

Guidance should not be a requirement for exchange-listed companies

Forward-looking performance figures are typically used by analysts as key parameters. Exchange-listed companies can sway investors' expectations to some extent with the guidance they provide. However, making guidance a compulsory component of annual reporting for companies is not currently being considered by SIX Exchange Regulation.



Rodolfo Straub, Head of SIX Exchange Regulation



Reto Zemp, Head of Financial Reporting, SIX Exchange Regulation

As an autonomous and independent division of Swiss stock exchange SIX Swiss Exchange, Swiss Exchange Regulation defines and monitors the rules for corporate reporting for exchange-listed companies in Switzerland. In doing so, regulators primarily focus on the hard factors of reporting and do not systematically analyse the voluntary components of company communications, as Rodolfo Straub, Head of SIX Exchange Regulation, confirms.

Restraint is called for

The willingness of companies to provide more detailed guidance regarding expected business performance has risen appreciably over the last year or two. However, whether a company can prepare reliable forecasts depends largely on its business model, the current market environment and the sector in which the company operates. Formulating a guidance statement therefore generally requires restraint. This is because if the forecast is too optimistic it runs the risk of misleading investors, or making companies responsible for forecasts that do not come true. "If a company doesn't meet its forecast, it has to publish a profit warning, which can have a negative impact on its valuation", notes Reto Zemp, Head of Financial Reporting, SIX Exchange Regulation.

When a company does publish guidance, Rodolfo Straub would also like to see information about the company's objectives and strategy as well as its allocation of resources and risks in addition to pure estimates of results. "In addition, to ensure reliability quantitative figures should be limited to a period of not more than one year", adds Rodolfo Straub.

Guidance is only useful if the information is reliable

For the company's valuation and thus the performance of its share price the quantitative information about future business performance and expected cash flows should be as concrete as possible. Social and environmental factors, by contrast, are a separate component of reporting for Swiss stock exchange regulators and should be part of the sustainability report. "Concrete, forward-looking financial information is generally very helpful, but only if it is reliable. For this reason, we do not think it is appropriate at the moment to make guidance a compulsory component of annual reporting because ultimately information about the future is dependent on many factors over which a company has no control", explains Rodolfo Straub.