April 1, 2022

Via Electronic Mail (rule-comments@sec.gov)

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Attention: Ms. Vanessa Countryman, Secretary

Re: File No. S7-20-21
Rule 10b5-1 and Insider Trading
Release No. 33-11013; 34-93782

File No. S7-21-21
Share Repurchase Disclosure
Modernization
Release No. 34-93783; IC-34440

Dear Ms. Countryman:

Quest Diagnostics Incorporated (“Quest Diagnostics”) appreciates the opportunity to submit to the U.S. Securities and Exchange Commission (the “Commission”) its views on the rules proposed in the above-captioned releases in respect of share repurchase disclosure and the regulatory framework for Rule 10b5-1 trading plans and other trading arrangements. This letter respectfully submits our comments on both releases.

Quest Diagnostics is the world’s leading provider of diagnostic information services. Our diagnostic information services business provides information and insights based on its industry-leading menu of routine, non-routine and advanced clinical testing and anatomic pathology testing, and other diagnostic information services. Our diagnostic solutions businesses are the leading provider of risk assessment services for the life insurance industry and offer healthcare organizations and clinicians robust information technology solutions.

Share repurchase activities (which may include the use of Rule 10b5-1 trading plans) play an important role in our financial strategy, and Rule 10b5-1 trading plans also are used by our directors and officers to effectively manage their transactions in our securities. For many years, our Board of Directors has authorized us to use a share repurchase program to return value effectively and efficiently to our stockholders. Between the inception of our share repurchase program in May 2003 and December 31, 2021, our Board of Directors has authorized $11 billion of common stock share repurchases. In February 2022, our Board of Directors authorized the Company to repurchase an additional $1 billion of common stock. The share repurchase authorization provided by our Board of Directors typically authorizes Quest Diagnostics to repurchase stock using a variety of methods, which may include open market purchases, privately negotiated transactions and other methods and
our stock repurchases are conducted in compliance with the Rule 10b-18 safe harbor. We have, from
time-to-time, entered into accelerated share repurchase arrangements with financial institutions.

We support the Commission’s mandate to promote transparency and fairness in public markets for the
protection of investors, however, we believe the rules as proposed would not achieve the objectives
the Commission has set forth in the proposing releases. The proposed rules would require companies
like Quest Diagnostics to disclose a significant amount of new information related to share repurchase
activity, some of which would be required to be disclosed on a daily basis. We do not believe the
average retail investor will be able to absorb the flow of information that would potentially be
generated by the new disclosures. Sophisticated investors, on the other hand, like hedge funds and
other short term investors, would be able to process the information included in these new disclosures
to take advantage of real or perceived trading opportunities. All of which would be at the expense of
the average investor.

We also do not believe the Commission considered many of the unintended consequences that could
result from the implementation of the proposed rules. The extensive disclosures proposed for share
repurchase transactions could push companies to implement share repurchase transactions less
optimally. Further, connecting share repurchase activity by a company to the Rule 10b5-1 trading plan
activity by officers and directors could cause changes in compensation practices and a reduction in the
use of Rule 10b5-1 trading plans by officers and directors.

Finally, we also do not believe the Commission has adequately considered the additional costs that
will result from compliance with the new disclosure requirements, a cost that will ultimately be borne
by stockholders. We recognize that the Commission is intending to update the requirements and
disclosures related to share purchase transactions and the use of Rule 10b5-1 trading plans, but the
new rules would impose requirements that are redundant or unnecessary given existing legal
requirements and practices.

Quest Diagnostics believes the proposed rules will unnecessarily limit share repurchase activities and
the use of Rule 10b5-1 trading plans that are already subject to robust controls and procedures, placing
significant economic and administrative burdens on companies like Quest Diagnostics, while
benefiting only a limited number of sophisticated investors at the expense of the general investing
public. Additionally, we note that one of the underlying premises behind both of the new rule
proposals is a concern that companies are buying back stock and entering into trading plans for the
personal gain of executives. The types of practices that the Commission refers to in the proposing
releases related to share repurchase transactions and Rule 10b5-1 trading plans in support of this view
are not practices employed by Quest Diagnostics. Share repurchases serve as an important tool for us
to return value to stockholders, which our Board of Directors and leadership team take seriously.
Importantly, decisions related to, and the structuring of, share repurchase transactions are made with
only the best interests of Quest Diagnostics in mind. Similarly, our key officers follow a disciplined
process when entering into Rule 10b5-1 trading plans, which we believe is consistent with the
requirements and spirit of the existing rule.

