Practical Tips on How to Write a Clear Disclosure Document

Use a Project Group

It is usually a good idea to form a Project Group to cooperate in the preparation of the document. The Group should always include a leader with authority to make decisions.

There should also be a chief writer in the Group. The chief writer ensures that the document uses a logical structure, and simple, clear language. If more than one person is preparing sections of the document, the chief writer makes certain that all of the sections are consistent in substance and tone.

The Project Group should include a legal advisor who knows what information must be included in the document and why.

The Group should have access to a graphic designer trained to work closely with writers and to think about how to present complex information visually.

You will want to gather and distribute to the Project Group other documents that your company has written for investors. This can save time because the writing team can study what kind of writing style your company is already using and comfortable with. It is possible that the sponsor or the investment banker or broker in the Group will recommend a change of disclosure philosophy. The chief writer will then need to make a decision to describe the company and its business in a new way.

Know your Audience

Knowing your audience is the most important step in assuring that your document is understandable to your existing and prospective investors. To write understandable documents, you need to be aware of the level of financial sophistication of your investors.

Most companies that are listing for the first time on an Official Market will already know the demographics of their existing investors. If they do not have this knowledge, then steps should be taken to assess the characteristics of their investors.

Your prospective investors may include both individuals and institutions with varying degrees of financial sophistication. While your audience will include analysts and other industry experts, the Project Group should keep in mind that the least sophisticated investors have the greatest need for a disclosure document they can understand.

After analyzing who your existing investors are, and who your prospective investors are, you can begin to write the disclosure document.

Using a Sample Document; International Standards

Find a sample document from another company in your industry to use as a general model for drafting your document. Because international disclosure standards and guidelines may become important for your company in the future, the sample document you choose should be from a company that has listed shares or other securities on a European stock exchange.

Read through the entire sample document once without making any notes or comments on the text. This should give you a general understanding of the information covered in the document and how it has been organized. Then read the document a second time and make notes on where the specific international disclosure requirements are dealt with. At the same time try to identify whether the document also meets the disclosure requirements of your stock exchange and your own country, and make more notes showing where these requirements are dealt with. Making notes in this manner will help ensure that you are meeting all disclosure requirements.

As you read, consider whether the document is written in a manner that you or the existing and future investors of your company would understand.

By taking time to read and think about the sample document, you will be preparing yourself for the job of writing your company's new Prospectus, or other “transparency” document.

The First Draft of Your Document

It is now appropriate for the Project Group to meet for the purpose of specifying who will write what sections of the document and by what deadline.

Many times writing will begin before the completion of a financial audit, or even before there has been a final decision to proceed with listing. Sometimes tentative financial statement footnotes will even be written before the final numbers are known.

The writing team should meet frequently to discuss questions that will come up during the process of writing the first draft.

It is important to remember that it is the first draft that will be presented for discussion at the first meeting of the "due diligence" team. Because of the efficiency to be obtained by giving the due diligence team a very good first draft, the document writers should meet often enough to debate all important writing questions.

Just because there is a particular approach used in the sample document that the writing team has studied does not mean that it is the correct approach for you. Everything should be questioned and discussed.

Eliminate redundant information. Question the need for repeating any information.
Discuss the cover page and the summary.

A cover page should be an introduction, an inviting entryway into your document, giving investors some key facts about your company, and your first listing or new offering of securities. You should not, however, tell everything all at once. If the cover looks "dense and overgrown with thorny details" or like a legal document written by lawyers, many investors will lose interest.

To create an inviting cover page, you'll need to strip away much of what is conventionally placed there, but is not legally required to be there. What would be helpful for investors to see on this page?

The same writing concepts apply to the summary. A summary should only orient the reader, highlighting the most important points that are presented in greater detail in the main document.

Reading the same material two or three times can bore or trouble readers. Most readers skip over paragraphs if they think they've read them before.

Use definitions sparingly on the cover page and in the summary. Definitions will often discourage a reader because they are overwhelmed with memorizing a new and unnatural vocabulary. A defined term is a shortcut for the writer but a roadblock for the reader.

Organize the Content Logically

There are a few principles of good organization that apply universally, regardless of your audience's degree of sophistication.

First, present the big picture before the details. You may read many pages before you find out what the company produces, or why they are merging or spinning off a subsidiary. It is hard to absorb the details if you don't know why they are being given to you.

Second, use informative headings and subheadings to break your document up into manageable sections. If you present the information in bite-size pieces, it's easier to digest. Make sure your headings tell the reader what the upcoming sections will cover. Headings like "general" or "background" are not helpful.

Third, always group related information together. This helps you identify and eliminate repetitious information.

