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March 21, 2019

Submitted via electronic filing: https://www.sec.gov/rules/other.shtml

Mr. Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Request for Comment on Earnings Releases and Quarterly Reports (File No. S7-26-18)

Dear Mr. Fields:

BlackRock, Inc. (together with its affiliates, "**BlackRock**")[1] appreciates the opportunity to respond to the Securities and Exchange Commission's ("**SEC**" or "**Commission**") request for comments on how to maintain or enhance the investor protections provided by the current periodic reporting system while reducing potential burdens on reporting companies, including possible changes to the frequency of periodic reporting, as well as on whether the current system of periodic reports, earnings releases and guidance foster an excessive emphasis on short-term considerations at the expense of a longer term strategic view by company management.[2]

As an investment adviser and leading asset manager for millions of retail investors for whom we act as fiduciaries, we appreciate the vital role played by our disclosure system in ensuring material information is provided accurately and in a timely way by public companies. We strongly believe that all investors should have access to this information to make investment decisions in their best interests, or the best interests of those for whom they manage these assets as a fiduciary.

At the same time, we appreciate the question that the Commission has raised as to whether there are certain aspects of the current reporting ecosystem, if not directly related to quarterly reporting itself, that have built up around forward looking earnings guidance, that have the effect of incentivizing companies to adopt a focus on short term results. We believe that these practices have fostered short-term focus that may distract management's attention from the longer term trends and conditions effecting the profitability and even

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1 BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals. We take seriously our role as fiduciary of these clients as we manage their assets. In this context, we have a significant interest in this important dialogue around information disclosure practices.

2 Request for Comment on Earnings Releases and Quarterly Reports, 83 FR 65601 (Dec. 21, 2018), available at https://www.sec.gov/rules/other/2018/33-10588.pdf (the "Request").

viability of its business model.

We commend the Commission for commencing this discussion. From our perspective as a fiduciary managing investments in thousands of companies, we provide the following comments and suggestions to the Commission relating to the Request.

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EXECUTIVE SUMMARY

Frequency of Quarterly Reporting

We believe the current system of quarterly reporting is an important element of transparency for investors. While we could see one potential benefit of moving to semi-annual reporting being reduced focus by management on short-term results, we believe the potential loss in transparency and timely availability of information to investors would outweigh the potential benefits. This is particularly so in light of our further view that it is the informal practice of providing forward-looking guidance, rather than quarterly reporting, that pushes management towards “short-termism”.

Information Contained In Quarterly Reporting

While the Commission is right to assess market feedback on ways the presentation of information could be made more efficient, including through the use of incorporation by reference in Form 10-Q of information previously furnished in Form 8-K, and continuing to provide issuers with the flexibility and latitude to decide on how to present earnings results in Form 8-K, in general we believe that the Commission should not omit any of the disclosures required by Form 10-Q. We believe these present disclosure requirements provide the transparency that directly contributes to a lower cost of capital for public companies.

Quarterly Forward-Looking Earnings Guidance

Forward looking guidance, while appropriate in some circumstances, has the potential to focus management too much on a short term deliverable and not enough on a long term, sustainable strategy for driving business growth. This short term focus runs counter to the approach we follow as a fiduciary in our engagement with portfolio companies, which is to ask every CEO to articulate for shareholders *a strategic framework for long-term value creation* and report annually how the company is performing within such framework. ***We recommend*** that the Commission consider measures that would ensure that companies carefully weigh the costs and benefits of providing quarterly guidance. This could include requiring disclosure, by companies who provide quarterly guidance, of the extent to which such practice may present risks to the company, and whether the practice has been fully assessed and determined at the Board level to be beneficial for company shareholders.

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I. Frequency of Quarterly Reporting

The provision of quarterly reporting plays an important role in establishing, as far as possible, a level informational playing field among investors. Even with the current disclosure regime, the rise of more extensive real-time alternative information sources, often available only at high prices[3], runs the risk of creating a divide between average investors and those able to access this alternative data. Against this background, a move to less frequent reporting could exacerbate this trend, and lower the confidence of average investors that they have access to meaningful and timely information with which to make decisions.

