpins the Web's role as an investor communications medium.

It has been recognised that online investors want their news unfiltered and preferably direct from the company. In Australia, the professional investor has been traditionally reliant on ASX wire feeds (such as the G-Signal) based on information filed by the company and then onsold through news services like Reuters and AAP. The retail investor, on the other hand, was reliant on contact with brokers, the mainstream media or periodic mail-out reports direct from the company.

The ASX wire feed reports are typically presented in a low-quality "telex-like" format. This information typically lacks context and cannot be supported by useful pictorial material or easily cross-referenced to prior reports. In contrast, a good website provides unlimited benefits as a communications medium.

RESOURCE COMPANY WEBSITES

Australian resource companies were "early adopters" of websites. Unfortunately most early-generation websites are little more than digitised equivalents of the company's hard-copy news releases. Probably fewer than 50% of ASX resource company websites could be rated as effective shareholder communications tools.

Since junior resource companies are required to report more frequently than industrial stocks, the Web is a particularly useful means of getting their news disseminated. Mining companies' reports are typically "rich" in pictorial content, such as maps and diagrams. Websites are very useful for displaying such information.

WEBSITES MUST BE INTERACTIVE

The real power of websites lies in their usefulness as an interactive medium. Simply publishing the equivalent of annual reports and quarterly reports on the website falls well short of using its potential. This form of web-publishing is often dismissively called "brochure-ware".

A website allows the company to develop an effective dialogue and relationship with its investors. As a practical priority in designing a corporate website, prominence should be given to the e-mail address of the investor relations section of the company. Encouraging direct e-mail contact is preferable to using form-based feedback questionnaires.

The most significant move would be for ASIC to make websites mandatory and to insist that company news should be published on the website at the same time as it is filed with the ASX.

One of the most powerful tools that a company website can use is a system of automated e-mail alerts. Actual or potential investors in the company register on the website and whenever a new release is made (or filed with the ASX) they are notified immediately by e-mail. The e-mail from the company can be personalised and include a "hot-link" to the news release itself.

This approach, which encourages a strong sense of involvement between the company and the investor, has been used successfully by companies such as Western Mining and Pasminco. It also highlights a crucial feature of the Web: its ability to provide information directly and immediately without the cost and time constraints imposed by traditional media. Good websites typically include a link to their latest "hot" news in a prominent position on the home page.

CHANGES IN DISCLOSURE REGIME

The regulatory environment of continuous disclosure in Australia is becoming increasingly strict. Issues such as selective briefings for professional investors and a number of prominent "insider trading" cases are putting disclosure high on the policy agenda.

An article on insider trading published in the *Australian Financial Review* on 21 July 1999 made the point that Australian law in this area is based on the assumption that all investors have equal access to information. Historically this has not been the case; however, with the now almost universal accessibility of Internet-based communications, this ideal situation can at last be realised.

At the same time as Internet-based information has become widely accepted, some traditional functions of stockmarkets are being challenged. In addition to its role as "market-maker", the ASX has had an effective monopoly as prime company information vendor.

Companies have been obliged by Listing Rule 3.1 to file their news first with the ASX. The exchange has earned royalties by on-selling this information to wire services such as Bloomberg and Reuters. Logically this information belongs to the reporting company; however, the ASX, in its privileged position as gatekeeper, was able to use it to generate significant income. Company websites, by publishing their information immediately after filing with the ASX, could put an end to this situation.

The Australian Securities and Investment Commission is expected to issue guidelines on how companies must meet their disclosure obligations through web-based publishing. Specifically, it is expected that companies will have to post on their sites any presentation materials given at forums such as analysts' meetings. The most significant move would be for ASIC to make websites mandatory and to insist that company news should be published on the website at the same time as it is filed with the ASX.

Since the Internet is such a global phenomenon the geographical and jurisdictional constraints on the traditional investor are breaking down. Online brokers are introducing capabilities for even retail investors to readily access cross-border markets to carry out equity trading. This has profound regulatory implications. Proposed links between NASDAQ and the ASX will bring into focus the varying disclosure requirements in different markets.

