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## “Do Corporations Cry Wolf? — Comparing What Companies Tell Regulators With What They Tell Investors”

By: James Coleman

Corporations regularly complain that new regulations will harm their business and the broader economy. How seriously should we take those warnings? I’ve [just posted a paper](#) that presents a way of answering this perennial question.

It’s often said that corporations, “Cry Wolf,” falsely predicting that rules will be very costly. A prime example comes from 1970 when Ford’s President, [Lee Iacocca warned](#) that the U.S. Clean Air Act “could prevent continued production of automobiles” and was “a threat to the entire American economy and to every person in America.” So when industry says that new regulations such as the [U.S. Environmental Protection Agency \(EPA\) Clean Power Plan](#) or [Alberta’s rules for cleaning up tailings ponds](#) will be unworkable, [some suggest that regulators should just ignore those warnings](#).

But the problem with crying wolf is that there *are* wolves. That is, false alarms are dangerous because they mean we won’t respond to true threats. And from time to time, regulations really are unworkable, and industry might be the first to recognize this, which is why regulators don’t just ignore industry warnings.

So regulators face a dilemma: they need industry to tell them whether a rule is workable, but they suspect industry will exaggerate the cost of regulation. How can regulators tell how much companies really expect rules to cost?

My paper, titled “How Cheap is Corporate Talk?” compares companies’ comments on proposed rules with what the same companies told their investors about the same proposals. After all, companies have no reason to trick their investors into thinking that a rule might harm the company. In fact, they may want to reassure investors by minimizing the danger from proposed rules. So if regulators want to know how much a company worries about a proposed rule, they should compare the company’s comments on the rule with what it told its investors.

Take Lee Iacocca’s famous warning that the Clean Air Act could “prevent continued production” of cars in America. In its annual report for that year, 1970, Ford told its investors that “the automobile industry has survived and grown even in countries where government policies have made the cost of car ownership several times higher than it is in the United States” and assured

them it had “no doubt that our industry will continue to grow.” Who signed that prediction on behalf of Ford’s board of directors? [Henry Ford II and . . . Lee Iacocca](#).

This paper focuses on a contemporary example of the regulator’s dilemma: the EPA’s Renewable Fuel Standard. The Standard requires oil companies to blend ethanol into the fuel they sell, and it requires more ethanol each year. EPA proposes and sets a required percentage of ethanol annually, which gives oil companies plenty of opportunities to comment. The paper matches those comments up with contemporary Form 10-K securities disclosures from the same companies.

The study finds that oil companies made significantly more predictions about how the Renewable Fuel Standard would harm them in comments than they disclosed in their 10-K statements. For example, one oil company told the EPA that if the rules weren’t changed, they would “limit the supply of gasoline and diesel fuel” and cause “severe economic harm.” In its 10-K statement, the only thing its parent company told its investors was that rules like the Renewable Fuel Standard were creating a strong market for biofuels. And it even implied that that was a good thing because of its side business as a biofuel producer.

Regulators should ask public companies to attach relevant excerpts from their securities disclosures to their comments on proposed rules. This would help regulators assess when a proposed rule might present a true threat to an industry or the economy. In the meantime, securities regulators should scrutinize company comments to find regulatory risks that companies may be concealing in their disclosures to investors. By comparing what companies tell their regulators with what they tell their investors, we’ll all know whether to come running when a corporation cries, “Wolf!”

*This post originally appeared on James Coleman’s blog [Energy Law Prof](#).*

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