

BEST PRACTICE DIGITAL (2)

Compliance in IR

IR professionals need to find new ways to exploit digital opportunities. Here **Simon Alfano**, **Stefan Feuerriegel** and **Dirk Neumann** explain how analytics can enhance the IR function.

Compliance in investor relations has gained significant traction in the past. Thus IR departments face several challenges: steering the readability of disclosures and understanding investors' perception to prevent undesired market reactions caused by misleading wording. Luckily, recent innovations in both IT and big data analytics help automate the 'compliance spell check' – with incredible usability for IR practitioners.

'Fat fingers'

The 'flash crash' of 2010 – the biggest intraday stock market fall so far – was initially blamed on a so-called 'fat-finger' sell. The first suspicion was that a trader triggered an unwanted market crash by entering one '0' too many in an order – and thus leading to a panicking market reaction. Even though this 'fat-finger' theory was later disproved, the story is of importance for IROs: it clearly reveals the challenge in communicating messages to investors in the best way, while avoiding any chance of misperceptions. What we can learn from

'fat finger' incidents is how sensitive capital markets react to unforeseen events or triggers, such as misleading wording in a press release. Without a doubt, capital markets are becoming increasingly dependent and responsive to new information. The increasing sophistication of algorithmic trading (accounting for more than half of trading) further emphasises the importance of avoiding misleading language. Choosing the right words is essential to avoid nervous trades by a 'robo-trader' trading on language sentiment.

The potential causes of a misperceived wording by investors can be manifold. Such cases likely originate from situations in which reports were written and edited under time pressure. Others are due to scarce knowledge on how investors perceive a message, since language is – after all – highly subjective. According to the Finance Research Group at the University of Freiburg, even communication professionals have a hard time discriminating the exact polarity of words. They cannot objectively differentiate

IR COMPLIANCE

- Capital markets are highly sensitive to misleading wording in a press release.
- TonalitYTech and the University of Freiburg have used 'big-data' to develop a tool which will highlight potentially inappropriate wording – and offer suggested replacements.
- AstraZeneca now uses the tool as a 'compliance spell check'.

whether a word is perceived as (very) positive or (very) negative by investors. A catchy example is the word pair 'improve' versus 'increase'. The latter conveys a more positive sentiment for investors. A recent case was that of the daunting incident which occurred to an IR department at a European mid-cap company where a translation service provider changed the wording for a firm from 'competing well' to 'fierce competition' – a phrase most IR professionals would try to avoid.

Smart, compliant writing

As the perception of language is subjective and thus prone to misinterpretations, IROs need to seek novel avenues to get an objective assessment of their language used. To account for this, more than 80% of IR professionals interviewed by the IR technology provider TonalitYTech name innovative compliance systems to enable evidence-based communication as one of their pressing needs. More precisely, the vision encompasses supporting tools that do not complicate existing writing processes, but enable compliant writing in smart ways.

IROs are thus confronted with various requirements to fulfil compliance, as is the case with eg, insider trading. When it comes to developing a compliance framework of which words to use under which circumstances in investor



*Simon Alfano is a co-founder of TonalitYTech.
simon@tonality.tech
www.tonality.tech*



*Dr. Stefan Feuerriegel is CEO of TonalitYTech.
stefan@tonality.tech
www.tonality.tech*



*Prof. Dr. Dirk Neumann is professor at the University of Freiburg, Germany.
dirk.neumann@is.uni-freiburg.de*

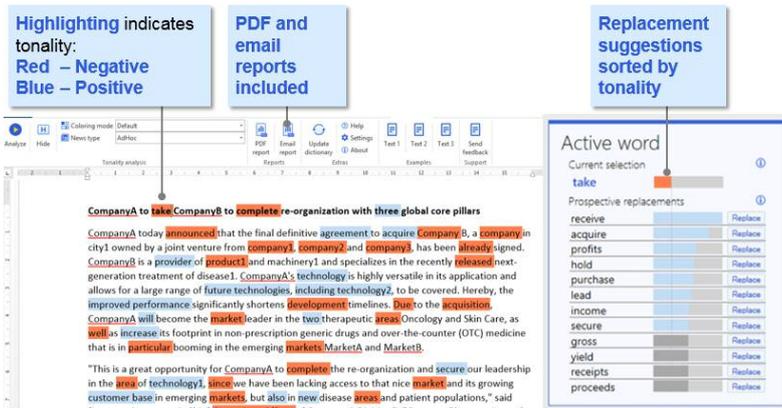


Figure 1: The above screenshot shows an exemplary text analysis with the Tonalogy add-in. The word ‘take’, with a negative tonality, is actively selected by a mouse click. As a result, the active selection panel (right) suggests an alternative, such as the more positive and suitable ‘acquire’.