Your audience's degree of sophistication will affect how you organize the document. If you are writing for financially unsophisticated investors, your document's overall organization may take an educational approach. You may need to explain industry terms or concepts where they first occur. Consider whether a glossary in the back of your document may help.
Review your document by taking a good look at the flow of information, from beginning to end. Based on the audience profile, the notes you made in the margins, the decisions you've made on your cover page and summary, and the information you've learned in answering your questions, start making decisions on how the content should be moved around into a new and logical order.

Principles of Good Prospectus Writing

Here is a list of the most common problems in disclosure documents:

Long sentences
Passive voice
Weak verbs
Superfluous words
Legal and financial jargon
Numerous defined terms
Abstract words
Unnecessary details
Unreadable design and layout

The plodding verbosity of most documents makes readers yearn for clear words and short sentences. The quickest way to fix this problem is to use the active voice with strong verbs. Strong verbs are guaranteed to liven up and tighten any sentence, virtually causing information to spring from the page.

When you start to rewrite or edit your work, it can be helpful to highlight all the verbs. You may be surprised by the number of weak verbs, such as various forms of "to be" or "to have."

The time you spend searching for a good verb is time well spent. When a verb carries more meaning, you can dispense with many of the words used to strengthen weak verbs.

Weak verbs keep frequent company with two more grammatical undesirables: passive voice, and nominalizations. Used in tandem, they add unnecessary length and confusion to a sentence.

Here is a quick refresher on the active and passive voice.

Active: The investor bought the stock.

Passive: The stock was bought by the investor.

Readers understand sentences in the active voice more quickly and easily because that is how people usually think.

The following example illustrates this point.

Before

The foregoing Fee Table is intended to assist investors in understanding the costs and expenses that a shareholder in the Fund will bear directly or indirectly.

After

This fee table shows the costs and expenses you would pay directly or indirectly if you invested in our fund.

Find each "nominalization" and try to make it the main verb of the sentence. As you change nominalizations to verbs, your writing becomes more vigorous and less abstract. For example:

We made an application....
We applied....
We made a determination....
We determined....
We will make a distribution....
We will distribute....

Try personal pronouns.

No matter how sophisticated your audience is, if you use personal pronouns the clarity of your writing will dramatically improve.

Observe the difference between these two examples:

Before

This Summary does not purport to be complete and is qualified in its entirety by the more detailed information contained in the Prospectus, all of which should be carefully reviewed.

After

Because this is a summary, it does not contain all the information that may be important to you. You should read the entire Prospectus carefully before you make your investment decision.

Bring abstractions down to earth.

Abstractions abound in the financial industry. What pictures form in your mind when you read these phrases: investment fund, zero coupon bond, call option, or foreign currency trading? Most people don't have an image in their minds when they hear abstract words like these. And yet, it is far easier to comprehend a concept or a situation when your mind can form images.

You can make complex information more understandable by giving your readers an example using one investor. This technique explains why "question and answer" formats often succeed when a narrative, abstract discussion fails.

Although it is impossible to eliminate all abstractions from writing, when you have a choice always use a more concrete term.

Omit superfluous words.

Words are superfluous when they can be replaced with fewer words that mean the same thing.

For example:

Replace " in accordance with" with the words "by" or "under"; "in the event that" with "if"; "subsequent to" with "after" and "prior to" with "before".

Another source of using extra, unnecessary words is "shot gunning": letting loose a blast of words hoping at least one conveys your intended meaning. The simplest solution here is to replace your list of words with a single word or phrase that adequately expresses your intended meaning.

Before

The following summary is intended only to highlight certain information contained elsewhere in this Prospectus.

After

This summary highlights some information from this Prospectus.

Write in the "positive".

Positive sentences are shorter and easier to understand than their negative counterparts.

For example:

Before

Persons other than the primary beneficiary may not receive these dividends.

After

Only the primary beneficiary may receive these dividends.

And, replace a negative phrase with a single word that means the same thing. For example:

Replace *"not able"* with *"unable", "not accept"* with *"reject"* and *"does not include"* with *"omits"*.

Use short sentences.

No one likes to read a sentence that is two pages long. And yet, lengthy, information-packed sentences choke many disclosure documents. To complicate matters further, these sentences are filled with jargon and legalese. The longer and more complex a sentence, the harder it is for readers to understand any portion of it.

Replace jargon and legalese with short, common words. Ruthlessly eliminate jargon and legalese. Instead, use short, common words to get your points across. In those instances where there is no plain alternative, explain what the term means when you first use it.

Choose the simpler synonym.

Surround complex ideas with short, common words. For example, use *"end"* instead of *"terminate"* and *"explain"* rather than *"elucidate"*.

Keep the subject, verb, and object close together. Short, simple sentences enhance the effectiveness of short, common words.

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