Outlined below are our comments on the rule proposals.
Share Repurchase Disclosure Modernization

The proposed rule requires company share repurchases to be reported daily on a new Form SR. Disclosures must be made prior to the end of the first business day following the day on which a repurchase transaction has been executed. The proposed rule also expands the disclosure requirements in Item 703. The intended purpose of the proposed rule is to provide investors with more detailed and timely information that would allow them to evaluate company share repurchases. We have elaborated below on our concerns regarding certain aspects of this proposed rule.

New Form SR

Our primary concerns with respect to the proposed Form SR disclosures are that such disclosures: (a) may permit certain sophisticated investors to engage in market manipulation while overwhelming retail and other investors with information they are unable to use effectively, (b) may cause companies to make less optimal choices to repurchase securities in an effort to avoid the extensive disclosure requirements or the scrutiny that may result from the application of the new rules and (c) will impose a significant administrative burden and expense on companies without commensurate benefit to the investor community.

First, we believe that the daily disclosure of detailed share repurchase activity would only benefit sophisticated investors, such as high frequency traders, at the expense of retail investors. Sophisticated investors would be able to use the information included on a Form SR, which would include the number of shares purchased on a particular date, the average price paid per share on such date and the aggregate number of shares purchased on the open market, to reveal a company’s share repurchase strategies, thereby enabling sophisticated investors to front-run future orders and manipulate the underlying price of securities for the sole benefit of such investors. By arming these investors with access to such granular, timely information, they would be able to take advantage of information that the general investing public is not capable of using effectively. These investors could also use this information to make assumptions about the occurrence of a material event at the company. For example, if a company ceases to effect repurchase transactions, investors may assume that the company is involved in a material transaction or has a material announcement pending, but the decision to cease repurchase activity could be unrelated to a material event. Accordingly, we do not believe the proposed rule would achieve its intended purpose. Rather, it would benefit sophisticated investors at the expense of the general investing public.

Second, companies, like Quest Diagnostics, concerned about the market signaling and other consequences of, for example, daily reporting of share repurchase activity required by proposed Form SR, may make decisions impacting stockholders that are designed to avoid the disclosures that would be mandated by the rule proposal. For example, companies may choose to enter into an accelerated share repurchase transaction with a financial institution, rather than engage in open market transactions to avoid the daily reporting obligation and the other negative market and other consequences described above. An accelerated share repurchase transaction imposes additional costs on the company and limits the flexibility available to a company that seeks to execute a stock repurchase program through open market repurchases in reliance on the Rule 10b-18 safe harbor (i.e., it requires an up-front commitment of capital, while open market purchases do not). Additionally, the extensive disclosures associated with share repurchase transactions, along with the related disclosures of stock-based compensation awards, could push companies to reduce or eliminate stock-based compensation. As the rule proposal presents stock-based compensation awards made in proximity in
time to share repurchase transactions as potentially suspect, it could lead a company to alter, in a manner inconsistent with the company’s best interest, share repurchase transactions or cease to make stock-based compensation awards.

Third, compliance with proposed Form SR would also impose a significant administrative burden on companies like us. In addition to the time required to assemble the filings, which the Commission acknowledges, we anticipate that we would need to implement systems and procedures to ensure timely compliance. These procedures would need to be managed by our leadership team and, ultimately, overseen by our Board of Directors. Such procedures would need to account for complexities not necessarily apparent from the face of the proposed rule, such as reporting on a daily basis, if necessary, of shares repurchases made by a company in connection with the settlement or exercise of stock-based awards. These new requirements would impose meaningful and ongoing economic burdens that would, ultimately, be costs passed on to our stockholders. We do not believe these additional costs are justified. If the Commission, however, implements Form SR, we respectfully submit that share repurchases should be required to be reported on a monthly basis, rather than on a daily basis.

**Proposed Revisions to Item 703 of Regulation S-K**

*Whether Repurchases are Made Pursuant to Rule 10b5-1 or in Reliance on Rule 10b-18*

The proposed rule would require companies to identify whether their repurchases are made pursuant to a Rule 10b5-1 trading plan and, if so, the date(s) on which the plan was adopted or terminated, as well as whether such repurchases were made in reliance on the Rule 10b-18 safe harbor.