We are aware that in several jurisdictions, including the European Union[4] and the United Kingdom,[5] disclosure policy has developed so as to eliminate the requirement for quarterly reporting as a general matter. In doing so, these jurisdictions explicitly justified the movement away from quarterly reporting to its perceived negative impact on long-term outlook and investment.[6] And yet, one study to specifically track levels of investment by reporting companies, a CFA Institute 2017 study (the "CFA Study"), as noted in the Request, found no link between quarterly reporting and reduced levels of long-term corporate investment, although it had found a general decline in analyst coverage.[7] As the study concludes: "Contrary to the rationale behind the 2013 amendments to the EU Transparency Directive, moving from quarterly to semiannual reporting is not an effective remedy for undue corporate emphasis on short-termism."[8]

Another factor mentioned in the Request as a possible drawback of reducing the frequency of reporting is its possible effect on reducing analyst coverage of companies, particularly smaller ones. The evidence here is unclear. The CFA Study finds a move away from quarterly reporting does reduce the number of analysts, but has no significant impact on the quality or accuracy of analyst reports.[9] In our view, this dynamic, while worthy of

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[3] See, Barron's, *Your Personal Data Is Being Used by Investors. Here's the Potential — and the Risks* (Nov. 30, 2018), available at https://www.barrons.com/articles/how-big-investors-use-your-personal-data-to-play-the-stock-market-1543627499 (noting that the average institutional investment firm now spends about $900,000 annually on alternative data, and survey data showing total investor spend on alternative data almost doubled from $170 million to $300 million in the 2017-2018 period alone).

[4] Directive 2013/50/EU.

[5] *Removing the Transparency Directive's Requirement to Publish Interim Management Statements*, Financial Conduct Authority (Nov. 2014), *available at* https://www.fca.org.uk/publication/policy/ps14-15.pdf.

[6] Request at n.23, and citations therein.

[7] Robert Pozen, Suresh Nallareddy & Shivaram Rajgopal, *Impact of Reporting Frequency on UK Companies*, CFA Institute Research Foundation (Mar. 2017), available in full text at: https://www.cfainstitute.org/-/media/documents/article/rf-brief/rfbr-v3-n1-1-pdf.ashx ("CFA Study"). Cited in Request at 8.

[8] Id at 16. The CFA Study was able to take advantage of an interesting test case, namely the introduction of mandatory quarterly reporting in 2007, and the subsequent rescinding of mandatory quarterly reporting in 2014, and was designed to test the hypothesis that more frequent company reporting induces short termism and therefore lower levels of long-term investment. The study did not find statistically significant differences in the changes in the level of company investment between companies that came under mandatory quarterly reporting and those that had already been voluntary adopters. Furthermore, when mandatory quarterly reporting was *rescinded* in 2014, the evidence was consistent that changes in disclosure requirements did *not* drive changes in long-term investment.

[9] Id at 17.

further study, is not dispositive of the questions at issue in the Request. Reporting frequency alone is unlikely to have a significant impact on the overall quantity and quality of analyst coverage. In addition, there are numerous exogenous factors, such as the implementation of MiFID II and its spillover effects into markets outside the EU that may affect analyst coverage. At a minimum, it will be very difficult to measure a causal relationship between reporting frequency and harms from reduced analyst coverage for some time. We therefore think the question comes down to balancing a demonstrated bias towards short-termism with the real benefits to investors of transparency, in addressing the reporting frequency question.

Given the lack of clear evidence that quarterly reporting per se (as opposed to forward looking earnings guidance) creates a perverse incentive for short-termism, avoiding the potential inequitable effect on retail investors of less frequent disclosures, and the transparency benefits of more timely, complete financial information on public companies, militate in favor of maintaining the current quarterly disclosure regime.

II. Information Contained in Quarterly Reports

The Request seeks views on how the Commission may simplify the process by which investors access and evaluate relevant information on public companies. We commend the Commission for this outreach, especially the focus on how investor protection can be maintained or even enhanced, while reducing the time and expense companies put into periodic reporting. We would agree with the view that aspects of public disclosure have remained largely unchanged in the midst of large technological innovations in information delivery over the last decade, and the Commission should study ways to reduce the repetition of the exact same information on earnings releases furnished on Form 8-K and quarterly reports on Form 10-Q, perhaps through greater use of incorporation by reference. Earlier proposals, such as for interactive databases of more real-time information, which could be incorporated into periodic reports[10], might actually increase the availability and timeliness of information to investors, and are worthy of consideration.

One could thus argue that earnings releases and 10-Qs are highly duplicative, and from the perspective of the reporting company, deserve to be streamlined as to presentation and modernized as to data retention. From the perspective of the investor, however, while efficiency of presentation and data provision are also to be pursued, the actual elements of data to be disclosed should not be reduced. For the investor, quite simply, more disclosure is better than less. We do not advocate the elimination or omission of any 10-Q disclosures, while we support looking at ways to streamline data collection and presentation.