A progressive move would be for ASIC to adopt North American company disclosure practice, in which the emphasis is on using a publishing medium which provides the fastest and widest dissemination. This has usually meant using one of the recognised business wires.

In the US and Canada, a company meets its disclosure obligations by using in the first instance a qualifying wire service as its primary dissemination medium. This is augmented by simultaneous publishing of a company's news on its website. American stock exchanges want to vet information ahead of its public release only if the company believes the news is sufficiently material to warrant a "halt trading" action.

EXTERNAL LINKS

In addition to a company's own information, it is good practice for a website to include useful external links to other websites that could enhance the shareholders' understanding of the company.

If a company has a major shareholding in a listed subsidiary it is logical for a hotlink to be provided to that company's site. Similarly, parent or other related companies could be linked from the associate's site.

A company may find it useful to direct shareholders to the e-mail addresses or websites of brokers' analysts who specifically follow the company. This enables the shareholder to pursue independent research on the company. Some companies actually re-publish or at least provide links directly to the research itself — although this can be inherently dangerous if the research is selectively quoted and only positive material is provided.

Newspaper articles on the company could also be provided but care would have to be taken that the stories used are not overtly promotional.

Other useful links that a company could consider featuring on its website would be to industry associations covering sectors relevant to the company's business activities. Links to conference and seminar papers on technical or operational issues could be of great value to investors looking for more detailed information.

IMPORTANCE OF THE SHARE REGISTRY

A link from the website to the company's share registry is a very useful feature.

Share registries occupy a critical strategic position for investor communications since they are located directly on the interface between the company and its shareholders.

In Australia, Computershare (CPU) is the dominant share registry; at the time of writing it maintained the registries of 653 ASX-listed companies.

A very useful feature is accessible through CPU's site www.cshare.com.au. By entering the three-letter company code the visitor can obtain a recent share-price history and a 120-day chart of the price which can be plotted against any of the ASX indices. If a client company notifies CPU of its website address, this will be placed on the CPU page which is provided for each client company.

In addition to share prices and charts, the CPU site gives convenient "one-click" access to shareholder housekeeping tasks such as notifying address changes and checking holdings.

Share registries should be encouraged to make more use of e-mail and Web-based technology to cut down on hard-copy communication costs with shareholders. Their function of maintaining shareholder address lists could be extended to maintaining the e-mail addresses of shareholders and thus they could more effectively manage shareholder communications using on-line technology.

QUALITY CONTROL

For a website to be a credible and effective communication tool, the information it contains must be up-to-date and accurate. Obviously stale information and "broken links" — and even typographical errors — can deter the visitor.

The same reporting standards that apply to disclosure documents such as annual reports, prospectuses and financial statements should apply to corporate websites.

For resource companies, particular attention should be given to following the ore reserve and resource reporting standards (known as the JORC Code) which forms part of the ASX listing rules.

To give investors increased confidence in the integrity and value of a company's website, some form of "certification" by an independent body should be adopted. The role of the company's external auditor could be extended to "signing off" on the content of the website.

Interestingly, the UK Institute of Chartered Accountants predicted in a recent report, "The 21st Century Annual Report", that hard-copy annual reports will eventually disappear and be replaced by the website. They are advocating that the website becomes the prime medium of dialogue between a company and its stakeholders on a truly continuous disclosure basis.

"BEST PRACTICE" FOR CORPORATE WEBSITES

A set of informal rules has been identified that could be defined as current "best website practice":

- keep the site simple — avoid multi-media "plug-ins";
- ensure the pages download rapidly;
- be careful with pictures — use "thumbnails" for photographs;
- there should be a "home" button on each page so the visitor does not get lost;
- maximum of two levels of "nesting";
- pages should be easy to print;
- information should be complete — include "fine print" but it should be nested;
- should include all ASX and ASIC filings, eg, directors' holdings;
- the site should be easy to find through search engines;
- limit home page to one screen;
- limit navigation tabs to eight;
- offer interactivity such as e-mail alerts;
- avoid "cool" features.

