SEC Request for Public Comment on Earnings Releases and Quarterly Reports [Release Nos. 33-10588, 34-84842; File No. S7-26-18]

Summary: FCLTGlobal is a 501(c)3 not-for-profit research organization that works to encourage a longer-term focus in business and investment decision-making by developing practical tools and approaches to support long-term behaviors across the investment value chain. Focusing Capital on the Long Term began in 2013 as an initiative of the Canada Pension Plan Investment Board and McKinsey & Company, which together with BlackRock, The Dow Chemical Company, and Tata Sons founded FCLTGlobal in July 2016. In addition to our Founders, today our 51 Member organizations span the investment value chain, including asset owners, asset managers and corporations, and are committed to accomplishing long-term tangible actions to lengthen the timeframe of capital allocation decisions.

The SEC is requesting public comment on how to enhance, or at minimum maintain, the investor protection attributes of periodic disclosures while reducing the administrative and other burdens on reporting companies associated with quarterly reporting and minimizing any related short-term pressures caused by the pace of reporting. Based on FCLTGlobal's review of existing academic evidence, our own in-depth analysis, and research informed by our multi-year conversations with our Members and other experts, we suggest the SEC carefully consider the following recommendations.

- **Guidance**
    - Issue a Staff Compliance and Disclosure Interpretation (C&DI) or other Staff guidance clarifying that short-term quarterly guidance is neither required nor encouraged to dispel the commonly held misconception of the SEC's stance on guidance.
    - Consider including in this C&DI a recommendation that if short-term quarterly guidance is shared with the markets, that the company offer long-term (3+ years) guidance alongside the short-term targets to balance the impact.
    - Consider new rulemaking mandating that if offering short-term quarterly guidance, a company be required to balance it with long-term (3+ years) guidance.
- **Reporting –**
    - Consider permitting or recommending cumulative reporting (3 months, 6 months, 9 months, full year) or trailing twelve-month (TTM) reporting in 10-Qs to maintain transparency through a frequent reporting schedule while avoiding some of the unintended consequences of quarter-on-quarter comparisons.
    - Allow companies to choose between disclosure frameworks, either opting to stick with the current quarterly reporting framework or moving to half-yearly reporting, provided they adopt a higher bar for interim disclosure of new material information (similar to UK and EU continuous reporting and transparency directives).
    - Consider a third model with full financials and related reporting on a six-month basis (2Q and 4Q/Year-End) with abbreviated interim trading updates (1Q and 3Q not subject to full 10-Q requirements) to alleviate the reporting burden on public companies while still maintaining investor transparency.

We appreciate the opportunity to comment and welcome questions at research@fcltglobal.org or +1 617-203-6599. The balance of this document provides more detail in support of these recommendations.

FCLTGlobal Comments to the SEC Regarding Quarterly Reporting and Guidance Practices:

By some accounts, public markets are out of fashion.

Detractors point to the long-term trend towards fewer initial public offerings (IPOs) in developed economies, especially the U.S., and the growth of private pools of capital over the past decade, which has largely deprived retail investors of the most significant growth investment opportunities of the past decade. But public markets continue to be essential to wealth creation, innovation and capital stability, and ensuring they remain an attractive venue is essential to our economic growth.

Investment managers and executive teams too often cite quarterly reporting and quarterly earnings guidance as a key source of short-term pressure in the public market and a principal reason many companies opt not to list. Transitioning away from the quarterly treadmill toward conversations centered on long term capital deployment and growth can simplify investor communications and reduce the reporting burden on corporations while simultaneously strengthening companies' longer-term shareholder bases by giving investors the relevant information they need to make their investment decisions in a format that is digestible while also alleviating one source of short-term pressure, improving the accuracy of valuations, and ensuring public markets remain a compelling option for growing corporations in need of stable capital.

Quarterly guidance leads to short-term business decisions which ultimately cause long-term harm.[1]

There is significant evidence that quarterly forward-looking earnings guidance harms companies in the long run. Although the literature is not unanimous, a preponderance of the evidence suggests quarterly guidance is indeed harmful. Quarterly earnings per share (EPS) guidance, in particular, can lead companies to manage to their published quarterly targets at the expense of long-term goals that better match the business and investment cycles of their industries. At the same time, this behavior often attracts investors with a short-term orientation who intensify the attention to short-term results and eschew strategies with long-term payoffs. When it comes to quarterly earnings targets, the familiar adage is right: "What gets measured gets managed."

