Enhanced Business Reporting Consortium

BUSINESS PLAN

"Greater transparency in business reporting is needed to help strengthen our economy and protect investors. The Enhanced Business Reporting Consortium is working to develop the tools that companies can use to communicate the information that is most important to their stakeholders."

David M. Walker
Comptroller General of the United States
U.S. General Accounting Office

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*References contained in this document reflect a collection of existing research relevant to Enhanced Business Reporting, and should not be considered as endorsements

Executive Summary

PROPOSAL

"Establish a consortium of investors, creditors, regulators, management and other stakeholders to improve the quality and transparency of information used for decision-making."

The Consortium is an independent, market-driven, international collaboration of investors, creditors, analysts, management, boards of directors, regulatory agencies, standards setters, members of academia and all other stakeholders charged with developing an Enhanced Business Reporting ("EBR") framework, related guidelines and definitions. Participants will be viewed as thought leaders, in the development and use of financial and non-financial information, for the purpose of encouraging greater transparency, integrity and quality in business reporting. To accomplish this objective, the Consortium might, among other activities, perform and publish studies; identify and promote best practices; develop and disseminate model disclosures; recognize new and innovative practices; develop and establish a maintenance plan for an internationally branded business-reporting framework and recognize those companies whose reporting best exemplifies the principles of that framework.

It is important to note that EBR is not intended to be a replacement for GAAP. It is a supplement to GAAP, providing structure around additional disclosures that will give investors a more complete picture of companies – especially companies that rely heavily on intangible assets. In order to avoid increasing the reporting burden on preparers, it is recommended that the Consortium simultaneously identify and work to eliminate redundant, marginally valuable disclosures required under the current reporting model.

PROBLEM DEFINITION

The current business reporting model has not evolved with changing market demands and key stakeholder requirements.

Recent business failures and increasing financial reporting restatements have adversely affected the public's trust and confidence. This has revived market interest in a review of the current business reporting model. The call to provide stakeholders with high quality and transparent information echoes from investors, creditors, analysts, regulatory agencies, standards setters, boards of directors, and management. There are many issues driving this demand, perhaps most notably the **growing democratization of the capital markets, growing importance of intangibles as key value drivers and a focus on meeting short-term performance targets to the detriment of investment in future growth**.

There are three alternatives facing market participants in terms of how to respond to the need for enhanced business reporting: 1) do nothing, 2) allow regulatory forces to mandate change or 3) implement change through a proactive, market-driven, collaborative solution. We recommend **driving positive change, through a collaborative solution, by establishing a consortium of diverse stakeholders of national and international prominence who can serve as effective advocates for Enhanced Business Reporting**. The advantages of this option include broad market leadership representation, access to the depth of resources to develop voluntary international guidelines that can drive more robust disclosure and lead to better decision-making and self-regulation by all key stakeholders who have a vested interest in improving the current business reporting model in a cost-effective and time-efficient manner.

THE SCOPE OF ENHANCED BUSINESS REPORTING

The following diagram illustrates a preliminary concept for the scope of an EBR framework. The purpose of the EBR framework is to put structure around external reporting of information not currently covered under GAAP, including a discussion of **management strategy and plans, risks and opportunities** faced by a company, as well as industry-specific, process-oriented value drivers and financial and non-financial **key performance indicators.** The EBR framework should be developed with a continuing focus on the reporting of **reliable** data that is effectively **self-regulated, simplified** to enhance efficiency and cost-effectiveness, **timely, digital, scalable** by entity size and industry-orientation and **transparent**, all of which will contribute to improved comparability and understanding of disclosures. Successful implementation of an EBR framework will result in manifold positive outcomes, including **better management, better governance** and ultimately **better markets.**

MEMBERSHIP FUNDING MODEL

The annual budget will be directly dependent upon the number of industry sectors for which guidelines are contemporaneously under development. In turn, the number of industry sectors for which guidelines are contemporaneously under development will depend on the number of Consortium members and the availability of other sources of funding. Approximately 20-30 Charter member organizations will be recruited to form the initial Consortium foundation and will make the final determination on the amount of the annual membership dues in the context of agreed budget requirements.

CONCEPTUAL CONSORTIUM STRATEGY, OBJECTIVES AND DELIVERABLES

Strategic Intent: "Better markets through better information"

Decision-making within the Consortium is envisioned to be guided by the spirit and principle that all participants in the capital markets must demonstrate responsibility and accountability for the quality of information provided to the market.

Mission

A consortium of stakeholders collaborating to improve the quality, integrity and transparency of information used for decision-making in a cost-effective, time-efficient manner

Objectives

The initial scope of the project is to provide guidance to promote high quality, transparent disclosures. To that end, the Consortium's initial objectives are, on an international basis, to:

- ***Facilitate a transformation of the business reporting supply chain to significantly increase the efficiency of the reporting process***
- ***Improve the relevance and comparability of reported business information for decision making***
- ***Develop and execute a plan for market-driven implementation of EBR***

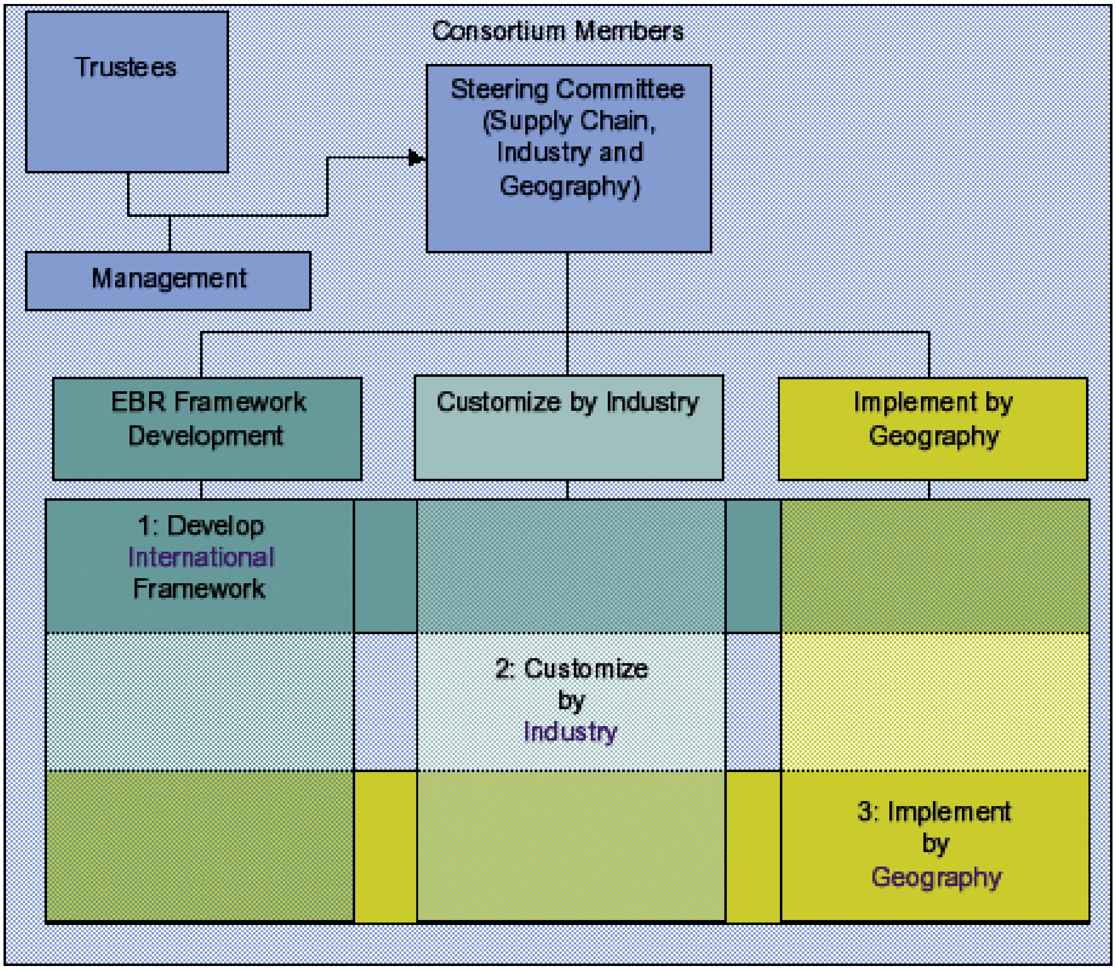
Deliverables

The Consortium should produce tangible products and intangible outcomes that would include but not be limited to:

- ***Recruitment of a diverse membership, Consortium start-up and development of an ongoing strategic plan***
- ***Development and implementation of a collaborative process for decision-making***
- ***Consensus on an internationally recognized framework of voluntary, international guidelines for enhanced business reporting that supports delivery of information with improved relevance and comparability for decision making. This framework will have the following components developed on an industry basis:***
    - ***Generally accepted definitions, measurements and voluntary disclosure guidelines for industry-specific, process-oriented value drivers and key performance indicators***
    - ***Generally accepted, voluntary disclosure guidelines for information about opportunities, risks, strategies and plans and about the quality, sustainability and variability of cash flows and earnings***
- ***A deployment plan for the framework, ultimately with a global reach***
- ***A best practices recommendation for a technology path to enable implementation***
- ***A business plan, branding strategy and secure funding for an internationally recognized award program to recognize outstanding examples of quality and transparency in business reporting***

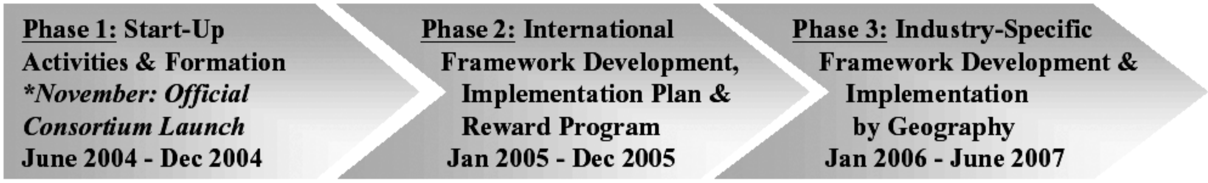
ORGANIZATIONAL AND GOVERNANCE STRUCTURE

Consortium membership will be balanced across supply chain, industry and geographic representation as shown in the draft Consortium structure diagram illustrated below. Under this Straw–Man example, approximately 20 to 25 Steering Committee members would be appointed to two-year rotational terms as needed in order to develop, enhance and maintain EBR. Consortium members would participate, according to their industry and/or geographic orientation, in working groups focused on 1) the development of a high-level, international conceptual framework for EBR, 2) customization of the EBR framework by industry, and 3) implementation of EBR by geography.



