

## Forward-Looking Statements and Securities Fraud

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### Abstract

The purpose of full disclosure under the Securities and Exchange Act is to allow investors to gain complete information in the securities market, and to reduce price fluctuation caused by insufficient information; the goal is to solve the core issue of information asymmetry in information economics. Sometimes information reflects a prediction of future. This “forward-looking information” is at once the most valuable and the most perilous for securities markets. On the one hand, reliable predictions by management of a company’s future are highly relevant to the public who value securities by calculating the present value of future cash flows. On the other hand, managers have great incentives to mold their predictions. Predictions are fraught with risk since they cannot be verified when made and almost always turn out wrong.

Financial reports help investors to realize a company’s past financial conditions, but it is more important to outline its future profitability by analyzing forward-looking statements for all investors. Forward-looking statements are one of the most useful investment information in the market, but because the financial forecast is “inherently uncertain,” many countries took a negative position on the disclosure of the forward-looking statements. The forward-looking statements are opinions rather than facts; therefore, they should be protected absolutely by constitutional laws. Above all, it is hard to think that the forward-looking statements have the materiality which can change investors’ investment strategies significantly.

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The author believes that when forward-looking statements prepared by the company are not accurate as a result, the company shall not be liable for the statements. However, in case that the forward-looking statements manipulated by the issuer without any reasonable basis, then such statements should be viewed as misrepresentation. That issuer shall be liable for securities fraud. Hence, when the company has incurred material changes, the company does not have the duty to update the forward-looking statements because such statements does not meet the requirement of materiality which can change investors' investment strategies significantly.

**Keywords: forward-looking statement, materiality, safe harbor, material content, soft information, duty to update**