According to a 2016 McKinsey & Company and FCLTGlobal survey, nearly 60% of executives said their companies would act to avoid missing company-issued quarterly targets, including cutting discretionary spending or delaying projects, among others.[2] This problem is not new. More than a decade ago, in a 2005 survey[3] of over 400 financial executives (e.g. chief financial officers), 80% of respondents noted they would cut "discretionary" spending on R&D, advertising, maintenance, or hiring in order to meet short-term earnings targets. Meanwhile, nearly 40% said they would give discounts to customers solely to induce them to make purchases in a current quarter rather than the next. Most worryingly, both the 2005 and the 2016 surveys independently found that approximately half of executives would delay new projects and investments to hit quarterly targets, even with the knowledge that it would sacrifice

[1] In response to Question 8 "Some have suggested the practice of providing quarterly forward-looking earnings guidance creates an undue focus on short-term financial results and thereby negatively effects the ability of companies to focus on long-term results. Is this the case…" and if so, are there changes we could make to our rules that would discourage this practice or address this concern?"

[2] D. Barton, J. Bailey, and J. Zoffer, "Rising to the challenge of short-termism," FCLT Global, September 2016, https://www.fcltglobal.org/research/reports/rising-to-the-challenge-of-short-termism.

[3] John R. Graham, Campbell A. Harvey, and Shiva Rajgopal, "The economic implications of corporate financial reporting," *Journal of Accounting and Economics*, Volume 40, pp. 3–73, 2005, https://www.nber.org/papers/w10550.

some value – and we suspect that these responses suffer from some inherent underreporting bias, making it likely the actual ratios are quite a bit higher.

Recent research suggests that guidance is a central culprit infecting companies' decision-making processes with short-term behavior. Companies that issue short-term guidance do in fact invest less than their peers. Cheng, Subramanyam, and Zhang (2005) [4] found that "regular guiders" spend nearly 10% less on R&D each year than "occasional guiders." The interplay between the issuance of quarterly EPS guidance, the attraction of short-term oriented investors, and the pressure exerted on managers to meet investor demands indeed undermines long-term investment and growth.

The issuance of earnings guidance is clearly tied to adverse short-term behavior, but it also causes long-term harm to a company. Over time, underinvestment in long-term opportunities leads to long-term underperformance; specifically:

- Cheng et. al (2005) [5] found that regular guiders suffer significantly lower long-term earnings growth rates when compared with their occasionally guiding or non-guiding peers.
- Brochet, Lumioti and Serafeim (2012) [6] found the stocks of companies exhibiting short-term behavior – including issuing short-term earnings guidance – were more volatile than the market as a whole and the cost of capital for those firms was 0.42% higher than average.
- In a follow-up study, Brochet et al (2015) [7] found firms with greater emphasis on the short-term in their disclosures and investor communications experience lower return on equity (ROE) over the following two years as compared to their peers.
- Research from Generation Foundation and KKS Advisors (2014) [8] suggests that companies that provide more frequent and regular guidance often experience higher volatility during earnings reporting periods as short-term investors speculate on forthcoming results.

On the flipside, a 2016 study by Kim, Su and Zhu[9] found firms that stopped issuing quarterly earnings guidance saw their investor bases become more long-term oriented, with greater proportions of long-term institutions as investors, more weight placed on long-term earnings in valuation, and lower sensitivity to short-term analyst forecasts relative to firms that did not end quarterly earnings guidance.

The evidence demonstrating the adverse effects of issuing short-term earnings guidance – including higher share price volatility, higher cost of capital, lower ROE, and lower earnings growth rates – is strong. But it is important to remember that ending quarterly earnings guidance offers no guarantee of improved financial or operational