The EBR Consortium will be set up as a not for profit 501(c)(6) incorporated in Delaware.

STRAW–MAN TIMELINE & KEY MILESTONES



COST AND BENEFIT ANALYSIS & COMMENTARIES

Benefits

- **The results of recent research show that improved disclosure was strongly and positively associated with critical capital market variables** – narrower bid-ask spreads for stocks (lower cost of capital) and lower volatility in the company's stock price.[1]
- Most company executives prefer to think in terms of long-term value and are asking for relief from short-term earnings pressure. **EBR will help break this short-term earning management cycle and focus stakeholder attention toward long-term value creation.**
- **Management will benefit from improved availability of and access to more complete, timely and accurate information, helping them to manage the business more effectively.**
- A number of highly visible examples of the urgent need for collaboration and agreement on company business disclosures exist: subscribers in the cable sector; customer counts in telecom and square footage in retail. The lack of agreement on what is being disclosed creates confusion over what is being reported. **EBR will be focused on industry-specific guidelines that will serve as the benchmark for the industry.**
- Recent regulation has created a need for clear guidance on compliance with new disclosure requirements. **The EBR Consortium can provide proactive leadership in broad and industry-specific guidelines which will benefit consumers of information from enhanced consistency and clarity in disclosures.**

Costs

- The main cost to companies who choose to enhance their business reporting will come in the form of **research & development, infrastructure and implementation costs.** While these expenses may seem high up front and on a short-term basis, the longer-term benefits of enhanced business reporting should more than compensate.
- At the company level, some believe that EBR might expose an entity to **competitive harm.** This fear is hard to substantiate in that most of the intelligence that companies do not wish to disclose to their competitors is information that they, and their competitors, already have about each other.[2] In the rare case where EBR would truly threaten a company's viability, it would not be recommended that such information be disclosed. In the more common case where there is no valid threat of competitive harm, companies will benefit from a better understanding of their market position through improved bench-marking capabilities.
- Another frequently cited potential cost is **litigation.** This risk should be self-mitigating in theory, in that if a company is truly transparent it is impossible to make false or misleading statements as they would be revealed by the information provided. In practice, however, this is a gray area and there is a need for safe harbor legislation to protect companies who choose to be transparent.
- In the big picture, the most significant potential cost is that of failure to enhance transparency and restore trust and confidence in our capital markets - failing to do so to date has resulted in a perceived **loss of investor wealth estimated at over $7 trillion.**

IN SUMMARY

"Better Information Leads to
Better Management...Better Governance...Better Markets"

[1] *Harvard Business Review* June 2004, "Sharpening the Intangibles Edge" by Baruch Lev, page 116.

[2] Ashkinaze, Carole. *Business Week*, June 16, 2000, "Spies Like Us."

[3] "Rebuilding Investor Confidence, Protecting U.S. Capital Markets: The Sarbanes Oxley Act: The First Year," House Committee on Financial Services

Background

HISTORY OF PAST EFFORTS TO ENHANCE BUSINESS REPORTING

While recent history has cast a spotlight on the need for more robust corporate disclosures, the movement to enhance business reporting has been ongoing for more than a decade. As early as 1988, various stakeholders, including academics, congress, regulators and the accounting profession itself began to express concern over the long-term viability of the current reporting model and specifically "the growing irrelevance of conventional financial reporting in the new age of information"[4]. A growing gap between market valuations and the information presented in financial reports evidences this decline in the relevance of traditional financial statements as the sole source of business information provided to the public.

These concerns were subsequently addressed through a number of efforts led by the accounting profession, including among others the Jenkins Committee, the Weygandt Committee, the Kolton Committee and the Elliott Committee. Most recently, from 1999 to 2000 the Accounting Standards Task Force of the Group of 100 took up the charge of developing a strategy and action steps to gain support for the implementation of a new business reporting model for the 21st century. This task force concluded that "there are two essential components to improving the current model in use by corporate America: (1) developing a better model and (2) motivating investors to demand it and capital users and regulators to supply it. Past efforts of the profession have focused on the first component without much attention to the second and improvements have been glacial as a result."[5] The final recommendation was that traction could be gained through a new effort to energize and galvanize key stakeholder groups to support and advocate change, with a strong focus on greater transparency and improved quality in business reporting in the broader public interest.

THE EVOLUTION TO ENHANCE THE CURRENT BUSINESS REPORTING MODEL

The Special Committee on Enhanced Business Reporting (SCEBR) was established in December 2002 by the American Institute of Certified Public Accountants (AICPA) to develop a strategy to enhance business reporting (see Appendix A for SCEBR members). The SCEBR has defined its mission accordingly:

"*To establish a consortium of investors, creditors, regulators, management, and other stakeholders to improve the quality and transparency of information used for decision-making*."

The focus of the Special Committee is unique in its emphasis on a collaborative, independent consortium strategy, which is designed to help drive acceptance and implementation through the identification and participation of key stakeholders whose involvement is critical to a successful outcome. The overarching goal of the Special Committee, and ultimately the Consortium, will be to make better information available to investors, creditors and other stakeholders, helping them to see organizations through the eyes of management and allowing them to make more informed decisions. EBR is not a replacement for GAAP, it is a supplement to GAAP, providing structure around additional disclosures that will give investors a more complete picture of companies – especially companies that rely heavily on intangible assets – than GAAP alone can by its nature provide. In order to avoid increasing the reporting burden on preparers, it is recommended that the Consortium simultaneously identify and work to eliminate redundant, marginally valuable disclosures required under the current reporting model.

[4] Wharton Symposium on Financial Reporting and Standard Setting, Fall 1990

[5] Achieving a New Business Reporting Model for the 21st Century – Report of the Accounting Standards Task Force of the Group of 100. October 16, 2000

The SCEBR recognizes that now is the time to take action in the wake of recent crises, including the bursting of the dot-com bubble resulting in the equity market downturn of 2000, widespread under-funding of pension funds and numerous, high-profile accounting scandals leading to unprecedented corporate failures. Each of these developments is indicative of the increasing need for an evolution of the current model to meet the needs of today's marketplace. Beyond the severe consequences felt by investors, other stakeholders are beginning to experience the impact as well through the implementation of new legislation, including the Sarbanes Oxley Act. The Sarbanes Oxley Act and increased market scrutiny have led to more severe punishment and a higher risk of conviction for "poor accounting and reporting".

Other environmental forces driving the need for change include innovations in technology, globalization, increasing reliance on pensions and evolving stakeholder needs. There is a need for structured guidance on what is expected of companies in this new environment and a resulting opportunity for companies to proactively collaborate on the development of this guidance. The Enhanced Business Reporting Consortium will provide the forum in which producers and consumers of business information can come together to develop a collaborative solution that represents the interests of key stakeholders.

Consortium Strategic Intent and Purpose

"Better markets through better information"
…Consortium Strategic Intent

The Consortium *is an independent, market-driven, international collaboration of investors, creditors, analysts, management, boards of directors, regulatory agencies, standards setters, members of academia and all other stakeholders charged with developing an Enhanced Business Reporting framework, related guidelines and definitions. Participants will be viewed as thought leaders, in the development and use of financial and non-financial information, for the purpose of encouraging greater transparency, integrity and quality in business reporting. To accomplish this objective, the Consortium might, among other activities, perform and publish studies, identify and promote best practices, develop and disseminate model disclosures, recognize new and innovative practices, develop and establish a maintenance plan for an internationally branded business-reporting framework, and recognize those companies whose reporting best exemplifies the principles of that framework.*

Decision-making within the Consortium is envisioned to be guided by the spirit and principle that all participants in the capital markets must demonstrate responsibility and accountability for the quality of information provided to the market.

Market Demand and Stakeholder Requirements

The Problem Defined: The current business reporting model has not evolved with changing market demands and key stakeholder requirements

Recent business failures and increasing financial reporting restatements have adversely affected the public's trust and confidence. This has revived market interest in a review of the current business reporting model. The call to provide stakeholders with high quality and transparent information echoes from investors, creditors, analysts, regulatory agencies, standards setters, boards of directors and management. To restore trust in the capital markets, there is a need for more transparency in reporting and for the reporting of things more relevant to each of these diverse stakeholder groups.

◆ Many factors are fueling the demand for high quality, transparent information. Arguably, the most significant of these is **the growing democratization of the capital markets**. Consider the following:

- From a global perspective, assets of worldwide mutual funds were approximately $14 trillion as of December 2003
- As of December 2003, the assets of U.S. mutual funds were approximately $7.4 trillion
- Assets in the U.S. retirement market stood at $12 trillion at year-end 2003, with mutual funds maintaining almost $2.7 trillion
- As of December 2003, over 53 million U.S. households owned mutual funds and the number of individuals in the U.S. owning mutual funds exceeded 91 million.

With U.S. mutual funds ownership exceeding 90,000,000 individuals, the data present a compelling argument that people are the "institution" driving the capital markets… people who are, or will be, dependent on these assets to sustain their quality of life during retirement. There has been an increase in the number of novice investors through participation in 401k plans and these investors need access to better information. Also, markets will need to become more efficient in order to handle the impending retirement of the baby-boomer generation within the next decade. High-quality, transparent information is clearly the best outcome for the public interest.

◆ An additional factor driving demand for an enhanced reporting model is the **growing importance of intangibles** as key value drivers. Two thirds of the market value of the Russell 3,000 is attributable to expectations of future growth and there has been a shift over time from a predominance of asset-intensive companies to asset-light or intangibles-intensive companies[6] .However, little information is provided in current business reports that allow investors to make informed decisions about future growth prospects. Empirical evidence points to a systematic undervaluation of intangibles-intensive enterprises by investors, translated to excessive cost of capital, which in turn leads companies to under-invest in intangibles and shift resources from high impact, basic (next generation) research to modifications and extensions of current technologies, thereby squandering earnings and growth. For example, total expenditures on R&D in the United States (federal and corporate combined) was 2% of GDP as reported in 1960 and this statistic remained at 2% in the year 2000. While there has been a decided increase in R&D spending in the areas of technology and pharmaceuticals, there has been an offsetting decline in R&D spending in old-line industries. Thus, despite the constantly increasing need to innovate in order to escape competition and the accelerating amortization of the values of most intangibles (e.g. the life cycles of many new technology and pharmaceutical

[6] Reporting on Intangibles and Intellectual Capital Assets: Roland Burgman of AssetEconomics, Inc. and the Value Measurement and Reporting Collaborative.