How to make information useful

The Australian Securities and Investments Commission's draft guidance and discussion paper on disclosure ("Heard it on the Grapevine . . .") has provoked a number of responses, including a submission in which the Securities Institute was a joint author (see "ASIC Proposals May Go Too Far", JASSA, Autumn 2000).
Here David Hurburgh, author of the preceding article, outlines some of the points made in a further submission to ASIC by his online communications consultancy group Myriad Research Associates.

THE COST OF ACCESS TO COMPANY INFORMATION

Disclosure documents currently filed by companies with the ASX and ASIC are made available to the public only through payment. These should be made available freely through **www.asx.com.au** and **www.asic.gov.au**.

We are constantly reminded that the Australian capital markets are becoming globalised. Therefore it is logical that ASIC adopt the sensible practice of the North American securities commissions and make company filings freely available from the organisation's website. The US and Canadian databases which contain this information are readily and freely accessible to the public. They are known as EDGAR and SEDAR respectively. It can be argued that charging for such information in Australia puts local companies and investors at a disadvantage when compared to the more equitable dissemination protocols that North Americans enjoy.

THE ROLE OF ANALYSTS

Analysts have a valuable role in identifying and quantifying investment opportunities. Unfortunately recent market trends have seen analysts focusing on ASX 100 stocks at the expense of small-cap growth stocks. The recent flurry of interest in "dotcom" stocks has not been accompanied by meaningful analytical support from the leading broking houses.

It could be argued that the high level of speculative interest in these stocks is more driven by "road-show hype" than any sound analytical discipline. In this context, informative websites from the companies would greatly assist the investing public. Ironically, many of the new "dotcom" issues have quite inadequate websites from an investor communications perspective.

PRICE-SENSITIVE AND BACKGROUND INFORMATION

There is a continuous spectrum between obvious price-sensitive information and more general background information. Arbitrarily drawing a line between the two classes of information may cause false distinctions. The true test of materiality occurs only after a news story's release and when there is in fact some impact on the market. Therefore drawing a line between what goes to the ASX for disclosure on their platform and what goes up as background on the website could be a very difficult call.

The simplest solution is that all news including background material should be placed on the website simultaneously with the ASX filing (or at least immediately after). Arguably the highlights should go out to the ASX and at the same time a more detailed account would be posted on the website. This would also overcome the current situation where the ASX is charging the investing public for the more detailed material that may accompany the summary release.

THE ASX ANNOUNCEMENT PLATFORM A CONFLICT OF INTEREST?

The long-established ASX-listed companies announcement "platform" and the associated protocols for news disclosure in Australia are unsustainable. The ASX has an inherent conflict of interest since it is both a market regulator and an information vendor. It is not in its interest to lose a significant source of income which it gains from on-selling company news. The news is provided compulsorily and at zero cost from the companies and then is on-sold to the wire services and their subscribers. This may be considered "disclosure" under the listing rule definition but it is not allowing true dissemination in an efficient market sense.

The Australian situation should be compared with North American

No escaping the Net

The Internet bubble is clearly distorting the market, and its bursting may well cause pain across the whole economy. Moreover, whenever firms can raise capital virtually free, they are likely to waste much of it, as so many dot.coms are now doing with their marketing expenditure. But there is little evidence that traditional firms' shares are undervalued, or that they are finding it hard to raise capital. And the capital going into Internet firms is not all being wasted — even if today's shareholders may not reap the benefits. This is especially true of makers of computers and the Internet's infrastructure. But even an e-retailer such as Amazon needs robust computers, software and delivery systems — all of which necessitate investment.

The bigger point is that the markets are sending traditional companies two useful signals. One is that they ignore the Internet at their peril. The second is that merely adding a website on to an existing business is not enough: the whole business needs to be redesigned around the cost-saving, communication-easing properties of the Net. Most companies must become Internet firms if they are to survive. Even when the bubble deflates, that signal will be worth heeding.