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[4] M. Cheng, K.R. Subramanyam and Y. Zhang, "Earnings guidance and managerial myopia," September 2005, Financial Accounting and Reporting Section Meeting Paper, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=816304.
[5] Cheng et al. 2005.
[6]F. Brochet, M. Loumioti and G. Serafeim, "Short Termism: Don't Blame Investors," *Harvard Business Review*, June 2012, https://hbr.org/2012/06/short-termism-dont-blame-investors?referral=03759&cm_vc=rr_item_page.bottom.
[7] F. Brochet, M. Loumioti and G. Serafeim, "Speaking of the Short-Term: Disclosure Horizon and Managerial Myopia," *Review of Accounting Studies*, Volume 20, Issue 3, pp. 1122-1163, 2015, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1999484.
[8] KKS Advisors & Generation Foundation, "Earnings Guidance – Part of the Future or the Past?" 2014, https://www.genfound.org/media/1386/earnings-guidance-part-of-the-future-or-the-past-kks.pdf.
[9] Y. Kim, L. Su, and X. Zhu, "Does the cessation of quarterly earnings guidance reduce investors' short-termism?" *Review of Accounting Studies*, Volume 22, Issue 2, pp 715-752 (2017), https://link.springer.com/article/10.1007/s11142-017-9397-z.

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outcomes. However, there is similarly no evidence of a beneficial impact from short-term quarterly guidance, in fact the preponderance of the evidence suggests the practice is indeed profoundly harmful.

There are simple changes the SEC could make that would discourage this practice and address these concerns.[10]

The SEC could issue a Staff Compliance and Disclosure Interpretation (C&DI) or other Staff guidance clarifying that short-term quarterly guidance is neither required nor encouraged. Comments we have heard from many capital markets participants – including companies who are both publicly listed and not-yet-public as well as global institutional investors – suggest there is confusion about the SEC's current stance on guidance. Many of these individuals incorrectly believe that offering forward-looking guidance is required for U.S.-listed companies. This common misperception of current disclosure requirements could be easily alleviated with a clarifying C&DI from SEC Staff.

Similarly, the SEC could consider including in this letter a recommendation that if short-term quarterly guidance is shared with the markets, that the company offer long-term (3+ years) guidance alongside the short-term targets to provide appropriately balanced disclosure.

If the Commission would like to take it one step further, it could consider mandating that any company offering short term guidance also balance it with longer-term guidance for the following reasons:

- Short-term guidance attracts short-term shareholders while long-term language attracts long-term shareholders.[11]
- The presence of long-term shareholders is correlated with lower cost of equity, lower stock price volatility, greater fixed investment, and higher returns.[12]
- Long-term investors are clamoring for longer-term information from public companies.
    - In FCLTGlobal's 2018 study of investment decisionmakers (primarily analysts and portfolio managers of global institutional asset management firms) 86% of respondents said they preferred companies share targets with horizons of three or more years into the future.[13]

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[10] In response to Question 8 "Some have suggested the practice of providing quarterly forward-looking earnings guidance creates an undue focus on short-term financial results and thereby negatively effects the ability of companies to focus on long-term results…are there changes we could make to our rules that would discourage this practice or address this concern?"

[11] F. Brochet, M. Loumioti and G. Serafeim, "Speaking of the Short-Term: Disclosure Horizon and Managerial Myopia," *Review of Accounting Studies*, Volume 20, Issue 3, pp. 1122-1163, 2015, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1999484.

[12] N. Attig, S. Cleary, S. El Ghoul, and O. Guedhami, "Institutional Investment Horizons and the Cost of Equity Capital," *Financial Management*, Feb. 2014, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2396938.
E. Elyasiani and J. Jia, "Distribution of Institutional Ownership and Corporate Firm Performance," *Journal of Banking & Finance*, 2010, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2451145.
E. Elyasiani, J. Jia, and C.X. Mao, "Institutional Ownership Stability and the Cost of Debt," *Journal of Financial Markets*, 2010, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=943789.

[13] 2018 FCLTGlobal investor survey. In response to the question, "How long a horizon should a company use when sharing their forward-looking targets with investors?" 62% selected three years, 21% selected five years, and three percent selected 'more than five years'. The remaining 14 percent opted for annual guidance with zero respondents indicating a preference for quarterly guidance.

  - 93 percent of buy-side investors want guidance from companies on metrics longer than one year according to the Rivel Research Group.[14]
  - The UN Principles for Responsible Investment (PRI), a group whose members represent more than $80 trillion in investable assets,[15] urge companies to "focus on communicating issues and metrics that are relevant to the long-term success of the business."[16]
- Companies who do not provide long-term targets risk mispricing their equity. According to McKinsey & Company, 70-90% of company value is related to cash flows three or more years out.[17] Investor communications that don't speak to that horizon leave markets to fill in the blanks, often incorrectly. For example, the 2 Degrees Investing Initiative (2Dii) found that even though financial analysts and data providers produce forecasts for five to ten years, companies typically only disclose forecasts for the next quarter to one year.[18] This disclosure gap increases the uncertainty of stock valuations by analysts, making it more likely that the market could get a company's future earnings potential – and equity valuation – wrong.
- There are other benefits to a company:
  - According to Youmans and Tomlinson (2017), [19] companies who use long-term forecasts have reported better success at attracting and retaining personnel.
  - Managers from 66 organizations in the International Integrated Reporting Council (IIRC) reported that developing and communicating a long-term strategy delivered meaningful benefits internally—with 79% of managers finding that business decision-making had improved, and 78% reporting better collaboration between the board and management.[20]