[7] Baruch Lev "Sharpening the Intangibles Edge" – September 2003

products are shrinking), the current national investment in R&D is almost the same as it was in 1960.[7]

◆ **The fact that corporate incentive-based compensation is typically tied to current earnings reinforces the focus on this short-term, historic measure to the detriment of investment for future growth**[8]. The current reporting model provides little guidance on how to reflect returns on investments for future growth – further encouraging a bias toward short-term performance.

A CONSTRUCTIVE BUSINESS LED RESPONSE

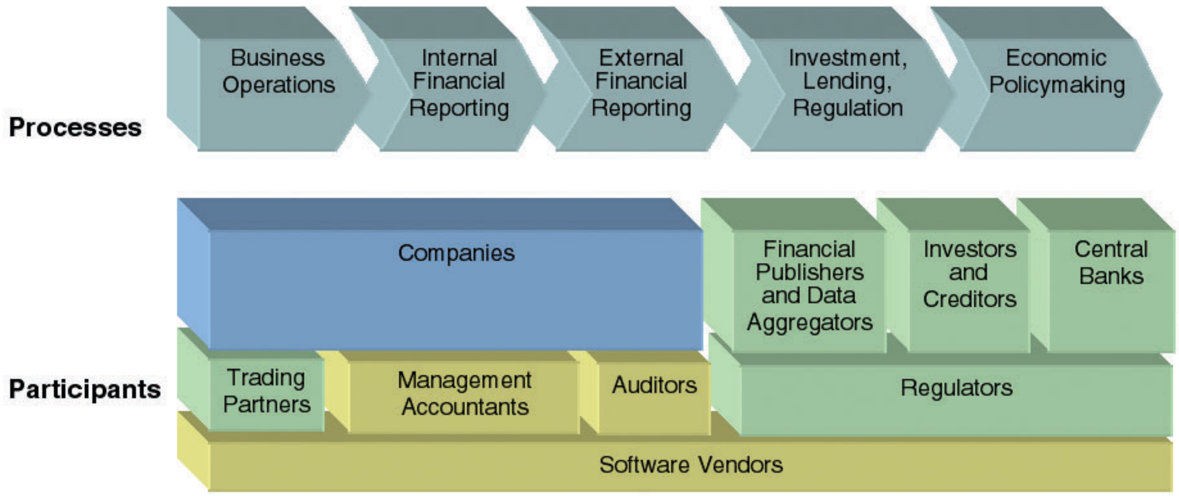
In 2003, the AEI-Brookings Joint Center for Regulatory Studies determined that "the critical challenge now confronting firms, their accountants, the investing public, and policymakers is to define those steps that should be taken to provide the markets with more useful, relevant information that improves the ability of all market participants to make more accurate judgments about future prospects of individual firms. The more effective that process is, the more efficient capital markets will be in allocating funds to those companies that deserve it, while reducing the costs of raising capital for all firms that need it."[9] An enhanced business reporting framework that provides guidance on trends, uncertainties or other factors that will or are reasonably likely to result in a material impact on a company's liquidity, capital resources, revenues and results of operations would facilitate a better assessment of investment opportunities and risks by managers and investors. It should provide voluntary international guidelines within which companies can discuss their performance in a structured way that links short-term management actions with longer-term strategy and value-added. This framework should include operating and performance measures used by management, as well as guidelines for the disclosure of forward-looking information about opportunities, risks and management's plans. It should also address the clear presentation of information that speaks to the quality and variability of cash flows and earnings. An enhanced business reporting framework along these lines could be constructed as an extension of the existing reporting model – providing more guidance and structure in key areas as needed. This would include guidance for improved business disclosures appropriate for both public and private companies and for a range of industries and services.

[8] John Ballow, Accenture

[9] AEI-Brookings Joint Center for Regulatory Studies "Following the Money" – 2003

THE BUSINESS INFORMATION SUPPLY CHAIN

Streamlining the business information supply chain will result in a cost-effective, efficient reporting process, thereby shifting the stakeholder focus from the tactical process to strategic analysis and critical business issues.



Legend*
Producers of Business Information:
Consumers of Business Information:
Enablers of Business Information:

**Note: this diagram represents a simplified view - an individual stakeholder can reside in multiple communities depending on their reporting relationship with other stakeholders*

The preceding diagram of the business information supply chain illustrates the business reporting process and the relationships between its diverse stakeholders. This supply chain illustration demonstrates the need for, and the potential benefits of, increased transparency (insights), relevant information for management and their stakeholders (content) and a reusable format to promote information interoperability at all levels of reporting (format). Each stakeholder has specific information needs and in order to meet these needs in a timely, cost-efficient manner there is an opportunity to upgrade the existing, static model by leveraging technology-driven information tools that are available today to enable interactive, customizable, timely reporting. Investors and other stakeholders cannot make critical, timely decisions about companies if information is withheld, delayed, buried in other irrelevant information or presented as complex raw data. Yet this is what investors must contend with today.[10] Billions of dollars have been lost and questions are being asked about how much of that value was real in the first place.

[10] PWC, ValueReporting Review 2003 "Transparency in Corporate Reporting", pg 6-16.

The functional nature of the information exchange activities between each of the business reporting supply chain processes includes: aggregation, validation, analysis and publishing to the next consumer level. At each exchange in the supply chain, the consumers require the information to be valid, authentic, accurate and reliable. These functional processes and exchange expectations require enhanced consistency of the information passed through the supply chain. In order to increase the speed, accuracy and related analysis for decisions, information-level or data-level standards are required. Such standards provide a common agreement of terms used by supply chain participants and also provide a platform for the interoperability of this data between the technology and software applications used within each process. The eXtensible Business Reporting Language (XBRL), is an information format designed specifically to address these supply chain expectations and promote the interoperability of information between producers and consumers, and the EBR framework will leverage XBRL at the implementation level.

To ensure balanced representation in the EBR Consortium across the business information supply chain, we have identified three primary communities, including producers of business information, consumers of business information and enablers of business reporting:

Business Information Supply Chain Communities

- **Producers of Business Information**
  - Public Companies Representing a Range of Industries and Sizes
  - Private Companies
  - Industry Associations and Professional Organizations
- **Consumers of Business Information**
  - Regulatory Agencies and Rule-Making Bodies
  - Large Institutional Investors and Investor Associations
  - Stock Exchanges
  - Banks and Other Lending Organizations
  - Rating Agencies
- **Enablers of Business Reporting**
  - Accounting Firms and Professional Organizations
  - Technology Companies Representing a Range of Reporting Services
  - Think Tanks and Academia

ENHANCED BUSINESS REPORTING NEEDS ANALYSIS

The following table provides a high-level summary of the key stakeholders of business reporting, their current needs and an explanation of how enhanced reporting would help meet these needs:

	EBR SOLUTION TO NEEDS BY STAKEHOLDER GROUP					
	Producers of Business Information	**Consumers of Business Information**		**Enablers of Enhanced Business Reporting**		
CURRENT MARKET NEEDS:	**Management, Directors, Employees and Associations Representing Them**	**Investors, Creditors and Information Intermediaries**	**Regulatory Agencies and Rule-Making Bodies**	**Technology and Software Vendors**	**The Accounting Profession**	**Policy Makers, including Academia and Think Tanks**
Better Information	• EBR will provide timely and transparent information to management and directors, increasing the quality of decisions	• More timely and transparent information will facilitate improved analysis and informed decision-making	• By promoting mutual trust between diverse stakeholders, more timely, accurate and broader information will enhance their ability to protect the public interest	• Technology vendors will provide the means for disseminating critical information in near real time speed	• EBR provides the opportunity to expand the role of the auditor and to reduce the investor "expectation gap"	• EBR fosters excellence in the creation, dissemination and application of reporting knowledge and skills
Improved Capital Allocation	• EBR will help to improve access to capital/ lower the cost of capital	• Over the long run, EBR will help to optimize capital allocation and returns	• EBR will increase the overall efficiency of the capital markets and resource allocation	• EBR will drive growth in demand for technology and provide investment opportunities	• Quality in reporting improves investment allocation and returns for clients	• New research, theory and white papers to explore the evolving business reporting model
Improved Efficiency/ Cost Savings	• EBR will streamline reporting from internal to external stakeholders, thereby reducing reporting costs	• EBR will provide lower-cost access to better information	• Proactive market adoption of EBR reduces burden on regulators	• Reduces transactional cost and coordination efforts for customers	• Reduces clerical time (tasks) and increases analytical time (strategic)	• Increases analytical performance and high speed of information
Improved Risk Management	• EBR will reduce the risk profile of businesses, is scalable to size and industry and encourages a long-term view of business vs. a short term view • Promotes self-regulation • Permits the business community to get out in front of the SEC on potential M,D&A reforms and provides a clear set of guidelines for sharing of information that satisfies existing regulatory requirements • Enhances market image and credibility	• Sell-side analysts will benefit from improved products for customers • Buy-side analysts will have greater transparency in investment decisions • Improves ability of analysts, rating agencies and creditors to analyze, mitigate and price for risk • There is an increasing reliance on pension funds—EBR promotes stability here	• Helps prevent costly market meltdowns and bankruptcies • Improves ability to understand and monitor risk, material concerns and industry wide abuse patterns	• Transaction and system risks are reduced by increased data reliability and assurance	• Reduces liability for deficient reporting • Increases value for the accounting profession as an evolutionary body interested in protecting public interests and responding to market needs, thus ensuring its sustainability and relevance	

Had Thomas Edison waited for demand, he would have invented a cleaner burning, longer lasting candle instead of the electric light bulb…

In addition to the current stakeholder needs outlined above, the dynamics of the business environment and the premise of the leadership challenge have changed, creating **new needs**, some of which are still unknown. The following diagram captures just a few of the countless differences in characteristics between the Industrial Age (the past) and the Knowledge Age (the present and the future)[11] :

Evolution from the Industrial Age	**To the Knowledge Age**
Wired	Wireless
Office	Workspace
Single-Tasked	Multi-Tasked
Culture	Environment
Lifetime Employment	Lifetime Learning
Knowledge is Power	Knowledge-Sharing is Power
Competitors	Networked Alliances
Tangible Products	Intangible Products
Wages	Ownership
Office Buildings	Anytime, Anywhere
9 to 5	24/7

This evolution highlights the significant extent of change that has taken place over the course of the past century and the importance of enhancing the existing reporting model, which was developed in the industrial age, to meet the needs of the knowledge age. As the rate of innovation accelerates in the modern world, the new, unmet needs of stakeholders will become increasingly evident. What is clear today, however, is that the knowledge age has arrived and business reporting must be updated to keep pace.