Similar to the concerns expressed above with respect to the new Form SR, we believe that the disclosure of this type of information would allow sophisticated investors to monitor a company’s market activity and, over time, determine the parameters such company has in place with respect to its repurchase activity. The combination of disclosure of the use of a trading plan, which will be governed by discernible trading instructions, and the reliance on Rule 10b-18, will provide sophisticated investors with key information to be able to reengineer a company’s trading strategy. These investors would then be able to anticipate when a company will buy back shares. We do not believe the average retail investor would be able to use this information in the same manner and we also do not believe the Commission intends for these disclosures to fuel trading activity by sophisticated investors who would be the primary beneficiary of this information. We urge the Commission to consider modifications to this disclosure requirement that would be better aligned with needs of retail investors and not provide an advantage to more sophisticated investors.

*Objective or Rationale of the Repurchase Program*

The proposed amendment to Item 703 of Regulation S-K would require significant additional disclosures regarding a company’s objective or rationale for its share repurchases and the process or criteria used to determine the amount of repurchases.

We note that our rationale for capital deployment, and by extension, our repurchase program, is generally based on our medium- to long-term capital plan, which Quest Diagnostics discusses in the “Business” section of its Annual Report on Form 10-K. We believe that the current requirements related to liquidity and capital resources disclosures within the Management’s Discussion and
Analysis of Financial Condition and Results of Operations (“MD&A”) contained in periodic reports is the appropriate place for disclosure of this type of information, as it appropriately contextualizes such information within the capital allocation planning framework. In fact, companies often include discussion of stock repurchase activity within this part of the MD&A. Any share repurchase program will be affected by the relevant company’s other uses of cash and financing activities. For example, to the extent a company is engaging in significant M&A activity or making significant capital investments, its use of cash for such purposes will impact its ability to engage in share repurchases. Accordingly, we do not believe the proposed disclosures, which would be limited to information about share repurchases, would provide investors with the appropriate context necessary to properly understand a company’s objectives and rationale of its share repurchase plan. We recognize the need for companies to provide clear and comparable information to investors related to its share repurchase program, and we acknowledge that it may be necessary to consider enhancements to the current disclosure requirements to ensure comparable disclosure practices across companies. We, however, urge the Commission to consider where these disclosures should be placed so as to provide investors with the relevant context. Investors would benefit from understanding how share repurchases form part of a company’s overall capital plan and isolated or piecemeal disclosures would likely be confusing to stockholders or require investors to review multiple different disclosures. Investors should be able to rely on the disclosure provided in the liquidity and capital resources discussion within the MD&A contained in periodic reports to understand a company’s capital planning, including how share repurchases forms a part of it.

**Policies Regarding Trading By Officers and Directors During a Repurchase Program**

The proposed revisions to Item 703 would also require disclosure of any policies and procedures relating to purchases and sales of a company’s securities by its officers and directors during a repurchase program. The driver of this rule appears to be the misperception that any trading activity by an officer or director at a time at which a company is engaging in share repurchases signals misconduct or manipulative behavior.

We do not believe this premise is true. We, like many companies, maintain robust controls and procedures related to share repurchase activity and trading activity by our officers and directors. Our Board of Directors authorizes our share purchase programs and we make a public announcement in connection with these authorizations. Like many other companies, our officers and directors are required to obtain authorization prior to entry into a Rule 10b5-1 trading plan and we have a documented preclearance policy before a director or key officer trades in our securities. This preclearance policy allows us to review whether we or the director or key officer is in possession of material non-public information before any trading activity occurs. Finally, like many companies, we assist our officers and directors with compliance with Section 16 reporting, which provides meaningful transparency to investors. Moreover, officers and directors are subject to existing legal requirements that would not permit trading in the company’s securities if the company’s share repurchase activity was material non-public information.

As a result of these policies and procedures and applicable law, we do not believe it is necessary for a company to impose any restrictions on its officers and directors from trading in the securities of the company when the company is in the market repurchasing securities. We, like many companies, subject to compliance with legal requirements and our own policies and procedures, could be in the market repurchasing our securities on any given day. A consequence of the Commission mandating this disclosure requirement would be to force companies to consider imposing restrictions on officers...
and directors from trading in the company’s securities when the company is conducting repurchase activity, which would be wholly unnecessary given the existing protections in place. Curtailing our officers and directors from repurchasing securities in this manner would considerably limit, or even eliminate, open trading windows.