Despite these benefits, there is one point of caution.[21] Managers focused on delivering on a particular bottom-line earnings forecast are likely to behave in similar ways, regardless of time horizon. This effect is well documented by

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[14] "Evolving Guidance Preferences: Attitudes and Practices of the Global Buy Side," The Intelligence Council: Rivel Research Group, September 2017. Includes data summarizing 352 in-depth telephone interviews of portfolio managers and analysts from the global buy-side (180 North America, 111 Europe, 61 Asia-Pacific) conducted between June 2017-Aug. 2017.
[15] Total AUM of UN PRI signatories as of April 2018 was $81.7 trillion, https://www.unpri.org/pri/about-the-pri.
[16] "Coping, Shifting, Changing 2.0: Corporate and Investor strategies for managing market short-termism," UN Principles for Responsible Investment, https://www.unpri.org/download?ac=4215.
[17] D. Barton, "Capitalism for the Long Term," *Harvard Business Review*, March 2011, https://hbr.org/2011/03/capitalism-for-the-long-term.
[18] "Limited Visibility: The current state of corporate disclosure on long term risks," Tragedy of the Horizon Program: 2 Degree Investing Initiative, July 2017, http://tragedyofthehorizon.com/2dii_limited_visibility_report_september_2017-2.pdf.
[19] T. Youmans and B. Tomlinson, "Six Reasons why companies should start sharing their long term thinking with investors." *MIT Sloan Management Review*, 13 September 2017, https://sloanreview.mit.edu/article/six-reasons-why-companies-should-start-sharing-their-long-term-thinking-with-investors/.
S. Blesener, "Realizing the benefits: the impact of Integrated Reporting." International Integrated Reporting Council, 2014, https://integratedreporting.org/wp-content/uploads/2014/09/IIRC.Black_.Sun_.Research.IR_.Impact.Single.pages.18.9.14.pdf.
[20] Blesner 2014.
[21] There is some counter evidence from Call et. al.[21] that appears to contradict the value of long-term guidance. The authors compared the investment behaviors of companies offering long term (3-5 years) earnings guidance to those offering short-term (quarterly guidance) and found no discernable differences in levels or pattern of investment. This finding appears to represent a minority view in the literature.

research from Edmans, Heinle and Huang (2016), [22] who have looked at the impact changes in reporting frequency have on managerial behaviors. The authors demonstrated that, so long as a stock price better incorporates 'hard' information over 'soft', disclosing more hard information will skew managers' real decisions toward improving hard performance measures (such as improving earnings) at the expense of soft performance measures (such as intangible investments).

This finding is instructive for forming long-term guidance as well. If long-term targets increase hard information relative to soft information, then they could lead managers to reduce investment and increase earnings management, and vice versa. To ensure long-term guidance (or guidance of any horizon frankly) doesn't cause more problems than it solves, companies sharing forward-looking targets could be required to consider including a balanced mix of both financial ('hard') and operational ('soft') metrics as targets. This mix makes it less likely managers will game one metric over another, and ensure their focus remains on achieving both – alleviating the tendency to cut spending to meet particular earnings targets.

The frequency of reporting is linked to adverse changes in corporate investment behavior.[23]

The frequency of reporting has been a topic of much debate, and a review of the available evidence provides some helpful facts. For example, several studies have linked more frequent financial reporting to adverse changes in corporate investment behavior:

- Edmans, Heinle and Huang (2016)[24] found that disclosing more hard information (quantitative and verifiable information like earnings) improves financial efficiency and lowers a company's cost of capital but this increase in reporting frequency comes with real costs, inducing managers to prioritize hard information over soft (non-verifiable information like investments in intangible assets or human capital) by cutting intangible investment to boost earnings. Overall the authors find increased reporting frequency resulting in lower real efficiency.
- Kraft, Vashishtha, and Venkatachalam (2014) [25] looked at the transition of U.S. firms from annual reporting to quarterly reporting over the period 1950 - 1970 and found increasing reporting frequency to be associated with an economically large decline in investments.
- Gigler et al (2014)[26] developed a cost-benefit tradeoff to evaluate the real effects of greater reporting frequency and found that frequency of disclosure affects firms' project selection strategies. Specifically, although more frequent reporting allows for more efficient pricing and the avoidance of NPV-negative projects, the stock price pressure created by high reporting frequency induces corporate managers to adopt a short-term approach to project selection (i.e. investment) decisions – leading to short-term myopia.