[11] Evolutionary Leadership, Susan Annunzio, strategic advisor to leading global companies and assistant adjunct professor of management at University of Chicago Graduate School of Business, 2001.

Alternatives

There are three alternative options facing market participants in terms of how to respond to the need for enhanced business reporting outlined in the preceding section. A summary of these alternatives and their potential consequences follows[12].

OPTION 1: DO NOTHING

This is the riskiest of all options and in the long run may not be the path of least resistance, as recent crises may be foretelling of future problems looming on the horizon. Tenuous foundations abound in many areas such as health care reform, the social security crisis, pension valuation and the federal budget deficit, underscoring the importance of shoring up trust and support in the capital markets to avoid another significant correction and resulting decline in values, followed by additional regulation.

Remember ~ Hindsight is always 20/20…

OPTION 2: ALLOW REGULATORY FORCES TO MANDATE CHANGE

The Sarbanes-Oxley Act followed swiftly on the heels of recent corporate collapses and it is indicative of the readiness of regulatory agencies to intervene in protecting the public interest when necessary. To the extent that future market developments point to deficiencies in existing legislation, regulators will be compelled to impose further mandates. By failing to take a proactive stance and abide by the spirit of existing regulations, companies will forfeit the opportunity to participate actively in the development of an enhanced reporting model that meets their needs as well as the needs of investors and other stakeholders. *A superior course of action would be to follow Peter Drucker's advice that "the best way to predict the future is to create it"*[13]

OPTION 3: IMPLEMENT CHANGE THROUGH A COLLABORATIVE SOLUTION

A win-win outcome can be achieved if key stakeholders voluntarily come together to work on a common, mutually beneficial solution for the future of enhanced business reporting. There are a number approaches that can be taken in an effort to achieve this goal, which run parallel to the three levels of innovation defined in the "Map of Innovation"[14]

Level of Innovation:	**Description:**
Incremental	Small improvements to existing model
Architectural	Technological or process advances to fundamentally change an element or component of business reporting
Discontinuous	Radical advances that may profoundly alter the basis of global reporting

In order to demonstrate the potential scope and degree of enhanced reporting, the Special Committee on Enhanced Business Reporting established the Public Company Task Force to create a series of illustrative

[12] For those who may be interested in a more detailed and imaginative perspective on the potential consequences of the three alternative paths, a similar series of scenarios is creatively presented in the Epilogue to *Building Public Trust: The Future of Corporate Reporting* by Samuel DiPiazza and Robert Eccles, published by John Wiley & Sons in 2002.

[13] *The Essential Drucker*, Peter F. Drucker. Harper Business, July 1, 2001

[14] *Harvard Business Review*, April 2004.

sample-enhanced business reports (see pages 36–37 for additional details). On the scale of innovation captured above, the sample reports range from architectural to discontinuous as the Task Force determined that incremental change would not be sufficient to meet the needs of today's marketplace. Consistent with the view that enhanced business reporting is the next step in the evolution of corporate reporting and that it builds on the current model rather than replacing it or tearing it down, ***the most appropriate solution at this point in time is most likely to reflect some combination of architectural and discontinuous innovation***.

ALTERNATIVES SUMMARY

Regardless of the degree of change that is ultimately embraced, Enhanced Business Reporting builds on the existing reporting model and represents an evolutionary next step in the business reporting process. One way to facilitate positive change is through the establishment of a consortium of diverse stakeholders of national and international prominence who can serve as effective advocates for Enhanced Business Reporting. The advantages of this option include the following points:

- The Consortium will represent all key stakeholder groups required to lead significant change in business reporting
- The Consortium will have the depth of resources necessary to develop voluntary international guidelines that can drive more robust disclosure and lead to better decision-making
- Self-regulation by all key stakeholders who have a vested interest in improving the current business reporting model in a cost-effective and time-efficient manner

Strategic Linkage —
Enhanced Business Reporting Aligns with Needs

Based on these advantages and the downside risk of alternative courses of action (or inaction), it seems clear that the collaborative solution carries the highest potential for success in enhancing business reporting and restoring public trust and confidence in the markets. Imagine this, a conceptual image of the Consortium which is of course subject to change upon official launch of its membership:

MISSION

A consortium of stakeholders collaborating to improve the quality, integrity and transparency of information used for decision-making in a cost-effective, time-efficient manner

OBJECTIVES

In acknowledging and accepting their responsibility for the quality, integrity and transparency of information, the Consortium members incur a long-term obligation to develop information solutions to meet the needs of 21st century capital markets. The initial scope of the project is to provide guidance to promote high quality, transparent disclosures. To that end, the Consortium's initial international objectives are to:

- Facilitate a transformation of the business reporting supply chain to significantly increase the efficiency of the reporting process
- Improve the relevance and comparability of reported business information for decision making
- Develop and execute a plan for market-driven implementation of enhanced business reporting

DELIVERABLES

The Consortium should produce tangible products and intangible outcomes that would include but not be limited to:

- Recruitment of a diverse membership, Consortium start-up and development of an ongoing strategic plan
- Development and implementation of a collaborative process for decision-making within the Consortium
- Consensus on an internationally recognized framework of voluntary, international guidelines for enhanced business reporting that supports delivery of information with improved relevance and comparability for decision making. This framework will have the following components developed on an industry basis:
    - ~ Generally accepted definitions, measurements and voluntary disclosure guidelines for industry-specific, process-oriented value drivers and key performance indicators (to be specified at the numerator and denominator component levels to allow for comparability)
    - ~ Generally accepted, voluntary disclosure guidelines for information about opportunities, risks, strategies and plans and about the quality, sustainability and variability of cash flows and earnings
- A deployment plan for the framework to be applied in the market, ultimately with a global reach
- A best practices recommendation for a technology path to enable implementation
- A business plan, branding strategy and secure funding for an internationally recognized award program to recognize outstanding examples of quality and transparency in business reporting

SCOPE OF ENHANCED BUSINESS REPORTING

The following diagram illustrates a preliminary concept for the scope of an EBR framework. The purpose of the EBR framework is to put structure around external reporting of information not currently covered under GAAP, including a discussion of management **strategy and plans, risks and opportunities** faced by a company, as well as industry-specific, process-oriented **value drivers** and financial and non-financial **key performance indicators.** The EBR framework should be developed with a continuing focus on the reporting of **reliable** data that is effectively **self-regulated, simplified** to enhance efficiency and cost-effectiveness, **timely, digital, scalable** by entity size and industry-orientation and **transparent**, all of which will contribute to improved comparability and understanding of disclosures. Successful implementation of an EBR framework will result in manifold positive outcomes, including **better management, better governance** and ultimately **better markets.**

Organizational and Governance Structure

To achieve its mission, the members of the SCEBR formed an advisory council of prominent business and civic leaders. The members of the Advisory Council speak and write as advocates to help build support among stakeholders and help recruit Enhanced Business Reporting Consortium members from both the corporate and investor communities, with representation from a diverse balance of international interests. The following individuals have volunteered to serve as advisors and champions for the EBR initiative:

CURRENT ADVISORY COUNCIL MEMBERS (*SEE APPENDIX B FOR ADVISORY COUNCIL MEMBER BIOS*)

Ned Regan
President of Baruch College (Retired August 2004) and
Chairman of the Advisory Council to
The Special Committee on Enhanced Business Reporting

Norm Augustine
Director and Former Chair and CEO, Lockheed Martin

Maria Livanos Cattaui
Secretary General of the International Chamber of Commerce

Roderick Hills
Former SEC Chairman
Partner of Hills & Stern

Don Tapscott
CEO of New Paradigm Learning Corporation
Adjunct Professor of Management, Joseph L. Rotman School of Management, University of Toronto

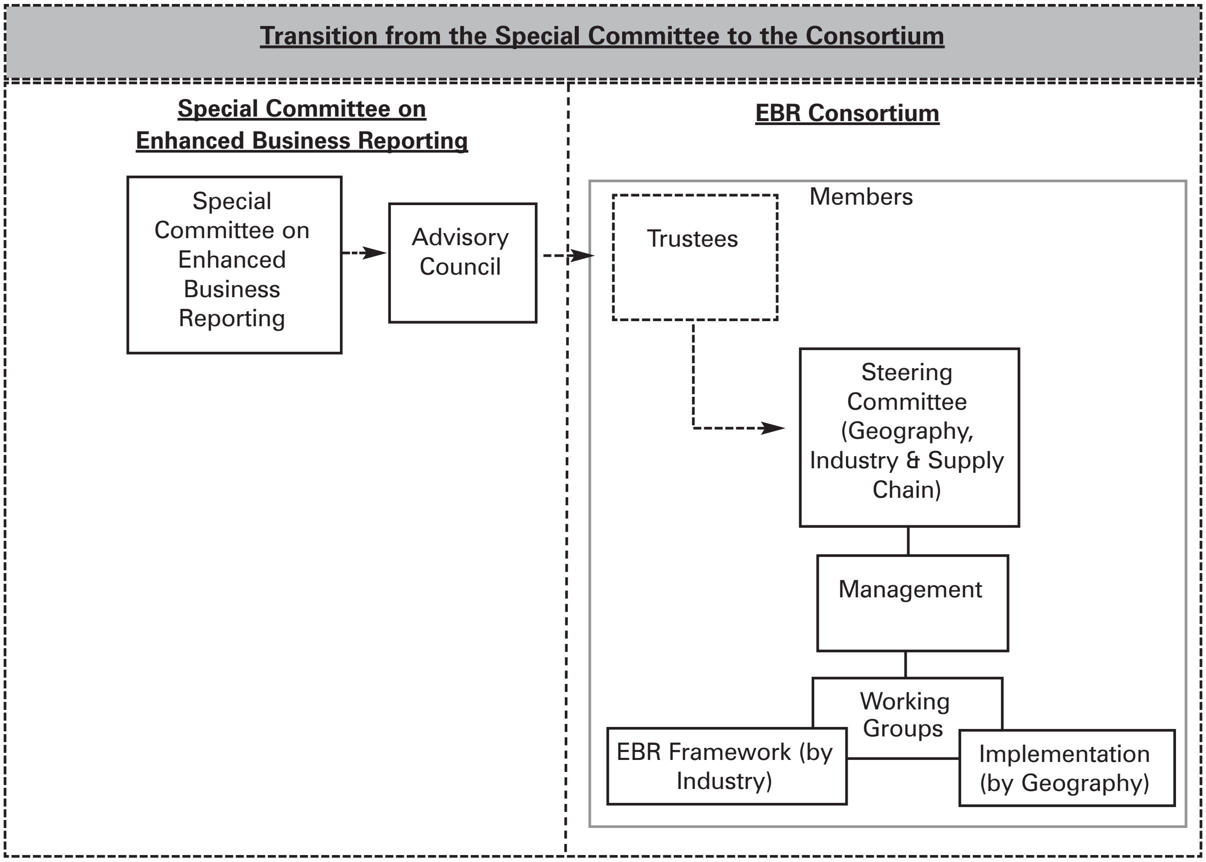
Paul A. Volcker
Former Chairman of the U.S. Federal Reserve
Chairman of the Board of Trustees of the IASC

