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Perennial Questions

THE DEBATE OVER WHAT TO INCLUDE IN ANNUAL REPORTS HEATS UP

By Richard Karp

Discussing annual reports, super-investor Warren Buffett once suggested: "Pretend you are writing to your sister. If you don't have a sister, I'll lend you mine." In other words, keep it simple. But does this mean the writer should mention that one of the company's directors is under criminal indictment, or that the company faces 28 civil suits, which it expects to win but which, nevertheless, will eat up \$50 million in lawyers' fees? Should he note that the company is plagued by a defective product line that might force an expensive overhaul of its manufacturing equipment or that bickering among directors threatens corporate stability?

Should an "ideal" annual report detail chronic high employee turnover? A decline in customer loyalty? The likelihood of political turmoil in a major overseas market?

Right now, an annual report is highly unlikely to tackle these issues. **"If some company executives volunteered to report these noncompliance items in their annual, their lawyers would immediately put a stop to it," asserts Jonathan Pite, creative director of Pite Creative Services, Inc., a Boulder, Colorado, company that specializes in producing such reports.** One big reason: The Securities and Exchange Commission doesn't require such disclosures. Another: Corporate lawyers generally believe that the less a company discloses, the less it can be accused of having misrepresented.

But a 200-page paper published in 1994 by the American Institute of Certified Public Accountants, a professional organization based in New York, takes a much different view. Entitled "Improving Business Reporting: A Customer Focus," it offers a "model" of an ideal annual report for a fictitious company called "FauxCom Inc." And it calls for more disclosure, lots more.

The paper is known as the Jenkins report, after Edmund L. Jenkins, who led the special committee that produced it after three years of study... While Jenkins insists that "no mandatory rules" will come out of the research project, he adds that the FASB hopes to persuade companies to voluntarily do whatever it recommends.

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