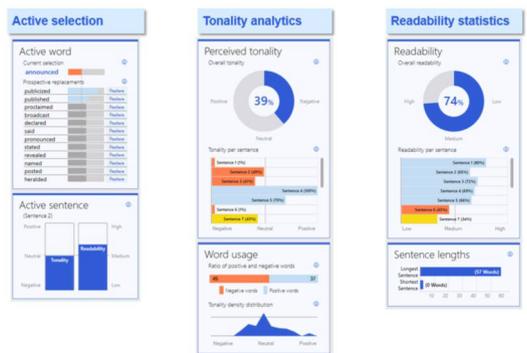


Figure 2: The above screen-shot shows the three views of the analysis dashboard. The left view displays the active selection of a currently selected word and sentence. The centre view highlights the tonality analytics view. The right view shows the readability view of the dashboard.

communication, there is no systematic rule set available. This leaves best practices to the writers’ gut. Instead, regulators have come up with guidelines for writing capital market disclosures. For instance, the *SEC Plain English Handbook* provides detailed specifications for writing in a clear and informative language. However, benchmarks against such compliance guidelines are typically not automated or integrated into established workflows.

Advances in analytics

Recent innovations in IT and big data analytics promise a remedy to the challenge of subjective language. Big data analytics is now capable of processing millions of financial disclosures to shed light on how investors perceive language in financial disclosures. Advances in analytics can not only foresee the reception of investors but also provide detailed reasoning as to why the investors perceive a certain polarity. For example, analytics can extract words that investors regard positively or negatively.

The service provider TonalogyTech took advantage of these new analytical possibilities. In order to apply big data algorithms to financial news, TonalogyTech partnered with the Finance Research Group at the University of Freiburg. The result is a unique knowledge base of how investors perceive the language used in financial disclosures.

When IR departments acquire this knowledge, they can exploit these novel insights to check and correct the wording before releasing critical stories.

‘ Big data analytics is now capable of processing millions of financial disclosures ’

TonalogyTech developed an innovative tool that offers a compliance check of the wording and readability while facilitating the writing process considerably. The product launched by TonalogyTech in 2015 is an add-in for Microsoft Word which seamlessly integrates into existing workflows of IR departments and supports them by analysing both readability and tone of disclosures – both in a user-friendly fashion. The add-in then highlights positive and negative wording instantly during the text writing process (see Figure 1).

In a nutshell, the add-in provides an early warning system which triggers alerts if the tone of a text does not match the desired direction. Moreover, it increases process efficiency by short-cutting discussions and alignment with top management on the appropriate wording as it reveals how investors judge individual terms.

An analytical dashboard (see Figure 2) displays the aggregated results of the overall tonality in the centre view, as well as readability in the right view. The dashboard further reports the tonality and

readability of each sentence to visually identify text segments that offer the potential of improving tonality or readability.

While the theoretical benefits of the Tonalogy add-in seem intriguing, practical evidence also proves its value to IR professionals. For instance, the Tonalogy add-in has been successfully implemented in the text writing workflow of AstraZeneca’s IR team. At AstraZeneca, IR executives are pleased about gaining confidence and certainty. Craig Marks, director of investor relations at AstraZeneca, highlights: “The add-in equips us with deep knowledge on the anticipated reaction of investors. We can now replace subjective feelings by actual evidence when discussing different wording for the very same story.”

As a result, AstraZeneca now performs an in-depth ‘compliance spell check’ with the tool from TonalogyTech before releasing any IR materials. What’s more, the tool supports the end-to-end process of releasing a new disclosure and continuously monitors both readability and tone.

AstraZeneca has closely followed the development process of the tool in order to guarantee an intuitive and simple usage, making additional training almost redundant. ■

For more information about the Finance Research Group, visit: www.is.uni-freiburg.de/finance-research-group-en/ If you want to learn more about TonalogyTech, visit: www.tonalogy.tech