David Walker
Comptroller General of the United States
U.S. General Accounting Office

Peter Wallison
Resident Fellow at the American Enterprise Institute

TRANSITION TO THE EBR CONSORTIUM

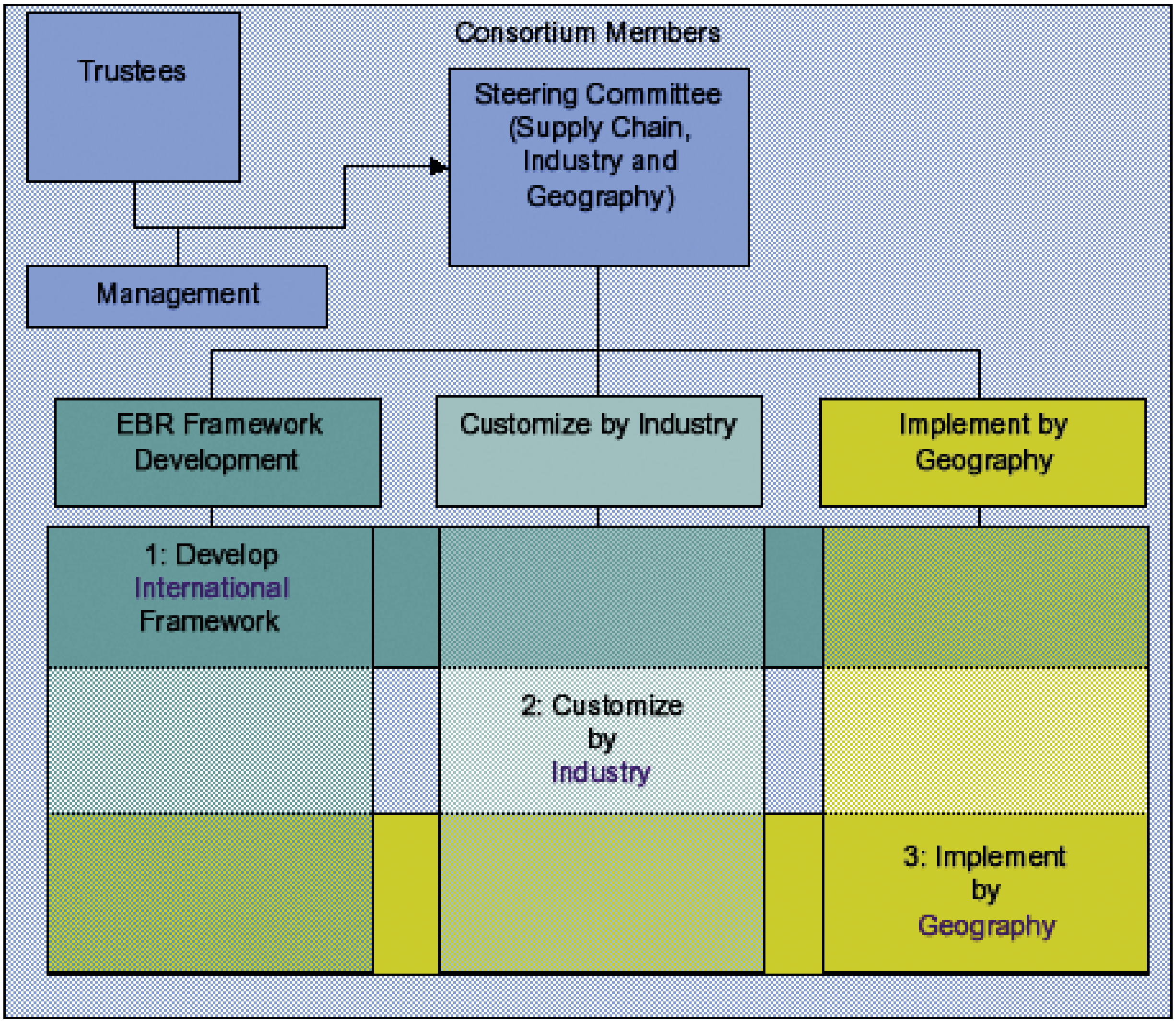
The Special Committee and the Advisory Council will dissolve after a short transition following the launch of the Consortium. The following diagram illustrates the transition from the Special Committee to the Consortium:



It is anticipated that some members of the Advisory Council may participate in the EBR Consortium as Trustees, whose role might include the appointment of Steering Committee members and ongoing advisory support to the Steering Committee and Management. Additional Trustees will likely be recommended by the founding members of the Consortium with a goal of recruiting approximately 20 individuals in total, representing a broad cross-section of stakeholder and geographic interests.

We will also seek to establish balanced Steering Committee and general Consortium membership across supply chain, industry and geographic representation as shown in the more detailed, draft consortium structure diagram illustrated below. Under this straw-man example, Steering Committee member activities would include the direction of working groups, approval and publication of work products and communications coordination. Approximately 20 to 25 Steering Committee members would be appointed to two-year rotational terms as needed in order to develop, enhance and maintain EBR. Consortium members would participate, according to their industry and/or geographic orientation, in working groups focused on 1) the development of a high-level, international conceptual framework for EBR 2) customization of the EBR framework by industry 3) implementation of EBR by geography:

DRAFT CONSORTIUM STRUCTURE AND GOVERNANCE:



The EBR Consortium will be set up as a not for profit 501(c)(6) incorporated in Delaware.

STRATEGIC ORGANIZATIONAL PERSPECTIVES

Alignment of Organizational Goals and Objectives

According to a recently published article in *Harvard Business Review*,[15] there is a new organizational structure emerging, the Ambidextrous Organization. The scope of this organization encompasses two profoundly different perspectives—those focused on exploiting existing capabilities and those focused on exploring new opportunities. As the table indicates, the two require very different strategies, structures, processes and operational methods. In order to maximize Consortium productivity we intend to establish a balance between these two perspectives among Consortium members.

Alignment Factor	Exploitive Perspective (The primary perspective of *Producers* of Business Information, who are focused on *Implementation*)	Exploratory Perspective (The primary perspective of *Consumers* and *Enablers* of Business Information, who are focused on *Development*)
Strategic intent	Cost, profit	Innovation, growth
Critical tasks	Operations, efficiency, incremental innovation	Adaptability, new models, breakthrough innovation
Competencies	Operational	Entrepreneurial
Structure	Formal, mechanistic	Adaptive, loose
Controls, rewards	Margins, productivity	Milestones, growth
Operating methods	Efficiency, low risk, quality, customers	Risk taking, speed, flexibility, experimentation
Leadership role	Authoritarian, top down	Visionary, involved

Recommend an Ambidextrous Leadership Style

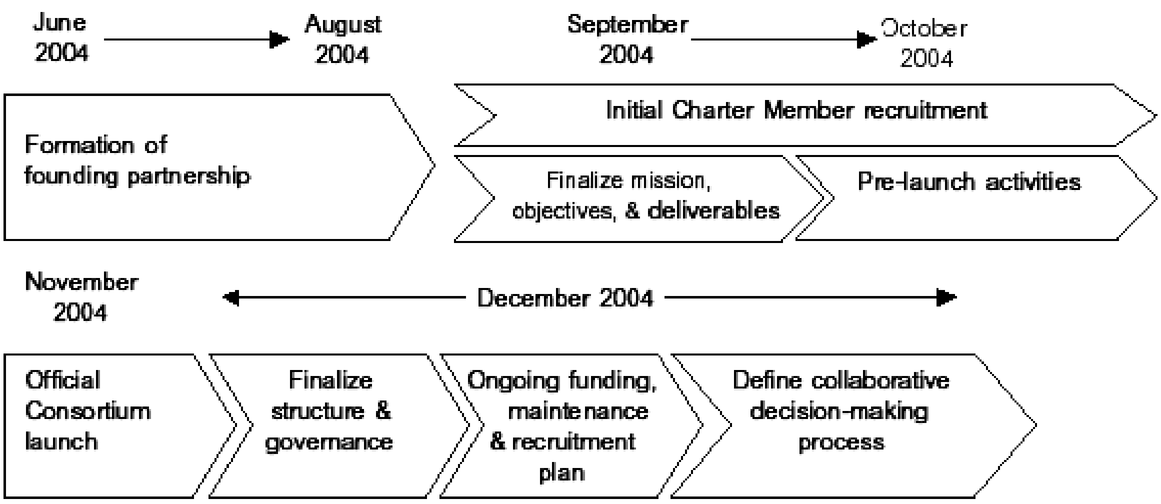
Different alignments held together through balanced senior-team integration, common vision and common values and common senior-team reward structure.