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[22] A. Edmans, M. Heinle, and C. Huang, "The real costs of financial efficiency when some information is soft." *Review of Finance*, Volume 20, Issue 6, 1 October 2016, Pages 2151–2182, https://doi.org/10.1093/rof/rfw030.
[23] In response to Question 30, "Does the frequency of reporting lead managers to focus on short-term results to the detriment of long-term performance?"
[24] A. Edmans, M. Heinle, and C. Huang, "The real costs of financial efficiency when some information is soft," *Review of Finance*, Volume 20, Issue 6, 1 October 2016, Pages 2151–2182, https://doi.org/10.1093/rof/rfw030.
[25] Arthur Kraft, Rahul Vashishtha, and Mohan Venkatachalam, "Frequent Financial Reporting and Managerial Myopia," *The Accounting Review*, Vol. 93, No. 2., pp. 249-275, March 2018, https://aaajournals.org/doi/10.2308/accr-51838.
[26] F. Gigler, C. Kanodia, H. Sapra, and R. Venugopalan, "How Frequent Financial Reporting Can Cause Managerial Short-termism: An Analysis of the Costs and Benefits of Increasing Reporting Frequency," *Journal of Accounting Research*, Vol. 52, No. 2, May 2014, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2493835.

- Ernstberger, Link and Vogler (2011)[27] compared companies operating in different European reporting regimes (semi-annual vs. quarterly) and found the managers of companies located in higher reporting frequency jurisdictions exhibited higher real activities manipulation (i.e. short-term managerial myopia).

These findings are consistent with the perspectives gathered in surveys of corporate executives, confirming the link between frequent financial reporting and some measures of detrimental short-term behavior. For example, a majority of corporate managers admitted in a 2005 survey[28] that they would take short-term action to avoid missing quarterly expectations.

- 80% of CFOs admit they would decrease discretionary spending (including on R&D, advertising and maintenance) to meet quarterly earnings targets.
- 55% said they would delay starting a new project to meet an earnings target, even if it meant sacrificing some value.
- 78% of surveyed executives would give up economic value in exchange for smooth earnings.

A decade later, not much changed. A similar survey of C-suite executives in 2015[29] confirmed many of these perspectives:

- 71% of executives would decrease discretionary spending (e.g. R&D and advertising) if a quarterly earnings target might be missed.
- 55% would delay starting a new project to avoid impacting earnings in the current period.
- 47% would provide incentives for customers to buy more goods in the current quarter, cannibalizing future sales to meet current numbers.

Investors broadly agree with these findings, in Morrow Sodali's fourth annual Institutional Investor Survey (2019),[30] 78% of respondents said quarterly reporting promotes short-term behavior by companies and 72% admitted it similarly promotes short-term behavior among investors.

But perhaps the increased transparency benefits from frequent reporting offset these negative effects? Two studies are noteworthy on this question. Butler, Kraft, and Weiss (2007)[31] evaluated whether the frequency of financial reporting affects how fast accounting information is reflected in securities prices using a data set of 28,824 U.S. reporting frequency observations from 1950 -1970 and found little evidence of differences in timeliness between firms reporting quarterly versus semi-annually. Some could argue this dataset and time horizon is obsolete given the level of technological change that has taken place since 1970 but a recent study from Cohen, Malloy, and Nguyen

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[27] J. Ernstberger, B. Link and O. Vogler, "The Real Business Effects of Quarterly Reporting," Ruhr-University Bochum working paper, June 2011, https://www.rwp.bwl.uni-muenchen.de/forschung/wiss_veranstaltungen/arw---neu/2011_ernstberger.pdf.