We also do not believe the inclusion of a checkbox to identify trades made by insiders close in time to the announcement of a repurchase program is necessary, as such activity would not be permitted while such insiders are in possession of material non-public information. We believe these disclosures are unnecessary and could result in the unintended consequence of officers and directors having very narrow windows to trade or, even worse, force companies to consider the impact on the available trading windows for officers and directors when determining the optimal timing of a share repurchase transaction.

If the Commission decides to adopt a final rule with this disclosure requirement, we believe that it is important for the Commission to affirmatively acknowledge, as part of the adopting release, that officers and directors trading in a company’s securities at the same time that the company is buying back its own securities is not in violation any rule or otherwise harmful.

**Rule 10b5-1 and Insider Trading**

The proposed rule alters the terms of Rule 10b5-1 trading plans that would benefit from the affirmative defense against insider trading liability and introduces a range of disclosure obligations and other requirements related to Rule 10b5-1 trading plans. The proposed rule is designed to address concerns with respect to alleged abuse of Rule 10b5-1 to opportunistically trade securities on the basis of material non-public information. We have elaborated below on our concerns regarding certain aspects of this proposed rule.

**Cooling Off Periods for Companies, Officers and Directors**

The proposed rule includes a 120-day cooling off period for directors and officers and a 30-day cooling off period for companies after adoption or modification of a Rule 10b5-1 trading plan in an effort to reduce the risk that an insider is adopting or modifying a Rule 10b5-1 trading plan on the basis of material non-public information.

We believe the proposed cooling off periods are unnecessary. We note that the use of the affirmative defense under Rule 10b5-1 already requires that the company or insider not possess material non-public information at the time of adopting such plan. Moreover, we, like many companies, maintain robust controls and procedures related to Rule 10b5-1 trading plans so that we and our relevant directors and officers, as applicable, are not in possession of material non-public information when entering into or modifying a Rule 10b5-1 trading plan. Requiring any length of cooling off period prior to the execution of trades under a Rule 10b5-1 trading plan could have the consequence of pushing companies, directors and officers to choose not to enter into trading plans and execute trades on a one-off basis. We believe this would be inconsistent with the overall objectives of the proposed rules. Although the controls and procedures that many companies, like Quest Diagnostics, have in place provide the necessary insider trading protections for any form of trading activity, entering into longer term trading plans that comply with Rule 10b5-1 provides additional protections against the “opportunistic and harmful” activities that the Commission is seeking to address.
In light of the above, we do not believe such a cooling off period is necessary. If the Commission includes such a period, we respectfully submit that a shorter, 14-day cooling off period for officers and directors only would be more reasonable. We do not believe any length of cooling off period is warranted for companies due to the controls and procedures many companies, like Quest Diagnostics, maintain.

**Quarterly Disclosure of Use of 10b5-1 Trading Plans and Other Trading Arrangements**

The proposed Item 408(a) would require quarterly disclosure of any contract, instruction or written plan to purchase or sell securities of the company by itself or its directors or officers for the purposes of allowing investors to assess whether trading arrangements are being adopted or terminated at a time when the relevant person is in possession of material non-public information.

We believe the proposed rule, particularly the requirement for companies to describe the “material terms” of the relevant arrangement, is ambiguous and, potentially, over-broad because, as written, it would require the disclosure of the number of shares covered under the trading plan and it could be interpreted to require the disclosure of trade pricing information. Together, this information would allow sophisticated investors to formulate strategies to take advantage of such information. A requirement to disclose the aggregate number of securities to be sold on a prospective basis in conjunction with the duration of the contract instruction or written plan also would allow such sophisticated investors to take advantage of information that the general investing public is not capable of using effectively. We respectfully submit that any requirement as to disclosure of terms should encompass only terms expressly identified in the final rule and should expressly exclude the number of shares covered by the trading plan, pricing information and information regarding the aggregate number of securities to be sold and the duration of the contract instruction or written plan.

