CORPORATE BOARDS **USA**

Boardroom Fundamentals 201
Module 2: SEC Reporting and Liability

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SEC Reporting and Liability

After the IPO, companies are required to file a variety of reports with the SEC, including:

- Annual Reports on Form 10-K
- Quarterly Reports on Form 10-Q
- Current Reports on Form 8-K to inform investors of significant events between quarterly filings
- Proxy Statements and other annual meeting materials
- Forms 3, 4, and 5 to report insider transactions in the company's stock

SEC Reporting and Liability

The SEC has published detailed requirements for the contents of these reports and reviews the filings for compliance with the disclosure requirements. The SEC may:

- Issue comment letters to the company, which may result in refilling's or commitments to revise future filings
- Bring an enforcement action for failure to comply

Shareholders may also bring securities class actions against companies, their directors and executive officers for misleading disclosures.

While these class actions are often settled, they entail significant expense and board and management time.

SEC Reporting and Liability

Directors and executive officers may also be liable for “short swing profits” on purchases and sales of company stock within a six-month period:

	Purchases	Sales
May 1	100 shares at $10 per share	
June 1	100 shares at $12 per share	
July 1		100 shares at $10 per share
July 15		100 shares at $12 per share
August 1	200 shares at $15 per share	
September 1		200 shares at $15 per share

In economic terms, the insider made no profit, having acquired a total of 400 shares at an average price of $13 per share and sold them at an average price of $13 per share.

However, under SEC rules, the insider has made a short-swing profit of $800, since the purchases at $10 on May 1 and $12 on June 1 will be matched with the sale at $15 on September 1 (purchases of $1000 +$1200 subtracted from sale of $3000 equals $800).

SEC Reporting and Liability

Directors and executive officers may also be liable for insider trading if they purchase or sell company shares while in possession of material non-public information. Most companies have an insider trading policy establishing window periods when transactions in company stock are permissible.

- Generally, windows open 48-72 hours after earnings reports or other material events are announced to the public
- Window periods generally close near the end of a quarter when insiders are considered to have sufficient information about the company's financial performance before earnings are released (a typical window closes on the last day of the second month of the quarter)
- Trading windows may close at other times when directors and executive officers are aware of other materials events that have not been publicly announced (such as a merger, dividends, stock splits or changes in control or management)

Questions?

Contact Linda via email → **lindaiannone35@gmail.com**

End of Module 2

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