[15] *Harvard Business Review*, April 2004.

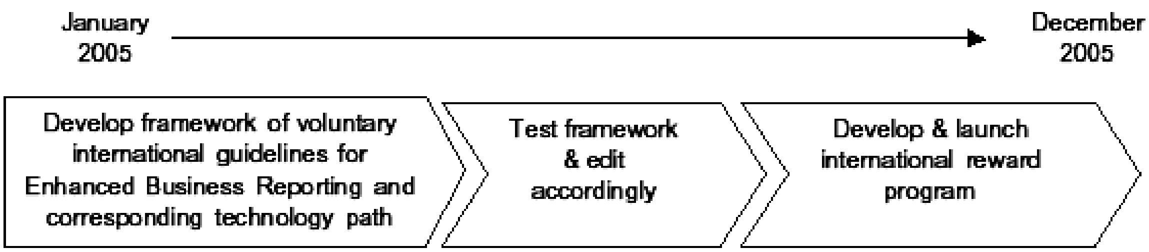
STRAW–MAN TIMELINE

The following diagram illustrates a preliminary straw-man for potential Consortium activities and timing.

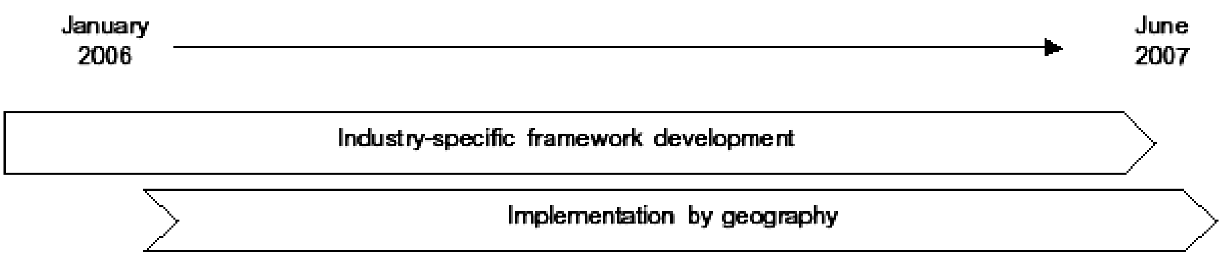
PHASE 1: START-UP



PHASE 2: GLOBAL FRAMEWORK DEVELOPMENT



PHASES 3 AND 4: INDUSTRY-SPECIFIC FRAMEWORK DEVELOPMENT AND IMPLEMENTATION BY GEOGRAPHY



Cost & Benefit Analysis

BENEFITS	
Capital Market Rewards	• Research conducted in the U.K. by PwC and Schroders suggests that "corporate reports are more likely to generate rewards in the capital markets if the reader can visualize a link between strategy and areas such as employees, the environment and corporate performance... Reporting is a new competitive arena. For those who understand and report transparently upon their key engines of value creation, the long-term rewards will be tangible: **a greater investor following, lower stock-price volatility and ultimately a more attractive cost of equity and debt.**"[16] The results of this research do not suggest that companies will have to increase the volume of information that they present in order to reap these benefits, but instead that it is the quality rather than the quantity of information that generates rewards. • In addition to benefiting from **positive effects on market value**, the results of a study entitled The Market Pricing of Earnings Quality indicate that firms with better disclosure benefit from "**...discounts of 80 to 160 basis points in their average cost of debt and 150-300 basis points in their average cost of equity relative to firms with poor earnings quality.**"[17]

The bottom line: recent research supports the assertion that good disclosure has good consequences for corporations. The results of this research show that improved disclosure was strongly and positively associated with important capital market variables – narrower bid-ask spreads for stocks (implying a lower cost of capital), as well as lower volatility in the company's stock price.[18]

[16] "A tale of two reports," Alison Thomas, PWC, EBF Issue 16, winter 2003/4.

[17] "The Market Pricing of Earnings Quality" Jennifer Francis (Duke University), Ryan LaFond (University of Wisconsin), Per Olsson (Duke University), and Katherine Schipper (FASB), Draft October 2002

[18] *Harvard Business Review* June 2004, "Sharpening the Intangibles Edge" by Baruch Lev, page 116.

BENEFITS	
Relief from Short-term Earnings Pressure and Alignment of Management and Key Stakeholder Interests	• EBR will provide management and boards with the specific tools necessary to **shift the key stakeholders focus from short-term earnings to long-term strategic value creation.** Today, given the choice between hitting earnings expectations and missing them to improve long-term financial health, most companies opt for the short term target according to a survey completed by Duke University Fuqua School of Business and the University of Washington.[19] This survey included 401 firms and extensive interviews with 20 senior executives. To the professors' surprise, the financial officers were eager to talk about how companies would forgo projects that would give them economic gain in order to put a finer gloss on earnings. For example, if presented with a new opportunity late in the quarter that would generate a rate of return well in excess of a company's cost of capital but would detract from earnings estimates in the present quarter, only 59% of companies would pursue it. • Most company **executives prefer to think in terms of long-term value and are asking for help out of the repetitious cycle of short-term earnings management. EBR is a solution to this dilemma and clearly benefits all stakeholders in the long run.** This will be evidenced by focusing on leading indicators — critical success factors, by industry, which ultimately creates long-term sustainability and cash flows. Management and key stakeholders thinking would be aligned in a proactive stance to respond to these business condition changes much sooner, in an effort to minimize serious deterioration of the market value of the business.
More Effective Management Capability	• **Management will benefit from improved availability of and access to more complete, timely and accurate information, helping them to manage the business more effectively.**

[19] *Wall Street Journal*, April 14 2004, "Corner Office Thinks Short-Term

BENEFITS	
Enhanced Consistency and Clarity in Disclosures	• There are a number of highly visible examples of the urgent need for collaboration and agreement on company business disclosures such as: subscribers in the cable sector; customer counts in telecom/wireless and square footage in the retail sector. The lack of agreement on what is being disclosed creates confusion over what is being reported. **EBR will be focused on industry-specific guidelines that will serve as the bench-mark for the industry**.
Clear Guidance on Compliance with New Disclosure Requirements	• The 2002 Sarbanes-Oxley reform act directed the SEC to increase its reviews of large company filings and added accountants and lawyers to do the job. Starting this fall, the SEC will publish its comments on companies' filings and official company replies. This new openness could even make the job of writing accounting rules easier: The Financial Accounting Standards Board could stick to enunciating broad principles, while SEC comments build up a "case law" that reflects how those guidelines apply in specific circumstances. **The EBR Consortium can provide proactive leadership in broad and industry–specific guidelines through the collaborative activities of the market/supply chain participants.** • The SEC has a strong focus on full disclosure and providing the investment community with increased transparency. The SEC argues in two pending court cases that companies and mutual funds should not be allowed to omit buyer-beware details from their public disclosures just because investors could have acquired the information elsewhere.[20] Interestingly, 70% of large companies are moving toward broader dissemination of information on their own through quarterly investor/analyst conference calls. Smaller companies have not used this "preannouncements" of earnings approach and a Wharton School study found they are ignored by the analyst and face a higher capital cost of 1.4% a year.[21] **EBR will develop incremental, cost-effective, efficient business reporting that increases transparency without jeopardizing competitive intelligence**.

[20] *Wall Street Journal*, July 1 2004, "SEC Asks Courts to Tighten Rulings on Public Disclosure"
[21] *Wall Street Journal*, July 7, 2004, "Coverage of Small Firms Fall Under SEC Fair-Disclosure Rule"

COSTS	
R&D, Infrastructure and Implementation	• The main cost to companies who choose to enhance their business reporting will come in the form of **research & development, infrastructure and implementation costs. While these expenses may seem high up front and on a short-term basis, the longer-term benefits of enhanced business reporting should more than compensate.** Proactive development and adoption of voluntary global guidelines for enhanced business reporting can also help companies avoid the potential cost of additional regulation (*see Appendix C for an illustrative discussion of the costs and benefits of the Sarbanes Oxley Act*). According to McKinsey Institute, there should not be any significant increases in costs merely to produce information that is already, or should be, prepared by the company's management and board of directors. Indeed, if companies do not have this information, its absence raises questions about the integrity of their financial systems and the ability of their senior executives to manage.[22]
Litigation Risk	• Another frequently cited potential cost is litigation. **Litigation risk should be self-mitigating in theory**, in that if a company is truly transparent it is impossible to make false or misleading statements as they would be revealed by the information provided. In practice, however, this is a gray area and there is a need for safe harbor legislation to protect companies who choose to be transparent.

[22] Koller, Timothy. The McKinsey Quarterly, 2003 Number 3, "Numbers Investors can Trust"

"In the late 19th century, long before securities laws came into effect, the New York Stock Exchange asked a group of executives to disclose sales. The reaction was that sales were proprietary.

COSTS	
Competitive Harm	• At the company level, some believe that EBR might expose an entity to competitive harm. This fear is hard to substantiate in light of the fact that most of the intelligence that companies do not wish to disclose to their competitors is information that they and their competitors, already have about each other.[23] **In the rare case where EBR would truly threaten a company's viability, it would not be recommended that such information be disclosed. In the more common case where there is no valid threat of competitive harm, companies will benefit from a better understanding of their market position through improved benchmarking capabilities.** • The following account of Skandia's experience emphasizes the benefits of EBR while discounting the competitive harm argument: "According to the company, the supplements [non-financial disclosures] have attracted considerable interest, even among financial analysts and are distributed about as widely as the annual report itself. **The more detailed view of the company provided by the supplements is appealing to investors who look to long-term sustainability. The risk of divulging too much about the company's intentions is not considered serious…. This kind of accounting reveals the dynamic forces which give the company's stock its market value.** It provides both internal and external stakeholders with information that will give them a better understanding—and sooner—of Skandia's future earning capacity."[24]
The Consequences of Failure to Embrace Transparency	• **In the big picture, the most significant potential cost is that of failure to enhance transparency and restore trust and confidence in our capital markets. Failing to do so to date has resulted in a perceived loss of investor wealth estimated at over $7 trillion.**[25]

[23] Ashkinaze, Carole. *Business Week*, June 16,2000, "Spies Like Us."

[24] "Performance Drivers", Nils-Goran Olve, Jan Roy, and Magnus Wetter, 1999.