[28] J. Graham, C. Harvey, and S. Rajgopal, "The Economic Implications of Corporate Financial Reporting," *Journal of Accounting and Economics*, Vol. 40, pp. 3-73, 2005, https://www.nber.org/papers/w10550.

[29] D. Barton, J. Bailey, and J. Zoffer, "Rising to the challenge of short-termism," FCLTGlobal, September 2016, https://www.fcltglobal.org/docs/default-source/default-document-library/fclt-global-rising-to-the-challenge.pdf?sfvrsn=ed4e258c_0.

[30] K. Vasantham and D. Shammai, "Institutional Investor Survey 2019," Morrow Sodali, 27 February 2019, https://corpgov.law.harvard.edu/2019/02/27/2019-institutional-investor-survey/.

[31] M. Butler, A. Kraft, and I. Weiss, "The Effect of Reporting Frequency on the Timeliness of Earnings: The Cases of Voluntary and Mandatory Interim Reports," *Journal of Accounting & Economics*, Vol. 44, Nos. 2-3, pp. 181-127, July 2007, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1001543.

(2018)[32] found a similar pattern. The authors evaluated quarterly and annual filings by U.S. firms from 1995-2014 and found investors to be generally inattentive (as measured by adjustments in stock price) to changes in risk factors and other disclosure language. These findings suggest analysts take so long to incorporate information into their forecasts and prices that more frequent financial reporting may add little informational value for investors.

There are changes the SEC could make to alleviate the short-term pressures caused by frequent financial reporting while maintaining the robust transparency investors value.[33]

An important consideration in discussions on reporting frequency relates to regulations in other countries. As markets become increasingly global, large multi-national corporations operate in various regulatory jurisdictions and are subject to various reporting requirements. Similarly, an increasing portion of U.S. domestic stocks are owned by foreign investors who may be accustomed to different reporting standards, including semi-annual as opposed to quarterly reporting frequency. According to data collected by the U.S. Treasury, as of the end of June 2017 foreign investors held $7.2 trillion in U.S. equities.[34] As a percentage of total U.S. equity market cap[35] that accounts for roughly 22% of our domestic equities markets. In other words, one in five shares is held by foreign investors who, by and large, are accustomed to less frequent reporting calendars.

As part of our research, FCLTGlobal gathered perspectives from our Members and others on reporting preferences and heard from many institutional investors who believe semi-annual reporting delivers an acceptable level of detail for their analysis, provided there is a robust disclosure mechanism in place to force additional interim disclosures upon a material change in the business, as is the case in the UK for example. This cross-border experience is increasingly relevant and worth consideration as the SEC contemplates potential changes to reporting requirements.

A few solutions that may help alleviate the short-term pressures companies face due to frequent financial reporting are already in use elsewhere, providing helpful alternatives to the current quarterly reporting model. These alternative presentations of financial results are currently consumed by increasingly international, and adaptable, investors. We draw three recommendations from these alternative approaches.

As a first step, the SEC could consider new rulemaking to allow for cumulative reporting in 10-Q filings, rather than the currently required quarterly comparisons of financial results. To maintain transparency via more frequent reporting schedule while avoiding some of the pressures induced by 90-day reporting, a cumulative reporting model permits companies to report progress towards their annual results. Such cumulative reporting would involve submitting three-month results followed by half-year results (six months), nine month results, and then finally results for the year (twelve months), without focusing on each quarter individually or performing quarter-to-quarter comparisons.

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[32] L. Cohen, C. Malloy, and Q. Nguyen, "Lazy Prices," 2019 Academic Research Colloquium for Financial Planning and Related Disciplines, September 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1658471.
[33] In response to Question 36, "Should we allow for additional flexibility by permitting companies to select an approach to periodic reporting that best suits their needs and the needs of their investors?" and Question 34, "How would a semi-annual reporting model affect the use of Form 8-K to report material information? Should we consider any particular additional Form 8-K requirements or triggers under a semi-annual reporting model? If so what type?"
[34] "Report on Foreign Portfolio Holdings of U.S. Securities," 30 April 2018, https://home.treasury.gov/news/press-releases/sm0374.
[35] Total United States market capitalization was $32,120,702.65 million as of Dec 31, 2017 according to data from the World Bank https://data.worldbank.org/indicator/CM.MKT.LCAP.CD?locations=US&name_desc=true&view=chart.