III. Quarterly Forward Looking Earnings Guidance

As the Request explicitly recognizes, BlackRock CEO Larry Fink has noted in his annual Letters to CEOs the need for companies to focus on long-term strategies for value

[10] Staff Report of 21st Century Disclosure Initiative, "Towards Greater Transparency: Modernizing the Securities and Exchange Commission's Disclosure System" (Jan. 2009), available at https://www.sec.gov/spotlight/disclosureinitiative/report.pdf.

creation.[11] In his 2016 Letter, Fink makes the case that "over time, as companies do a better job laying out their long-term growth frameworks, the need diminishes for quarterly EPS guidance, and we would urge companies to move away from providing it."

We continue to hold that view today. Unlike quarterly reporting of financial information on Form 10-Q, what is being given to shareholders in forward looking guidance is not SEC-filed financial information. It is rather unregulated management suggestion of future trends that risk *both* misleading investors to focus on short-term rather than long-term business trends, *and* incentivizing management to actually delay or forego long-term investment that would have a positive effect on long-term earnings.[12]

In *Moving Beyond Quarterly Guidance: A Relic of the Past*[13], the FCLT Global Group issued a review of survey data debunking several myths about quarterly earnings guidance:

- Everyone does it? In fact, the share of S&P 500 companies issuing quarterly guidance has declined from 36.0% in 2010 to 27.8% today. Among Euro Stoxx 300 companies, issuance is near zero (0.7%).
- Guidance improves valuations? In fact, an extensive analysis conducted with researchers at Harvard Business School and KKS Advisors found no correlation with valuation.
- Quarterly guidance helps reduce stock price volatility? In fact, issuing annual range guidance reduces volatility around earnings reporting periods ***relative to*** issuing quarterly guidance.
- Investors demand quarterly guidance? In fact, over 75% of surveyed investors agree companies should move away from quarterly guidance. Fewer than 7% of investors want companies to offer guidance *on any metric for periods of less than one year*.
- Quarterly guidance keeps management teams accountable for performance? Rather, independent surveys found that approximately half of executives would delay new projects and investments to hit quarterly targets, even with the knowledge that it would sacrifice some value.
- There is no alternative to quarterly guidance? A long-term roadmap can help companies communicate the elements needed to build investor support for long-term strategies. Attracting long-term shareholders empowers management to make strategic and operating decisions that build value for the long term.

This need for long-term focus was reaffirmed again in Larry Fink's most recent Letter to CEOs, where he noted that "when a company truly understands and expresses its purpose, it functions with the *focus and strategic discipline that drive long-term*

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[11] Request at n. 44.

[12] There are some studies suggesting that earnings guidance does have the effect of focusing management on more short-term results to the point of foregoing long-term investment. See, Value Destruction and Financial Reporting Decisions, (Graham, Harvey and Rajgopal) (2006) available at: https://www0.gsb.columbia.edu/mygsb/faculty/research/pubfiles/12924/Rajgopal_value.pdf

[13] Available at: https://www.fcltglobal.org/docs/default-source/publications/moving-past-quarterly-guidance---a-relic-of-the-past.pdf?sfvrsn=77a9268c_2.

profitability."[14] Foregoing investments that add long-term value to meet quarterly targets is not an example of such strategic discipline, yet as the above studies indicate, that is exactly the kind of corporate behavior that can be driven by quarterly guidance.

These factors suggest that, at a minimum, there are risk factors involved with the practice of providing quarterly guidance that many companies may not have carefully evaluated. We would therefore respectfully suggest that the Commission consider the following actions to address the problems of short-termism inherent in the current practice of quarterly guidance:

- Make clear to market participants that quarterly guidance is not required, and in many cases, may not be desirable from the perspective of driving long-term strategic focus.
- Ask companies who issue quarterly guidance to disclose:
    - The extent to which such practice creates a risk factor;
    - If the board and audit committee have discussed pros and cons with management; and
    - Why the company believes quarterly guidance is in the best interest of the company and its shareholders.
- Establish an appropriate disclosure process for long-term strategic roadmaps, to be issued in place of quarterly guidance, with clear direction about content and parameters, and appropriate safe harbors.

By implementing some or all of the above measures, we believe reporting companies would gain a significant opportunity to reset their current practices away from excessive short-termism and allow more deliberate focus on the long-term strategies that deliver sustainable business growth and advance the long-term financial interests of shareholders.

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We thank the Commission for providing BlackRock the opportunity to comment on the Request. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Barbara Novick
Vice Chairman

Thomas Clark
Managing Director

[14] 2019 Letter to CEOs: *Purpose and Profit*, available at: https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

cc:

The Honorable Jay Clayton, Chairman
Securities and Exchange Commission

The Honorable Robert J. Jackson, Jr., Commissioner
Securities and Exchange Commission

The Honorable Hester M. Pierce, Commissioner
Securities and Exchange Commission

The Honorable Elad L. Roisman, Commissioner
Securities and Exchange Commission