[25] "Rebuilding Investor Confidence, Protecting U.S. Capital Markets: The Sarbanes Oxley Act: The First Year," House Committee on Financial Services

Proposed Funding Model

CONSORTIUM START-UP COSTS

High Level Start-Up Estimate $2 – 4 million (detailed plan under development)

Staff:

- Consortium Development (4-6 initially)
  - ~ CEO & President
  - ~ Marketing
  - ~ Framework Development
- Industry Sectors
  - ~ Full-time Technical Directors

Facility Costs (initially a virtual office concept)

Capital & Information Technology Costs

Travel & Entertainment

Conferences & Materials

Total Estimated Annual Budget: The annual budget will be directly dependent upon the number of industry sectors for which guidelines are contemporaneously under development. In turn, the number of industry sectors for which guidelines are contemporaneously under development will depend on the number of consortium members and the availability of other sources of funding. Founding members will make the final determination on the amount of the annual membership dues in the context of agreed budget requirements.

In order to accelerate Consortium start-up, 10-12 Strategic Partner organizations will be engaged from throughout the business reporting supply chain. These Strategic Partners will assist in the recruitment of key Consortium members and may become Consortium members themselves if they so desire. Approximately 20-30 Charter member organizations will be recruited to form the initial Consortium foundation. Charter members will be diverse in terms of both geography (e.g. US, UK, Europe, and Asia-Pacific) and stakeholder community (e.g. 40-50% producers, 30-40% consumers, and 20-25% enablers).

PROPOSED MEMBERSHIP STRUCTURE	
Membership Status	**Contribution Level**
Grant Funding	Funding: • Donation
Luminaries • Academics and academic institutions • Think tank fellows • Thought leaders and authors • Public policy and opinion leaders • Others…	Intellectual capital and advocacy, $0 funding
Charter Membership Initial representation to include approximately: • 8-15 Corporations • 6-12 Institutional Investors • 4-8 Enablers (Sell-Side Analysts, Rating Agencies, Etc.)	**Funding:** • Upfront seed capital • Annual fee to be determined by Charter MembersHuman resource commitment to drive the initiative forward and exercise significant influence over: • Consortium governance • Development of the EBR framework • Prioritization of industry sectors for development of guidelines • Identification and selection of Consortium members • Fee structure for members

Membership Status	**Contribution Level**
General Membership	Some combination of funding and/or participation based upon ability to contribute:
Corporations: (including those from the investment, lending and technology communities) • Largest (>$2 billion annual gross revenue) • Mid-market ($100-$2 billion annual gross revenue) • Others (<$100M annual gross revenue)	Resources and funding: • Annual fee to be determined by Charter Members • Human resource commitment • Adoption • Soft dollars • Pilot participation • Accurate reporting
Professional Services Firms: • International • Regional • Local	Human resource commitment, funding and/or intellectual capital
Professional Organizations/Associations	Human resource commitment, funding and/or intellectual capital
Regulators (Securities and Industry Sector) **Standards Setters** **Government Agencies/Foundations**	Observers, market influence, expertise, $0 funding
Observers	Accurate reporting

International Recognition Program

BUSINESS REPORTING QUALITY AWARD

In 1987, the Malcolm Baldrige National Quality Award was created in response to the passage of Public Law 100-107. This law was passed as a result of recognition that poor manufacturing quality was compromising the competitiveness and productivity of the US Economy. The Baldrige Award was subsequently created to help stimulate and recognize those companies that improve the quality of their goods and services and provide an example to others. Similarly, the Sarbanes-Oxley Act was passed in 2002 to protect investors and the capital markets by enforcing more rigorous corporate governance and reporting practices. Just as the Baldrige Award was created to support Public Law 100-107 by providing companies with an incentive to proactively improve quality, the passage of Sarbanes-Oxley has created an opportunity to promote enhanced business reporting through an analogous program.

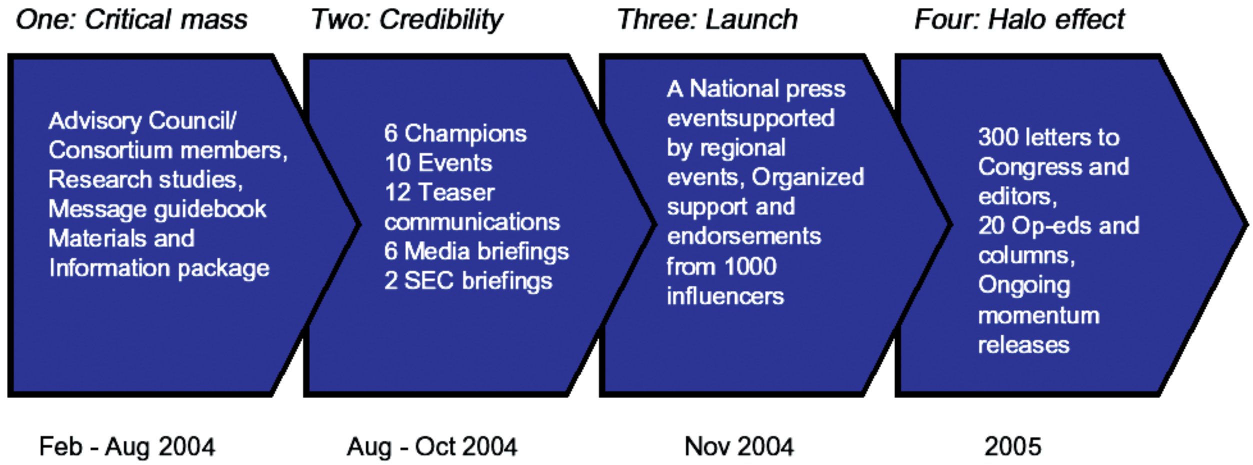
In order to promote market adoption of enhanced business reporting, the Consortium should consider the creation of a self-funding Business Reporting Quality Award program to recognize outstanding examples of transparent corporate reporting. The goal would be to create an international brand that is recognized and valued in the business community, to maximize the benefits to companies whose reporting practices exemplify the spirit and potential of enhanced business reporting.

Communications Strategy

Qorvis Communications has been retained to develop and implement a pre-Consortium launch communications strategy. A high-level summary of this strategy is as follows:

- Build “the field of dreams”
  - ~ Help recruit the best and brightest to ensure the Consortium represents the “gold standard” for business reporting
  - ~ Reach out to top-level executives, associations, policy-makers and other groups that represent the entire range of stakeholders
  - ~ Enlist strategic partners that can lend credibility and resources to the Consortium
- Establish credibility
  - ~ Construct a big tent under which everyone can stand
- Launch with impact and endurance
  - ~ Organize applause and establish name and voice that will build and maintain momentum
- Create a halo effect
  - ~ Create goodwill for all involved in this effort
- Manage through the minefields
  - ~ See problems before they occur

Planned communications deliverables and a projected timeline are as follows:



Sample Enhanced Business Reports

The SCEBR requested the development of a range of exemplary enhanced business reports in order to provide a visual illustration of what an enhanced business reporting framework might include and some ideas on how this information might be presented. ***The Public Company Task Force*** of the SCEBR took on this charge and has developed four sample reports. These sample reports are available to the Consortium to help orient members and to prime discussions around the potential scope of enhanced reporting and areas for further consideration. The reports are not intended to propose comprehensive solutions, but instead a series of ideas from which the Consortium might extract the components that will ultimately come together to form an enhanced reporting framework. Select sample reports have been developed as Web sites to demonstrate the many ways in which technology can enhance presentation capabilities. This format facilitates the presentation of multiple navigation options and allows users to customize their screens to focus on their specific information needs. For example, a user might choose to drill down further into a particular line item on a financial statement or analyze a specific strategy by following links to additional information on objectives, value drivers and related performance data.

The imaginary companies were chosen to illustrate ideas and options for a range of industries and degrees of departure from the reporting current model. The following table outlines the primary themes of each sample portal (*see Appendix D for a detailed summary of the themes and content covered*):

Company Name	Industry	Primary Themes
Lintun	Computers and related software, peripherals and service	Illustrates the linkage between strategies, value drivers and performance outcomes Online version: http://www.lintun.org
KNZ A.G.	Soft drinks company	Demonstrates the PwC Value Reporting Framework as a navigation tool Online version: http://knz.ebrconsortium.org/html/launch.html
GALILEO	Diversified conglomerate	Drill down capability Group definition "Continuous" or "real-time" reporting Use of XBRL as an enabler of electronic dissemination of business information
eXchange	Internet auction intermediary	Illustrates the importance of communicating the role of intangible assets in the business model, as well as some ideas on monitoring future growth potential

Many of the capabilities that are built into these sample portals are enabled through the use of XBRL. It is anticipated that XBRL will be utilized by both preparers and users of business information as a tool to efficiently incorporate the ideas ultimately endorsed by the Enhanced Business Reporting Consortium.

In addition to the Public Company Task Force, the SCEBR also formed the ***Private Companies Enhanced Business Reporting Task Force*** to ensure that the requirements of EBR are scaleable for smaller, privately-held businesses. The Private Companies Task Force is conducting research with business owners and managers, creditors and other key stakeholders to understand the information they use for decision-making purposes and to evaluate the financial and non-financial reporting needs of privately-held businesses in order to assess the relevance and transparency of the current business reporting model. The task force will utilize the results of this research as the foundation to develop sample enhanced business reports and to recommend changes to the current assurance model, for privately-held companies.

In Summary

"Better Information Leads to
Better Management...Better Governance...Better Markets"

BETTER MANAGEMENT:

Corporate Strategy. Market Growth. Product Innovation. Employee Turnover. Customer Loyalty. Demographic Changes. These non-financial measures of business performance are vital to decision making, whether internal or external to the organization. Thousands of successful executives run their businesses using them. Enhanced Business Reporting is a framework for communicating these types of measures. It provides for richer disclosure of measures of business performance, allowing companies to communicate better by providing the investment community the information it needs to make better decisions. EBR will facilitate a deeper understanding and assessment of the opportunities and risks that reflect the complexities of modern business and the quality and variability of earnings and cash flows.