Similarly, taking the idea of cumulative reporting one step further, companies reporting quarterly could be allowed to present numbers on a trailing twelve-month basis. This step would similarly alleviate quarterly volatility while removing some of the impacts of seasonality from the numbers as well. In both cases, while anyone can do the math and compare quarter-over-quarter if they'd like, framing quarterly work as a rolling advancement costs nothing and fosters more strategic thinking in terms of making progress toward a longer-term goal.

This cumulative or trailing twelve-month presentation of financial results (three months, six months, nine months, and then full year or rolling twelve-month periods) still functions as periodic reporting but anecdotal evidence suggests it creates a meaningful shift in behavior. Presenting periodic financials as progress toward an annual total removes some of the pressure management feels to push or pull items from one quarter to another or make adverse investment decisions that would 'compromise' their quarterly number, alleviating one source of short-term pressure. By presenting results in this cumulative or rolling format, investors' attention is similarly drawn toward measuring progress toward longer-term goals. Shifting the conversation on both sides from quarterly 'beats' and 'misses' toward progress against longer-term plans helps emphasize the horizon more relevant for most businesses today. Few companies we speak to run their business on a 90-day basis, periodic reporting that reflects this reality could help alleviate unintended consequences of quarterly reporting while maintaining the transparency benefits of more frequent disclosure.

Second, the SEC could consider allowing companies to choose between disclosure frameworks. Those opting to stick with the current quarterly reporting model could do just that. As an alternative, the SEC could offer half-yearly reporting, provided companies moving to this time frame adopt a higher bar for interim disclosure of new material information. This higher bar would be similar to UK and EU continuous reporting and transparency directives, mandating new material information be disclosed as it becomes available to corporate managers.

Just like cumulative reporting, a continuous approach to disclosure, with full financials released every six months, removes the short-term managerial impulse to push or pull (or cancel entirely) items from one period to another. In a continuous reporting environment, managers disclose material information when the magnitude of the financial impact becomes known or estimable – not on some arbitrarily selected calendar date. Because these reports contain only the new interim information, investors find them easier to digest than fully footnoted financial results masked in legalese. These interim reports also make it hard for short-term market participations to 'game' or trade the news since their timing is unpredictable.

Third, the SEC could consider a reporting model with full financials and related in-depth reporting on a six-month basis (2Q and 4Q/year-end) with abbreviated interim trading updates (1Q and 3Q). These interim updates would not be subject to full 10-Q requirements to alleviate the reporting burden on public companies while still maintaining investor transparency. After a seven-year experiment with quarterly reporting (from 2007 – 2014), the UK settled on just such a hybrid model, finding quarterly reporting failed to deliver meaningful benefits to offset the associated costs.[36]

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[36] J. Kay, "The Kay Review of UK Equity Markets and Long-term Decision Making: Final Report," July 2012, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf.

Finally, it's worth noting that harmonization of reporting requirements and time frames across major markets would be a welcome event for what is increasingly a global investment community. Many developing markets look to the U.S. to thoughtfully consider and promulgate appropriate regulations, setting a global example. And significant institutional investors as well as multi-national corporations would appreciate consistency of reporting requirements across geographies. This is one area where the SEC has a significant opportunity to influence behavior, inspiring a longer-term approach on the part of public company managers as well as their vital shareholders.

In closing there is much the SEC could do to alleviate some of the pressures caused by current quarterly reporting and quarterly guidance practices.

By drawing on successful experiences elsewhere and taking an evolutionary approach to adjusting current regulation without jettisoning core tenets of current reporting practice, the SEC can take immediate action to reign in a primary cause of detrimental short-term behavior in today's capital markets. Issuing a C&DI clarifying that short-term quarterly guidance is neither required nor encouraged and coupling that with a mandate that companies choosing to share quarterly targets must also share long-term (3+ year) targets would be a positive first step toward balancing the conversations public companies have with their investors. Similarly, allowing for cumulative or trailing twelve-month reporting in 10-Qs keeps the focus on long-term progress toward plan.

Finally, allowing companies the option to switch to less-frequent reporting with a higher bar for interim disclosure of material information maintains the core tenets of transparency central to strong financial markets while aligning U.S. reporting requirements with other global markets in our increasingly globalized financial system.

We hope that the SEC will carefully consider these recommendations in the broader context of the evidence provided, taking a few simple steps toward alleviating one source of short-term capital markets pressure.

If we can provide any further information at any time, please do not hesitate to contact us. Thank you again for the opportunity to provide comment on this important subject.