**“Operated in Good Faith” Requirement**

The proposed rule requires that a Rule 10b5-1 trading plan must be “operated” in good faith in addition to the existing condition that the plan be entered into in good faith. The Commission states that this additional condition is to address a concern that corporate insiders may time the release of material non-public information to allow them to benefit from a planned trade. The proposed rule also suggests that termination or modification of a Rule 10b5-1 trading plan could be considered not operating the plan in good faith.

We respectfully submit that the Commission should clarify that a termination or modification of a Rule 10b5-1 trading plan will not be deemed to be in bad faith if it occurs while not in possession of material non-public information or on legitimate grounds (e.g., during a significant corporate transaction that could reasonably be expected to impact the price of the relevant company’s securities; in compliance with applicable law). Without such clarification, we believe the rule as proposed may cause companies and their directors and officers to not enter or shorten the time periods covered by a Rule 10b5-1 trading plan, which we believe would not further the objectives underlying the proposed rule.

**Disclosure of Policies and Grants Within 14-day Window of Material Non-public Information**

The proposed Item 402(x) would require a table covering each award of stock options, stock appreciation rights or similar awards that the company granted to its named executive officers within
14 calendar days before or after the release of material non-public information, which is defined as the filing of a periodic report, share repurchases or the reporting of material non-public information on Form 8-K (including earnings information). Such table would be required to include, among other information, the market price of the underlying security on the trading day before and after the disclosure of the material non-public information. The proposed rule intends to highlight option grants that occur at times when a company may be in possession of material non-public information.

We are concerned with the premise that a periodic report filed after an earnings release necessarily contains incremental material non-public information beyond the information contained in the earnings release. For example, it is common practice for companies to furnish the year-end earnings release on Form 8-K prior to the filing of the corresponding Annual Report on Form 10-K. We, like other companies, exit our blackout period following the issuance of our earnings release and not following the filing of the corresponding Annual Report on Form 10-K. Like many companies, it is our practice to set the dates for Compensation Committee meetings for the purpose of approving annual equity grants approximately 12 to 18 months in advance of such issuance and to issue such grants at such a meeting, which is held shortly after we announce earnings. The process to set dates for approving equity grants is wholly independent of determinations made related to company share repurchases, which are conducted within the Rule 10b-18 safe harbor. The proposed rule would significantly limit the period during which grant issuances are permitted, despite the fact that we, like many companies, maintain rigorous procedures to ensure that such grants do not occur while Quest Diagnostics is in possession of material non-public information.

**Restricting Multiple Overlapping Rule 10b5-1 Trading Plans**

Under the proposed rule, multiple overlapping Rule 10b5-1 trading plans for open market trades in the same class of securities are not permitted as a condition to the affirmative defense against insider trading liability. Under the proposed rule, this restriction would not apply to transactions where a person purchases or sells securities directly from the company pursuant to trading plans that are not executed by the director or officer on the open market, but this exception is limited to transactions involving an employee stock ownership plan or dividend reinvestment plan. The Commission stated that these transactions are less likely to give rise to insider trading because they are effectuated directly with the issuer. In the proposing release, the Commission asked how the proposed exclusion would affect practices with respect to, among other things, equity compensation arrangements, such as stock options and restricted stock units.

We believe there are legitimate uses of multiple overlapping Rule 10b5-1 trading plans arrangements in connection with equity compensation arrangements. For example, certain of our officers hold their shares received upon the exercise of stock options in an account with a financial institution, which is often associated with the administration of the underlying equity plan, that is different than the account and financial institution where shares acquired through other means are held. As a result, these officers have entered, or will like to enter, into separate Rule 10b5-1 trading plans associated with the financial institution that manages each of these accounts. We believe that overlapping trading plans in this context should similarly be excluded from the proposed restriction against overlapping trading plans. In the absence of an exception from the restriction on overlapping plans, an officer would be required to transfer shares into one account for the purposes of covering such shares by the...
same trading plan. This is an unnecessary administrative burden in circumstances where there is a legitimate reason to enter into separate trading plans.

We appreciate the opportunity to express our views and concerns regarding the proposed rules. If there are questions regarding any of our comments, we would welcome an opportunity for further discussion. Please do not hesitate to contact me at 973-520-2700.

Sincerely,

Mark J. Guinan
Executive Vice President and Chief Financial Officer

cc: Michael E. Prevoznik, Senior Vice President and General Counsel
    William J. O'Shaughnessy, Jr., Deputy General Counsel and Corporate Secretary