–Editorial, The Economist, 26 February 2000

jurisdictions where the stockmarkets and securities commissions' prime concern after market integrity is to ensure dissemination of company news in the most timely and cost-efficient manner for the investing public. In Canada where the author of this submission has had direct experience (during the period 1993–96) the regulators insisted that companies file their news directly with a leading newswire, at the same time as filing with the exchange (Toronto Stock Exchange listing rules). More recently, the TSE has recognised the power and efficiency of the Internet and is now insisting that corporate websites are mandatory and all news is lodged on the website

COMPANY WEBSITES – SUPERIOR TECHNOLOGY TO THE ASX 'SIGNAL G'

Since the key to an efficient market is continuous disclosure, ASIC should be encouraging the widest possible dissemination of news in the shortest possible time, and in the most cost-effective manner.

The investing public is significantly broader than the finite investment community fortunate enough to have direct access to ASX Signal G wire services. Therefore, to achieve the desired goal of the most effective mode of news dissemination, Internet-based communications directly from the company should be endorsed as the prime means of company news disclosure.

It is recommended that ASIC follow the example of the TSE and make websites mandatory for all listed companies.

AUTO-E-MAIL ALERTS OF COMPANY NEWS — THE BEST SOLUTION

In the ASIC paper it is suggested that the facility of allowing shareholders to "register their Internet address" could be a way of giving shareholders access to company briefings. This was dismissed as being impractical since if it was done on an "ad hoc" basis it would be seen as "flagging" with advanced notice that a material announcement was to be made.

A number of ASX companies who are progressive users of Internet-based shareholder communications offer any member of the public who visits their websites the facility of registering their e-mail address. This service automatically generates a personalised e-mail alerting the registrant to the fact that an announcement has just been made to the ASX.

The auto-email alert facility is the optimum means of "levelling the playing field" between the professional investor who has access to ASX Signal G feed and the private investor who may be traditionally reliant on newspaper reports or (if privileged) may get a call from their broker.

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Thanks to the wide adoption of Internet access by the broader investment community a system of company news alerts distributed via the web would be much more equitable than the traditional ASX-driven newswire services. In terms of added value, online links directly to the prime source of news (ie, the company website) is far superior to the "text only format" of an ASX signal. Additional benefits such as the ability to provide pictorial material to enhance the information together with previous news stories in the same location gives the shareholders significant advantage over traditional means of disseminating company news.

A QUESTION OF TIMING – WHO HEARS FIRST . . . THE ASX OR THE WORLD?

For all practical purposes company news can now be disseminated by the corporate website immediately after it has been formally filed with the ASX. There should be no necessity for any delay since arguably those parties with direct access to the ASX signal could trade ahead of those using web-based material. There should be no need for the ASX to pre-vet news ahead of its broader dissemination since the Corporations Law already has adequate provision to penalise companies for publishing misleading information.

THE 'FINE PRINT' MUST BE ACCESSIBLE

The same standards of reporting and disclosure that apply in the "hard copy" environment should apply on corporate websites. If websites are to be credible and provide definitive, accurate, complete and timely sources of information to investors, the same level of information that would apply for example in an offer document like a prospectus should be available on the website.

Websites must ultimately become the definitive disclosure document for listed companies. Arguably, companies should use independent professional third parties to "audit" the websites for accuracy and completeness, in the same manner external financial auditors "sign off" on a company's annual accounts.

ASX LISTING RULES — CUMBERSOME PROTOCOLS

The five-stage protocol that ASX uses to disseminate news is inherently inefficient from the retail investor's and the broader market's perspective.

- First, the company files its news with the ASX.
- The company gets an acknowledgment back from the ASX — Listing Rule 15.7.
- Then the ASX puts the news up on the "wire", via Signal G.
- The ASX news is then distributed by the wire services, eg, AAP, Reuters, Bloomberg.
- Only then will the retail or private investor will be able to get the news from his broker, a "user-pays" subscription service or perhaps tomorrow's newspaper.

The ASX's definition of disclosure that follows the above protocols can be compared to the truly effective news dissemination process offered by the Web.

There is no more efficient means for the investor to the get the news other than directly from the company's website. Since there is now a very strong correlation between Internet usage and share investing (even at a retail level) the argument about equity of access to the technology is rapidly becoming immaterial. This can be compared to the significant cost of using the traditional screen-based services used by the professional investor. J