BETTER GOVERNANCE:

While executives must account for stock options, goodwill, and the stated value of pension reserves, they should also help investors understand the details of their businesses and work to create real, long-term value. Too much emphasis is placed on accounting strategies that aim to smooth the performance of companies over time and reduce everything to a simple, bottom line number. This mindset results in an inefficient economy, producing lower real average returns on capital than a more efficient economy where capital is allowed to flow freely. Misallocation of resources predominates and growth is hampered in the long-term. Enhanced Business Reporting will allow the business community to break-through these known governance barriers in the spirit of protecting the greater public interest through transparency – seeing the business through the eyes of management. To show what goes into it, companies and their investors would be better served by a greater degree of disclosure. This in turn would help rebuild the trust between them and make our capital markets more efficient.[26]

BETTER MARKETS:

More transparency and higher quality reporting is good for everyone. High quality and more transparent information reduces the uncertainty that leads to market volatility and higher cost of capital. EBR provides a framework within which companies can discuss their performance in a structured way that links current actions to long-term strategy and value. Companies with compelling information should enjoy higher valuations as increased transparency enhances their credibility and allows investors to understand their strengths and opportunities. As the investor community becomes better informed, palpable or perceived pressure on companies to either meet or explain variations from quarterly earnings forecasts should be reduced. This shared understanding of business risks and opportunities and strategies and plans enables investors and company management to take a long-term strategic view rather than a short-term, next quarter focus.

[26] McKinsey on Finance, Summer 2003 "Accounting: Now for something completely different", pg. 16-20.

Contact Information

To learn more about the EBR Consortium, please visit our Web site at www.ebrconsortium.org, or contact one of the following individuals:

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Appendix A
Acknowledgements

The following individuals deserve special recognition for their contributions to the Enhanced Business Reporting Initiative:

THE SPECIAL COMMITTEE ON ENHANCED BUSINESS REPORTING:

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Arthur Andersen – Retired

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Open Compliance & Ethics Group

Harold Monk
Davis, Monk & Company

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Rutgers University

Thomas Wallace
KPMG LLP

Neal West
Moss Adams LLP

Capt. Larry R. White
U.S. Coast Guard

Mike Willis
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AICPA, Grant Thornton – Chair

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Grant Thornton – Retired

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Advisory Capital Partners

Mike Krzus
Grant Thornton

Robert Laux
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Steven Lilien
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Rutgers University

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America's Community Bankers

Bill Trust, Jr.
Innovation Management Consulting

Neal West
Moss Adams LLP

Appendix B
Advisory Council Members and Bios

Ned Regan,
Chairman of Advisory Council to the Special Committee on Enhanced Business Reporting
Ned Regan has served as President of Baruch College (City University of New York) from July 2000 until his retirement in August 2004. Prior to his presidency of Baruch, Regan was New York State comptroller from 1979 to 1993. He has also served as Erie County Executive and as chairman of the Municipal Assistance Corporation for New York City (MAC). Regan is a trustee of the Financial Accounting Foundation, which oversees accounting and financial reporting standards for the United States.

Norman R. Augustine
Norm Augustine is a Director of Lockheed Martin. Norm served as Chairman of Lockheed Martin from January 1997 until retirement as Chairman in April 1998, Chief Executive Officer of Lockheed Martin from January 1996 until retirement in August 1997, Vice Chairman of Lockheed Martin from April 1996 through December 1996, President of Lockheed Martin from March 1995 to June 1996; Chairman and Chief Executive Officer of Martin Marietta Corporation ("Martin Marietta") from April 1988 to March 1995, Director of Martin Marietta from 1986 to 1995; and Director of The Black & Decker Corporation, ConocoPhillips and The Procter & Gamble Company.

Maria Livanos Cattaui
Maria Livanos Cattaui became the Secretary General of the International Chamber of Commerce (ICC) in 1996. Since then she has successfully organized the 32nd World Congress in Shanghai, which was attended by business leaders from all over the world. Mrs. Cattaui serves on the boards of the International Youth Foundation, the International Crisis Group, the International Centre for Research on Women, the Council of Women World Leaders, the Center for Strategic & International Studies, the Elliott School of International Affairs at George Washington University and several other organizations.

Roderick M. Hills
Roderick M. Hills is Partner of Hills & Stern. Rod Hills has led a distinguished career in both the private and public sectors. He has served as Chairman of the Securities Exchange Commission, Counsel to President Ford and has taught at the country's most prestigious universities. In 2003, Mr. Hills received the CED Trustee Leadership Award for his exceptional guidance on regulatory reform, legal reform, judicial selection and corporate governance.

Don Tapscott
Don Tapscott is CEO of New Paradigm Learning Corporation and Adjunct Professor of Management, Joseph L. Rotman School of Management, University of Toronto. He is an internationally sought authority on how information changes competitive strategy and corporate governance. His clients include top executives of many of the world’s largest corporations and government leaders from many countries. He is the author of 10 widely read books about information technology in business and society.

Paul A. Volcker

Paul A. Volcker is former North American Chairman of The Trilateral Commission. He is former Chairman of Wolfensohn & Co., Inc., as well as Professor Emeritus of International Economic Policy at Princeton University. Mr. Volcker served as Chairman of the Board of Governors of the U.S. Federal Reserve System. He is chairman of the Board of Trustees of the International Accounting Standards Committee, overseeing a renewed effort to develop consistent, high-quality accounting standards acceptable in all countries.

David M. Walker

David M. Walker became the seventh Comptroller General of the United States and began his 15-year term when he took his oath of office on November 9, 1998. As Comptroller General, Mr. Walker is the nation's chief accountability officer and head of the U.S. General Accounting Office (GAO), a legislative branch agency founded in 1921. Mr. Walker serves as Chair of the U.S. Intergovernmental Audit Forum, the U.S. Joint Financial Management Improvement Program and the Center for Continuous Auditing. He is on the Board of the International Organization of Supreme Audit Institutions and various educational and not–for-profit entities.

Peter J. Wallison

Peter Wallison is Resident Fellow at the American Enterprise Institute, and researches financial markets and banking and financial services. A former general counsel of the U.S. Treasury Department, Wallison was also White House Counsel to President Reagan. Wallison has also served as a member of the Shadow Financial Regulatory Committee and the Council on Foreign Relations and as a partner at Gibson, Dunn, & Crutcher.

Appendix C
The Costs and Benefits of Sarbanes–Oxley

> ***"We believe the benefits of the (Sarbanes-Oxley) legislation outweigh the costs."***
> ***—Paul Volcker and Arthur Levitt***

Recent data on the cost of implementing section 404 of the Sarbanes-Oxley Act gives a preliminary indication of how costly compliance may be. For example, General Electric recently suggested that "just one paragraph in the Sarbanes-Oxley Act Section 404, which deals with the audit and testing of internal financial controls, will cost GE some $30 million," and in the UK "BP has complained that compliance with Sarbanes-Oxley will cost $125 million."[27] A 2004 study of 321 companies conducted by Financial Executives International (FEI) found that Section 404 compliance is costly for public companies of all sizes:[28]

	Average Annual Costs For First-Year Compliance with Section 404		
	Internal Work	**External Work**	**Additional Audit Fees**
Largest U.S. Companies Over $4.6 Million annual sales revenues	35,000 Hours	$1.3 million on external consulting and software	$1.5 million /year (a 35% increase); Plus for the largest companies (over $5 billion in annual revenues) $4.7 million up front to implement Section 404 controls
All Companies in Survey Just Under $2 Million	12,000 Hours	3,000 hours	$590,000/year (a 38% increase)

What the data captured above does not address, however, are the benefits and cost savings to companies who have approached Sarbanes-Oxley as an opportunity to document and re-engineer their business processes. According to Volcker and Levitt, the "costs are justified in light of the benefits – the price necessary to pay for more reliability in accounting, clear accountability to shareholders and more robust and trusted markets." In response to the FEI study referenced above, Volcker and Levitt state "from our perspective, $5 million down and $1.5 million a year is not too much to pay for a multibillion-dollar international company when compared to how much investors have lost – and stand to lose – if internal controls are not improved. Put in the context of the tens of millions of dollars paid to investment bankers to advise on a deal or on legal fees when things go wrong – or think of the $90 billion investors lost just on the collapse of Enron alone. By that calculus, Sarbanes-Oxley clearly meets the cost-benefit test and is worth every penny."[29] Indeed, "companies are finding out that tightening their internal controls is actually good for their business…_We have seen value in the 404 work. It helps build investors' trust and helps give them more confidence,' says General Electric's finance chief Keith Sherin."[30] Furthermore, the argument that audit costs are out of control is weakened by the fact that, according to proxy advisory firm Glass Lewis, while "total audit fees for 461 of the Fortune 500 companies rose 15% last year from 2002 to an average of $4.8 million,…companies still managed to eke out record profit margins."[31]

[27] *The Times* (London), May 12, 2004, Wednesday, Business; pg. 26, 678 words, "*There Is Nothing New Under The Sun, Particularly In Accountancy*" by Carl Mortished

[28] Financial Executives International 2004 "*The Cost of Compliance: An Implementation Survey of Sarbanes-Oxley Section 404*"

[29] *The Wall Street Journal*, June 14, 2004, pg. A16, "*In Defense of Sarbanes-Oxley*" by Paul Volcker and Arthur Levitt Jr.

[30] *The Wall Street Journal*, June 16, 2004, pg. C1, "*Corporate Regulation Must Be Working – There's a Backlash*."

[31] Ibid.

Appendix D
Sample Portals Key Content Summary

	Lintun	KNZ AG	Galileo	eXchange
Disclosing key value drivers and their role in driving performance	√	√		√
Utilizing Web delivery of information to enhance accessibility through:				
a) Providing access to detailed information by allowing readers to “click through” from summary level information components,	√	√	√	
b) Providing multiple ways for readers to navigate to detailed information to facilitate delivery of relevant details dependant upon the context of the reader’s inquiry.	√	√		
Facilitating easier analysis of results through the utilization of generally accepted taxonomies and electronic tagging (XBRL).	√	√	√	
Disclosing measurement uncertainties inherent in reported quantitative information	√			
Adopting an external reporting approach based upon management’s internal reporting	√	√		
Disclosing a balance of performance metrics to capture both current period performance as well as future growth potential	√	√		√
Allowing users to access company relevant information from third party sources, including peer group information.		√		
Enabling readers to select which group entities to include or exclude from consolidated results			√	
Disclose level and source of assurance for financial and non-financial information.		√	√	